AXTEL S.A.B. DE C.V.
Blvd. Díaz Ordaz Km. 3.33 L-1
Col. Unidad San Pedro, San Pedro Garza García, N.L.
C.P. 66215
+52(81) 8114-0000

www.axtel.com.mx

Ticker: "AXTELCPO"

Annual Report
presented in accordance to the general provisions that apply to the Issuers of securities and to other participants of the securities market for the year ended on December 31 of 2011

Characteristics of the Securities: The securities that are traded in the Mexican Stock Exchange (*Bolsa Mexicana de Valores*) ("BMV") are "Ordinary Participation Certificates*"* ("CPO's"), which are non-amortizable securities, issued under the CPO's Trust (which term is defined below), each of which represents 7 Series B, Class I Shares of the capital stock of Axtel, S.A.B. de C.V. ("Axtel" or the "Company"). As of the date of this Report, there are 1,238,959,485 CPOs that represent 8,672'716,395 Series B Class I Shares. The capital stock of Axtel is represented by 8,769'353,223 shares of the fixed portion of the capital stock, of which, 96,636,627 are Series A, Class I and 8,672,716,596 are Series B, Class I. As of today, the capital stock of Axtel does not have shares that have been issued or subscribed representing the variable portion of its capital stock.

Axtel's CPOs and the shares that represent its capital stock, are both registered at the National Registry of Securities ("RNV"), and Axtel's CPOs are traded in the Mexican Stock Exchange. Registration of Axtel's CPOs and shares at the RNV have informative effects only, and does not imply a certification regarding the quality of the registered securities nor of Axtel's solvency.

For any questions with regards to this Annual Report, please contact Mr. Adrian de los Santos at the phone number (81) 8114-1260 or via e-mail to IR@axtel.com.mx.

This Annual Report is available at Axtel's web page at www.axtel.com.mx and at the BMV's web page at www.bmv.com.mx.

San Pedro Garza García, N.L. as of April 30, 2012.

1) GENERAL INFORMATION

1.1) Glossary of Terms and Definitions

The following glossary includes the definitions of the main terms and abbreviations used in this Annual Report:

"Shares"	Ordinary shares, nominative, without par value, representative of the capital stock of the Company.
"Series A shares"	Ordinary shares of the Series A, Class I, nominative, without par value, representing the fixed portion of the Company's capital stock.
"Series B shares"	Ordinary shares of the Series B, Class I, nominative, without par value, representing the fixed portion of the Company's capital stock.
"America Móvil"	América Móvil, S.A.B. de C.V. including subsidiary and affiliate companies.
"Accival"	Acciones y Valores Banamex, S.A. de C.V., Casa de Bolsa, Integrante del Grupo Financiero Banamex.
"ADS" o "ADSs"	American Depositary Shares, each one representing 7 CPOs, and each CPO representing 7 Series B Shares Class I.
"Alestra"	Alestra, S. de R.L. de C.V.
"Avantel Concesionaria"	Avantel, S. de R.L. de C.V.
"Avantel Infraestructura"	Avantel Infraestructura, S. de R.L. de C.V.
"Avantel"	Both, Avantel Concesionaria y Avantel Infraestructura.
"Axtel" or the "Company"	Means Axtel, S.A.B. de C.V., together with its subsidiaries, except when the context needs that the term Axtel refers only to Axtel, S.A.B. de C.V.
"Banamex"	Banco Nacional de México, S.A. integrante de Grupo Financiero Banamex.
"BMV"	Bolsa Mexicana de Valores, S.A.B. de C.V. (*Mexican Stock Exchange)*.
"Cablemás"	Cablemás, S.A. de C.V.
"Cablevisión"	Empresas Cablevisión, S.A.B. de C.V.
"Central Switchboard"	Equipment that frees voice data and does the pertinent connections, allowing the calls to be realized.
"Circular Letter "	Means the general provisions that apply to the Issuers of securities and to other participants of the securities market, issued by the CNBV and published in the Official Federal Gazette on Wednesday March 19, 2003, as updated pursuant to the resolutions issued on the Official Gazette on Tuesday October 7, 2003, Monday September 6, 2004, Friday September 22, 2006, Friday September 19, 2008, Tuesday January 27, 2009, Wednesday July 22, 2009,Tuesday December 29, 2009, Friday December 10, 2010, Monday December 20, 2010, Wednesday March 16, 2011, Wednesday July, 27, 2011, Wednesday August 31, 2011, Wednesday December 28, 2011 and Thursday February 16, 2012.
"CNBV"	Comisión Nacional Bancaria y de Valores. *(Mexican Banking and Securities Commission).*
"Cofeco"	Comisión Federal de Competencia. *(Federal Antitrust Commission).*

"Cofetel"	Comisión Federal de Telecomunicaciones *(Federal Telecommunications Commission).*
"CFE"	Comisión Federal de Electricidad *(Federal Electricity Commission).*
"DMS Switch" or " DMS equipment"	Nortel Neworks' Central Switchboard model DMS100.
"CPOs"	Ordinary Participation Certificates, which are non-amortizable securities, issued under the CPOs Trust, each of which represents, 7 Series B Shares of Axtel's capital stock.
"dollars", EUA$, "U.S.$" or Dollars	Current currency of the United States of America.
"Financial Statements"	The Financial Statements.
"Audited Financial Statements"	The audited financial statements of the Company for the fiscal years ended on December 31, 2011 and 2010 and January 1st of 2010 (reformulated).
"United States"	The United States of America.
"CPOs Trust"	It means the Irrevocable Trust Agreement No. 80471 named AXTEL CPO's, dated November 30, 2005, entered between the Company, as settlor, and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee, the purpose of which is, among others, to establish a mechanism that allows the allocation of the B Series Shares into the trust for the issuance of CPOs that are eligible for trading in the BMV.
"Trustee" or "NAFIN"	Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee of the CPOs Trust.
"FTTH"	Fiber to the Home. Optical Fiber to home or business.
"GHz"	Gigahertz (Thousands of millions of cycles per second) Frequency relative to a time unit.
"Indeval"	S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores.
"INEGI"	Instituto Nacional de Estadística Geografía e Informática *(National Institute of Statistics, Geography and Informatics of Mexico)*.
"IP"	Internet Protocol.
"Iusacell" or "Grupo Iusacell"	The following companies, together or individually: Iusacell PCS, S.A. de C.V., Iusacell PCS de México, S.A. de C.V., Portatel del Sureste, S.A. de C.V., Comunicaciones Celulares de Occidente, S.A. de C.V., Sistemas Telefónicos Portátiles Celulares, S.A. de C.V., Telecomunicaciones del Golfo, S.A. de C.V., Operadora Unefón, S.A. de C.V. and SOS Telecomunicaciones, S.A. de C.V.
"IVA"	Mexican Value Added Tax.
"LD"	Long Distance.
"LGSM"	Ley General de Sociedades Mercantiles *(General Law of Mercantile Companies).*
"LMV"	Ley del Mercado de Valores *(Mexican Securities Market Law)* published in the Official National Gazette on December 30, 2005, as amended from to time to time, including the amendments made on May 6, 2009.
"LFT"	Ley Federal de Telecomunicaciones *(Federal Telecommunications Law)*
"Maxcom"	Maxcom Telecomunicaciones, S.A.B. de C.V.
"Megacable"	Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate

	companies.
"México"	United Mexican States.
"MHz"	Megahertz. Frequency in millions of cycles per Second. In radio, it refers to the number of oscillations of electromagnetic radiation per second.
"NIF"	Normas de Información Financiera *(Mexican Financial Reporting Standards).*
"Nokia"	Nokia Siemens Networks S.A. de C.V.
"pesos", "M.N.", "$", o "Ps."	Current legal currency in Mexico.
"Promotora de Sistemas"	Promotora de Sistemas de Teleinformática, S.A. de C.V.
"SCJN"	Suprema Corte de Justicia de la Nación *(Mexican Supreme Court of Justice)*.
"SCT"	Secretaría de Comunicaciones y Transportes. *(Ministry of Communications and Transport)*
"Telcel"	Radiomóvil Dipsa, S.A. de C.V. and/or affiliated companies that all together are subsidiaries of América Móvil, S.A.B. de C.V.
"Telefónica Movistar" o "Grupo Telefónica"	The following companies, together o individually: Pegaso PCS, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., and Grupo de Telecomunicaciones Mexicanas, S.A de C.V.
"Televisa"	Grupo Televisa S.A.B., including subsidiary and affiliate companies.
"Tel Holding"	Telecomunicaciones Holding Mx, S. de R.L. de C.V.
"Telmex"	Teléfonos de México, S.A.B. de C.V. and/or Teléfonos del Noroeste, S.A. de C.V.
"Telnor"	Teléfonos del Noroeste, S.A. de C.V.
"TIC"	Information and Communication Technologies.
"TV Azteca"	TV Azteca S.A. de C.V.
"TVI"	Televisión Internacional S.A. de C.V.
"Adjusted EBITDA"	Means EBITDA minus not monetary items and other non recurrent items.
"EBITDA"	Means Earnings before interest, taxes, depreciation and amortization.
"Unefón"	Operadora Unefón S.A. de C.V.
"Enterprise Value"	It means the market cap (stock price times the number of shares) plus the liabilities minus cash available.
"Verizon"	Verizon Communications Inc., including subsidiary and affiliate companies.
"VPN o VPNs"	Virtual Private Network.
WiMAX "WiMAX"	Worldwide Interoperability for Microwave Access, Standardized protocol of wireless broadband access known as the standard 802.16e that can be fixed, nomadic, portable and mobile.

1.2) Executive Summary

Axtel is the Mexican telecommunications company with the most significant growth in the broadband segment in Mexico, and one of the leading companies in TIC solutions in the corporate, financial and government sectors. The Company serves all market segments -corporate, business, financial, government, wholesale and residential, with the most robust offering of integrated communications services in the country. Its world-class network consists of different access technologies like fiber optics, fixed wireless access, point to point and point to multipoint links, in order to offer solutions tailored to the needs of its customers. The offer of Axtel's services include the fastest broadband services for the mass market in Mexico through the FTTH access, the most advanced solutions for data transmission and implementation of virtual private networks, web hosting, data centers, managed security, services for other telecommunications operators and voice services, among others.

The Company was incorporated under the corporate name of Telefonia Inalámbrica del Norte, S.A. de C.V., by means of public deed number 3,680, on July 22, 1994, granted by Rodolfo Vela de León, Public Notary No. 80 in Monterrey, Nuevo León. The first deed of such letter was recorded at the Public Registry of Property and Commerce in Monterrey, Nuevo León, under number 1566, 273, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade on August 5, 1994. In 1999, the Company changed its corporate name to Axtel, S.A. de C.V. As a consequence of certain amendments in the LMV, on December 4, 2006, the Company transforms itself into Axtel, Sociedad Anónima Bursátil de Capital Variable or S.A.B. de C.V. in compliance with the requirements and timelines of the LMV.

Since December 2005, Axtel's CPOs are traded in the BMV, so the Company periodically publishes its corporate, operating and financial information, which can be accessed in the web page of the BMV at http://www.bmv.com.mx. Likewise, the same information can be accessed in Axtel's web page at www.axtel.com.mx, including information regarding its products and services.

On August 31, 2007, an Extraordinary General Shareholders Meeting was carried out, where among other things, the following resolutions were adopted: (i) to carry out a split of the shares that were outstanding, by means of the issuance and delivery to the shareholders of new shares for each of the shares of the same class and series that they owned; and the (ii) and to amend the Sixth Clause of the bylaws of the Company.

By virtue of the approval of these resolutions of the Extraordinary General Shareholders Meeting of the Company regarding the split, an update of the shares that were registered in the RNV was requested to the CNBV so that a total of 8,769,353,223 nominative shares, without par value representing the common stock of the Company were registered, of which 96,636,627 were Series A and 8,672,716,596 were Series B shares. Currently, there are no shares that have been issued or subscribed in the variable portion of the capital stock of Axtel.

By virtue of the above and according to Clauses First numeral three and Seventh paragraph eight of the deed of issuance of ordinary participation certificates of the Company, article 228 O of the Negotiable Instruments and Commercial Transactions Law (*Ley General de Títulos y Operaciones de Crédito*) and other applicable provisions, an authorization from the CNBV was obtained for the amendment of the above mentioned deed of issuance as well as its appearance to the execution of the corresponding deed in order to increase the number of ordinary participation certificates that based on the mentioned deed of issuance were outstanding to remain in a total of 1,238,959,485 CPOs, representing 8,672,716,395 Series B Class I shares of Axtel's common stock that were outstanding. The request for an update of the RNV also included the increase in the number of CPOs derived from the split of such shares.

The corporate domicile of the Company is the municipality of San Pedro Garza García, Nuevo León, and its main offices are located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Its telephone is (52) (81) 8114-0000 and its web page is http://www.axtel.com.mx.

Axtel is one of the strongest companies in the industry with annual sales of $10,829 million pesos in 2011. Our value-added solutions on IP technology make the convergence of voice services, data and image possible.

Axtel believes that after the acquisition of Avantel in December 2006, it consolidated its position as the second largest integrated services provider of fixed telephony in Mexico and one of the main operators of virtual private networks in the country.

The thirty-nine metropolitan areas where Axtel provides its integrated communications services as of December 31 2011 are: Mexico City, Monterrey, Guadalajara, Puebla, Toluca, Leon, Queretaro, San Luis Potosi, Saltillo, Aguascalientes, Ciudad Juarez, Tijuana , Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Cd.Victoria, Reynosa, Tampico, Cuernavaca, Merida, Morelia, Pachuca, Hermosillo, San Juan del Rio, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun , Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlan, Coatzacoalcos and Minatitlan.

As of December 31, 2011, the Company had more than one million active lines representing 757 thousand customers in service plus 51 thousand long distance pre-paid service users. With respect to the twelve month period ended on December 31, 2011, Axtel generated revenues, operating profits and Adjusted EBITDA for the amounts of $10,829 million pesos, $437 million pesos and $3,575 million pesos, respectively. The Company's financial information is contained in more detail in paragraph 3) FINANCIAL INFORMATION of this Annual Report.

As of December 31, 2011, 68% of the lines in service came from residential customers and the remaining 32% from business customers. For the twelve months period ended on December 31, 2011, 33% of the revenue came from massive customers (residential and micro-enterprise customers), 16% from government, 27% came from medium and large businesses and financial institutions and the remaining 24% came from international LD incoming calls, telephone operators (carriers) and public telephone services.

1.3) Risk Factors

1.3.1) Risks Related to the Company

Our network growth strategy may fail to generate the revenues we anticipate.

From the incorporation of the Company and through December 31, 2011, we have invested approximately $ 34,539 million pesos in network and infrastructure and according to our projections we will have to make significant additional expenditures to maintain and upgrade our network and to increase our capacity and our business for the future. These expenditures, together with operating expenses, may affect our cash flow and profitability, particularly if the expenditures do not lead to additional revenue. We also anticipate that, in addition to maintaining a strict control on the administration of the business, the continued growth will require us to attract and retain qualified personnel to efficiently manage such growth. If we are unable to meet the challenges that our growth presents, our results of operations and financial condition could be adversely affected.

We have a history of substantial losses and expect to incur future losses.

Since its incorporation in 1994 and as of December 31, 2011, the Company has incurred in a cumulative net loss of $2,704 million pesos. The Company considers that it could continue to incur in future losses, as a result of currency fluctuations, competitiveness or changes in obsolete technology.

In case we face a significant decrease in the income and operating revenue, our financial results would be affected.

During 2011 the Company recorded an increase in revenues and operating income of 2% and 87% respectively compared to 2010 as a result of an increase in the long distance and integrated services data. Nevertheless, for 2012 and subsequent years, we may suffer considerable reductions regarding the mentioned subjects; if this descending trend continues; our financial statements and operational results could be affected, perhaps materially.

A larger leverage could affect our growth and operating results.

As of December 31, 2011, our total debt and accrued interest, stood at $ 12,511 and $297 million pesos, respectively. The resulting increase in debt service costs could reduce the amount of cash which would otherwise be available to invest in the expansion of our business or to meet other obligations. Likewise, an increase in our leverage could reduce our access to new financing sources on favorable terms, and as a consequence, limit our growth and affect our operating results.

We depend on certain important customers for a significant portion of our revenues.

Three of our main customers generated approximately 14% of our total revenues in 2011. This means that our ability to maintain a satisfactory relationship with these customers has a direct impact on our revenues and profitability. If these customers breach some or all the conditions established in their respective commercial agreements, or if such agreements are not renewed upon their respective expiration dates, our business, financial condition, revenues and results of operations could be adversely affected.

One of our main customers has been Nextel. Pursuant to this business relationship, we extended the agreement until August 31, 2011 in order to continue providing local services, spectrum, long distance, 1-800 numbers and other services in a significant number of Mexican cities. As a result of the termination of the agreement on August of 2011, Nextel has been gradually reducing the traffic or volume generated, and consequently has been significantly reducing its contribution to our revenues and operating margins.

The Company operates in a highly competitive environment, which may negatively affect its operating margins.

The telecommunications industry in Mexico is becoming more competitive day by day. On 2006 the government published certain amendments to the LFT and enacted a Convergence Agreement, which contains the regulatory framework for the provision of combined services of voice, data and video by telecommunication companies. This Convergence Agreement facilitates the entrance of new participants into the voice and data market for cable and broadcasting companies, and potentially for the state-monopoly CFE.

In the most recent years, certain cable companies like Megacable, Cablemás, Cablevisión and TVI, the last three of them subsidiaries of Televisa, have started providing basic telephony services in a considerable manner, which services, if considered together with internet and video services, have promoted the three services in a package in commercial offers for the residential sector. The offer of these three services in a package, known as triple play, has help them to increase their participation in the telephone and internet markets, therefore increasing the competition to solid operators like Axtel. In addition, there are commercial agreements or share participation among several companies in the field of telecommunications, such as the case of Megacable and Telefónica Movistar, or Televisa and Iusacell, having as the main purpose to add telephony and internet mobile services to the triple play offer, producing what we know today as fourth-play. If there are is a larger diversity of services in the market, there will be more pressure in prices and margins.

It is possible that in the short or middle term, broadcasters such as Televisa and TV Azteca and other cellular service providers such as América Móvil might retain unoccupied bandwidth because of the digital migration, which may be used by them to try to obtain the corresponding concessions so that in the future they can increase their offer to provide similar or substitute services to those that we currently provide, including digital channels, internet service and IP telephony. We also expect the Mexican telecommunications market to continue to experience competition in rates, primarily as a result of:

- increased competition and focus by our competitors on increasing market share;
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber-optic networks, resulting in long distance overcapacity and rate pressure;
- major participation of traditional fixed-line competitors;
- larger penetration of cable television operators into certain of our markets; and
- the entrance of competitors, such as Televisa, TV Azteca, Megacable, or CFE in service sectors or advance services where Axtel does not participate yet.

As the telecommunications industry in Mexico becomes more competitive, Axtel will face significant competition from other operators, primarily on the pricing, scope of services and quality of customer service. Some of these competitors such as Telmex, Alestra, and Maxcom, as well as established local cable operators, will create a more competitive commercial environment by expanding their services already offered to certain markets, such as local and long distance voice and data services, by adding other services as TIC services.

Additionally, in case there is a change in the current foreign investment law applicable to fixed telecommunications networks, by which a higher percentage of foreign investment is permitted in the sector, may have as a consequence that we may face greater competition from new international operators. We cannot assure that the increase in the competitive environment will not affect our business or our results of operations.

Telmex is currently the main provider of local and other telecommunications services in Mexico, has significantly greater financial and other resources than those available to us. In addition, Telmex's nationwide network and concessions, as well as its established and long-standing customer base, provides them with a substantial competitive advantage over us.

Furthermore, given the concentration, declining prices and reduced margins of the Mexican Telecommunications market, price wars could result if Telmex attempts to maintain its dominant market position. Finally, if there are any further decreases in the price of telecommunications services in Mexico, we will be forced to competitively react to those price declines by lowering our margins or risk losing market share, which may adversely affect our operating results and financial position.

We depend on certain vendors for the deployment of our network.

The ability of the Company to achieve its strategic objectives and in general its expected performance depends on in large part, upon the successful, timely and cost-effective acquisition and performance of telecommunications equipment including wireless access products, such as WiMAX-based technology equipment deployed on 2008. If any of our suppliers, who currently provides us with the WiMAX 802.16e technology for a portion of our network access infrastructure investments, is unable or fails to continue supplying its products, or if WiMAX does not comply with its expected capabilities, our network expansion and growth could be diminished and our operating results could be adversely affected.

We experienced significant malfunctions in the implementation and service availability of our WiMAX network in 2008.

Our residential and small and medium-sized enterprises are served using FTTH, proximity, symmetry and WiMAX, among the most relevant technologies. In 2008, we experienced malfunctions in the implementation of our WiMAX network, which affected the perception of reliability of the service needed to attract customers using this technology. Although the technology malfunctions and deployment problems that existed in the past were resolved, new problems may arise in the future. If when launching new technologies further delays occur or if current technologies do not meet the expected capabilities, our growth could be slow and our operating results could be adversely affected.

Significant delays in the implementation and availability of services based on new technologies or access networks

Telecommunications companies constantly migrate to new technologies or access networks depending on the market services demand and also on the particular characteristics of the technological alternatives that are available, its costs and their adaptability to the environment of the company. Starting on 2010, Axtel has focused significantly on several last mile fiber optics technologies like GPON (Gigabit Passive Optical Network) and FOM (Fiber Optic Modems) in order to provide convergent telecommunication services to its clients. Nonetheless, these deployments may be susceptible to delays or not reaching its expected capabilities, resulting in a lower growth and as a consequence affecting adversely the operations results of the Company. Likewise, if any of our suppliers of optical fiber for FTTH or TIC services stops providing such equipment and services, or if it does not allow us to perform the necessary actions in order to assure the desired penetration and coverage, we may experience a negative impact on the Company's results.

Federal courts may terminate or nullify SCT's resolution approving a reduction in tariffs for termination of local calls from Axtel and Avantel to cellular telephone companies, which could have a material adverse effect on our business and results of operations.

On September 1, 2008, the SCT issued four resolutions that resolved administrative review remedies filed by the Company, which derived from four administrative procedures in regards to interconnection disagreements that were previously filed before Cofetel with respect to the following companies: Telcel, Grupo Iusacell, Grupo Telefonica and Unefon".

The resolutions issued by the SCT provide initially the application of the new rates with respect to consumption from September 2008 and secondly with respect to the retroactive application of such rates. In the case of Telcel applicable since January1, 2008, and in the case of the other mobile operators (Grupo Iusacell, Grupo Telefonica and Unefon), it applies starting on October 2006.

Therefore, since September 2008, mobile operators are required to invoice the Company for the termination of calls to mobile service users under the "Calling Party Pays" program according to the terms of the resolutions (rates based on the actual length of the call); and in addition, the possibility that the Company may claim the amounts paid in excess during the periods covered by the above-mentioned resolutions, that is, the difference in the interconnection rate applied by mobile dealers and paid by the Company during this period and the rates set by the SCT under the mentioned resolutions.

As of December 31, 2011, in accordance with the resolutions of the SCT and using preliminary information of the Company, both Axtel and Avantel would have paid in excess to Telcel about $397.7 million pesos and to the other mobile operators the amount of $396.6 million pesos.

Regarding the possibility that the Company recovers the payments made in excess resulting from the difference in the interconnection rates mentioned above, it is important to mention that the collection of such amounts is not automatic, so in order to collect those amounts, among other alternatives the Company may initiate ordinary commercial lawsuits against the mobile operators; therefore the amounts being claimed shall be subject to the interpretation of the Judges taking into consideration the documentary and experts evidence submitted by the parties. Considering the characteristics and complexity of the resolutions of the SCT and their effects and also considering that there is no record of similar trials and their results, it is likely that these proceedings will last for a long period of time. As of December 31, 2011, there is no accounting reserve created by the Company contemplating the acknowledgment of these amounts.

As a result of the resolutions issued by the SCT, the Company acknowledged as of August 2008, the authorized interconnection termination-rate authorized of $0.5465 pesos, $0.5060 pesos, $0.4705 and $0.4179 per real minute for Telcel and Telefonica Movistar for the years 2008, 2009, 2010 and 2011, respectively, and of $0.6032 pesos per real minute to the rest of the operators. Applying the concept of non-discriminatory treatment, Avantel also adopted the rates mentioned above. The rates that Axtel and Avantel were paying before the resolutions amounted $1.3216 pesos per real minute to Telcel and $1.21 pesos per rounded up minute to the other operators. As of December 31, 2011, the difference between amounts paid by the Company according to the new rates established by the SCT and the amounts invoiced by mobile operators amounted to approximately $1,979 million pesos, before VAT.

It is known to the Company that Telcel and the other mobile operators have filed before the judicial authorities, their disagreement with respect to the above mentioned resolutions issued by the SCT and there is a liability for the Company (Axtel and Avantel) in case the courts rule against such resolutions and that may result in the determination of different rates in comparison to those set by the SCT. The liability would be the difference between the rates established by the SCT and the rates that may be established pursuant to the court ruling in case they are higher than $0.5465, $0.5060 and $0.4705 $0.4179 pesos per real minute for Telcel for the years 2008, 2009, 2010 and 2011, respectively, and $0.6032 pesos per real minute to the other operators. The administration of the Company believes that there are enough elements to prevail before the courts, and as of August 2008, it has acknowledged the costs at $0.5465 pesos per real minute for Telcel and at $ 0.6032 pesos per real minute for other operators.

On April 2010, with respect to the proceedings with Iusacell, a First Instance District Judge issued a judgment determining that the SCT indeed had jurisdiction to rule on the revision proceedings filed by Axtel, but instead of determining the new applicable interconnection rates, it should have provided guidelines to Cofetel in order for the Cofetel to resolve the rates subject matter of disputes; later on, a Circuit Court ruled on this matter determining that the revision recourses were to be resolved by the Cofetel and not by the SCT, hence Cofetel is currently in the process of issuing a new resolution on this matter. This implies the nullification of the decision of the SCT and sending the case to Cofetel in order for Cofetel to determine the interconnection rates that are to apply. It should be noted that on October 20, 2010, the Cofetel issued resolution P/201010/492 where it determined interconnection rates applicable for Axtel and Telefonica Movistar during the period 2008-2011, considering the same interconnection rates set by the SCT in its resolution of September 1, 2008, that is to say, $ 0.5465 pesos per real minute for 2008, $0.5060 pesos for 2009, $0.4705 pesos for 2010, and $0.4179 pesos for 2011.

On February 2012, the SCJN found that the SCT had no jurisdiction to hear the appeals filed by Axtel and that Cofetel is the authority that should resolve these appeals. Therefore, in the following months Cofetel will have to determine again new applicable interconnection rates between Axtel and the mobile operators mentioned in the preceding paragraphs, so the interconnection rates that Axtel has to pay to these operators have not been determined yet, as these new rulings may be challenged again by the parties.

After evaluating the current status in the proceedings and considering the information available to the Company and the information provided by its legal advisors, it is consider that there are enough elements so as to maintain the current accounting treatment, and that at the end of such proceedings the Company's interests shall prevail.

The Company's management has knowledge that Telcel and the rest of the mobile operators have requested to the respective District Judges for the suspension by the SCT of the aforementioned resolutions, but the SCJN ruled that resolutions related to the interconnection rates shall not be subject to any suspensions.

By virtue of the Resolution P/201010/492 issued by Cofetel pursuant to which the interconnection rates for Axtel and Telefonica Movistar were determined for the period 2008 to 2011, such are the applicable rates as of this date between Telefonica Movistar and Axtel, which are in fact lower that the interconnection rates that Axtel has paid to Telefonica Movistar in the past. Telefonica Movistar challenged this resolution by filing a *Juicio de Amparo* before a District Court, and these proceedings are now in a preliminary stage.

We depend on key employees and executives; if they stop collaborating for Axtel, we might have an insufficient number of qualified employees.

We believe that our ability to implement our business strategy and our future success depends on the continuous employment of our senior management team, in particular our president and chief executive officer, Tomás Milmo Santos. Our senior management team has extensive experience in the industry and is vital in maintaining some of our major customer relationships, which might be difficult to replace. The loss of the technical knowledge, management and industry expertise of these key employees could make it difficult for us to execute our business plan effectively and could result in delays in new products being developed, loss of customers and diversion of resources while we seek replacements.

If we do not successfully maintain, upgrade and efficiently operate accounting, billing, customer service and management information systems, we may not be able to maintain and improve our operating efficiencies.

Sophisticated information and processing systems are vital to our operations and growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. We have installed the accounting, information and processing systems that we deem necessary to provide services efficiently. However, there can be no assurance that we will be able to successfully operate and upgrade such systems. Any failure in our information and processing systems could impair our ability to collect payment from customers and respond satisfactorily to customer needs. The operation of the Company depends in its capacity to protect its network infrastructure.

Our operations are dependent upon our ability to protect our network infrastructure.

The operations of the Company dependent greatly on the Company's ability to protect its network infrastructure against damage from fire, earthquakes, hurricanes, floods, power loss, a security breach, software defects and similar events as well as to build networks that are not vulnerable to the consequences of such events. The occurrence of a natural disaster or other unanticipated problems at our facilities or at the sites of our switches could cause interruptions in the services we provide. The failure of a switch would result in the interruption of service to the customers served by that switch until necessary repairs were made or replacement equipment installed. Repairing or replacing damaged equipment may be costly. Any damage or failure that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations.

We depend on Telmex for interconnection and we may be forced to pay higher interconnection fees in the future, which could have a material adverse effect on our business and results of operations.

Telmex has significant influence on all aspects of the telecommunications market in Mexico, including interconnection agreements. We use Telmex's network to terminate the vast majority of our customers' calls. The interconnection agreement between Axtel and Telmex initially expired on December 31, 2008. Nevertheless, such contract contains provisions for its continuous application; if the agreement expires without having been expressly extended by the parties, the agreement explicitly contemplates an automatic extension until both parties mutually agree to extend the expired agreement or execute a new interconnection agreement. During 2006 and 2007, the contract expired and Axtel and Telmex interconnected each other pursuant to the continuous application provision of the contract until March 2008, when an extension was signed, having as an expiration date in December 31, 2008. However, if Telmex breaches some or all the conditions established in the interconnection agreement, or if we are not able to renew this agreement under acceptable terms following its expiration, we might be forced to offer services that will no longer be profitable and competitive. In addition, if the SCT or the Cofetel cease to regulate Telmex's pricing, the resulting competitive climate could have a material adverse effect on our business, financial condition and results of operations.

The Federal Tax and Administrative Court may rescind or nullify Cofetel's resolution approving a reduction in tariffs for termination of national long distance calls from Axtel to Telmex, which could have a material adverse effect on our business and results of operations.

In March 2009, Cofetel resolved an interconnection disagreement between Telmex, and the Company (Axtel), related to termination rates for long distance calls from the Company to Telmex for the year 2009. In this administrative resolution, Cofetel approved a reduction in the interconnection rates for termination of long distance calls with application in cities where Telmex has no points of interconnection. The rates above mentioned were reduced from $ 0.75 pesos per minute to U.S. $ 0.0105 or $ 0.0080 per minute (depending on the place where the Company delivers the long distance traffic).

Until June 2010, Telmex invoiced the Company for terminating long distance calls, using the rates applicable prior to the resolution mentioned in the preceding paragraph and after that date, Telmex has invoiced the resulting amounts using the new interconnection rates. As of December 31, 2011, the difference between the amounts paid by the Company to Telmex based on the new rates and the amounts invoiced by Telmex amounts to approximately $ 1,240 million pesos, before VAT.

Telmex filed an annulment proceeding before the *Federal Tax and Administrative Court*, requesting the annulment of the administrative resolution issued by Cofetel. The Company (Axtel and Avantel) has a contingency in case the *Federal Tax and Administrative Court* issues a resolution against the interests of the Company if as a result it establishes different rates than those established by Cofetel. Telmex was granted with a suspension regarding the application of the interconnection rates set by Cofetel, the suspension was effective as of January 26, 2010, but ceased to be effective on February 11, 2010, since the Company elected to exercise its right to leave the suspension without effects by placing a bond in order to respond for any damages that may be caused to Telmex. However, the Court revoked Telmex's guarantee pursuant to resolution P/140410/189 under which Cofetel resolved the same low rates between Axtel and Telmex for 2010.

On January 2010, Cofetel resolved an interconnection disagreement between Telmex and the Company (Avantel Concesionaria), related to termination rates for long distance calls from the Company to Telmex for the year 2009. In this administrative resolution, Cofetel approved a reduction in the interconnection rates for termination of long distance calls with application in cities where Telmex has no points of interconnection. The rates above mentioned were reduced from $ 0.75 pesos per minute to U.S. $ 0.0126 U.S. $ 0.0105 or $ 0.0080 per minute, depending on the place where the Company delivers the long distance traffic. Under this resolution, the Company would have paid in excess the amount of $20 million pesos. Telmex challenged such resolution before the correspondent authority (Federal Court of Fiscal and Administrative Justice); the procedure is still in its initial stage.

Also, on May 2011, Cofetel resolved a dispute in regards to interconnection dispute between Telmex and the Company, with respect to termination rates of long distance calls from the Company to Telmex for the year 2011. In such resolution, Cofetel approved a reduction in termination rates for long distance calls. The above rates were reduced from US$0.0126, US$0.0105, or US$0.0080 per minute to $0.04530 and $0.03951 Pesos per minute, depending on the place where the Company delivers the long distance traffic. Telmex appealed that decision before the SCT, but the appealing was dismissed by such authority. As of this date, Telmex has challenged such dismissal before the Federal Court of Fiscal and Administrative Justice, the mentioned appeal procedure is still in initial stage.

As of this date the Company believes that rates established in its resolutions by Cofetel will prevail, so the costs have been recognized based on those rates determined by Cofetel. Due to the fact that the proceedings filed by Telmex are recent, the Company, supported by its legal advisors, is evaluating the steps to follow in this case.

As of December 31, 2009 there was a letter of credit for US$34 million issued by Banamex in favor of Telmex to guarantee the obligations acquired by the Company under various interconnection agreements. This letter of credit was withdrawn by Telmex in January 2010 arguing that Avantel had debts with such entity. As of December 31, 2011, Avantel has been able to recover the amount of $336 million pesos from the above amount, this through conducting a set off with respect to certain payments for services provided to Avantel by Telmex monthly.

We depend on Telmex to terminate long distance calls where Axtel does not have interconnection, in which case these calls could be blocked or subject to recordings by Telmex, as it has happened recently.

Notwithstanding the fact that the Company has complied with its payment obligations towards Telmex and Telnor in accordance with the rulings and current conditions, Telmex inserted recordings since December 24, 2009 and until the second week of February 2010, in approximately 90% of the internationally generated calls and in 20% of the nationally generated calls from our customers. The recordings had the intention to coerce the user to avoid making calls, alleging a supposedly nonpayment by Axtel, alerting that the call might not be completed. During this period of time the volume of entering international long distance calls was significantly reduced affecting the Company's financial results. The recordings have stopped, nonetheless Telmex could resume with these anti-competitive practices, which are against the law and could have a material adverse effect on the business, financial condition and results of operation of the Company.

We rely on Telmex to maintain our leased last-mile links.
We maintain a number of dedicated links and last-mile-access infrastructure under lease agreements with Telmex. If Telmex breaches the agreed contractual conditions, or an agreement is not renewed upon its expiration, and Telmex discontinues the rendering of services before we are able to link these customers to our own network, or if as a result of the termination of any of these contracts the costs for leasing the links are increased substantially, there could be a material adverse effect on our operations and an adverse effect on our business, financial condition and results of operations.

A system failure could cause delays or interruptions of service, which could cause us to lose customers.
To be successful, we will need to continue providing our customers reliable service over our network. Some of the risks to our network and infrastructure include:

- physical damage to access lines;
- power surges or outages;
- software defects; and
- disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur additional expenses.

Under Mexican law, our concessions could be expropriated or temporarily seized.
Pursuant to the LFT enacted in 1995 and amended from time to time, the public telecommunications networks are considered public domain. Under such law, holders of concessions to install operate and develop public telecommunications networks are subject to the provisions of the LFT and any other provision contained in the concession title. The LFT and the respective concession title, respectively and among other things, for the following:

- Rights and obligations granted under the concessions to install, operate and develop public telecommunications networks may only be assigned with the prior authorization of the SCT;

- Neither the concession nor the rights thereunder or the related assets may be assigned, pledged, mortgaged or sold to any government or country; and

- The Mexican government (through the SCT) may expropriate or temporarily seize the assets related to the concessions in the event of natural disasters, war, significant public disturbance or threats to internal peace or for other reasons relating to economic or public order.

Mexican law sets forth the process for indemnification for direct damages arising out of the expropriation or temporary seizure of the assets related to the concessions, except in the event of war. However, in the event of expropriation, there is no certainty that the indemnification will equal the market value of the concessions and related assets or that we will receive such indemnification in a timely manner. Mexican law does not prohibit a grant of a security interest by the concessionaire to its creditors (except for security granted to a foreign government or country) in the concessions and the assets, *provided* that all procedural laws are complied with; however, if such security interest is enforced, the assignee must comply with the LFT provisions related to concessionaires, including, among others, the requirement to receive the authorization by the SCT to be a holder of the concession.

We could encounter unfavorable conditions with respect to our concessions.

Under our concessions, we are subject to various financial and technical conditions imposed by the SCT. We cannot assure you that we will continue to meet these conditions. Failure to meet or to obtain a waiver or modification of these conditions can result in a fine, loss of surety or termination of the concession. We cannot assure you of our ability to renew our concessions nor of the terms of any such renewal. The renewal fee is determined at the time of the renewal. Failure to renew or maintain our concessions could have a materially adverse effect on our business.

The regulatory authorities could require the Company to offer services in certain geographical areas where the Company does not provide services, which may have a negative effect in the Company's margins and results of operations.

The SCT has granted us the necessary permits to provide services in the entire Mexican territory. Some of our concessions might require us to offer telephony, internet and other value added services in certain geographical areas where we do not currently provide services. With respect to those geographical areas in which we were required to provide such services by December 31, 2011, we have complied with such coverage requirements or it has received the necessary extensions from the authority. Nonetheless, if at any time Axtel is required to provide services in geographical areas where the Company currently has no presence, the Company may request the necessary extensions from the SCT in order to comply with the coverage requirements, which have been obtained in the past from the SCT. We may also be required to provide services in geographical areas where we may experience a low operating margin with respect to such services. If we do not obtain the necessary extensions when required, or if we are required to provide services in areas where we do not currently provide services or in geographical areas where we may experience a low operating margin with respect to such services, our results of operations and financial condition may be adversely affected.

We depend on revenues from certain highly competitive markets.

Corporate customers in the business market, which require a high volume of traffic, are one of the most attractive sectors of the market. This segment is covered by a considerable number of providers that offer competitive solutions for telecommunications, in order to get these accounts. On the other hand, in addition to Telmex other suppliers such as Televisa, Megacable, Maxcom and Iusacell among others, have penetrated into the residential market and, could increase and continue to increase competition in the market. The loss of some of these customers (mainly business clients) could represent a significant loss in revenue and a decrease in operating income of the Company.

We depend on revenues from long distance services.

Prices for long distance services have been declining as new products such as voice over IP, continue to gain acceptance. If we are unable to replace revenues lost from long distance with revenues from other services, such as local, data, broadband internet through FTTH or TIC services, the effect on our business, financial condition and results of operations could be significant.

We may need additional financing.

We may require additional financing in the future to fund our operations. We operate a capital intensive business. Since the creation of the Company and as of December 31, 2011, we have invested over $ 34,539 million pesos in building our infrastructure. We expect to make additional investments in future years since we are focusing in using new technologies and we have expanded the scope and capacity of our network in order to exploit market opportunities as well as to maintain our existing network and facilities, according to the market needs. In addition, we operate in a highly regulated industry and we face the regulatory risk of having a Mexican governmental agency mandate increased capital expenditures or our incurrence of other expenses not currently contemplated. We cannot assure you that we will have sufficient resources to make such investments or cover potential expenses requested by governmental agencies and that, if needed; any financing will be available in the future or on terms acceptable to us. In addition, our ability to obtain additional financing will be restricted by the terms of agreements currently in place or into which we may enter in the future.

Adverse conditions in the Mexican and international credit markets, including higher interest rates, reduced liquidity or decreased interest by financial institutions in lending to us, have in the past and may in the future increase our cost of borrowing or refinancing maturing indebtedness, with adverse consequences to our financial condition and results of operations. We cannot assure you that we will be able to refinance any indebtedness we may incur or otherwise obtain funds by selling assets or raising equity to make required payments on maturing indebtedness.

The technology used by the Company may become obsolete in comparison with the technology used by our competitors.

Since the beginning Axtel has installed a fixed wireless system, fiber optic network, point-to-multipoint and point-to-point copper infrastructure that it consider as cutting edge technology. The Company cannot assure that this technology will not be as efficient as technologies used in the future by our competition. Axtel considerably depends on the competitiveness and performance of wireless technology and of other appointed technologies to offer a better service for the market requirements. Technological changes or advances in alternate technologies may adversely affect our competitive position and require us to reduce our prices, substantially increase capital expenditures and/or substitute obsolete technology.

If our current churn rate increases our business could be negatively impacted.

The cost of acquiring a new customer is much higher than the cost of maintaining an existing customer. Accordingly, customer deactivations, or churn, could have a material negative impact on our operating income, even if we are able to obtain one new customer for each lost customer.

However, even that our average monthly churn rate has been stable during the 12 month period at approximately 1.8%, this is higher than the one of our main competitor. The Company considers that our churn rate results mainly from customer deactivations due to non-payment of bills. If in the future we experience an increase in our churn rate, our ability to achieve revenue growth could be materially impaired. In addition, a decline in general economic condition in Mexico could lead to an increase in churn, particularly among our residential customers.

Restrictive covenants in our credit facility and the indentures may restrict our ability to pursue our business strategies.

The indenture governing our 7.625% and 9.0% senior notes due 2017 and 2019 respectively, establish certain limitations to our ability, among other things, to:

- incur additional indebtedness or contingent obligations;
- pay dividends or make distributions to our stockholders;
- repurchase or redeem our stock;
- make investments;
- grant liens;
- make capital expenditures;
- enter into transactions with our stockholders and affiliates;
- sell assets; and
- acquire the assets of, or merge or consolidate with, other companies.

In addition, our senior notes require us to maintain financial ratios. These financial ratios include a maximum total leverage ratio. We may not be able to maintain these ratios in the future. Covenants in the indentures of our 2017 and 2019 Notes may also impair our ability to finance future operations or capital needs or to enter into a merger, an acquisition or to engage in other favorable business activities.

If we default under our Notes, the note holders could require immediate repayment of the entire principal amount of such debt. If those note holders require immediate repayment, we will not be able to repay them in full.

Affirmative and Negative covenants in the syndicated loan executed on November, 2011, as well as the assignment of collection receivables of certain important clients of the Company as a guaranty; may also restrict our financial and operational capacity.

On November 11, 2011 the Company entered into a syndicated loan agreement with the participation of five relationship banks, which contains certain restrictions that limit our financial and operative capabilities. Such loan is guaranteed by the receivables of certain corporate clients. The income flow of the mentioned clients is currently conveyed into certain guaranty trust in order to warrant the loan. Once the 2.25:1.00x collection ratio is met, the excess is delivered to Axtel. The terms and conditions provide for a variable interest rate according to the leverage of the Company. If for any reason we could not retain and maintain the volume of revenue from these customers in order to comply with such restrictions, the Company could suffer significant impacts with respect to its operational and financial capacities.

Limitations of positive and negative covenants in various financial credits of the Company may also restrict our financial and operational ability.

In addition to the senior notes, Axtel has contracted, and estimates to continue to contract, lines of credit, long-term financing and diverse leasing, which limit or may limit our ability to, among other things:

- incurring debt exceeding certain financial ratios;
- incurring in capital investments exceeding a certain levels;

- obtaining loans or providing guarantees;
- paying dividends, redeem stock or make other restricted payments;
- create liens to secure indebtedness;
- make investments;
- sell assets;
- constitute pledges on assets;
- participate in co-investment contracts;
- enter into transactions with our affiliates, and
- merge with another company or sell most of our assets.

The restrictions and obligations under our financings may limit our ability to finance future operations, capital needs, enter into a merger or acquisition or enter into favorable business activities, which may require an extraordinary authorization by creditors, which we cannot guarantee that we will get.

1.3.2) Risks Relating to the Mexican Telecommunications Industry.

We operate in a highly regulated industry.
As a provider of public services, we are subject to extensive regulation. Although the basic regulatory framework governing telecommunications has been in existence since 1995 and has been amended from time to time, it may undergo additional changes from time to time, including changes that may materially and adversely affect our business, operations, financial condition and prospects.

On July 5, 2008, fixed and mobile phone number portability was implemented in Mexico. As of this date, the portability service has been operating properly, with the exception of certain third party networks that still take longer than the timeframe established by Cofetel to route calls to the receiving user. We cannot predict the consequences that portability will have on the market or how it might affect our business.

On 2008, Cofeco issued a preliminary declaration, stating that all fixed and mobile service providers may have significant market power in the traffic termination market. We cannot predict if the final declaration will take this position, which could adversely affect our business and subject us to additional legal liability or obligations. If we are declared to have significant power in the traffic termination market in a final declaration by the Cofeco, our rates could be regulated and we could be required to comply with certain levels of services and information quality.

The operation of telecommunications systems in Mexico, including ours, has been subject to laws and regulations administered by the SCT and Cofetel. An amendment to the internal operating rules of the SCT was issued during 2008. These rules will cause an amendment to the internal operating rules of Cofetel in the near future. The resulting regulatory changes could adversely affect our business and subject us to additional legal liability or obligations, as the decisions to be taken by the SCT and Cofetel could take longer to be resolved.

If the Mexican government grants more concessions or amends existing concessions, the value of our concessions could be severely impaired.

The Mexican government regulates the telecommunications industry. Our concessions are not exclusive and the Mexican government has granted and has discretion to grant additional concessions covering the same geographic regions. We cannot assure you that additional concessions to provide services similar to those we provide will not be granted, or that current concessions will not be modified, and therefore, the Company cannot assure that the value of our concessions and competition levels will not be adversely affected as a result.

Decreases in market rates for telecommunication services could have a material adverse effect on our business, results of operation and our financial condition.
We expect the Mexican telecommunications market to continue to experience rate pressure, primarily as a result of***:***

- increased competition and focus by our competitors on increasing market share; and
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks resulting in long distance overcapacity.

Continued rate pressure could have a material adverse effect on our business, financial condition and operating results if we are unable to generate sufficient traffic and increased revenues to offset the impact of the decreased rates on our operating margin.

Fraudulent use of the services could increase our expenses.
The fraudulent use of telecommunications networks could impose a significant cost upon service providers, who must bear the cost of services provided to fraudulent users. We may suffer a loss of revenue as a result of fraudulent use and incur an additional cash cost due to our obligation to reimburse carriers for the cost of services provided to fraudulent users. Although technology has been developed to combat this fraudulent use and we have installed it in our network, this technology does not eliminate the impact of fraudulent use entirely. In addition, because we rely on other long distance carriers to terminate our calls on their networks, some of which do not have anti-fraud technology in their networks, we may be particularly exposed to this risk in our long distance service.

1.3.3) Risks Relating to Mexico

Our business and customers may be negatively affected by the uncertainty that currently exists globally and that may be reflected in a significant manner in Mexico.
The market and economic conditions in Mexico, as well as the financial condition and results of operations of the Company are affected by macroeconomic conditions. The recent deterioration in economic conditions of certain European countries and the high level of indebtedness of the United States has caused extreme volatility in the credit and capital markets and debt. If the deterioration of the economies continues in these European countries, or if the level of high indebtedness of the United States is not consistent economically and politically in this country, and if these factors materially permeate into Mexico, we could face a deterioration in our financial condition, a decrease in demand for our services and involvement of our customers and suppliers. The effects of the current situation are very difficult to predict and mitigate.

Health epidemics and other outbreaks in Mexico may affect our business operations.
Our business could be adversely affected by the effects of avian flu, severe acute respiratory syndrome, SARS, H1N1 flu or another epidemic or outbreak. In April 2009, an outbreak of H1N1 flu occurred in Mexico and the United States and has spread to more than 70 countries, leading the World Health Organization to declare the first global flu pandemic in over 40 years. Any prolonged occurrence or recurrence of avian flu, SARS, H1N1 flu or other adverse public health developments in Mexico may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities and developments which could disrupt our operations, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

Natural phenomena such as Hurricane Alex, could have a negative effect on our operations.

In June 2010, we were affected by the impact of Hurricane Alex, which destroyed many of the access roads to our facilities and caused an affectation in our ability to provide the same level of service. Although the negative impact on the Company was controlled immediately, we will always be subject to such natural events that may affect the business materially, and consequently the results of the company could be diminished.

Weakness in the Mexican economy could adversely affect our business, financial condition and results of operations.

Our operations, results and financial condition are dependent partly on the level of economic activity in Mexico. Income in Mexico has a considerable dependence on oil, U.S. exports, remittances and commodities, and these variables and factors are beyond our control. It is important to note that pursuant to *Banco de Mexico* the annual GDP (in constant pesos) at December 31, 2011 was $36,669,027.80 pesos, which increased 4% with respect to 2010. The lack of a consolidated internal market makes the economic growth in Mexico to be short of a strong and independent internal database so as to prevent that economic changes in external factors could significantly affect the general economy, causing sudden economic shocks like those experienced by Mexico in 2009, when the GDP declined by 6.5% despite we initially thought that the global crisis was no affecting Mexico. Therefore, the lack of solidness in the internal economy and the consequent volatility and sub- growth of the economics in Mexico represent unpredictable risks that if they materialize could affect our business and results of operations significantly.

Political events in Mexico may affect our operations as well as the economic policy of the country.
Failure and delay of political and economic reforms, caused by the differences between the legislative and federal different policy objectives of each parliamentary group and differences in priorities between the agendas of parties, have been the norm in last few years. The aforementioned has resulted in the reluctance of these political actors to build the agreements that Mexico require on the economic, industrial and security sectors, among others. In addition, the federal elections of July 2012 are positioned as the priority of political parties and have limited inter-party dialogue between the Congress and Senate. The lack of political agreement on the material reforms required by Mexico and a potential deterioration in relations between the various political parties and between federal legislative powers could have an adverse effect on Mexico's economy and therefore affect the revenue and profit our business.

Social and political instability as well as insecurity in Mexico or other adverse social or political developments in or affecting Mexico could adversely affect our business, financial condition and result of operations, as well as market conditions and prices for our securities. These and other future developments in the Mexican political or social environment may cause disruptions to our business operations and decreases in our sales and net income.

Developments in other countries could adversely affect the Mexican economy, the market value of our securities and our results of operations.
As is the case with respect to securities of issuers from emerging markets, the market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers. For example, prices of both Mexican debt securities and Mexican equity securities have dropped substantially as a result of developments in Europe, mainly in Greece, Asia, and the continuing recovery in Spain and Italy.

In addition, the direct correlation between the national economy and the economy of the United States has increased in recent years as a result of the execution of the NAFTA and the increased commercial activity between the two countries. Consequently, the slowdown in the U.S. economy could have a material adverse effect on the economy of Mexico. The terrorist attacks of September 11, 2001 had an adverse impact on the economy of the United States and around the world and the United States have received several threats of future attacks, as well as other countries. Although it is not possible to predict the long-term effect of such threats, and the subsequent response of the United States, there is no guarantee that any other attacks or threats will not occur that may cause a further contraction in the economy of the United States or of other major global markets, which could have a material adverse effect on the economy of Mexico. Similarly, the 2008 financial crisis in the United States had generated a very strong impact on the global economy and brought the world virtually to economic paralysis in 2009. The lack of growth and labor instability in the U.S. have helped to perpetuate a negative impact on economies mostly interrelated, like ours. We cannot guarantee that this situation could not be repeated and that it will not have a material adverse effect on our economy. The market value of the CPO could decline as a direct or indirect result of developments in other emerging markets in the United States or in other countries.

High interest rates in Mexico could increase our financing and operating costs.
Mexico historically has had high real and nominal interest rates. The interest rates on 28-day Mexican government treasury securities, CETES, averaged during, 2009, 2010 and 2011 respectively, 5.4%, 4.4% and 4.8% and we cannot assure that interest rates will remain at their current rates. Thus, if we are forced to incur Mexican Peso-denominated debt in the future, it may be at interest rates higher than the current rates.

Devaluation of Mexican currency could adversely affect our financial condition.

While our revenues are almost entirely denominated in pesos, the substantial majority of our capital expenditures and approximately 93.6% of our contracted debt as of December 31, 2011 are denominated in U.S. dollars. The value of the Mexican Peso has been subject to significant fluctuations with respect to the U.S. dollar in the past and may be subject to significant fluctuations in the future. In 2008, as a consequence of the global economic and financial crisis, the peso depreciated 24.6% against the U.S. dollar in nominal terms. In 2009, the peso has appreciated 3.5% and in 2010 it appreciated 5.4% and in 2011 depreciated into 13.2% against the U.S. dollar in nominal terms. Further declines in the value of the peso may adversely affect our capacity to comply our obligations in U.S. dollars.

Our financial statements prepared under the NIF do not provide the same information as financial statements prepared under International Financial Reporting Standards.

We prepare our financial statements by applying the NIF, which differ in certain significant respects from International Financial Reporting Standards ("IFRS" for its acronym in English), for example, the valuation of fixed assets in the recognition of inflation, in the treatment of capitalized pre-operating expenses, in the capitalization of comprehensive financing and tax deferred income, as well as in the presentation of information in the financial statements and their notes. For these reasons, the presentation of financial statements as reported by Mexican companies that report under the NIF may differ from those of companies in other countries.

In January 2009, the CNBV issued amendments to the Circular Letter to incorporate the obligation to submit financial statements prepared based on IFRS from 2012. By virtue of the foregoing, the Company will adopt such regulations for financial statements that are to be issued starting on that year.

1.3.4) Risks Related to CPOs

The Company cannot guarantee that always there will be an active market for the stock that will give the necessary liquidity to the shareholders.

The Company cannot guarantee the liquidity of the CPOs or that the market price could not decrease significantly. Circumstances like variations in the results of operation in the present or future, changes or misses in achieving the estimations of revenues of the analysts, among others, could cause that the prices of the CPOs decrease significantly.

The small liquidity and the high volatility of the BMV can be able to decrease the market of the CPOs.

The Company has its CPOs registered at the BMV, the only stock market exchange in Mexico. The Mexican stock market is substantially lower as for realized operations; and less liquid and more volatile than the majority of the stock markets in the United States and other developed economies. The relatively small capitalization of the Mexican stock market and the limited liquidity could substantially limit the capacity of the holders of CPOs to sell them, for what it could affect also the price of the CPOs.

The price of the CPOs is volatile and could represent a risk to the investors where they could lose all or part of their investment.

The market price of the CPOs could fluctuate considerably, for which the investor could not be able to sell the CPOs at an equal or major price than the purchase price. The price of the CPOs can fluctuate due to different factors, including but not limited to:

- The performance of the operations of Axtel, their competitors and other companies that grant similar services ;
- The reaction of the investors to publications that Axtel realizes and the presentation of documents and information to the BMV and CNBV;
- Changes in the estimated revenues or in the recommendations realized by the analysts who follow the performance of Axtel and those similar on different stock markets;

Changes in the general economic conditions;

- Changes in the qualification of Axtel from the main rating agencies;
- Behavior of the current shareholders, including sale of shares carried out by managers and executives of the Company;
- The arrival or departure of Axtel's key personnel;
- Acquisitions, strategic alliances or joint ventures involving Axtel or his competitors; and
- Other events that affect Axtel, the industry or the competitors.

Future issuance of Shares could result in a decrease of the market price of the CPOs.
The selling of a considerable number of Shares by current shareholders or the perception that a great number of Shares will be sold, could affect the price of the CPOs.

The Shares cannot be bought by foreign investors over the percentages allowed by the applicable legislation governing foreign investment, but through the CPOs Trust. At the maturity of the CPO´s Trust, in 50 years or in case it is ended earlier, the Series B shares that are protected by the CPOs will have to enter to a new trust similar to the CPOs Trust or it will be necessary to sell the number of CPOs that are necessary in the terms of the CPO´s Trust in order to comply with the limitations established by the applicable legislation governing foreign investment as mentioned previously, so that the foreign investors could continue having the series B shares indirectly. Axtel cannot guarantee that at the maturity of CPO's Trust a similar trust will be constituted. In case that a new trust is not created, and by virtue of that the Series B shares of the Company cannot be acquired by foreign investors, the foreign holders of the CPOs will be forced to sell to Mexican investors all of the Series B shares protected by their CPOs.

The foreign holders of the shares of the Company have limited rights to vote.
The foreign holders of the ADSs or CPOs will have limited rights to vote. The rights to vote regarding the Series B shares that constitute the CPO's Trust for the foreign investors holders of the CPOs will be voted in the same way as of the majority of the Series A shares and the series B shares held by Mexicans and that are voted in the corresponding shareholders' meeting. (See “applicable Legislation and tributary situation - (ii) limitations to the participation in the common stock for foreign shareholders - Law of Foreign Investment ").

The foreign holders of the shares of the Company might lose their shares if they decide to request the protection of their government.

According to the Mexican legislation and the bylaws of the Company, the foreign holders of CPOs will not be able to request the protection of their government in relation with their rights as a shareholder in Mexico. If the foreign shareholders of CPOs violate this provision, they will lose the shares that are protected by the CPOs Trust in favor of the Mexican government.

The bylaws of Axtel need the authorization of the board of directors for certain sales, acquisitions and transfers of shares that represent Axtel's capital stock.

Axtel's bylaws establish some provisions trying to prevent a change of control in Axtel, including provisions regarding an alienation, sale, acquisition or transfer of shares that represent Axtel's common stock, such as (i) to acquire shares or that as a result of a transaction, an individual or together with other individuals, tries to hold shares amounting 5 % and up to 45 % of Axtel's capital stock, and (ii) if any competitor of Axtel tries to acquire directly or indirectly or holds shares amounting 3 % or more of Axtel's capital stock, they need previous authorization from the board of directors or from the extraordinary shareholders' meeting. The board of directors, at its discretion, can waive or dismiss the requirement that a public offer to purchase to be carried out with respect to restricted transfers according to Axtel's bylaws. The investors who buy shares in violation of these provisions of Axtel's bylaws will not be registered in the ledger book of Axtel's shareholders, will be forced to sell such shares to a third party approved by the board of directors or by the shareholders' meeting and will have to pay a penalty to the Company. Therefore, these investors will not be able to exercise their rights to vote that correspond to their shares. This restriction will not be applicable to the transfer of shares for a successor way. These provisions of the bylaws will apply in addition to, and will not affect, the obligation to carry out a public offer to purchase and to report transfers of shares of Axtel's capital stock according to applicable legislation and the general provisions issued by the competent authority.

This provision might dissuade possible buyers of a significant percentage of CPOs and may affect the liquidity and price of the CPOs. (For more information about this restriction see “Bylaws and other agreements - Measures tending to prevent a change of control in Axtel” in this Annual Report).

1.3.5) Other risk factors

Information on estimations, pro forma information and declarations on future consequences.

This Annual Report contains information about certain estimations or projections and it may also contain pro-forma information. All information that differs from the real historic information that is included hereunder reflects the perspectives of the Company in relation to the events and may contain information about financial results, economic situations, trends and facts or assumptions that are uncertain. Likewise, the pro forma information does not necessarily reflect what it should have happened if the assumptions on which they are based would have happened.

This document also contains declarations on the future. It is possible that we make future statements from time to time in our periodic reports to the authorities according to the Circular Letter, in our annual report to the shareholders, in offering circulars or prospects, in press releases and other written materials, or in verbal declarations of our management, directors, employees, analysts, institutional investors, representatives of the press and others.

Words such as "believing", "anticipate", "to plan", "expect", "intend", "goal", "estimate", "forecast", "predict", "should" and similar expressions intend to identify future consequences but they are not the only way to identify the above mentioned declarations.

Forward looking statements involve risks and uncertainties inherent in them. We note that there are many factors that could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in forward-looking statements. These factors, some of which are described under "Risk Factors" include the economic, the political situation and government policies in Mexico, inflation rates, exchange rates, legislative changes, technological improvements the demand from consumers and competition. Similarly, we note that the above mentioned risk factors are not unique, but there are many other risks and uncertainties that could cause actual results to differ materially from those expressed in forward-looking statements.

Forward-looking statements are valid until the date to which they refer. We undertake no obligation to update such statements in the event that new information is received that events occur in the future.

Investors should evaluate any statements made in response to these important factors.

1.4) Other Securities

a) The Company has registered in the RNV a total of 8,769,353,223 ordinary, non-par value shares representing the fixed portion of its capital stock, of which 96,636,627 shares belong to the Class "I", Series "A" and 8,672,716,596 shares belong to the Class "I", Series "B"; and

b) The Company trades in the BMV CPO’s that are non-amortizable issued under the CPOs Trust that represent, each one, 7 series B shares of the Class I of the capital stock of Axtel. To the date of this Report, there are 1,238,959,485 CPOs that represent 8,672,716,395 Class I Series B Shares.

Since its listing in the BMV, the Company has delivered in complete form, the reports referred to by the LMV and by Circular Letter regarding relevant facts and periodic information according to those provisions.

1.5) Significant Changes To The Duties Of The Shares Registered In The Record Book

Not applicable.

1.6) Use of Proceeds

Not applicable.

1.7) Public Domain Documents

This Annual Report, as well as the quarterly reports and the press releases regarding relevant events, are available in Axtel's web page at http://*www.axtel.com.mx* . Any clarification or information can be requested by sending a letter to the address of the Company at Blvd. Díaz Ordaz Km 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, Nuevo León, ZIP code 66215, to the attention of Adrian de los Santos, or by e-mail to *ir@axtel.com.mx*

2) THE COMPANY

2.1) History and Development of The Company

The Company was incorporated under the name of Telefonía Inalámbrica del Norte, S.A. de C.V., by means of the public deed 3,680, dated July 22, 1994, formalized before the Lic. Rodolfo Vela de León, Notary Public number 80 of the city of Monterrey, Nuevo León. These articles of incorporation were registered at the Public Registry of the Property and Commerce of Monterrey, Nuevo León under number 1566, folio 273, volumen 417, Libro 3, Segundo Auxiliar Escrituras de Sociedades Mercantiles, Sección Comercio on August 5, 1994. On 1999, the Company changed its name to Axtel S.A. de C.V., and due to the implementation of the changes incorporated by the LMV in December 2006, the Company became a Sociedad Anónima Bursátil, and its corporate name today is Axtel, Sociedad Anónima Bursátil de Capital Variable or Axtel, S.A.B. de C.V.

On June 1996, the Mexican government granted the Company a permit to install and operate a public telecommunications network to offer local and long distance telephone services in Mexico. In 1998 and 1999, the Company won several radio-electric spectrum auctions, including for 60 MHz at 10.5 GHz for point-to-multipoint access, for 112 MHz at 15 GHz for point-to-point backhaul access, for 100 MHz at 23 GHz for point-to-point last mile access and for 50 MHz at 3.4 GHz for fixed wireless access, which together allow us to service the entire territory of México. In June 1999, we launched commercial operations in the city of Monterrey.

With the intention to continue with our sustained growth and in order to enhance the position of leadership of Axtel in Mexico, on October 25, 2006, the Company entered into a contract with Banamex and Tel Holding, former controlling shareholders of Avantel, to purchase substantially all of the assets of Avantel Infraestructura, S. de R.L. de C.V., and the equity interests of Avantel Concesionaria, and Avantel Infraestructura, S. de R.L. de C.V. for an estimate of U.S.$516 million (including the acquisition of net passives of US $205 millions). Following receipt of all required approvals from Axtel's shareholders and government regulators, we completed the acquisition on December 4, 2006. To finance the acquisition of Avantel, we used the proceeds from a dollar-denominated $ 3,383 million pesos (US$311 million) bridge loan facility, a peso and dollar syndicated loan of $ 2,242 million pesos term loan facility and cash on hand.

In relation to our acquisition of Avantel, we also entered into a Series B Shares subscription agreement with Tel Holding, for an amount equivalent to up to 10% of Axtel's common stock. Due to the above, Axtel's shareholders meeting approved on November 29, 2006 (i) an increase in the Company's capital by means of the issue of enough Series B Shares for Tel Holding to subscribe and pay Series B Shares (in the form of CPO's) that represent up to 10% of Axtel common stock, and (ii) the subscription and payment of the increase by Tel Holding and those stock holders that had decided to subscribe and pay such Series B Shares using their right of preferential subscription mentioned on article 132 of the *LGSM*. On December 22, 2006 pursuant to the Subscription Agreement, we received a notice from Tel Holding confirming that it acquired 533,976,744 Series B Shares (represented by 76,282,392 CPOs) from the BMV and confirming its intention to subscribe and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). On January 4, 2007, Tel Holding subscribed and paid for 246,453,963 new Series B Shares through the CPOs Trust which were accredited in its favor in the form of CPOs through Indeval. From January 4, 2007 through January 20, 2007, during the subscription period, other shareholders subscribed and paid 88,662 new Series B Shares through the CPOs Trust as well. New Series B Shares were subscribed and paid at

$ 1.52 pesos each, generating $ 375 million pesos in proceeds for Axtel.

With the acquisition of Avantel, we became the second largest fixed-line integrated telecommunications company in México, providing local and long distance telephony, broadband Internet, data services, web hosting, information security services, virtual private networks, and a wide range of integrated telecommunications services. As of December 31, 2011 Axtel's network was of 200 cities with long distance connectivity and other voice and data services, 39 metropolitan areas with integrated local phone and advanced voice and data services, internet and 5 international exits to the global internet network.

Avantel was acquired on December 2006. Avantel Infraestructura and Avantel Concesionaria were incorporated as a 55.5%-44.5% joint-venture between Banamex (through Promotora de Sistemas) and MCI Telecommunications Corp. On June 30, 2005, several capitalizations in related debt and/or transfer of stocks were made resulting in a dilution of MCI Telecommunications Corp. participation, to 10% in both companies. On June 30, 2005 Avantel Infraestructura and certain subsidiaries as "Asociados", together with Avantel Concesionaria, as "Asociante", entered into a Asociación en Participación agreement, with the intention for Avantel Concesionaria to provide services and operate a public telecommunications network of Avantel Infraestructura, and therefore Avantel Infraestructura provided as "Asociado" the above said telecommunications network, and the "Asociados" provided the agreements with clients, support services and human resources. Even though it was incorporated as a local and international long distance telephone service provider in Mexico, after year 2000, as a result of the sharp decline in national and international long-distance tariffs in México (over 60% from 1997 to 2005), Avantel focused its business strategy to focus on providing data and bundled value-added voice services to business customers.

The integration of Avantel brought to Axtel valuable spectrum in various frequencies, approximately 390 kilometers of metropolitan fiber optic rings, 7,700 kilometers of long-distance fiber optic network, a robust IP backbone and connectivity in 200 cities in México, among others. The new Company's size allows it to use its complementary infrastructure platforms, that combine pioneer Axtel's "last mile access" with Avantel's advanced IP net and over 7,700 kilometers fiber optic net.
The Company's life shall be unlimited and its corporate domicile is based in the municipality of San Pedro Garza García, Nuevo León, and its corporate offices are located on Blvd. Díaz Ordaz km. 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215. Its telephone is +52 (81) 8114-0000 and its web page is www.axtel.com.mx.

2.2) Business Overview

2.2.1) General

Axtel is consider as one of the leader companies in the provision of telecommunications services, providing a great variety of services, including local and long distance telephony, broadband Internet and data services for residential and business clients. The thirty nine metropolitan areas in which Axtel provided its integrated communication services as of December 31, 2011 were: Mexico City, Monterrey, Guadalajara, Puebla, Toluca, Leon, Queretaro, San Luis Potosi, Aguascalientes, Saltillo, Ciudad Juarez, Tijuana, Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Ciudad Victoria, Reynosa, Tampico, Cuernavaca, Mérida, Morelia, Pachuca, Hermosillo, San Juan del Rio, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun, Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlan, Coatzacoalcos and Minatitlan, which represent more than 47% of the total population of México.

As of December 31, 2011, the Company amounted more than one million lines in service, which represented 757,366 clients, and more than 51 thousand long distance pre-subscription users. Regarding the fiscal year ended December 31, 2011, Axtel generated revenue and operation income of $10,829 million pesos and $437 million pesos, respectively.

The Company has concessions to provide local telecommunications services and long distance throughout Mexico. The Company provides its services through an extensive network of local access wired and wireless hybrid designed to optimize capital investments through the deployment of access equipment based on specific customer needs combined with a fiber optic long distance of 7,700 kilometers. The current options for last-mile access to customers of the Company include FTTH or optical fiber directly to home, fixed wireless access, wireless point-to-point and point-to-multipoint copper wires and direct links to our metropolitan fiber optic rings. As of December 31, 2011, the Company invested $34,539 million pesos mainly in its network, which includes 56 stations of digital switching, 437 sites of Fixed Wireless Access, 997 sites WiMAX, 292 point-to-multipoint, 5,942 point-to-point links, 1,870 kilometers of metropolitan optical fiber rings and 2,274 FTTH kilometers.

During 2010 and 2011 the Company conducted a strategic review which involved a thorough analysis of industry environment and the competition. As a result of this review, Axtel's strategic aspirations and foundation for the next five years, and corporate strategies and key initiatives regarding the points where resources should be focused, were defined more clearly.

The strategic aspiration is to make Axtel leader in high speed broadband (greatly as a consequence of the FTTH offered services) and in selected areas of TIC services, with differentiated services oriented to high-value segments in the residential, business, corporate, financial and government areas. Consistent with this aspiration, five corporate strategies were defined where the administrative, technical and commercial efforts are being focused on. The essence of these strategies is: (1) to focus on growth in high speed broadband and TIC services with differentiated products, (2) to gain market share in selected segments of high value, (3) compete with quality of service differentiation, innovation and commercial creativity, (4) re-orient the culture towards greater productivity and profitability of the operation of assets and (5) make more efficient the operating model.

Our approach to bundle multiple voice, data and Internet services into integrated telecommunications solutions for businesses and high-usage residential customers has been a goal of the Company; and has allowed us to obtain significant revenues per user and a higher profitability per unit invested in infrastructure.

By the end of year 2011, 68% of lines in service came from residential customers and the other 32% were business customers as well as government, financial institutions and carriers. We estimate that our total lines represent approximately 11% of the lines in service of our total addressable market.

We expect our growth will come from both continued customer acquisitions and the build out of our network within our current markets and in selected new cities as we continue to expand our coverage and capacity in the major metropolitan areas of México. Same wise, the Company might start operations in new markets in which it still does not participate, widening its capacity. The Company does not discard higher growth through commercial agreements or strategic acquisitions of one or more telephone internet satellite TV, cable and/or other added value service providers in the future.

2.2.2) Competitive Strengths

a) Leading Market Position.

By being one of the first competitive service providers to approach customers with bundled local, long distance voice and data services in a significant number of cities across the country, we believe that we are able to meet pent-up demand for an alternative service provider, as well as establishing brand awareness and customer relationships prior to market entry by emerging competitors. We have benefited from our ‘‘first-competitor-to-market’’ advantage by capturing what we estimate to be approximately a 11% share of our total addressable market in the 39 cities where we offer local services. As of December 31, 2011 in Monterrey and Guadalajara, the first two markets where Axtel launched operations in 1999, we estimate that we have achieved an approximately 21% and 13%, respectively, share of our coverage market in each of these cities. During 2011, AXTEL has strengthened its market position as the first company to consolidate with optical fiber service directly to home (FTTH) and as the company with the fastest growth in broadband high speed with 39% at the end of 2011.

The market behavior has been as follows (amounts in thousands):

Broadband	2010 Subscribers	2011 Subscribers	Market Share	Growth 10-11
Telmex	7,359	7,952	78%	8%
Axtel	315	436	4%	39%
Maxcom	91	107	1%	17%
Megacable	594	683	7%	15%
Televisa's Cable Services	806	1,067	10%	32%
Total	**9,165.00**	**10,245**	**100%**	**12%**

Source: Internal Company Analysis

b) Comprehensive Voice and Data Service Portfolio.

We provide our customers with an integrated bundle of services that includes local and long distance voice services, as well as internet, data and other value-added services. We believe our comprehensive service portfolio enables us to build strong, long-term relationships with customers reducing the amount of deactivations or rotation and increases our return on our investment in network infrastructure. Furthermore, our digital access, transport and innovative last-mile technologies enable us to meet the growing demand for data services. In addition Axtel has deployed a FTTH network that allows the enlargement of its solution's portfolio to residential and business markets, because by means of this network it can offer high speed internet service (up to 100 symmetrical Mbps) and incorporate next-generation services demanding high transmission capacity.

c) Scalable Digital Network.

The structure of Axtel's local access network and fixed wireless hybrid and wired, allows it to penetrate new markets quickly and effectively. Using the wireless technology model, Axtel can cover geographic areas of substantial size by a lower initial capital expenditure. Under the model of fixed wireless access technology, the Company has no capital expenditure for last-mile connections until customers hire the services. During 2011 Axtel promoted the growth of its FTTH network in the three major cities in the country, achieving a coverage close to 1 million units and 46,374 customers with FTTH technology installed, complementing its ability to deliver converged services with up to 100 megabits per second. As of December 31, 2011 the Company invested $ 34,539 million pesos, mainly in its network, which includes 56 stations of digital switching, 437 sites of fixed wireless access, 997 WiMAX sites, , 292 point-to-multipoint links, 5,942point-to-point links and 1,870 kilometers of metropolitan fiber optic rings and 2,274 FTTH kilometers to provide service to its 757 thousand customers.

d) Scale—Second-Largest Fixed-Line Integrated Telecommunications Company in México.

We are the second largest local, national and international long-distance and data services provider in México, measured in lines in service, revenues and Adjusted EBITDA.

e) Adequate Financial Profile.

We have sufficient cash flow operation (Adjusted EBITDA of $ 3,575 million pesos in 2011) and healthy financial ratios with net debt to Adjusted EBITDA of 3.3x and Adjusted EBITDA to net interest expense of 3.1 and 3.6x, both for the year ended December 31, 2011.

f) Experienced Management Team and Internationally Renowned Equity Partners.

Our senior management team has extensive entrepreneurial, financial, marketing and telecommunications expertise. The diverse experience of our senior management team has contributed significantly to our initial success and rapid growth. In addition, we have benefited from working currently and in the past with strong local partners and experienced multinational investors such as The Blackstone Group, Citigroup Inc. and AIG-GE's Latin American

Infrastructure Fund. Our local investors and directors include, among others, Tomás Milmo Santos, Thomas Milmo Zambrano, Alberto Santos de Hoyos, Lorenzo Zambrano Treviño Javier Arrigunaga Gómez del Campo and senior executives from The Blackstone Group, Citigroup and Cemex.

2.2.3) Business Strategy

The key elements of our business strategy are:

a) Target Service Sectors with High Profitability Potential.

The Company has divided its market into three segments. The mass market which includes residential customers and small and micro enterprises is one of them. The second is the business segment that includes medium and large enterprises and the third one is the segment of strategic accounts which includes federal government agencies, financial institutions, multinational corporations and carriers or wholesalers. In the mass market, Axtel is focused on being the leading provider of high-speed broadband and provide value-added solutions that enable clients with integral solutions in their home or business, thus achieving a higher degree of differentiation from the competition, greater customer satisfaction and an orientation to segments of high value customers or consumption. With respect to business segments and strategic accounts, efforts are focused on delivering a number of services, among which are TIC services, like *cloud* services, security, data centers, contact centers and managed services, among others. These services are offered in an integrated manner with conventional telecommunication services by adapting the solutions to the needs of our customers. This allows us to compete with greater differentiation and in a more profitable manner. In small and medium enterprises, there are a number of standard offers, while in large corporate accounts and government the design of the solutions is tailor made. The Company has developed customized service plans, these plans are designed to attract business customers and maintain residential customers of high consumption in each market segment. Axtel believes that focusing on business and residential customers of high consumption within its coverage allows it to increase the return on each invested peso in its network infrastructure.

b) Bundle Products in an Integrated Offering

The Company believes that packaging voice, data and Internet to provide communication solutions for its customers, allows it to generate higher revenues per customer, more gains for every invested Peso in its access infrastructure and greater customer loyalty. During 2011 Axtel consolidated its "Axtel Xtremo" offer; which is a high speed internet and telephone-package service which the customer can order from 1 to 100 Mbps of symmetrical internet velocity through FTTH. Additionally, the service includes local unlimited service and depending on the selected package it may include unlimited LD to Mexico, United Stated and Canada. The customer may select the package that best suits its needs and usability, and moreover it has the option to customize the package by adding additional lines and modules of minutes of mobile phone to access the best rates in the market. In the cellular mode, it offers modules of 50 minutes at a cost of $ 50 pesos plus VAT, which implies a rate of one peso per minute, the best among the various operators, including cellular. On the other hand, for mass customers with less broadband needs, Axtel continues to provide its Universal Access package through which the client can access speeds from 1 to 4 Mbps and phone service, using its WiMAX technology platform launched in the 39 cities of the country.

c) Consolidate our participation in the Segment of Telecommunication and Information Services to companies

We are focusing our efforts on continuing to strengthen our skills in a number of services, among which are *cloud* services , security, data centers, contact centers and managed services. Such services are offered in an integrated manner together with other traditional telecommunications services like dedicated links, VPNs, frame-relays, among many others, tailoring our solutions to the needs of our customers. This will allow us to compete with greater differentiation and in a more profitable manner. For small and medium enterprises there are a number of standardized offers that are being commercialized, while with respect to large corporate accounts and government the design of our solutions is 100% tailor made.

d) Maintain Voice Revenues Stream.

Although the data and internet have grown significantly, voice-related revenues still represent a very important part of the fixed local telephony services in Mexican telecommunications market.

e) Take Advantage of Being the First Competitor in the Market of high speed broadband services.

Axtel is the first competitor in the market of high speed broadband service. Our scope is to take advantage of this particular moment that enables us the opportunity to exploit the broadband technological capacity in order to provide integrated voice and internet services at speeds that our competitors are not able to offer yet thus satisfying the growing demand of this type of services both in the residential and business market.

f) Client Service Focus and Client Retention

Since the Company started operations, it has sought superior levels of client satisfaction, higher than those achieved by its competitors. The Company considers that its attention to a client service approach provides the customer with a high quality experience and therefore a higher satisfaction which helps the Company to obtain a higher level of income and cash flow, by improving client retention and expanding its sales opportunities. Therefore, Axtel permanently monitors the client satisfaction rates and performs actions in order to maintain a higher service level.

g) Continuous Technological Evolution to offer advanced and convergent solutions of data, voice, images, and video games

The Company aims to continue growing its network with new and better technologies available and to adapt the existing network infrastructure to the market and the customer's needs with the purpose of actively participate in the technological convergence of voice, data, mobility and video. Consistent with this strategy, Axtel has achieved its leadership position in the broadband segment in Mexico thanks to the introduction of innovative products and offerings like "AXTEL X-tremo", the service of high speed Internet that can offer speeds up to 100 megabits per second, which has the option to purchase it in symmetrical mode, which allows the same speed on the rise and the same speed on the data downloading. For this cutting edge service its fiber optic network deployed in the three major cities (Mexico City, Monterrey and Guadalajara) is used, implying that for the first time in Mexico, the client can receive telephony services and internet by using optical fiber delivered directly to its home or business, which in the telecommunications industry is known as FTTH. This innovative product of Axtel positions Mexico at the level of internet speeds of the most advanced countries in the world and allows users for the first time to access to applications that require high use of bandwidth, such as high-definition video, multimedia applications, as well as downloading large files with an experience of high speed and quality, which contributes to the efficiency of the processes and of its users. It also allows Axtel and the client to have the infrastructure through which a greater number of TIC services can be offered, thus meeting the growing demands of such market and to have a positive impact on the results of the Company.

h) Growth in major cities and conurbation areas of Mexico

With regard to geographical expansion, the Company continually evaluates opportunities to expand its coverage areas and to strengthen its ability to win new large customers with multi-regional needs resulting in higher revenues and larger margins that, over time, will help reduce its capital investments. To achieve the selective expansion of its network coverage, the Company may conduct one or more strategic acquisitions of one or more telephony, Internet and / or other value added service providers. At this particular time the Company does not have any plans to conduct any of those transactions.

i) Focusing to Service Quality

During 2011 Axtel consolidated its quality program "Lean Six Sigma" through the certification of "Black Belt" and "Kaizen" leaders of and through the execution of high-impact improvement programs for the business. This program positions Axtel as the first operator in Mexico to implement "Lean Six Sigma" as a quality and continuous improvement system, allowing a greater focus on the customer and the quality of the services offered.

2.3) BUSINESS ACTIVITY

Axtel's main objective, among others, is to install, operate and exploit a public telecommunications network as per the concession granted by the SCT, for the provision of local telephone, national and international long distance data and Internet services, as well as other value added services like network security administration, data centers, contact centers and managed services, by using fixed wireless and wired technologies through a permit or concession granted by the competent authorities and/or to use and exploit radio-electric spectrum frequencies.

We offer the following products and services:

VOICE	DATA
Business and Residential Line	*Local and Domestic Private Lines*
National and International Long Distance	*International Private Nationals and International Lines*
Digital Trunks and IP Trunks *Voicemail* *Centrex Line*	*High Speed Private Lines* *Co-Location* *VPN (Virtual Private Networks)*
Smart Line	*LantoLan AXTEL*
Customer Premise Equipment	*VPN PIP Internacional*
Telephone Sets, Key Systems and PBX	*IP Multiservices*
Call Waiting	*Enlace Global AXTEL* *VPN Broad Band*
Call Forwarding Package	
Caller ID, *Calls Control* *Additional Personal Number*	*PACKAGES*
Directory Assistance *Operator Services* *Automatic Dialing* *Unique number*	*Axtel X-tremo* *Universal Access (Residential)* *Universal Access (Business PYMES)* *Residential Voice Plans*
Prepaid Services *Collect Calls* *Axtel Conmigo*	*Business Voice Plans (Business PYMES)*
Virtual Lines *Membresía Familiar Axtel* *800's numbers* *VoIP* *PYME Assistance* **INTERNET** *Broadband Internet* *Hi-Speed Internet* *Dedicated Internet (E3)* *Web Hosting* *Internet FWA* *Internet on Demand* **AXTEL STORE** *Telephonic Appliances* *Computers* *Games* *Software*	*Integrated Services* *Data Centers* *Network Security* *Network Monitoring* *Contact Centers* *CPE Equipment* *Clean Pipes (Clean Internet)* *Structured Cabling* *Network Maintenance* *LAN Design and Operation* *Axtel UniCo (Unified Communications)* *Electronic Invoice* *Net Conference* *Administrated Broadband Services* *Filtered Content Administrated Services* *My PBX (Hosted IP PBX)* *Administrated IP PBX* *Network Administration (LAN and WAN)* *Site Modifications* *Audio, Video and Peripheral*

2.4) Channels of Distribution

Axtel's strategy is to be leader in high speed broadband and in selected TIC service areas with differentiated services oriented to high value segments in the residential, business, corporate, financial and government markets. The Company uses a variety of media publicity such as direct mail (the one specially sent and also the one in the invoices to the customers), and advertising through telemarketing, which is useful to create conscience of its brand in a geographic level and to sell new services to its clients. Likewise, Axtel creates trademark conscience through radio and TV announcements and sponsorships in local news. The Company also promotes its services using television and radio advertisements, and sponsoring programs of local news. The strategy of the Company to promote its trademark is to combine an attractive and modern image that reflects a human approach.

Advertising campaigns complement with sales goals targeted to specific markets of the Company using different sales channels.

a) Axtel's main sales methods are:

Direct Sales. The sales executives find potential business clients and establish appointments with them.

Door to Door. The sales agent finds potential clients in residential areas.

Telemarketing. The sales agents, through phone calls, seek potential clients from a data file created by the Company. This team takes calls from potential clients which have received advertising through promotional campaigns.

Point of Sales. The sales agents are located in sales spots located in strategically located areas in which potential customers go shopping.

MAPs (Attention and Payment Modules**).** Sales through Axtel's service offices located in strategic points of the city in which the Company provides its services.

Sales Distributors. Certain companies are authorized to engage in activities on behalf of Axtel. These companies focus on sectors in which they have certain influence.

Axtel's sales efficiency is measured in accordance with the cost of acquisition of subscribers. Telemarketing has proved to be one of the most efficient sales channels due to the quality of the database, which is oriented to customers located on a specific geographic area with network access and interest in acquiring the services. By pre-selecting its potential customers based in network availability and coverage, the Company is capable of maximizing its advertising expenses and reduce its costs of acquisition. The accuracy of our database also helps the Company to make installations more effective.

Cancellation made by subscribers mainly comes from shutting down lines due to lack of payment and the clients' decision to change its provider of services or to completely cancel its service. Subscriber cancellations result in a loss of future income that were expected from the clients which service is disconnected. Likewise, such cancellations limit the Company's ability to recover the costs incurred by the installation of the service. As a result of the management initiatives focused to keep the clients in the Company as well as to improve its billing and collection systems, the monthly average of cancellations is 1.6% for the last 12 months as of December 31, 2011.

b) Pricing

In the residential market, in order to attract new subscribers, we actively promote attractive packages or bundles, which generate recurring monthly payments, like *Acceso Universal* or *Axtel X-Tremo* packages, which may include unlimited local calls, domestic and U.S. long distance minutes and broadband Internet access to mass market customers. Once a customer has chosen our services, we focus on customer satisfaction and offer the customer benefits, rather than lower pricing, in order to maximize our retention rate. As an example of the above mentioned, with the packages of Universal Access (Acceso Universal) or *Axtel X-Tremo*, we install and activate a client's second line at a very low cost, and we also allow customers to try for free our added value services. Also, under the Axtel X-tremo offer, we provide our customers free of charge a better broadband service than the service they requested in order for them to try the service and consider an adjustment to the service ordered.

In the business market, we attract users by offering a wide variety of advanced telecommunications services, like VPNs, dedicated private lines, co-location and network monitoring, in addition to value added services like network security administration, data centers, contact centers and managed services, among others. For voice products, we offer volume discounts on local calls and provide additional services and discounts to customers who sign long-term contracts. To date, this strategy has allowed us to capture significant market share without eroding the value of the market through excessive price competition.

We maintain our prices at market levels. We offer pricing plans that are simple in order to assure customers of the integrity of the billing process. Our pricing structure rewards consumption by increasing discounts in relation to the amount billed. Our ability to introduce new products such as Acceso Universal, Axtel X-Tremo, Axtel Único o Axtel Conmigo, allows us to position ourselves as a value-added service provider rather than a company that competes only based on prices.

c) Customer Service

A key element of our competitive strategy is to consistently provide reliable, responsive customer service. In order to achieve this goal, we have established a 24/7 customer service center for voice, data and internet services which is staffed by highly trained personnel. We have implemented a comprehensive training, testing and certification program for all staff that directly interacts with customers.

We provide post-sales service on a nationwide basis through the following:

- Customer Service provides post-sales customer support, ranging from general information, additions, moves and a change to billing inquires and technical support.

- Operator Service is 24/7, providing directory assistance, wake-up calls, time of day, emergency calls and placing domestic and international long distance calls.

- Repair Answer. The National Center for Repairs is our customer contact group that addresses and manages all customer trouble reports and provides on-line technical support and analysis.

- Local Test analyzes and tests all trouble reports that are not resolved on-line by Repair Answer. This team is accountable for routing “in service” and “out of service” trouble reports to Repair Dispatch. Both Repair and Local Test work closely with our network maintenance center in order to monitor and fix network disruptions.

Both the Local Testing and Repairing areas, work together with the network maintenance center, in order to monitor and repair network failures.

d) Billing and Collection

We believe our billing and collection process is an important aspect of our competitive advantage.

Our billing team receives and validates the call detail record from the network and bills customers on a monthly basis, typically within the 14 day period following the end of the billing period. The client also receives its electronic invoice by e-mail within the following three days after the end of its billing period.

An ongoing revenue assurance process, which consists of reviewing the billing stream, payments and adjustments, as well as fraud detection and control, has become part of our regular billing operation. This process has contributed to minimizing fraud and risk.

To facilitate the reception of payments and to make the payment process convenient for customers, we have developed a number of payment reception channels. Some of these channels are:

- convenience stores;

- banks (cashiers, web page, automatic cash dispensers and cellular phones);

- Axtel MAPs (Axtel's Sales and Payment Points);
- Internet;
- supermarkets;
- automatic charges to credit cards (upon customer approval);
- Automatic charges to check accounts; and
- By telephone at customer service or auto service using IVR charging directly its credit card.

These channels provide easy and fast options for customers to select the most suitable and convenient alternative for a prompt payment.

To encourage customers to pay on time, we use preventive tactics such as calls to remind customers that its invoice is about to become due, reminders that they have failed to pay promptly on their previous payment due dates and call interception. Additional procedures include suspension of data and internet services, suspension of long distance and cellular, suspension of outbound calling and total suspension of service, as well as collection practices by visiting their domiciles.

Past due accounts are turned over to external collections agencies 90 days after their due date (except for government accounts). Accounts are disconnected 180 days after their due date. Prior to disconnection, we conduct a negotiation of the outstanding balance with the customer as part of our retention efforts oriented to provide alternate solutions payment programs.

Alternatives include reconnection of the service under a pre-payment scheme with a payment schedule for the outstanding balance.

2.5) Patents, Licenses, Trademarks and other Contracts

2.5.1) Company's Concessions

Axtel holds certain concessions titles granted by the Federal Government through the SCT to set up, operate and exploit public telecommunications networks, which allow the Company to render the following services nationwide:

- basic local telephony service and national and international long distance telephony;
- the sale or lease of network capacity for the generation, transmission or reception of signs, signals, writings, images, voice, sounds or other information of any nature;
- the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
- value-added services;
- operator services;
- Shot text messages and radio localization services;
- data, video, audio and video conference services;
- restricted television, continuous music services or digital audio services;
- credit or debit telephone cards; and

- Public telephone services.

The concession title for the rendering of basic local telephone service and national and international long distance service was granted for a term of 30 years, which may be renewed for an additional similar term, subject to the fulfillment of certain conditions. The rest of the concessions have a 20 years term with the same conditions precedent to be renewed.

Additionally, the Company has several concession titles to utilize the radio electric spectrum. Each of such titles has a 20 years term and may be renewed at our discretion for an equal term. The renewal shall be conditioned upon the Company’s compliance with all its obligations under the agreement and to the achievement of a new understanding with SCT with respect to the new terms and conditions.

The Company has the following concessions to use and exploit the following frequency bands:

- Two 929 MHz concessions for radio messaging services;
- 50 MHz at 3.4 GHz, nationwide, divided into 9 regions[1] for local telephony using fixed wireless access technology;
- 56 MHz at 7 GHz, nationwide, for long-haul point-to-point transport (a 50/50 ownership with Alestra);
- 60 MHz at 10.5 GHz, nationwide, for point-to-multipoint access;
- 120 MHz at 10.5 GHz, in regions 4, 6 and 9 for point-to-multipoint access;
- 168 MHz at 15 GHz, nationwide, for point-to-point access and transport;
- 368 MHz at 23 GHz, nationwide, for point-to-point access and transport; and
- 112 MHz at 37 to 38.6 GHz, in 1,3,4, 6 and 9 regions, for point-to-point transport.

2.5.2) Main Trademarks

Axtel is the owner of several registered trademarks used for commercialize the products and services that the Company renders. Among others, as of December 31, 2011 Axtel holds the following relevant trademarks:

NAME	FILE NUMBER	TERM	OWNER
Axtel	584,421	July 13, 2018	Axtel, S.A. de C.V.
Axtel. Su Acceso a las Telecomunicaciones	17,076	March 4, 2019	Axtel, S.A. de C.V.
Soluciones Axtel	625,940	July 2, 2019	Axtel, S.A. de C.V.

[1] The telephone regions in the country are divided as follows: Region1: the states of Baja California: Baja California, Baja California Sur, Sonora (San Luis Rio Colorado). Region 2: the states of Sinaloa, Sonora (excluding San Luis Rio Colorado). Region 3: includes the states of Chihuahua, Durango, Coahuila de Zaragoza (Torreon, San Pedro, Matamoros, Francisco I. Madero, Viesca). Region 4: Includes the states of Nuevo Leon, Tamaulipas, Coahuila de Zaragoza (excluding the municipalities of the North). Region 5: Includes the states of Chiapas, Tabasco, Yucatan, Quintana Roo, Campeche. Region 6: the states of Jalisco (excluding the municipalities of the central region), Michoacan de Ocampo, Nayarit, Colima. Region 7: Includes the states of Guanajuato, San Luis Potosi, Zacatecas, Queretaro de Arteaga, Aguascalientes, Jalisco (Lagos de Moreno, Encarnacion de Diaz, Teocaltiche Ojuelos of Jalisco, Colotlán, Villa Hidalgo, Mezquitic, Huejuquilla Alto, Huejucar, Villa Guerrero, Bolanos, St. Mary of the Angels). Region 8: includes the states of Veracruz-Llave, Puebla, Oaxaca, Guerrero, Tlaxcala. Region 9: includes the states of Mexico, Federal District, Hidalgo, Morelos

AXTEL	871,511	July 2, 2019	Axtel, S.A. de C.V.
AXTEL.NET	638,715	November 30, 2019	Axtel, S.A. de C.V.
AXTEL PUNTO NET	638,713	November 30, 2019	Axtel, S.A. de C.V.
Tu Nueva Compañía Telefónica	38,729	June 9, 2016	Axtel, S.A. de C.V.
Unified Communications	44,352	September 13, 2017	Axtel, S.A.B. de C.V.
Comunicaciones Unificadas	44,353	September 13, 2017	Axtel, S.A.B. de C.V.
Todo lo Bueno es Simple	49,041	August 7, 2018	Axtel, S.A.B de C.V.
Axtel Unico	1,147,431	December 2, 2019	Axtel S.A.B. de C.V
Axtel Conmigo	1,130,301	October 29, 2019	Axtel S.A.B. de C.V
Axtel Comunícate Mejor	55,994	December 2, 2019	Axtel S.A.B. de C.V
Acceso Universal	1,188,054	October 29, 2019	Axtel S.A.B. de C.V
AXTEL X-TREMO	1195317	October 15, 2020	Axtel S.A.B. de C.V
Axtel Acceso Universal Axtel X-tremo	1195315	October 15, 2020	Axtel S.A.B. de C.V
Axtel Unico Oficina Virtural	1204031	November 3, 2020	Axtel S.A.B. de C.V
Mejor Comunicación, Mejores Negocios	62437	November 17, 2020	Axtel S.A.B. de C.V
AXTEL SOPHTPHONE	1245261	May 27, 2021	Axtel S.A.B. de C.V
ZONA AXTEL	1250250	July 13, 2021	Axtel S.A.B. de C.V

2.5.3) Interconnection

All holders of concessions for the set-up, operation and exploitation of public telecommunications networks shall provide the interconnection services for which such services were granted, to other holders of public telecommunications network concessions that require such services. The concession agreements provide all terms and conditions required for the rendering of such services such as interconnection points and fees, protocols etc.

According to the regulatory framework telecommunications concessionaires are prohibited from conducting discriminatory practices in the application of rates or any other terms of interconnection.

LFT honors agreements between particular parties, but also provides that in case of disagreement in connection with the conditions for the establishment of interconnection services, the parties may request for the intervention of Cofetel in order to determine the relevant terms.

According to their nature, the Company has entered into the following interconnection agreements:

Fixed Local Interconnection

Fixed Local Interconnection is the exchange of calls between two fixed networks within the same local service area (LSA).

Local interconnection agreements contain provisions related to commuted local interconnection, non-commuted local interconnection, signalizing, co-locations, and local transit. The majority of these agreements are old and have suffered small changes; therefore they are still enforceable under the *Continuing Application*[2] conditions provided in such agreements.

The local interconnection agreements, include the billing and financial set-off agreements also known as *Bill and*

[2] Continuous application is a condition that allows parties to continue operating within the terms and conditions set forth in the agreement, even if the term of the agreement has terminated. In this case the terms and conditions of the original agreement will continue to be enforceable until the parties agree new terms and conditions.

Keep compensatory agreements. The Bill and Keep agreements are based on the fact that the traffic exchanged between two local area networks is similar in volume and therefore are balanced; consequently the parties establish a threshold of balance, and as long as the traffic remains within such threshold operators set-off their traffic on a 100% basis without incurring in further expenses and only exchange credit notes and cover the correspondent taxes.

So far, the rates and prices applicable pursuant to these agreements are denominated in Dollars for the commuted services and in Pesos for non-commuted services. Amounts expressed in Dollars are exchanged into Pesos each month using the exchange rates published by Banco de Mexico for the month in which the services where rendered.

In addition to local interconnection agreements with Telmex, we have established interconnection agreements with most of the local fixed carriers, such as Teléfonos del Noroeste, S.A. de C.V. ("Telnor"), Alestra, Unefon and Maxcom, and some cable companies providing telephony services. The terms and conditions for each agreement are the same to those established with Telmex.

Mobile interconnection

Mobile interconnection is necessary to achieve an effective communication between the Company's users and the users with a mobile device. We have interconnection agreements with all cellular providers (Telcel, Unefon, Iusacell, Telefonica Movistar and Nextel). The interconnection rates of these agreements are subject to certain legal disputes, therefore such interconnections operate pursuant to the resolutions issued by the correspondent authority, which is Cofetel.

It is worth mentioning that even though the Company had interconnection rates resolved until 2011, such rates were determined by SCT, therefore pursuant to the SCJN resolution the rates shall again be determined for the 2005-2011 period by the Cofetel. Notwithstanding the foregoing, Telcel, the largest mobile operator acknowledges an interconnection rate of $ 0.3618 pesos per minute for interconnection for 2012.

Also, during 2011 certain interconnection agreements were executed for the "El Que Llama Paga" (calling party pays) program between Avantel and other mobile operators. This situation allowed us to have important cost reductions and gave us the opportunity to compete in other markets. Also certain legal actions have been initiated requesting Cofetel to determine new interconnection rates for 2012 and previous years. Notwithstanding the foregoing, the Telcel bills to the Company at an interconnection rate of $0.3618 pesos per minute of interconnection.

Long Distance interconnection

***Acting as local network*.** These interconnection agreements allow long distance carriers to deliver long distance calls from their users to our local network. They also allow our users to make calls to non-geographic numbers (800s) assigned by Cofetel to long distance carriers with whom we have an agreement in place. We have long distance interconnection agreements in place with major long distance carriers such as Telmex and Telnor or Alestra, among others. Carriers that have not established this interconnection agreement with us, use traffic through operators that do have an agreement entered with the Company, therefore assuring the continuity of the services.

Acting as long distance network. These interconnection agreements, allow us to deliver long distance calls that crosses through our network to other local destiny networks. They also allow users of the local network to make calls to non-geographic numbers (800s) assigned by Cofetel to us. Even if the interconnection rates are still under dispute pursuant to certain legal proceeding ("Interconnection Disagreements"), as of December 31, 2011, the interconnection rate that the Company paid to Telmex was of $0.03951 Pesos or $0.04530 pesos per minute (depending on the point of delivery of the long distance call), which represent reductions of more than a 60% with respect to those determined by Cofetel in 2009 and 2010.

2.6) Main Customers.

Banamex, and its Mexican affiliates, Verizon (formerly MCI Telecommunications Corp prior of being acquired by Verizon) and Nextel de Mexico, represent 14% of our total revenues as of December 31, 2011. On this regards, the Company entered in 2011 into a five-year agreement with Banamex, renewable for another five years, to provide products and services for all their telecommunications needs in existing and new operations. Verizon provides us a significant volume of international traffic that terminates in Mexico, representing 4% of our total revenues for 2011. Additionally, we invoiced 2.8% of our total revenues to Verizon for services rendered to Verizon's global customers in Mexico in 2011. Finally, Nextel de Mexico has provided telecommunications services to its customers through access to our network since nine years ago. We first entered into a services agreement with Nextel de Mexico in April 2001, and this agreement has been extended eight times. Pursuant to this business relationship, in December 2007, we extended the agreement until August 31, 2011 to continue providing Nextel de Mexico with local services, spectrum, long distance and 01-800 numbers, and other services, in a significant number of Mexican cities. Notwithstanding the termination of the agreement in 2011, Nextel maintains a lover level of services agreed with the Company, which we consider will remain in the future.

Our telecommunications business is susceptible to seasonality, where our volume related revenues are impacted due to lower consumption levels in vacation and holiday periods. We estimate that approximately 25% to 35% of our revenues are volume related.

2.6.1) Markets

Commercial Operations for the Company started in the City of Monterrey, Nuevo Leon, on June 1999. As of December 31, 2011, we provided local, long distance, data and internet in 39 of the main metropolitan areas in Mexico (including Mexico City, Monterrey, Guadalajara, Puebla, Toluca, León, Querétaro, San Luis Potosí, Saltillo, Aguascalientes, Ciudad Juarez, Tijuana, Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Ciudad Victoria, Reynosa, Tampico, Cuernavaca, Mérida, Morelia, Pachuca, Hermosillo, San Juan del Rio Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun, Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlan, Coatzacoalcos and Minatitlan), in which you can find over 47% of the total population of Mexico. Axtel has long distance connectivity and certain other data and voice services in over 200 cities in Mexico through its long distance transport network. Axtel's coverage and capacity is found in the larger metropolitan areas, due to the fact that the Company estimates that these cities are the ones that represent the largest income opportunity in the telecommunication industry in Mexico.

Our city roll-out is determined taking into consideration the following criteria:

- ***Opportunity in the telecommunications sector*.** According to Cofetel, as of December 31, 2011, significantly all net-additional lines in Mexico were concentrated in 7 of the 32 states: State of Mexico, Jalisco, Nuevo León, Puebla, Distrito Federal, Veracruz and Guanajuato. 12 of the 39 cities in which as of December 31, 2011 we serve are in these states and six of them are state capitals.

- ***Regional economy***. According to INEGI, in 2010, almost 89% of the total gross domestic product in Mexico was generated in the 24 states in which we have a local presence in 2011.

- ***Operational synergies*.** To become more efficient in launching cities, we decided to open cluster of cities to allow for quick systems and operations integration and better efficiency in network build-out.

Within these cities, studies were conducted using geographical, statistical and self-generated market research data to determine where the most attractive opportunities were concentrated. Our network has been built upon this comprehensive data allowing for fast penetration and cost-efficiency.

We believe we have a 11% market share of our total addressable market in the 39 cities in which we offer local services. In Monterrey and Guadalajara, the first two markets where Axtel launched services, we estimate that we have achieved market shares, in each city, of approximately 21% and 13%, respectively. In particular, in the business market, we estimate that in Monterrey and Guadalajara we have achieved approximately a 24% and 18% market share, respectively.

The table below provides our estimated market share as of December 31, 2011 for each of the cities where we offer local services, based on access lines.

Market Share within Coverage Market in Residential (RES) and Business Markets (BUS)
As of December 31, 2011

City	Date Launched	RES	BUS	Total
Acapulco	Jan 09	10%	4%	9%
Aguascalientes	Sep 04	17%	15%	16%
Cancun	Jan 09	16%	4%	11%
Cd. Juarez	Oct 04	10%	10%	10%
Cd Victoria	Oct 07	20%	10%	17%
Celaya	May 06	12%	13%	13%
Chihuahua	Mar 06	10%	9%	10%
Coatzacoalcos	May 08	14%	5%	12%
Cuernavaca	Mar 07	7%	8%	7%
Culiacan	May 08	7%	5%	6%
Durango	Jan 09	12%	5%	10%
Guadalajara	Dec 99	11%	18%	13%
Hermosillo	Jul 07	8%	6%	7%
Irapuato	Aug 06	15%	12%	14%
Leon	Jan 01	9%	19%	11%
Matamoros	Jun 08	17%	4%	13%
Mazatlan	May 08	7%	4%	6%
Merida	Jun 07	9%	6%	8%
Mexicali	Jan 09	11%	5%	9%
Mexico	Mar 00	9%	9%	9%
Minatitlan	Jun 08	10%	4%	9%
Monterrey	Jun 99	19%	24%	21%
Morelia	May 07	9%	11%	10%
Nuevo Laredo	May 08	24%	6%	19%
Pachuca	Oct 07	15%	9%	14%
Puebla	Jan 01	7%	10%	8%
Queretaro	Jun 04	8%	8%	8%
Reynosa	Oct 07	15%	8%	13%
Saltillo	Sep 04	19%	15%	18%
San Juan del Rio	Oct 07	22%	9%	18%
San Luis Potosi	Jun 04	15%	16%	15%
Tampico	Mar 07	13%	7%	11%
Tijuana	Nov 04	4%	4%	4%
Toluca	Jan 01	9%	12%	10%
Torreon	Feb 06	14%	12%	14%
Veracruz	Feb 06	10%	11%	10%
Villahermosa	Jan 09	13%	6%	12%
Xalapa	Jun 07	9%	8%	9%
Zacatecas	Jan 09	8%	8%	8%
		11%	**11%**	**11%**

Market share percentages are the Company estimates based on number of lines in service divided by the average tele-density per square kilometer of coverage for each one of our radio bases.

2.7) Applicable Legislation and Tax Situation

2.7.1) Current Regulatory Environment of the Telecommunications Industry

General

The telecommunications industry in Mexico is subject to the LFT which has been amended from time to time and its regulations. In addition there are the Law of General Means of Communication *(Ley de Vías Generales de Comunicación)* and Regulation of Telecommunications (*Reglamento de Telecomunicaciones*).

Under the LFT, the Mexican telecommunications industry is regulated for regulatory, administrative and operational matters by Cofetel. Cofetel was created in 1996 as a separate entity from the SCT to regulate and promote the efficient development of the telecommunications industry in Mexico. Cofetel is responsible for, among other things:

- Enacting regulations and technical standards for the telecommunications industry;
- Ensuring that concession holders fulfill the terms and obligations of their concessions and permits;
- Suspend the operators without a license;
- Resolving interconnection controversies between competitors; and
- Maintaining a registry of applicable rates.

The SCT has the authority to grant and revoke all concessions and permits. Cofetel makes recommendations to the SCT on major issues, such as amending existing telecommunications legal framework, allocating spectrum frequencies, granting, transferring, renewing or revoking concessions and applying penalties for law and concession infringements. The SCT makes the final decision on these issues, and once a final decision is taken, Cofetel enforce the correspondent regulation. (See “Risk Factors”)

Concessions and permits

To provide telephony services in Mexico through a public telecommunications network, a service provider must first obtain a concession from the SCT. Pursuant to the LFT, concessions for public telecommunications networks may not exceed a term of 30 years, and concessions for spectrum frequencies may not exceed a term of 20 years. Generally, concessions for public telecommunications networks and spectrum frequencies may be extended for a term equivalent to the term for which the concessions were originally granted as long as the concessionaire is in compliance with ongoing obligations stated therein. Concessions specify, among other things:

- The type and technical specifications of the network, system or telecommunication services that may be provided;
- The allocated spectrum frequencies, if applicable;
- The geographical region in which the holder of the concession may provide the telecommunication service;
- The required capital expenditure program;
- The term during which such service may be provided;
- The payment, where applicable, required to be made to acquire the concession, including, if applicable, the participation of the Mexican government in the revenues of the holder of the concession; and

- Any other rights and obligations affecting the concession holder.

In addition to concessions, the SCT may also grant permits for the following:

- Installing, operating or exploiting transmission-ground stations; and

- Providing telecommunications services as a reseller.

In accordance with applicable law, there could be a limitation on the possibility to lien assets that form part of a public telecommunications network that has been installed and operated by Axtel, in the context of an enforcement of a ruling.

Legally, there is no statutory maximum term mandated for these permits unless specifically stated in the permit. Under the LFT, a company needs to register with Cofetel the rates for the telecommunications services that it wishes to provide in order to be able to provide them to the public.

Ownership restrictions. Under the LFT and the Mexican Foreign Investment Law (*Ley Federal de Inversión Extranjera*), basic telephony concessions may be granted only to investors considered as Mexican in terms of applicable law, such as:

- Mexican individuals; and

- Mexican corporations in which non-Mexicans own 49% or less of the full voting stock and that are not otherwise controlled by non-Mexicans.

However, in the case of concessions for cellular telecommunications services, foreign investment participation may exceed 49% of the voting stock with the prior approval of the Mexican Foreign Investment Bureau of the Mexican Ministry of Economy (*Secretaría de Economía*).

Pursuant to the Foreign Investment Law, the Mexican Ministry of Economy may also authorize the issuance of non-voting or limited-voting stock (also known as "neutral shares") that are not counted for purposes of determining the foreign investment percentage of a Mexican corporation under the Mexican Foreign Investment Law. Any share transfers resulting in a violation of these foreign ownership requirements are invalid under Mexican law.

Transfer. Concessions are transferable three years after the concession is granted. If the SCT approves the transfer of the concession title, the assignee agrees to comply with the terms of the concession and such a transfer does not violate the foreign ownership requirements of the LFT and the Mexican Foreign Investment Law.

Termination. A concession or a permit may be terminated pursuant to the LFT upon the following events:

- Expiration of its term;

- Resignation by the concession holder or the permit holder;

- Dissolution or bankruptcy of the concession holder or the permit holder; or

- Revocation of the concession or permit, before the expiration of its term, upon the following events:

    - Failure to exercise the rights of the concession within 180 days of its granting;

    - Failure to provide interconnection services with other holders of telecommunications concessions and permits without just cause;

    - Loss of the concession or permit holder's Mexican nationality;

- Unauthorized assignment, transfer or encumbrance of the concession or permit;
- Unauthorized interruption of service;
- Taking any action that impairs the rights of other concessionaires or permit holders;
- Failure to comply with the obligations or conditions specified in the concession or permit; and
- Failure to pay the Mexican government the fees mentioned in the concession.

The SCT may revoke a concession for violations in any of the circumstances referred to in the first four instances above. Under the last four instances above, the SCT would have to sanction the concessionaire at least three times for the same failures before revoking a concession.

Expropriation. The Mexican government has the statutory right to permanently expropriate any telecommunications concession and claim any related assets for reasons of public interest. Under Mexican law, the Mexican government is obligated to compensate the owner of such assets in the case of a statutory expropriation occurs. The amount of the compensation is to be determined by appraisers. If the party affected by the expropriation disagrees with the appraisal amount, such party may initiate judicial action against the government. In such a case, the relevant judicial authority will determine the appropriate amount of compensation to be paid. We are not aware of any instance in which the SCT has exercised its expropriation rights in connection with a telecommunications company.

Temporary seizure. The Mexican government, through the SCT, may also temporarily seize all assets related to a telecommunications concession or permit in the event of a natural disaster, war, significant public disturbance, threats to internal peace or for economic reasons or for other reasons related to national security. If the Mexican government temporarily seizes such assets, except in the event of war, it must indemnify the concession holder for all losses and damages, including lost accrued revenues. We are not aware of any instance in which the SCT has exercised its temporary seizure attributions in connection with a fixed or mobile telecommunications services company.

Rates for telecommunications services. Before the LFT was enacted, the SCT's approval was required for setting the rates charged for all basic local, long distance and certain value-added local and long distance telecommunications services. Historically, the SCT permitted rate increases are based on the cost of service, the level of competition, the financial situation of the carrier and certain macroeconomic factors. Carriers were not allowed to discount the rates authorized by the SCT, although operators occasionally waived activation fees on a promotional basis. Interconnection rates also required SCT approval. Rates for private dedicated circuit services through microwave networks and private networks through satellites were not regulated before the LFT was enacted.

Under the LFT, rates for telecommunications services (including local, cellular and long distance telephony services) are now freely determined by the providers of such services, except that such rates may not be set below a service provider's long-term incremental cost.

In addition, Cofetel is authorized to impose specific rate, quality and service requirements on those companies determined by the CFC to have substantial market power provisions of Mexico's antitrust statute. All rates for telecommunications services (other than value-added services) must be registered with Cofetel prior to becoming effective. The LFT prohibits telecommunications providers from cross-subsidizing among their services and requires that they keep separate accounting for each of their services.

Recently, in July 2009, the CFC and Cofetel have found that Telmex has substantial power in the following markets: wholesale local, national and international long distance, cross border and interconnection circuit leasing services and local and long distance transit of voice traffic through networks that render local fixed service, as defined under Mexico's antitrust statute. Based on this finding Cofetel has issued in 2007, 2009 and 2010, some resolutions stating that Telmex is a dominant telecommunication company in the above mentioned markets and therefore imposed specific obligations on Telmex regarding, among other things, to interconnect, deliver of link services, quality of services, tariffs and information disclosure on these markets.

Tax Laws. The Congress approved an addition to the Special Tax on Production and Services Act (IEPS), in force starting on January 1 2010, such addition increased scope of application of such tax, now applicable to telecommunications services at a tax rate of 3% save for interconnection services of public telecommunications networks, internet services, public telephone services, as well as the fixed rural telephony services.

As of the date of this Annual Report, the Company has substantially complied with its obligations under the legislation applicable to the telecommunications industry.

2.7.2) Limitation on Capital Stock Investments by Foreign Shareholders (Foreign Investment Law)

The holding of stock by foreigners in Mexican Companies that participate in certain sectors, including telephone companies, is regulated by the Foreign Investment Law (*Ley de Inversión Extranjera*) published in the year of 1993, and by the Rules that Apply to the Foreign Investment Law and the National Registrar of Foreign Investment (*Reglamento de la Ley de Inversión Extranjera y del Registro Nacional de Inversiones Extranjeras*) published in the year of 1998. The National Commission for Foreign Investments applies the regulations prescribed by the Foreign Investment Law and the Rules that Apply to the Foreign Investment Law. Mexican Companies must comply with the restrictions regarding foreign possession of their equity. Mexican companies, normally restrict possession of certain classes of their stock, exclusively to Mexicans. It is an administrative usage of the National Comission for Foreign Investments, to consider as Mexican a trust created for the benefit of foreign investors, that meet certain requirements that neutralizes foreign vote, and that is approved by the National Comission for Foreign Investments, and such is the case of the CPOs Trust.

Foreigners cannot directly or indirectly own more than 49% of the total equity with voting rights in a telephone company, such as Axtel. Any Investor that acquires stock in violation of these statutory restrictions will lose its rights regarding such stock.

Besides limitation on the possession of equity, the Foreign Investment Law and the Rules that regulates it, as well as the terms and conditions of the concession to operate a telecommunications network that was granted to the Company, establishes that Mexican stockholders must control the Company and appoint its management. In the case that these regulations are violated, the SCT may order to revoke the concession granted to Axtel to operate a telecommunications network.

The Foreign Investment Law demands to the Company that all foreign investors in the company are registered in the National Registrar of Foreign Investment. If it fails to comply with this obligation, the Company shall be entitled to a fine in the amount determined by the National Commission for Foreign Investments

In accordance with the Company's By-laws, the LFT and the Foreign Investment Law, as well as with the terms and conditions established by the concession to operate a telecommunications network that was granted to the Company, foreign countries shall not, directly or indirectly own or be in possession of stocks or CPOs issued by the Company. Notwithstanding the above the LFT and the terms and conditions established in the concession to operate a telecommunications network, mention that the companies owned by foreign governments that are incorporated as independent companies in possession and control of its own assets, may be stockholders of a minority interest in the Company, or may hold any amount of stock with limited voting rights in the Company. Possession of Series A and Series B shares by companies owned by foreign governments, or by pension plans incorporated specifically for the benefit of government employees, municipal and other governmental institutions, will not be considered directly or indirectly as in possession of foreign governments, in accordance with the contents of the Company's By-laws, the LFT or the Foreign Investment Law.

In accordance with Mexican regulations, the terms and conditions of the concession to operate a telecommunications network, the Company's By-laws and the CPOs Trust, the foreign holders of CPOs and ADSs are bound to disclaim to the protection of their government. This obligation, also prescribes that those foreign holders of CPOs and ADSs, could not ask their government to file a complaint again the Mexican government regarding their rights as stockholders. If the foreign stockholders violate this condition, they will lose for the benefit of the country, all Series B shares underlying in the CPOs or ADSs in their possession. Mexican law prescribes that all Mexican companies, with the exception of those that have a foreigners exclusion clause, must include in its By-laws this prohibition

The Company's By-laws mention that the interpretation and/or compliance of such By-laws shall be subject to the competent jurisdiction of the courts located in the city of Monterrey, Nuevo Leon.

2.7.3) Tax situation; Income Tax (ISR), Asset Tax (IMPAC), Flat Tax (IETU) and Employee Profit Share (PTU).

According to the current tax laws, companies will be required to pay the greater of their IETU or IT. If IETU is payable, the payment will be considered final and not subject to recovery in subsequent years. According to the actual tax laws and beginning January 1, 2010, the IT rate is 30% from 2010 to 2012, 29% for 2013 and 28% for 2014 and thereafter. The IETU rate for 2010 and thereafter is 17.5%.

According to financial accounting standards, management of the Company performed an evaluation of the tax that the Company and its subsidiaries will be subject for the years ended December 31, 2011 and 2010. The Company determined that certain subsidiaries will be subject to IETU. For presentation purposes of deferred taxes, deferred IETU and IT are presented jointly.

In assessing the possibility to get the deferred tax assets back, management considers whether it is more likely than not that portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management of the Company believes the Company will have the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2011. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carry-forward period are reduced.

As of December 31, 2011, the fiscal losses for amortizing updated were $4,015.7 million pesos, and the updated asset tax for recovering was adding $330.4 million pesos.

During the fiscal years ending on December 31, 2009, 2010 and 2011 the PTU generated was $4,955 and $6,051, respectively.

2.8) Human Resources

For the years ended On December 31, 2009, 2010 and 2011 Axtel had, 8,234, 8,980 and 8,024 employees, respectively.

On December 31, 2011 the employees of the Company, with exception of executives, managers and certain executives, are members of the Workers' National Union of the Industry of Telecommunications of Mexico. The total of unionized employees represents 20% of the total of employees on December 31, 2011. The remaining 80% were "trusted" employees. There are no other workers or employees of the Company assigned to other unions. We believe we have good relationships with our employees and their respective unions.

2.9) Environmental Performance and Social Responsibility.

We are subject to laws and regulations relating to the protection of the environment and human health and safety, including those governing the management and disposal of hazardous substances and wastes and the cleanup of contamination. As an owner or operator of property and in connection with the current or historical use of hazardous substances at our sites, we could incur costs, including cleanup costs, fines and third-party claims, as a result of violations of or liabilities under environmental or health and safety laws and regulations. We believe, however, that our operations are in substantial compliance with all such laws and regulations.

Driven by this belief that the operation of Axtel shall be environmentally friendly, during 2010 systems were developed oriented to diminish the carbon emissions and the electronic invoice program was launched. Thanks to this program, the impact was diminished considerably by avoiding by thousands the three felling, by reducing the use of chemicals and energy for printing and the consumption of energy for the physical distribution of paper invoices. Likewise and in recognition of the corporate practices of Axtel in taking care of the environment, in June 2010 the Company received the Environment Merit Medal from the Monterrey Municipality, for taking care of the environment.

In 2011, our company confirmed its permanent conviction to make the improvement of the Company-life quality; the development of the communities it services and environmental care as an integral part of the business strategy, looking for strengthen its long term tenure and viability. To Axtel, social responsibility is not a temporal matter, but involves a major commitment that results in an organizational culture in favor of practices, policies and principles that contribute to the generation of shared value with our employees, communities, customers, suppliers and shareholders.

In this regard, 2011 was a year that reassured the path we have built through constant dialogue and interaction with our stockholders, which has allowed us to first-hand validate their expectations and, therefore establish programs and activities in order to attend their most urgent needs. This is demonstrated by the intense activity that kept the members of our Volunteers in multiple programs in favor of public welfare, including the initiative "Emprendedores desde chiquitos" of *Impulsa Junior Achievement*, which applies to public elementary schools and where our volunteers participate as instructors. Such dynamism was not solely evidenced in the program, but also through the collaboration with organizations such as *Ser y Crecer*, *A.B.P.* and Sattva Yoga, or by promoting the work of institutions such as *Instituto Nuevo Amanecer, Supera, Club de Niños y Niñas* and *Causas.org* which generate projects that are emerging as reliable references for other institutions nationwide.

Additionally, our Sixth Competition of Co-investments in Social Programs had great results as it supported 30 projects within 14 cities, where more than 18 thousand people were directly beneficiated and established a bond with local organizations that will be helpful to expand the scope of our social responsibility initiatives.

Moreover, our company presided the Council of *Red SumaRSE*, who managed the integration of the business community in supporting actions that are seeking a better life quality and the recovery of the social foundation of the Nuevo Leon community.

One of the most important projects for supporting children's better education is the support that Axtel gives to *Alianza Educativa Ciudadana por Nuevo León*, by means of which it seeks to improve the quality of education through the integral intervention within school sites in order to provide a better infrastructure, quality educational programs and interaction with the community, among others. With the purpose of joining forces in favor of increasingly sustainable communities, we also started working together with CEMEX in order to carry out the program called "Family Gardens." (*Huertos Familiares).* Such program enables families that live in urban cite, to seed fruit and vegetables in easy-installation and maintenance gardens. This program has been successfully implemented in Monterrey and we are discussing the possibility of extending it to cities where both companies operate.

With respect to life quality inside the company, we have established an organizational culture that encourages personal growth as an integral part of continuing business improvement. For example, we implemented the "Take 5" which consisted in five-minute talks on security matters, preventive conducts and self-protection actions.

These actions, which were implemented within employees' safety operations, evidenced a decrease in our incident, frequency and accidents' severity rates, compared with national indicators of the Ministry of Labor and Social Security. Moreover, in order to help employees in case of any risk, we offered talks and delivered 8 thousand brochures with personal safety and protection information, as an initiative to prevent and procure safety.

Likewise, Axtel's care for the environment is of vital importance, therefore we carry out energy-saving campaigns, materials reuse and recycling of household wastes and obsolete electronic equipment. Additionally, we entered into an agreement with Hewlett Packard to participate in the "Planet Partner" initiative in order to promote recycling of empty toner cartridges that allowed them to treat an average of 923 units over last year. Additionally, thanks to the e-invoicing campaign launched in 2010 in order to preserve the environment we did not use close to 5 thousand kilos of paper on 2011.

2.10) Market Information–Mexican Telecommunications Industry

General

The Company considers that in the telecommunications industry, Mexico represents one of the most attractive markets in Latin America, this is due to the fact that it combines a stable macroeconomic environment, a large telecommunication industry which generated about U.S.$ 26,300 million in 2011 and expects to grow 7% annually through 2016, according to data from Pyramid Research. As a result, Pyramid Research expects the importance of Mexico in the telecommunications market in Latin America to be even bigger in the following four years.

Since the Mexican government opened the telecommunications sector in Mexico, opening which started with the privatization of Telmex in 1990, the telecommunications sector in Mexico has become a competitive market. Within the policies implemented by the government for the opening of the telecommunications sector, you can find conditions to compete in the local and long distance telephone services and the auction of radio-electric spectrum. The opening of the telecommunications market in Mexico has allowed different competitors to hold on to a piece of the market.

Mexican Market Characteristics

Pursuant to the information provided by PyramidResearch, Mexico is the second largest country in Latin America in terms of population. For the year of 2011, the gross domestic product of Mexico was in the line of $36,669,027.80 pesos, with a population of approximately 112 million people in this year. Mexico is the second largest economy in Latin America, and has one of the highest income per capita countries in Latin America. However, according to information provided by the Cofetel and INEGI, Mexico has relatively low wire line penetration compared to other countries in Latin America.

Low density in the communications market in Mexico opens the opportunity to achieve great growth. In accordance with a study made by Pyramid Research, the level of penetration of fix access lines in Mexico was of 17.04% for the year 2011, and it is expected to have a small increase for 2012. Fix access lines are fix telephone lines, accesses to Internet via several technologies and digital lines.

In terms of income, the telecommunications market in Mexico is the second largest in Latin America. For the year 2011, income from telecommunications services in Mexico, for the fixed and mobile sectors, amounted over $24,334 million Dollars, with the expectancy to keep an important connectivity growth in the mobile sector, and in the local, data and internet segments of the fixed sector.

The fixed telecommunications sector, which include basic telephone services, such as local and long distance calls and data, is a very important part of the telecommunications industry in Mexico, this due to its size and the different areas of opportunity that it offers. In 2011, income from the fixed telecommunications sector was approximately $8,164 million Dollars, or 34% of the total earnings from the telecommunications industry in Mexico.

It is foreseen that the total number of broadband subscribers in Mexico was of approximately 9.6 million in the year 2011, and it is estimated that there will be 17 million subscribers for the year 2016. The estimated yearly growth between the years 2010 to 2015 is 9%. Broadband penetration in the population is estimated to go from 10.2% for the year 2011 to 15.3% at the year 2016.

The following table shows a breakdown of the main participants in the telecommunications market in Mexico (the numbers show incomes for the year 2011 in millions of pesos):

Fix Service Providers	Income	%
Telmex	112,067	86%
Axtel	10,829	8%
Alestra	4,698	4%
Maxcom	2,375	2%
TOTAL	**129,969**	**100%**

Mobile ServiceProviders	Income	%
América Móvil	152,697	68%
Telefónica Movistar	27,588	12%
Nextel	28,536	13%
Iusacell	15,316	7%
TOTAL	**224,137**	**100%**

Information reported by companies and estimates of the Company

2.11) Corporate Structure

Axtel, S.A.B. de C.V. has the following direct or indirect ownership interest in the following Capital Stock (all but Telecom Networks Inc. are subsidiaries incorporated in México):

NOMBRE	PRINCIPAL ACTIVITY	%
Avantel, S. de R.L. de C.V.	Telecommunication Services	100%
Avantel Infraestructura, S. de R.L. de C.V.	Telecommunication Services	100%
Instalaciones y Contrataciones, S.A. de C.V.	Administration Services	100%
Servicios Axtel, S.A. de C.V.	Administration Services	100%
Telecom Networks Inc.	Telecommunication Services	100%
Conectividad Inalámbrica 7 Ghz, S. de R.L. (1)	Telecommunication Services	50%

(1) The Company does not have any control over the said subsidiary, this is why the investment in stock has been valuated through a participation method

2.12) Description of Main Assets- Network of The Company.

2.12.1) Facilities

All of our properties are located in Mexico. Our corporate headquarters are located in Garza García, Nuevo Leon, Mexico. Our Monterrey office consists of 39,779 square meters. The lease on this property expires in 2015. We also own or lease office space and warehouses throughout the 39 cities where we operate. These are the facilities in which we have installed our switches, data centers, call centers, work centers, administrative offices, etc. Office space or warehouses (excluding base stations) with more than 5,000 square meters include the following:

Name	Use	Location	Area in m2	Property	Contract Ending Date
Corporativo Monterrey	Administrative	Monterrey	39,779	Lease	05/25/2015
CIC,CDA y Voice Center Apodaca	Operating Center	Monterrey	16,423	Lease	06/30/2014
Call Center Sta. Catarina	Operating Center	Santa Catarina	10,389	Lease	07/31/2011
Torre Axtel Santa Fe	Administrative	México	10,259	Lease	01/01/2014
Workcenter Alse Blanco	Operating Center	México	7,352	Lease	12/01/2011
Switch 1	Technology Facility	Guadalajara	5,550	Owned	-
Cedis Santa Catarina	Operating Center	Monterrey	5,012	Lease	07/20/2017
Ed. Reforma	Administrative	Mexico	3,178	Lease	02/28/2013
Call Center Culiacán	Operating Center	Culiacan	3,067	Lease	08/31/2013

There are certain no-material real estate properties for which the term set forth in the respective contract has concluded; the Company is working on the negotiation and possible renovation of the correspondent agreements.

2.12.2) Telecommunications Network

We provide services using a complementary nationwide long-haul fiber-optic network with a hybrid wire line and fixed wireless local access network designed to optimize investments through the deployment of network access equipment based on specific customer requirements. Our Access options include fixed Wireless Access, last mile fiber optic network, point to point access and point to multipoint, wireless technologies all connected through 1870 kilometers of fiber optic metro rings. Our last-mile access options include fixed wireless access technologies like proximity and symmetry, mobile or 802.16e WiMAX, point-to-point and point-to-multipoint wireless technologies, as well as FTTH. We switch our traffic using DMS equipment that interconnects with Telmex's equipment and as well as with other local and long distance carriers in each city where we provide local service.

Our wireless network uses customer access infrastructure, microwave radios, TDM and new generation switches (Softswitch) switching and other equipment supplied by various vendors, including Motorola, Nokia Networks, Ericsson, Genband, among others. Our internet platform uses Cisco's routing platform with Hewlett Packard servers and Microsoft software applications. Our metropolitan fiber networks use optical fiber OFS, Fibras Opticas de Mexico, Samsung, AFL and Huawei and optical transmission equipment of Ciena, Alcatel-Lucent, Nokia-Siemens and Huawei. The combination of these network components enables us to deliver world-class network reliability and service to our customers. Through our current use of fixed wireless access technology, including Symmetry technology and WiMAX, we are able to provide our customers quality voice service and up to 8 Mbps data speeds. With the fiber-optic Network, we provide converged data, voice and images services with speed access of 100 Mbps in symmetric or asymmetric mode. We consider fixed wireless access technology to be ideal for covering large areas of cities offering services to our residential and micro and small business customers. Internet fixed wireless access technology, provides our customers with always-on data connections by using an internet protocol interface and dynamic timeslot assignments, which improves the data rates experienced by customers and also increases our network efficiency.

Fiber-optic last mile network (FTTH) is ideal for residential areas of middle and high socioeconomic level which have higher broadband requirements, and in areas of high concentration of business and offices as their coverage area is more focused. Basic voice and data services are delivered over all of our access technologies. Advanced data services and internet access with data rates ranging from 64 Kbps to 2,048 Kbps require deployment of additional equipment to support the customer's requirements.

In general, the capabilities of the access technologies increase directly with the cost of the solution. Our hybrid access capability enables us to:

- Provide a full range of voice, data and internet services;
- Rapidly meet demand;
- Penetrate specific target markets; and
- Scale the infrastructure deployed to market demand and individual customer requirements.

This network infrastructure allows us to satisfy the requirements of diverse components of the market while maintaining a low-cost position relative to our competition.

2.12.3) Network Deployment Strategy

Our local network has generally been built on a modular basis. Once a region of opportunity has been identified and the decision to expand has been made, we build our network in tandem with our sales efforts within the region. This approach provides greater flexibility and minimizes the time lag between the incurrence of capital expenditures and the generation of service revenues. This model differs significantly from a traditional wire line network covering the same geographic area in which the vast majority of capital expenditures are incurred prior to obtaining customer subscriptions.

The investments in fiber optic for metropolitan transport, together with Axtel's presence in the market and its penetration in broad band services with WiMAX technology, allowed Axtel to commence the deployment of last mile fiber optic (FTTH) in 2010, adding approximately 350 square kilometers of coverage in the cities of Mexico, Monterrey and Guadalajara. As of December 31, 2011 we have 2,274 kilometers in the mentioned cities including Torreon and Tijuana, among others.

The array of services of the different technologies of Axtel's network and its market presence after 12 years of operations have allowed Axtel to implement new technologies to satisfy the always-changing needs of its customers

2.12.4) Access Connectivity

The last-mile connectivity portion of our network is comprised of a mix of wireless technologies as well as fiber optics for customers within our metropolitan fiber optics rings.

Our access technology is determined by cost-effectiveness analysis, customer applications and availability of service. We use fixed wireless access to serve customers requiring between one and nine lines of plain old telephony service ("POTS") in a single point of service.

With the GPON technology used in the last mile fiber optics (FTTH), Axtel provides converging services of data, voice, games and images with speeds up to 100 megabits per second, in either synchronous or asynchronous modes to residential customers and to small-to-medium sized business. Using the FOM technology with last mile fiber optic services, Axtel provides data and voice advanced services with high security standards to large companies and financial institutions.

Point-to-multipoint is used for customers that require between 10 and 30 POTS and/or require low-speed (below 2,048 Kbps) dedicated private line accesses. Our point-to-point access as fiber optic access is used for customers requiring digital trunks or dedicated private line accesses of more than 2MbPs. Hybrid solutions are being used in order to reach more customers by expanding service using digital loop concentrator and multi-tenant solutions.

We have contracts with Telefónica Data de Mexico, a subsidiary of Telefónica de España, pursuant to which we acquired the right to use capacity in Telefonica's long haul fiber infrastructure which is located between the northern border of Mexico and Mexico City. Pursuant to such contracts, Telefónica Data de Mexico has the right to use a pair of dark fibers in a portion of our metropolitan fiber rings. We also maintain a similar agreement with Telereunión to use approximately 620 kilometers of long distance fiber optic network in the Gulf of Mexico region.

2.12.5) Local Network

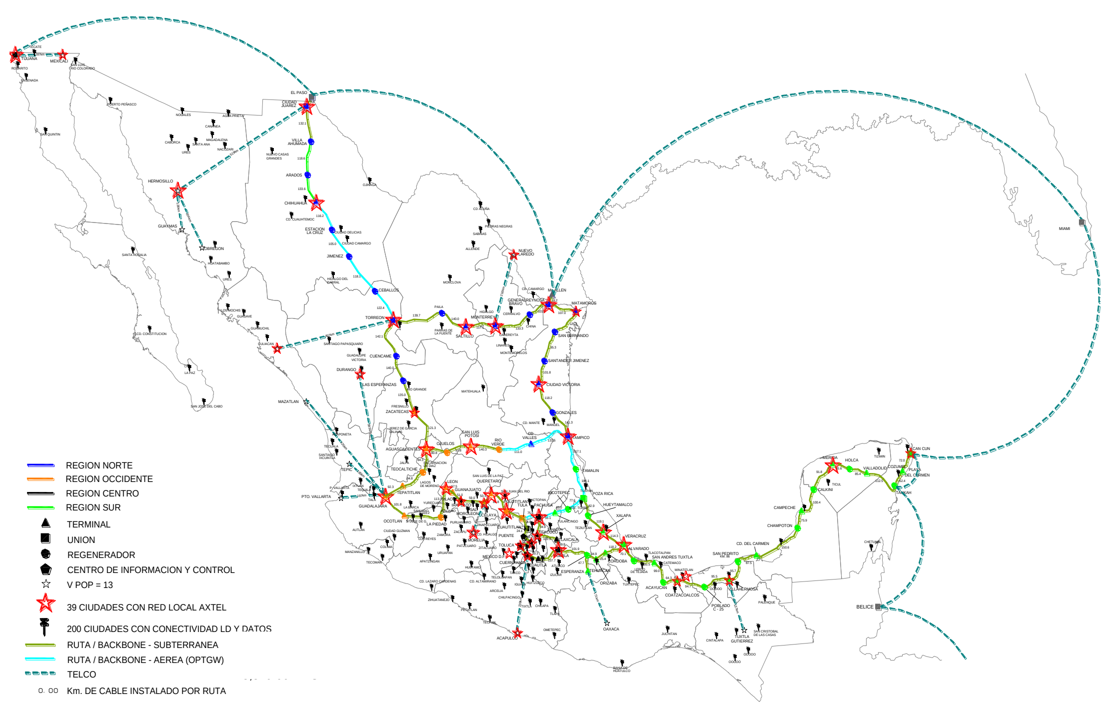
As of December 31, 2011, our metropolitan fiber optic rings totaled 1,870 kilometers in the cities where we offer local services. Our network is comprised of several technologies, including fixed wireless access, WiMAX, copper, point-to-point, point-to-multipoint and fiber optic links.
The following table summarizes our local infrastructure (which is free of any liens) as of December 31, 2011.

City	Fixed Wireless Access Sites	Symmetry (1)	Wimax	Point-to-Multipoint Sites (2)	Point-to-Point (3)	Switches	Fiber (Kms)	FITTH (Kms)
Monterrey	63	19	90	32	721	8	456	690
Guadalajara	65	8	62	27	659	8	184	422
Mexico	159	34	173	69	2,184	14	563	1,134
Puebla	20	5	37	11	218	3	70	-
Toluca	9	3	24	6	159	1	21	-
Leon	13	5	24	7	139	1	41	-

City	Fixed Wireless Access Sites	Symmetry (1)	Wimax	Point-to-Multipoint Sites (2)	Point-to-Point (3)	Switches	Fiber (Kms)	FITTH (Kms)
Queretaro	8	6	17	7	116	-	18	-
San Luis Potosi	12	5	26	6	88	-	24	-
Saltillo	7	5	18	5	79	-	37	-
Aguascalientes	9	5	23	5	62	-	15	-
Cd. Juarez	10	5	24	7	79	1	31	-
Tijuana	9	1	27	11	79	2	14	4
Torreon	7	5	26	6	92	1	27	1
Others	46	49	426	93	1,267	19	368	22
TOTAL	**437**	**155**	**997**	**292**	**5942**	**58**	**1870**	**2274**

2.12.6) Long Distance Network

Our long distance fiber-optic network is approximately 7,700 kilometers in length using "non-zero dispersion shifted" fiber-optic, underground and optical-ground wire cable, which supports synchronized digital hierarchy ("SDH") and dense wavelength division multiplexing ("DWDM") technology. SDH enables the deployment of bi-directional ring architecture, a system that allows for nearly instantaneous re-routing of traffic in the event of an equipment failure or a fiber-optic cut. DWDM technology enables expanded transmission capacity over the same physical infrastructure through the installation of additional electronics. Our long distance network connects 49 cities through owned infrastructure, and 149 additional cities through leased infrastructure as of December 31, 2009.



2.12.7) Switching

We use 14 Genband denominated DMS-100 digital switches ten of which are established to route traffic in 13 cities, 4 of them to receive the traffic from close to 198 cities and international traffic from the U.S. and ROW and five new generation digital switches (Softswitch) Call Server 2000 of Genband to route traffic from additional cities. Also, we have four Ericsson AXE TL4 digital switches for local services, two located in Mexico, one in Monterrey and one in Guadalajara covering 16 cities. We use our new generation digital switches (Softswitch) A5020 Alcatel-Lucent used for Internet Dialup. Finally, we have two new generation digital switches (Softswitch) SoftX3000 Huawei Softswitches that provide local services and switch all the International VoIP traffic.

Our DMS-100 switches are capable of handling approximately up to 110,000 lines and the CS 2000 softswitches can handle up to 180,000, using the current software release. Both of these systems work on a modular basis and provide analog lines, E1 digital lines, digital high-speed data services, centrex services and operator assisted services. In addition, the CS2000 Softswitch can also provide multimedia capabilities by supporting multiple next generation protocols. Both switches can also provide private clear-channel digital lines, data transmission and value-added services such as four digit dialing, conference, call back, caller ID, call waiting, hot line and hunt group.

2.12.8) Network Administration

We have three centers of monitoring and administration of national network, called Network Operating Centers (CORE in Spanish), two located in Monterrey and other one in Guadalajara. Our CORE centers supervise the correct operation of connections and equipment. The monitoring occurs 24 hours a day, seven days of the week. When there is an inappropriate performance of the network, the CORE initiates the process to correct any fault and notifies to the affected areas of such fault.

2.12.9) Information Technology Systems

We have an information technology architecture that is based upon Siebel, a customer relationship management system, SAP software for enterprise resource planning, **Comverse Technology Inc** software for billing and Net Boss, an advanced network management system. These systems enable us to perform on-line sales and service provisioning. We have been able to manage customer requests, generate accurate bills and produce timely financial statements. These systems allow us to respond to customer requests with speed, quality and accuracy.

2.13) Judicial, Administrative and other Legal Proceedings

As of December 31, 2011, the Company is part of the following legal proceedings and contingencies:

a) On September 1, 2008, the SCT issued four resolutions that resolved administrative review remedies filed by the Company, which derived from four administrative procedures in regards to interconnection disagreements that were previously filed before Cofetel with respect to the following companies: Telcel, Grupo Iusacell, Grupo Telefonica and Unefon".

   The resolutions issued by the SCT provide initially the application of the new rates with respect to consumption from September 2008 and secondly with respect to the retroactive application of such rates. In the case of Telcel applicable since January1, 2008, and in the case of the other mobile operators (Grupo Iusacell, Grupo Telefonica and Unefon), it applies starting on October 2006.

   Therefore, since September 2008, mobile operators are required to invoice the Company for the termination of calls to mobile service users under the "Calling Party Pays" program according to the terms of the resolutions (rates based on the actual length of the call); and in addition, the possibility that the Company may claim the amounts paid in excess during the periods covered by the above-mentioned resolutions, that is, the difference in the interconnection rate applied by mobile dealers and paid by the Company during this period and the rates set by the SCT under the mentioned resolutions.

As of December 31, 2011, in accordance with the resolutions of the SCT and using preliminary information of the Company, both Axtel and Avantel would have paid in excess to Telcel about $397.7 million pesos and to the other mobile operators the amount of $396.6 million pesos, as evidenced in the following chart:

Telcel				**Other operators**			
	Axtel	**Avantel**	**Total**		**Axtel**	**Avantel**	**Total**
2006	-	-	-	2006	53.5	7.7	61.2
2007	-	-	-	2007	181.7	25.9	207.6
January - July 2008	355.0	42.7	397.7	January - July 2008	112.8	15.0	127.8
Total	355.0	42.7	397.7	Total	348.0	48.6	396.6

Regarding the possibility that the Company recovers the payments made in excess resulting from the difference in the interconnection rates mentioned above, it is important to mention that the collection of such amounts is not automatic, so in order to collect those amounts, among other alternatives the Company may initiate ordinary commercial lawsuits against the mobile operators; therefore the amounts being claimed shall be subject to the interpretation of the Judges taking into consideration the documentary and experts evidence submitted by the parties. Considering the characteristics and complexity of the resolutions of the SCT and their effects and also considering that there is no record of similar trials and their results, it is likely that these proceedings will last for a long period of time. As of December 31, 2011, there is no accounting reserve created by the Company contemplating the acknowledgment of these amounts.

As a result of the resolutions issued by the SCT, the Company acknowledged as of August 2008, the authorized interconnection termination-rate authorized of $0.5465 pesos, $0.5060 pesos, $0.4705 and $0.4179 per real minute for Telcel and Telefonica Movistar for the years 2008, 2009, 2010 and 2011, respectively, and of $0.6032 pesos per real minute to the rest of the operators. Applying the concept of non-discriminatory treatment, Avantel also adopted the rates mentioned above. The rates that Axtel and Avantel were paying before the resolutions amounted $1.3216 pesos per real minute to Telcel and $1.21 pesos per rounded up minute to the other operators. As of December 31, 2011, the difference between amounts paid by the Company according to the new rates established by the SCT and the amounts invoiced by mobile operators amounted to approximately $1,979 million pesos, before VAT.

It is known to the Company that Telcel and the other mobile operators have filed before the judicial authorities, their disagreement with respect to the above mentioned resolutions issued by the SCT and there is a liability for the Company (Axtel and Avantel) in case the courts rule against such resolutions and that may result in the determination of different rates in comparison to those set by the SCT. The liability would be the difference between the rates established by the SCT and the rates that may be established pursuant to the court ruling in case they are higher than $0.5465, $0.5060 and $0.4705 $0.4179 pesos per real minute for Telcel for the years 2008, 2009, 2010 and 2011, respectively, and $0.6032 pesos per real minute to the other operators. The administration of the Company believes that there are enough elements to prevail before the courts, and as of August 2008, it has acknowledged the costs at $0.5465 pesos per real minute for Telcel and at $ 0.6032 pesos per real minute for other operators.

On April 2010, with respect to the proceedings with Iusacell, a First Instance District Judge issued a judgment determining that the SCT indeed had jurisdiction to rule on the revision proceedings filed by Axtel, but instead of determining the new applicable interconnection rates, it should have provided guidelines to Cofetel in order for the Cofetel to resolve the rates subject matter of disputes; later on, a Circuit Court ruled on this matter determining that the revision recourses were to be resolved by the Cofetel and not by the SCT, hence Cofetel is currently in the process of issuing a new resolution on this matter. This implies the nullification of the decision of the SCT and sending the case to Cofetel in order for Cofetel to determine the interconnection rates that are to apply. It should be noted that on October 20, 2010, the Cofetel issued resolution P/201010/492 where it determined interconnection rates applicable for Axtel and Telefonica Movistar during the period 2008-2011, considering the same interconnection rates set by the

SCT in its resolution of September 1, 2008, that is to say, $ 0.5465 pesos per real minute for 2008, $0.5060 pesos for 2009, $0.4705 pesos for 2010, and $0.4179 pesos for 2011.

On February 2012, the SCJN found that the SCT had no jurisdiction to hear the appeals filed by Axtel and that Cofetel is the authority that should resolve these appeals. Therefore, in the following months Cofetel will have to determine again new applicable interconnection rates between Axtel and the mobile operators mentioned in the preceding paragraphs, so the interconnection rates that Axtel has to pay to these operators have not been determined yet, as these new rulings may be challenged again by the parties.

After evaluating the current status in the proceedings and considering the information available to the Company and the information provided by its legal advisors, it is consider that there are enough elements so as to maintain the current accounting treatment, and that at the end of such proceedings the Company's interests shall prevail.

The Company's management has knowledge that Telcel and the rest of the mobile operators have requested to the respective District Judges for the suspension by the SCT of the aforementioned resolutions, but the SCJN ruled that resolutions related to the interconnection rates shall not be subject to any suspensions.

By virtue of the Resolution P/201010/492 issued by Cofetel pursuant to which the interconnection rates for Axtel and Telefonica Movistar were determined for the period 2008 to 2011, such are the applicable rates as of this date between Telefonica Movistar and Axtel, which are in fact lower that the interconnection rates that Axtel has paid to Telefonica Movistar in the past. Telefonica Movistar challenged this resolution by filing a *Juicio de Amparo* before a District Court, and these proceedings are now in a preliminary stage.

b) In March 2009, Cofetel resolved an interconnection disagreement between Telmex, and the Company (Axtel), related to termination rates for long distance calls from the Company to Telmex for the year 2009. In this administrative resolution, Cofetel approved a reduction in the interconnection rates for termination of long distance calls with application in cities where Telmex has no points of interconnection. The rates above mentioned were reduced from $ 0.75 pesos per minute to U.S. $ 0.0105 or $ 0.0080 per minute (depending on the place where the Company delivers the long distance traffic).

Until June 2010, Telmex invoiced the Company for terminating long distance calls, using the rates applicable prior to the resolution mentioned in the preceding paragraph and after that date, Telmex has invoiced the resulting amounts using the new interconnection rates. As of December 31, 2011, the difference between the amounts paid by the Company to Telmex based on the new rates and the amounts invoiced by Telmex amounts to approximately $ 1,240 million pesos, before VAT.

Telmex filed an annulment proceeding before the *Federal Tax and Administrative Court*, requesting the annulment of the administrative resolution issued by Cofetel. The Company (Axtel and Avantel) has a contingency in case the *Federal Tax and Administrative Court* issues a resolution against the interests of the Company if as a result it establishes different rates than those established by Cofetel. Telmex was granted with a suspension regarding the application of the interconnection rates set by Cofetel, the suspension was effective as of January 26, 2010, but ceased to be effective on February 11, 2010, since the Company elected to exercise its right to leave the suspension without effects by placing a bond in order to respond for any damages that may be caused to Telmex. However, the Court revoked Telmex’s guarantee pursuant to resolution P/140410/189 under which Cofetel resolved the same low rates between Axtel and Telmex for 2010.

On January 2010, Cofetel resolved an interconnection disagreement between Telmex and the Company (Avantel Concesionaria), related to termination rates for long distance calls from the Company to Telmex for the year 2009. In this administrative resolution, Cofetel approved a reduction in the interconnection rates for termination of long distance calls with application in cities where Telmex has no points of interconnection. The rates above mentioned were reduced from $ 0.75 pesos per minute to U.S. $ 0.0126 U.S. $ 0.0105 or $ 0.0080 per minute, depending on the place where the Company delivers the long distance traffic. Under this resolution, the Company would have paid in excess the amount of $20 million pesos. Telmex challenged such resolution before the correspondent authority (Federal Court of Fiscal and Administrative Justice); the procedure is still in its initial stage.

Also, on May 2011, Cofetel resolved a dispute in regards to interconnection dispute between Telmex and the Company, with respect to termination rates of long distance calls from the Company to Telmex for the year 2011. In such resolution, Cofetel approved a reduction in termination rates for long distance calls. The above rates were reduced from US$0.0126, US$0.0105, or US$0.0080 per minute to $0.04530 and $0.03951 Pesos per minute, depending on the place where the Company delivers the long distance traffic. Telmex appealed that decision before the SCT, but the appealing was dismissed by such authority. As of this date, Telmex has challenged such dismissal before the Federal Court of Fiscal and Administrative Justice, the mentioned appeal procedure is still in initial stage.

As of this date the Company believes that rates established in its resolutions by Cofetel will prevail, so the costs have been recognized based on those rates determined by Cofetel. Due to the fact that the proceedings filed by Telmex are recent, the Company, supported by its legal advisors, is evaluating the steps to follow in this case.

As of December 31, 2009 there was a letter of credit for US$34 million issued by Banamex in favor of Telmex to guarantee the obligations acquired by the Company under various interconnection agreements. This letter of credit was withdrawn by Telmex in January 2010 arguing that Avantel had debts with such entity. As of December 31, 2011, Avantel has been able to recover the amount of $336 million pesos from the above amount, this through conducting a set off with respect to certain payments for services provided to Avantel by Telmex monthly.

c) On January 24, 2001, an agreement was entered into with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.) (“Global Towers”), which agreement contemplated expiration termination date on January 24, 2004, whereby Global Towers was to provide to the Company with services for the location, construction, setting up and selling of sites within the Mexican territory. As part of the operation, the Company agreed to lease from Global Towers 650 sites in a time frame period of three years.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. According to the agreement, these funds are not subject to restrictions with respect to their use and destination. However, the agreement contemplates the payment of interest at a PRIME Rate in favor of Global Towers on the warranty amount corresponding to the number of sites that as of June 24, 2004, were not sold or leased in accordance with the terms of the agreement.

During 2002, Spectrasite Communications México S. de R.L. de C.V. filed an Ordinary Mercantile Trial against the Company before the Thirtieth Civil Court of Mexico City under file No. 203/2002, claiming the refund of the guarantee deposit for U.S.$13 million plus interest and trial-related expenses; the Company answered the complaint and counterclaimed such company and its North American branch Spectrasite Communications Inc, as a consequence of the unilateral and illegal termination of the master agreement that Spectraise carried out. .

Finally, after three amparo claims, on December 15, 2011, the Third Civil Court of Appeal File No. 1242/2008 confirmed the decision dated September 22, 2010, which completely discards any liabilities attributable to Axtel detriment relating to the contract signed with Global Towers.

Additionally, Global Towers and SpectraSite Communications Inc. were order to pay in favor of Axtel, the amount of $ 13 million for damages caused by failure to comply with the construction or acquisition of six hundred fifty agreements with Axtel to which they were bound but did not performed because of the early illegal termination of the master agreements.

Global Towers Communications Mexico, S. de R.L. de C.V. (previously SpectraSite Communications Mexico, S. de R.L. de CV, as well as the U.S. company, were sentenced to pay delinquent interest in favor of Axtel, at an annual rate of six percent starting as of February twenty-eight of two thousand and two, date in which the agreement was early terminated.

(d) On September and November of 2005, Avantel Infrastructure initiated a nullification procedure before the Federal Court of Fiscal and Administrative Justice, against the consequences of the application of the *negative ficta* rule (consequence of the omission of the authority to respond) that was set by such Administration, as it did not resolved within the three months set forth in the Federal Tax Code in regards to: the confirmation of certain criteria, in regards to Avantel Infrastructure's not being obliged to pay the governmental rights (fees) provided under Article 232, section I of the Federal Law of Governmental Rights, for the use of the exclusive economic zone between Mexico and certain points of arrivals in Playa Niño, region 86, Benito Juarez Municipality Itancah Tulum, Municipality of Carrillo Puerto, Quintana Roo.

The complaint was turned for the study and resolution to the Fifth Metropolitan Regional Federal Court of Fiscal and Administrative Justice, which declared the nullity of the *negative ficta* resolution but only for the purpose that the authority issues a new resolution duly sustained and justified taking into consideration the terms of the resolution.

Unsatisfied with the ruling of the Federal Court of Fiscal and Administrative Justice, Infrastructure Avantel filed an amparo claim, while the authority filed an administrative review procedure (revisión fiscal). Both procedures were resolved and resulted in the determination of the obligation of Avantel Infrastructure to pay governmental fees for use of the use of the exclusive economic zone mentioned above, at a rate of 7.5% of the value determined by the Instituto de Administración y Avalúos de Bienes Nacionales (Mexican Institue of Appraisers) ("INDAABIN"). As of this date, we are waiting for the INDAABIN to issue a master appraisal that will serve as guidance for the calculation of the disputed governmental fee.

The Company is involved in various trials and claims arising from its ordinary course of business which are not expected to have a material effect in its financial position and future operation results

2.14) Capital Stock

Subscribed and Paid in Capital

Axtel's capital stock is formed by two series of common stock, without expression of its par value. In accordance with the LMV, and previous authorization obtained from the CNBV, Axtel could issue different series of nonvoting stock, limited voting stock and other restricted corporate rights. The Shareholders Meeting that resolves on the matter of the issuance of such series of stock must determine the rights to be given to this new stock series.

Due to the fact that the Company is a Variable Capital Corporation, its capital stock is formed by a fixed part of the capital and a variable portion. As of December 31, 2008, the subscribed and paid in capital was comprised by 8,769,353,223 stocks that represented the fixed part of the capital stock, from which 96,636,627 are to Class I of the A Series and 8,672,716,596 are to the Class I of the B Series. As of today, Axtel's capital stock does not have any issued or subscribed stock that represents variable capital. Axtel and its subsidiaries do not have the possibility to own equity issued by Axtel, nonetheless, there are certain cases in which Axtel could re-acquire its own stock. (See "Stock re-acquisition" below)

Capital Stock Variations, Preference Rights and Stock Amortization

The fixed portion of Axtel's capital stock can be increased or decreased by means of a resolution issued by Axtel's Shareholders in a General Extraordinary Meeting. The variable portion of Axtel's capital stock could be increased or decreased by means of a resolution issued by Axtel's Shareholders in a General Ordinary Meeting. Increase or decrease in the capital stock, must be registered in the Company's capital stock variation book. According to the terms of the LGSM, Axtel's By-laws state, that modifications to the variable portion of Axtel's capital stock, do not require an amendment to the By-laws or to be registered at the Public Commerce Registry to be valid. It is not possible to issue new stock until the previously issued stocks are fully paid.

For the case of an increase in capital (in the fixed or variable part), stockholders have certain preferential rights to subscribe stocks issued by the Company, pro rata to the number of stock they own, unless:

- Stocks are issued in relation to the capitalization of subscription premiums, retained profits and other capital reserves and accounts in favor of stockholders, pro rata to their stock holding;

- Stocks issued by means of a public offering, when this issuance is approved by the shareholders in a general extraordinary meeting, and only if such offering complies with the requirements mentioned in article 81 of the LMV, including previous authorization in writing issued by the CNBV (amendments to the LMV made as of December 2006, eliminate the right of preference for the case of stocks issued for a public offering);

- Stocks issued due to a merger;

- Stocks issued as treasury stocks related to the issuance of convertible bonds in accordance with the terms of article 210 bis of the "*LGTOC"; and*

- The sale of stock owned by the company as a result of a re-acquisition of stock through the BMV.

The period of time at which the preferential rights must be enforced, must be determined by the stockholders meeting in which the capital increase is approved, nonetheless, such period of time could never be shorter than 15 days from the publication of the corresponding notice at the Official Gazette corresponding to the Company's corporate domicile, and in one of the widely distributed newspapers of the Company's domicile. In accordance with applicable law, preference rights cannot be waived in advance, transferred or represented by a third person via a title that can be negotiated independently, separated from the title.

The Shares, which represent the Company's capital stock, could be amortized in the case of (1) capital stock reductions and (ii) the amortization of retained earnings that should be approved by the shareholders. In terms of the reduction of capital stock, the amortization should be pro rata among all the shareholders, or if, it is related to the variable portion of capital stock, the amortization will be done according to what was established in the corresponding shareholders meeting. In any case, the amortization of the shares will be for an inferior book value of the shares, in accordance with the last approved balance at the general shareholders meeting. In the case of the amortizations against retained earnings, the amortization will take place by (i) a purchase offer through the BMV, in accordance with the LGSM and the bylaws of the Company, o (ii) a pro rata among the shareholders.

Variable capital

In accordance with the LGSM and the bylaws of the Company, if the Company issues Shares representative of the variable portion of the capital stock, these shares could be reimbursed to the shareholders who decide to exert their right of withdrawal with respect to these Shares and so they express it in a written request to the Company. The price of the reimbursement should be equivalent to the lesser amount between (i) 95% of the average price, during which the Shares traded in the BMV for the last 30 days prior to the amortization, or (II) the book value of these Shares at the end of the fiscal year in which the amortization has its effects. The reimbursement of the Shares will be paid once the financial statements of the previous year are approved by the ordinary general meeting of shareholders. In accordance with the LMV, the representative stockholders of the variable capital will not have the rights of withdrawal before described.

Repurchase of Shares

Pursuant to what is established in the LMV, the bylaws of the Company establish the possibility that Axtel may acquire its own Shares in the BMV at the market price of that moment. The Repurchase of Shares will be on the account of the capital stock of the Company if the Shares stay in the possession of Axtel, or on the account of the capital stock, if the repurchased Shares become treasury stock. The ordinary general meeting of shareholders will have to approve the total amount destined for the purchasing of own Shares for each exercise, amount which shall

not exceed the total amount of net income of the Company, including the retained earnings. The Board of Directors will have to designate the responsible people to carry out this repurchase of Shares, as well as their sale. The repurchased Shares may not be present in the meetings of shareholders. The repurchase of Shares will be carried out, and will be reported and disclosed in accordance with what the CNBV establishes.
In July 2008 the Company started a share repurchase program which was approved at the Ordinary Meeting held on April 23, 2008 for an amount of $ 440 million. At December 31, 2008, we repurchased 26,096,700 CPOs (182,676,900 shares). During July, August and September 2009 all CPOs were repositioned in the market. As of December 31, 2011, only $278 million out of the $440 million referenced above have been used, so there is a remaining amount of $162 million.

Cancellation of the Registry in the RNV

In case Axtel decides to cancel the registry of its Shares in the RNV or in case the CNBV orders the cancellation of this registry, the shareholders who are considered the shareholders of "control" will have, prior to the date the cancellation is effective, to carry out a public purchase offer with respect to the Shares owned by the minority stockholders at a price equivalent to the amount that is superior between (i) the average price in the market of these Shares in the BMV for the 30 days prior to the public purchase offer, during which the Shares have traded, or (II) the book value of these Shares according to the last presented quarterly financial information to the CNBV and the BMV. In agreement with the applicable legislation and the bylaws of Axtel, in case the shareholders cannot acquire these Shares through the public purchase offer, they will have to form a trust to which they will contribute the amount necessary to acquire, at a price equivalent to the offered one by the Shares in the public purchase offer, the Shares that have not been acquired in this offer. This trust will have to be maintained for at least 6 months. The control shareholders will not have to do this public purchase offer in case of the cancellation of the registry of the Shares is approved by at least 95% of the shareholders, and the number of Shares that will be bought by the general investor is equivalent to less than to 300.000 Units of Investment, or UDIS. In agreement with rules of the CNBV, control shareholders are considered those who own the majority of Shares Series A and Series B, and have the ability to impose decisions in the meetings of shareholders or have the ability to designate the majority of the members of the Board of Administration.

The LMV establishes that in case of cancellation of the registration of the Shares in the RNV and the BMV (or by the Company's decision or by order of the CNBV), the Company (and not the shareholders that exerts the control of) will have to carry out a public offer to acquire the Shares which are property of the minority stockholders, and will have to constitute a trust with a maturity of six months and to contribute to this trust the necessary amount to acquire the full amount of the Shares not acquired through the said offer. In accordance with the LMV, the shareholders who exert the control of the Company will be shared in common responsibility for these obligations. The purchase price of these Shares is the same price established in the LMV.

In the event the CNBV orders the cancellation of the registration of the Shares, the offer indicated above will have to take place within the 180 days following the cancellation. In accordance with the LMV, the cancellation of the registration of the Shares by decision of the Company must be approved by at least 95% of his shareholders.

Registry of Shares and Transmission of Shares

The Shares of Axtel are registered in the Special and Securities Sections of the RNV maintained by the CNBV. The Shares of Axtel are represented by securities of registered stock. The shareholders of the Company can hold their Shares directly, as titles, or indirectly, by means of registries in stock broker houses, banks and other intermediary financial organizations or authorized by the CNBV that maintains accounts in Indeval ("Depositary of Indeval"). Indeval will send confirmations under the shareholder name who therefore asks for it. Axtel maintains a record book of Shares. Only the shareholders who appear registered in this book as stockholders, or directly or through an Indeval Depositary will be recognized as shareholders by the Company. The transferring of Shares will have to be confirmed in a registry book that will be maintained for such effect. The transferring of Shares deposited with Indeval will be registered in accordance with the established in the LMV.

In accordance with our bylaws and the title of concession of public telecommunications network to offer basic telephony services at nationwide, in case of any assumption of subscription or transfer of shares in one or several events, that represent the ten (10%) percent or more of the amount of the capital stock of the Company, must observe the following regime:

(i) The Company will have to give a notice to the SCT of the intention of the interested ones in carrying out the subscription or transfer of Shares, having to accompany the warning notice with the information of the people interested in acquiring the Shares;

(ii) The SCT will have a term of 90 calendar days, from the presentation of the warning, to object in writing and by justified cause the operation in question

(iii) If the term to object the operation by the SCT expires, it will be understood as approved

Only the operations that have not been objected by the SCT will be able, where appropriate, to be recorded in the book of shareholders of Axtel, notwithstanding the authorizations from other authorities which may be required according to the applicable provisions. Axtel shall not be required to present the notice referred to in this paragraph, when the subscription or transfer refers to representative Shares of neutral investment in terms of the Law of Foreign Investment, or when it makes reference to capital stock increases to be subscribed by the same shareholders, as long as the pro rata portion of the participation of each of them in the capital stock is not modified. In case the interested one in subscribing or acquiring the Shares is a legal entity, the notice referred in this paragraph, will include, the necessary information so that the SCT knows the identity of the people who have patrimonial interests larger than the ten percent of the capital of this legal entity.

Variations in the Capital Stock of the Company in the last five years

In the last five years the capital stock of Axtel has had the following variations:

The 26 of August of 2005, the Company, Telinor, Blackstone, LAIF X sprl and LAIF IV Ltd. signed the Settlement Agreement (To see "Operations with Related Parts - Resolution of Disputes between Shareholders"). As a result of the Settlement Agreement, the shareholders of the Company carried out a general extraordinary shareholders meeting in that same date, by means of which it was resolved, among others matters, (i) to recognize and to ratify the present shareholder structure of Axtel and to ratify the issuance and subscription of the Shares, matter of the dispute, (II) to diminish the share capital by means of reimbursement of a portion of the Shares property of Telinor and Blackstone, (III) the increase in the share capital by the same amount on the part of LAIF X sprl and New Hampshire Insurance Company, and (IV) the merger of Telinor and Axtel.

By virtue of the merger with Telinor, and considering that Telinor's only assets were Axtel's shares, the titles of the Shares of Telinor in Axtel were canceled and new titles were issued in favor of the shareholders of Telinor pursuant to their stake they had in the said merged company.

In the ordinary and extraordinary general shareholders meeting carried out on November 11, 2005, among others items, it was agreed upon to increase the capital stock in the fixed minimum part without right to withdraw by means of the application of the variable stock capital to the fixed minimum part without right to withdraw. Consequently, the paid in capital stock totally subscribed was represented by 7,601,120,598 Shares Class I nominative cases, ordinary, without expression of par value, of which 96,636,627 correspond to the Series "A" and 7,504,483,971 to Series B, Additionally, the Company approved the issuance of up to 1,030,589,406 registered common stock shares, without par value, Class "I", series "B", to offer them to the market, subscribed and paid as part of a public and private offer and to be carried out by the Company no later than the 31 of December of 2005.

Based on the results of the offer that took place on December 6, 2005, and considering that 921,690,000 Shares were subscribed in the mentioned offer, the capital stock of the Company was represented on December 31, 2006 by 96,636,627 common stocks, without par value, Class "I", Series "A", subscribed and paid; and common, without par value, Class "I", Series "B", subscribed and paid 8,426,173,971 shares.

Later, in the general shareholders meeting of Axtel of November 29, 2006 an increase of the capital stock of Axtel by means of the issuance of the number of Shares was approved (i) sufficient Series B so that Tel Holding could subscribe and pay to Shares Series B (in the form of CPOs) that represented up to 10% of the capital stock in Axtel, and (ii) the subscription and payment of the increase on the part of Tel Holding and by those shareholders that had decided to subscribe and to pay for these Series B Shares in carrying out their right of preferred subscription to which article 132 of the General Law of Commercial Companies refers to. On January 4, 2007, Tel Holding subscribed and paid for 246,453,963 Series B Shares through the Trust of CPOs and credited in their favor in the form of CPOs through INDEVAL. During the period of subscription between January 4 and January 20 of 2007, other shareholders of the Company in exercise of their right of preferred subscription, subscribed and they paid for 88,662 Shares Series B through the Trust of CPOs. The new Series B Shares were subscribed and paid at a price of $1.52 pesos each.

As of December 31, 2011, the total capital stock of Axtel is represented by 8,769,353,223 Shares representative of the fixed portion of the share capital; of which 96,636,627 are Series A, Class I and 8,672,716,596 are Series B, Class I. At this time, the capital stock of Axtel does not have Shares issued or subscribed in its variable portion.

2.15) Dividends

The determination, amount and payment of dividends shall be determined by the majority vote of the Shares Series A and Shares of Series B in a shareholders meeting. In accordance with the Mexican legislation, the Company can solely pay dividends at the expense of retained profits when the losses of previous exercises have been covered.

The shareholders meeting of Axtel has not determined a specific policy of dividends, since the Company is restricted to pay dividends in accordance with its bylaws and pursuant to certain loan and debt issuance currently in place. The Company has the intention to retain future profits to finance the development and expansion of the business and therefore there is no intention of paying dividends in cash or in ADSs or CPOS in the near future and while the above mentioned, restrictions, continue to. Any declaration or payment of dividends in the future will be carried out in accordance with the Mexican legislation and will depend on various factors, including the results of operation, the financial situation, the needs of cash, future considerations of tax nature, projects and any other factors that the advice of management and the shareholders consider important, including the terms and conditions of loan agreements currently in place.

3) FINANCIAL INFORMATION

3.1) Selected Financial Information

The financial statements have been prepared in accordance with Mexican FRS. On January 1, 2008 and became effective the FRS B-10 *"Effects of inflation"* and the *FRS B-2 "Statement of cash flows".*

FRS B-10 supersedes Bulletin B-10 "Recognition of the effects of inflation on the financial information", The principal considerations established by this FRS, among others, are that an entity operates in a) an inflationary economic environment when cumulative inflation over the immediately preceding 3-year period is equal to or greater than 26%; and b) non-inflationary economic environment, when inflation over the aforementioned period is less than 26%. For case a), the comprehensive recognition of the effects of inflation is required, (similarly to Bulletin B-10 being superseded). For case b), the effects of inflation are not recognized; however, at the effective date of this FRS and when an entity ceases to operate in an inflationary economic environment, the restatement effects determined through the last period in which the entity operated in an inflationary economic environment (in this case 2008), must be kept and shall be reclassified on the same date and using the same procedure as that of the corresponding assets, liabilities and stockholders' equity. Should the entity once more operate in an inflationary economic environment, the cumulative effects of inflation not recognized in the periods where the environment was deemed as non-inflationary should be recognized retrospectively. Therefore, the figures in the financial statements and in the selected financial information for the year ended on December 31, 2007, include the effects of inflation until December 31, 2007 and are stated in constant pesos as of that date.

The FRS B-2 supersedes Bulletin B-12 *"Statement of changes in financial position"*. The principal considerations established by this FRS, among others, are: (a) Instead of the statement of changes in financial position, the financial statements shall include the statements of cash flows for all the periods presented comparatively with those of the current year, except for financial statements of periods prior to 2008; (b) Cash inflows and cash outflows are reported in nominal currency units, thus not including the effects of inflation. Therefore, the following information includes figures derived from the statements of cash flows for the years ended on December 31, 2011, 2010, 2009 and 2008 expressed in pesos; and figures derived from the statements of changes in financial position for the year ended on December 31, 2007, stated in constant pesos as of December 31, 2007.

The amounts that are in this Annual Report cannot be added to apply the rounding up.

General

The Company offers voice, data and Internet services for enterprise clients, financial institutions, government agencies and high end residential clients. Also it offers transport and completion of long distance calls from abroad to international traffic operators and telecommunication integrated services to large corporate and multinational companies. The integral offer of services allows the Company to maximize recurrent revenues obtained from each of the clients, increasing therefore the originating return of the infrastructure investment, sales, commercialization and distribution. Also, the administration of the Company has observed that the clients prefer to contract telecommunications services from a single supplier and to receive a single invoice by all the services. The Company considers that the loyalty of its clients has increased with the offer of additional services, which consequently brings down the rate of disconnections.

The following table contains a summary of the consolidated financial information of fiscal year ending in 31 of December of 2007, 2008, 2009, 2010 and 2011. The summary corresponding to the December 31, of 2010 and 2011 and by both years ending in such dates, derive from the information contained in the Audited Financial statements that are enclosed to this Annual Report. The summary corresponding to the information consolidated to the 31 of December of 2007, 2008 and 2009 and by the three years ending in 31 of December of 2009 derives from the audited consolidated financial statements that are not enclosed to this Annual Report.

The information that appears next will have to be read altogether with “Use of Proceeds,” “Selected Financial Information” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Financial Statements and their notes that are enclosed to this Annual Report.

During 2011 we carried out accounting modifications as evidenced in Note 4 to the consolidated financial statements. Consequently, the financial statements as of December 31, 2010 and the statement of financial position as of January 1, 2010 were adjusted to reflect the effects resulting from the accounting changes as disclosed in note 4.

	Years ended as of December 31				
	2007	2008	2009	2010	2011
		•	(Pesos in Millions)		
Statement of Income Data:					
Telephone services and related revenues.........	12,190.6	11,572.4	10,968.9	10,652.0	10,829.4
Cost of revenues and operating expenses (1) (8)	(10,796.8)	(10,217.8)	(10,196.1)	10,417.5	10,391.9
Income from operation.......................	1,393.8	1,354.6	772.8	234.4	437.5
Interest expense, net...........................	(790.6)	(742.7)	(900.7)	(932.4)	(980.2)
Foreign exchange gain (loss), net.......	1.0	(1,602.1)	279.8	437.5	(1,181.6)
Change in the fair value of financial instruments	19.9	54.1	212.3	(99.2)	(77.6)
Monetary Position..............................	268.8	-	-	-	-
Other (expenses), income net.............	(20.1)	(68.4)	1.1	41.3	(424.9)
Income (Loss) before income taxes....	872.8	(1,004.7)	365.3	(318.5)	(2,226.8)
Income tax (expense) benefit	(383.2)	301.6	(181.4)	11.3	184.1
Equity in results of associated company	1.4	2.8	(7.4)	—	(0.1)
Net income (loss) from continuing operations ...	491.0	(700.3)	176.4	(307.1)	(2,042.9)
Net income (loss)...............................	491.0	(700.3)	176.4	(307.1)	(2,042.9)
Net income (loss) from continuing operations per share	0.1	(0.1)	0.0	(0.0)	(0.2)
Net income (loss) per share:					
Net income (loss) per share:					
Basic	0.1	(0.1)	0.0	(0.0)	(0.2)
Diluted					
Weighted average of shares outstanding (in millions):					
Basic	8,754.5	8,769.4	8,769.4	8,769.4	8,769.4
Diluted					
Net income (loss) from continuing operations	491.0	(700.3)	176.4	(307.1)	(2,042.9)
Net income (loss) from continuing operations per share	0.1	(0.1)	0.0	(0.0)	(0.2)
Dividends decreed per share	0	0	0	0	0
Statement of changes in financial situation / Statement of cash flows for 2007.					
Depreciation and amortization	2,690.7	2,855.8	3,065.8	2,993.4	3,137.1
Constructions and Acquisitions of real estate properties, machinery and equipment.	2,486.1	4,000.6	2,674.4	3,361.9	2,532.8
Net cash resources:					
Operating activities...........................	3,226.7	2,840.9	3,449.5	3,614.3	2,312.7
Investing activities	(2,556.4)	(4,019.9)	(3,004.0)	(3,464.4)	(2,614.0)
Financing activities	(318.6)	(891.5)	131.0	193.6	(763.6)
Effects due to changes in value of cash flow	—	1,602.1	(279.8)	(437.5)	1,181.6
Net Increases (net decreases) in cash or cash equivalents......................................	351.7	(468.3)	296.7	(94.0)	(116.8)
Adjusted EBITDA (2)........................	4,084.5	4,075.3	3,838.6	3,227.8	3,574.6
Adjusted EBITDA Margin.................	33.5%	35.2%	35.0%	30.3%	33.0%
Total Number of Lines in Service at the end of the period (thousands)					
Business..	311.8	328.7	326.3	328.4	327.5

Residential	620.5	607.1	635.8	714.8	711.5
Total	932.3	935.8	962.1	1,043.2	1,039.0
Cities	27	39	39	39	39
Radio Bases	471	500	573	797	997
Monthly Average of disconnections	1.6%	1.8%	1.7%	1.6%	1.8%

	Years ended in December 31				
	2007	2008	2009	2010	2011
	(Pesos in Millions)				
Balance Sheet:					
Cash flow and equivalents	1,573.9	1,105.6	1,402.2	1,308.3	1,425.0
Net Working Capital (1)	(230.5)	(387.9)	296.5	114.4	153.7
Total Assets	19,830.7	21,569.2	21,701.3	22,531.6	22,277.3
Total Debt	7,645.1	9,654.6	9,892.2	10,464.9	12,511.4
Total Liabilities	11,080.3	13,637.7	13,580.1	14,898.1	16,537.1
Total Stockholders' equity	8,750.3	7,931.4	8,121.2	7,633.5	5,740.1
Net Assets (2)	13,449.4	14,918.6	15,561.0	15,883.9	15,671.5
Capital common stock	8,870.1	7,562.1	7,562.1	7,562.1	7,562.1
Shares outstanding (in millions)	8,769.4	8,769.4	8,769.4	8,769.4	8,769.4

(1) Net Working Capital is calculated by subtracting Cash and Equivalents, Accounts Payable and Accumulated Liabilities, Payable taxes and other accounts payable to Current Assets

(2) Net Assets is calculated by adding Net Working Capital to Buildings, Systems and equipment, net.

Adjusted EBITDA Conciliation

	Years ended December 31,				
	2007	2008	2009	2010	2011
	(Pesos in Millions)				
Net income (loss)	491.0	(700.3)	176.4	(307.1)	(2,042.9)
Depreciation and amortization	2,690.7	2,855.8	3,065.8	2,993.4	3,137.1
Interest expense, net	790.6	742.8	900.7	932.4	980.2
Income taxes	383.2	(301.6)	181.4	(11.3)	(184.1)
EBITDA	4,355.5	2,596.7	4,324.4	3,607.3	1,890.4
Foreign exchange (gain) loss, net	(1.0)	1,602.1	(279.8)	(437.5)	1,181.6
Monetary position	(268.8)	-	-	-	
Change in the fair value of financial instruments	(19.9)	(54.1)	(212.3)	99.2	77.6
Other (income) expense, net	20.1	68.4	(1.1)	(41.3)	424.9
Equity in results of associated company	(1.4)	(2.8)	7.4	0	0.1
Adjustment to bad debt expense from previous years	-	(135.1)	-	-	-
Adjusted EBITDA (1)	4,084.5	4,075.3	3,838.6	3,227.8	3,574.6

(1) Monetary Position

(2) In means EBITDA less non-monetary items and other non-recurrent items

3.2) Finacial Information Per Line Of Business

The Board of Directors and the CEO, evaluate the performance of the Company by tracking the following indicators:

	2009				2010				2011			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Revenues (1)	2,794.9	2,745.5	2,731.8	2,696.6	2,466.7	2,762.2	2,699.7	2,723.4	2,654.5	2,693.3	2,713.2	2,768.4
Local service	1,174.8	1,173.8	1,181.3	1,119.5	1,082.6	1,155.8	1,111.7	1,131.8	1,094.6	1,088.7	1,024.3	952.6
Long distance Services.....	307.4	305.1	297.5	278.7	273.4	279.7	297.7	299.3	292.6	303.3	305.6	322.5
Data.................................	640.8	632.9	585.2	593.1	608.2	615.0	614.2	666.8	656.1	628.3	641.9	668.2
International traffic	298.8	310.8	368.2	346.0	239.5	322.9	315.3	297.6	269.8	285.9	355.4	335.2
Other services	373.1	322.9	299.7	359.3	263.0	388.8	360.9	327.9	341.5	387.2	385.9	489.8
Cost of revenues and operating expenses(1)	(1,835.1)	(1,744.0)	(1,762.9)	(1,788.3)	(1,787.8)	(1,842.1)	(1,865.2)	(1,929.1)	(1,835.2)	(1,757.9)	(1,793.8)	(1,867.9)
Access lines(2)(3)(5)........	916.8	914.6	940.5	962.1	983.9	1,008.8	1,025.3	1043.1	1,041.7	1,039.9	1,09.6	1,039.1
Average lines(2)(5)(6)......	926.3	915.7	927.5	951.3	973.0	996.4	1017.0	1034.2	1,042.4	1,040.8	1,039.8	1,039.5
Average Income per Line (4)(5)(7)....	533.5	541.3	531.4	487.8	466.3	480.3	462.4	459.7	443.8	445.8	425.6	408.9
Customers(2)(3)(5)..........	•	625.2	654.1	•	699.9	727.3	744.2	763.8	761.1	758.2	757.2	757.4
Presubscription (LD) users(2)(3)(5)	•	154.3	153.8	145.9	122.5	92.8	78.5	67.2	61.0	57.5	53.3	50.6

(1) Amounts in millions of Pesos.
(2) Amounts in thousands as of the end of each period.
(3) Figures as of the end of each period.
(4) Amounts in Pesos
(5) Unaudited information.
(6) Average Lines is the result of the sum of Access lines at the beginning of the period plus Access lines at the end of the period divided by 2.
(7) For presentation purposes, average income per month is calculated by dividing local services plus long distance service divided by the average for the quarter and dividing the result by 3.
(8) Does not include Depreciation and Amortization

Revenues.

The Company tracks the following five categories in terms of revenues:

Local services: We generate revenues by enabling our customers to originate and receive an unlimited number of calls within a defined local service area. Customers are charged a flat monthly fee for basic service, per call measured service fee, per minute usage fee for “calling party pays” calls and a monthly fee for value added services.

Long distance services**:** We generate revenues by providing long distance services for our customers’ completed calls.

Data and Network: We generate revenues by providing Internet, data and network services, such as virtual private networks and dedicated private lines.

International traffic**:** We generate revenues by terminating international traffic from foreign carriers.

***Other services*:** We generate revenues from other services such as activation fees, from the sale and/or lease of customer premises equipment for new customers and custom-made integrated telecommunications services to corporate customers.

The following summarizes Axtel's revenues and percentage of revenues from operations from these sources:

	Revenues (1)					**% de Revenues**				
	Years ended December 31,					**Years ended December 31,**				
Revenue Source	**2007**	**2008**	**2009**	**2010**	**2011**	**2007**	**2008**	**2009**	**2010**	**2011**
Local services.............	5,336.6	5,242.6	4,649.5	4,481.8	4,160.1	43.8%	45.3%	42.4%	42.1%	38.4%
Long distance services........................	1,532.2	1,286.1	1,188.7	1,150.1	1,224.0	12.6%	11.1%	10.8%	10.8%	11.3%
Data& Network	2,513.8	2,500.5	2,452.0	2,504.1	2,594.5	20.6%	21.6%	22.4%	23.5%	24.0%
International traffic......	1,210.2	982.9	1,323.8	1,175.3	1,246.4	9.9%	8.5%	12.1%	11.0%	11.5%
Other services.............	1,597.8	1,560.3	1,355.0	1,340.6	1,604.4	13.1%	13.5%	12.3%	12.6%	14.8%
Total	12,190.6	11,572.4	10,968.9	10,652.0	10,829.4	100.0%	100.0%	100.0%	100.0%	100.0%

Amounts in Mexican pesos million.

Costs and Expenses of operation

The costs of the Company are classified of the following form:

- Cost of sales includes expenses related to the completion of calls of our clients to cellular telephones and long distance calls on other suppliers' networks, as well as expenses related to invoicing, reception of payments, services of operators and private leased links.

- Expenses of operation include costs related to general and administrative items that include compensations and benefits, the costs of leasing properties required for our operations and costs associated with sales and marketing and the maintenance of our network.

- Depreciation and amortization include the depreciation of all the infrastructure and equipment of our network and the amortization of pre-operative expenses, as well as the cost of the concessions and the licenses of use of radio-electric spectrum.

Lines of Access

The lines of the Company are divided in two categories, residential and of businesses in order to target th mass and enterprise markets, respectively. The total number of lines of access is determined by the sum of the gross number of lines of access installed during the period to the final balance of lines of access of the previous period and the deduction of the disconnected lines of access during that period. The determination of the number of access lines allows the Company to calculate its participation in a certain geographic market.

Average Revenue per User (ARPU)

The average revenue per user is used as a standard gauge of the industry showing the capacity of a telecommunications company to maximize the amount of revenues that come from each client starting off from capital expenses in order to attract each client. This measurement allows the Company to calculate the return on investment in comparison with its national competitors, as well as, with other suppliers of services of telecommunications abroad.

3.3) Relevant Finance Agreements

To the 31 of December of 2010 and 2011, the balance of the excellent credits of Axtel was of $10,464.9 million and $12,511.4 million, respectively. The following table shows the integration of the same in million pesos:

Description of Credits	As of December 31st 2010.	As of December 31st 2011.
U.S. $275 million in aggregate principal amount of 7 $^{5}/_{8}$ % Senior Unsecured Notes due 2017. Interest is payable semiannually in February 1 and August 1 of each year.	$3,398.2	$3,847.4
U.S. $300 million in aggregate principal amount of 9% Senior Unsecured Notes due 2019. Interest is payable semiannually in arrears starting on March 22, 2010.	3,707.1	4,197.1
U.S. $190 million in aggregate principal amount of 9% Senior Unsecured Notes due 2019. Interest is payable semiannually in arrears starting on September 22, 2010.	2,347.8	2,658.2
Syndicated loan for a total amount of up to $100 million with variable interest rate; Libor +3.0% to Libor+4.5% and of TIIE+3.0% to TIIE+4.5%, pursuant to the Company's leverage. Interest payments are made quarterly. As of December 31, 2011 we have disposed of U.S. $ 44.5 million and $ 216.9 Pesos.	-	838.9
Capacity lease agreement with Telefonos de Mexico, S.A.B. de C.V. of approximately $ 800,000 pesos payable monthly and expiring in 2011. Renewed in 2011 for an amount circa $484,000.	127.6	453.2
Loan with Banamex in Mexican Pesos with a Maturity in March 2011 and renewals every three months. The interests are payable in monthly arrears.	280.0	
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.	549.5	468.2
Premium on Senior Notes issuance originated on the Senior Unsecured Notes with an aggregate principal of 162,500,000 with an interest rate of 11%, due 2013, was prepaid during the months of September and December 2009.	• 54.6	• 48.3
• **TOTAL**	• $10,464.9	• $12,511.4

Some of the current financing agreements established certain covenants, among the most relevant, are the ones related to restrictions to pay dividends and the security of our own assets and leasing agreements and the maintenance of certain financial rationales. As of 31 of December, 2011, The Company is in compliance with the total number of covenants and obligation. (See note 15 of the Audited Financial Statements.)

Additionally to all the liabilities both, the short and long term, reflected on the Financial Statements, the Company has never missed any fiscal obligations neither of capital nor of interest debt maturities. There is no ranking order in the above mentioned payments.

As of December 31, 2011, the Company has the following performance bonds that by nature are not reflected in the financial statements.

Company	Type	Pesos
Avantel Infraestructura S. de R.L. de C.V	Leasing	0
	Concession	2,236,085
	Performance	194,454,768
Avantel S. de R.L. de C.V.	Others	4,527,123
	Leasing	0
	Concession	3,110,640
	Performance	101,218,389
	Others	26,313,688
Avantel, S de R.L. de C.V. (previously Avantel S.A.)	Leasing	0
	Concession	0
	Performance	0
	Others	539,683
Axtel, S.A.B. de C.V.	Leasing	1,295,183
	Concession	1,435,680
	Performance	209,076,160
	Others	471,300,116
Conectividad Inalámbrica 7 GHZ, S. de R.L.	Concession	239,280
Servicios Axtel S.A. de C.V.	Others	324,342
Instalaciones y Contrataciones S.A. de C.V.	Others	179,846
TOTAL		1,016,250,984

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

3.4.1) Results of Operation

a) Year Ended December 31, 2011 Compared with Year Ended December 31, 2010.

Revenues from Operations

Total revenues increased from $10,652 million pesos to$10,829 million pesos for the year ended 2010 an increase of decrease of $177 million pesos, or 2%.

Axtel's revenue derives from the following services:

Local Services. Revenue from local services for the twelve month period concluded on December 31, 2011 added up $4,160 million pesos, this, compared with $4,482 million pesos recorded for the same period of the previous year, results in a reduction of $322 million pesos or 7%. While the monthly sales had an increment of $95 million pesos, the sections of measured service, mobile phone calls and added value services diminished in the period, affecting the good performance of monthly leases.

Long Distance Services. For the twelve month period concluded on December 31, 2011, revenue for long distance added up $1,224 million pesos compared to $1,150 million pesos recorded for the same period of 2010, an increase of 74 million or 6%.

Data and Networks. For the period of twelve months concluded on December 31, 2011, the revenue for networks and data services added up $2,595 million pesos, of $2,504 million pesos billed on the same period of 2010, an improvement of $90 million pesos in its level explained by an increase of $196 million pesos in the massive Internet or “on demand” Internet and a reduction of $105 million pesos of revenue for Dedicated Internet and virtual private networks.

International Traffic. The revenue for completion of international traffic added up $1,246 million pesos in the twelve month period ended on December 31 2011, an increase of 6% compared to the same period for 2010, explained by a higher traffic in long distance from fix to mobile phone.

Other Services. The revenue from other services for the period of twelve months concluded on December 31, 2011, added up $1,604 million pesos compared to $1,341 million pesos recorded on the same period in 2010, which resulted in an increment of 264 million pesos or 20%, explained mainly by the increment of $315 million pesos of revenue arising from integrated services.

Operative Metrics

UGIs and Customers. As of December 31, 2011, the UGIs (Income Generating Units) added up one million 476 thousand, which represents an increment of 9% or 117 more, with respect to December 31, 2010. During 2011, the net addition of UGI’s added up 117 thousand compared to 234 thousand of the previous year. As of December 31, 2011, the total of customers was 757 thousand, a decrease of 1% or 7 thousand compared to the same date of the previous year.

Voice UGIs (Lines in Service). As of December 31, 2011, the lines in service added up 1,039 thousand, which represents a decrease of 4 thousand lines compared to December 31, 2010. As of December 31, 2011, the residential lines represent 69% of the total lines in service.

Broad Band UGIs (Broadband Subscribers). The subscriptions with broadband access added up to 436 thousand on December 31, 2011. During this year, 122 thousand subscriptions were added, an increment of 39% compared to the previous year. The continuous positive response of customers for broad band service from Axtel in the “Universal Access” offers and “AXTEL X-tremo”, our marketing campaigns, and the reliability of our network, contributed to obtain a new record of additions in broad band for year 2011.

Cost of Revenues and Expenses

Cost of Revenues. During the twelve month period concluded on December 31, 2011, the cost of revenues reached 2,799 million pesos, which represented a reduction of 156 million pesos with respect to the results for the same period of 2010, explained by the mixed effects of the reduction links and long distance and fixed-mobile leases, affected by increase of the cost of revenue from the sale of integrated services, explained by the greater revenue level for the rendering of these services.

Gross Profit. Gross profit is defined as income minus cost of sales. For the period of twelve months ended on December 31, 2011, the gross profit of Axtel increased to 8,030 million pesos, from 7,696 million pesos recorded on 2010, an increment of 334 million pesos or 4%.

Operating Expenses. For the period of twelve months ended on December 31, 2011, the operation expenses added up 4,456 million pesos from 4,469 million pesos for the same period in 2010. The expenses related to personnel represented 45% of the total expenses of the period of twelve months ended on December 31, 2011. The decrease is explained by leases and maintenance reductions, as well as an increment in marketing expenses related to the commercial launch of “AXTEL X-tremo”.

Adjusted EBITDA. The adjusted EBITDA, defined as gross profit plus expenses for net interest, taxes, depreciation and amortization, and adjusted for extraordinary non-recurrent income and expenses was of 3,575 million pesos, compared to 3,228 million pesos for the same period in 2010, which represented an increment of 347 million pesos or 11%. As a percentage, the margin was of 33% for the twelve month period ended on December 31, 2011.

Depreciation and Amortization. The depreciation and amortization for the twelve month period ended on December 31, 2011 was of 3,137 million pesos, compared to 2,993 million pesos for the same period in 2010, represented by an increment of 144 million of pesos or 5%.

Profit (Loss) of Operation. For the period of twelve months concluded on December 31, 2011 the profit of operation was of 437million pesos, compared to 234 million pesos recorded for 2010, an increment of in 203 million pesos.

Comprehensive Financial Result

The comprehensive financing cost was of 2,239 million pesos in 2011, compared with a cost of 594million pesos in 2010. The 277% increase in integral cost of financing for the twelve months that ended on December 31, 2011 compared with 2010, is due to the depreciation of the Mexican peso before the dollar of 13% during the period of 2011, compared with an appreciation of 5% for the twelve months ended December 31, 2010.

Net Income (Loss)

The Company reported a net loss of 2,043 million pesos in the twelve months ended on December 31, 2011, compared with net income of 307 million pesos in 2010. The changes outlined above plus a favorable variation of 172 million pesos in the area of taxes, account for this loss. See Note 18 of the Audited Financial Statements.

Principal Changes in the Company's Financial Position

During the years 2011 and 2010, the cash flows generated from operating activities were 2,313 million and 3,614 million, respectively. In the twelve months ended December 31, 2010 and 2011, the Company used is flows in investing activities in the amount of 2,614 million pesos and 3,464 million pesos, respectively. In the twelve months ended December 31, 2011 and 2010, flows (used in) generated by financing activities were (764) million and 194 million pesos, respectively.

As a consequence of the above, during 2010, the Company increased the cash on hand from 1,038 million pesos at the end of 2010 to 1,425 million pesos in 2011.

Debt

The increase in value of total debt on December 31, 2011, compared to 2010, is explained by increases in (i) $45 million dollars and 216 million pesos of the syndicated loan, and (ii) 484 million pesos of the capacity leasing with Telmex, compensated with decreases of (i) 280 million pesos in bank lines and (ii) 6 million dollars and 320 million pesos of partial amortizations of other loans and financial leasing. Additionally, the depreciation of 13% of the Mexican peso against the dollar during the period of 2011 also helped to increase the value in pesos of the debt in U.S. dollars.

Taxes. In 2011 the income per the income tax was of 184 million, compared with an income for $ 11 million last year. This benefit was generated mainly due to tax losses for amortization of real estate properties, systems, equipment and other liabilities. See note 18 of the Audited Financial Statements.

b) Year Ended December 31, 2010 Compared with Year Ended December 31, 2009

Revenues from Operations

Revenues from operations increased from $10,652 million pesos to$10,969 million pesos for the year ended 2009 a decrease of $317 million pesos, or 3%.

Axtel's revenue derives from the following services:

Local Services. Revenue from local services for the twelve month period concluded on December 31, 2010 added up $4,482 million pesos, this, compared with $4,650 million pesos recorded for the same period of the previous year, results in a reduction of $167.6 million pesos or 3.6%. While the monthly sales had an increment of $59 million pesos, the sections of measured service, mobile phone calls and added value services diminished in the period, affecting the good performance of monthly sales.

Long Distance Services. For the twelve month period concluded on December 31, 2010, revenue for long distance added up $1,150 million pesos compared to $1,189 million pesos recorded for the same period of 2009, a reduction of 39 million or -3.2%, explained by less revenue per minute year by year.

Data and Networks. For the period of twelve months concluded on December 31, 2010, the revenue for networks and data services added up $2,504 million pesos, of $2,452 million pesos billed on the same period of 2009, an improvement of $52 million pesos in its level explained by an increase of $120 million pesos in the massive Internet or "on demand" Internet and a reduction of $67 million pesos of revenue for Dedicated Internet and virtual private networks.

International Traffic. The revenue for ending of international traffic added up $1,175 million pesos in the twelve month period ended on December 31 2010, a reduction of 11% compared to the same period for 2009, explained by a change in the mix of "off-net" and "on-net" traffic, a lower tariff in the off-net traffic and the strengthening of the peso before the US Dollar.

Other Services. The revenue from other services for the period of twelve months concluded on December 31, 2010, added up $1,341 million pesos compared to $1,355 million pesos recorded on the same period in 2009, which resulted in a marginal reduction of 14 million pesos, explained by the reduction of $39 million pesos of revenue arising from integrated services, partially offset by the improvement of income for sale of terminal equipment.

Operative Metrics

UGIs and Customers. As of December 31, 2010, the UGIs (Income Generating Units) added up one million 358 thousand, which represents an increment of 21% or 234 more, with respect to December 31, 2009. During 2010, the net addition of UGI's added up 234 thousand compared to 96 thousand of the previous year. On December 31, 2010, the total of customers was 764 thousand, an increase of 12% or 83 thousand compared to the same date of the previous year.

Voice UGIs (Lines in Service). On December 31, 2010, the lines in service added up 1,043 thousand, which represents an increment of 8% or 81 thousand lines compared to December 31, 2009. On December 31, 2010, the residential lines represent 69% of the total lines in service.

Broad Band UGIs (Broad Band Subscriptions). The subscriptions with broad band access almost doubled in 2010 adding up 315 thousand on December 31, 2010. During 2010, 153 thousand subscriptions were added, compared to 69 thousand in the previous year. The continuous positive response of customers for broad band service from Axtel in the "Universal Access" offers and recently with "AXTEL X-tremo", our marketing campaigns, and the reliability of our network, contributed to obtain a new record of additions in broad band for year 2010.

Cost of Revenues and Expenses

Cost of Revenues. During the twelve month period concluded on December 31, 2010, the cost of revenues reached $2,955 million pesos, which represented a reduction of $32 million pesos with respect to the results for the same period of 2009, explained by the mixed effects of the reduction of sales of links and long distance call ending, affected by increase of the cost of revenue from the sale of terminal equipment and fixed-to-mobile interconnection costs for higher volume.

Gross Profit. Gross profit is defined as income minus cost of sales. For the period of twelve months ended on December 31, 2010, the gross profit of Axtel was reduced to $7,696 million pesos, from $7,982 million pesos recorded on 2009, a decrease of $285 million pesos or 4%.

Operating Expenses. For the period of twelve months ended on December 31, 2010, the operation expenses added up $4,469 million pesos from $4,143 million pesos for the same period in 2009. The expenses related to personnel represented 44% of the total expenses of the period of twelve months ended on December 31, 2010. The increase is explained by adjustments according to inflation in expenses related to personnel, leases and maintenance, as well as an increment in expenses related to marketing related to commercial launch of "Universal Access" and "AXTEL X-tremo"

Adjusted EBITDA. The adjusted EBITDA, defined as gross profit plus expenses for net interest, taxes, depreciation and amortization, and adjusted for extraordinary non-recurrent income and expenses was of $3,228 million pesos, compared to $3,839 million pesos for the same period in 2009, which represented a decrease of $611 million pesos or 16%. As a percentage, the margin was of 30% for the twelve month period ended on December 31, 2010.

Depreciation and Amortization. The depreciation and amortization for the twelve month period ended on December 31, 2010 was of $2,993 million pesos, compared to $3,066 million pesos for the same period in 2009, represented by a decrease of $72 million of pesos or -2%.

Profit (Loss) of Operation. For the period of twelve months concluded on December 31, 2010 the profit of operation was of $234 million pesos, compared to $773 million pesos recorded for 2009, a decrease in $538 million pesos.

Comprehensive Financial Result

The comprehensive financing result was a cost of $594 million pesos in 2010, compared with a cost of $409 million pesos in 2009. The 45% increase in integral cost of financing for the twelve months that ended on December 31, 2010 compared with 2009, is due to the movement in the valuation of derivative instruments, partially offset by a greater appreciation of the Mexican peso before the dollar of 5.4% during the period of 2010, compared with an appreciation of 3.5% for the twelve months ended December 31, 2009

Net Income (Loss)

The Company reported a net loss of $307 million pesos in the twelve months ended on December 31, 2010, compared with net income of $176 million pesos in 2009. The changes outlined above plus a favorable variation of $193 million pesos in the area of taxes, account for this loss

Principal Changes in the Company's Financial Position

During the years 2010 and 2009, the cash flows generated from operating activities were $3,614 million and $3,450 million, respectively. In the twelve months ended December 31, 2010 and 2009, the Company used is flows in investing activities in the amount of $3,464 million pesos and $3,004 million pesos, respectively. In the twelve months ended December 31, 2010 and 2009, net flows by financing activities were $193.6 million and 131.0 million pesos, respectively.

As a consequence of the above, during 2010, the Company reduced the cash on hand from $1,402 million pesos at the end of 2009 to $1,308 million pesos in 2010.

Debt

The increase in value of total debt on December 31, 2010, compared to 2009, is explained by increases in (i) $ 190 million dollars in bonds maturing in 2019, and (ii) 280 million pesos disbursed under our bank available credit lines, offset by decreases in (i) $ 25 million dollars and 1,042 million pesos in the syndicated loan, (ii) $ 0.4 million dollars and 112 million pesos of net reductions in finance leases, and (iii) $12 million dollars in partial write-downs of financing of several assets. Additionally, the depreciation of 5% of the Mexican peso against the dollar during the period of 2010 also helped to reduce the value in pesos of the debt in U.S. dollars.

Taxes. In 2010 the income per the income tax was $11 million, compared with a charge for $ 181 million the year before.

c) Comparing the year ended December 31, 2009 and the year ended December 31, 2008

Operating Income

The total revenue generated by the Company amounted to $ 10,969 million pesos in 2009, $ 604 million pesos or 5.2% less than the $ 11,572 million pesos in 2008.

The Company's revenues come from the following services:

Local services. Local service revenues for the year ended December 31, 2009, totaled $ 4,650 million pesos, an annual decrease of $ 593 million pesos, or 11.3%, from $5,243 million pesos recorded in 2008. This change is mainly due to the decreased of $ 378 million pesos in revenue of Nextel services. Revenues of other customers decreased $ 215 million pesos as a result of 3% reduction in the monthly average of lines in service, also due to the decrease cellular revenues per minute caused by lower fixed-to-mobile termination rates. Revenues were also affected by measured service decreases resulting from reduced local traffic.

Long distance services. Long distance service revenues totaled $ 1,189 million pesos in 2009 compared to $ 1,286 million pesos registered in 2008, a decrease of $98 million, or a 7.6%. Reduction in unit long distance revenues is attributable to further penetration of bundled commercial offers including packages for national and international minutes for which a monthly rent is payable.

Data & Network. Data and network service revenues totaled $ 2,452 million pesos in 2009, compared to $ 2,501 million pesos in 2008, a marginal decrease of $ 49 million pesos or -1.9%. The decrease is primarily explained by reduced data pricing to selected large corporate customers and federal government agencies.

International traffic. Revenues generated from international totaled $ 1,323 million pesos in 2009, compared to $982 million pesos in 2008, an increase of $341 million pesos, or 34.7%. The increase is explained by the growth in international off-net traffic, offsetting the decline in international on–net traffic.

Other services. Revenue from other services totaled $ 1,355 million pesos in 2009 compared to $1,560 million pesos, registered in 2008. The decline is due to the reduction of activation fees, equipment sales, prepaid cards, special services and loyalty programs.

Cost of Sales and Operating Expenses

Cost of Sales. The Cost of Sales was $2,987 million pesos in 2009 compared to $ 3,705 million pesos in 2008, a decrease of $718 million pesos, or -19.4%. This decline was mainly due to a decrease in fixed-to-mobile interconnection costs, and lower long distance costs.

Operating Expenses. For the year 2009, operating expenses were $4,143 million pesos, compared to $3,657 million pesos in 2008, representing an increase of $486 million pesos. Excluding the non-economic and non-recurring benefit of $135 million pesos registered during the fourth quarter of 2008 as a result of the change in method for the reserve of uncollectible accounts for corporate clients, operating expenses were $3,792 million pesos in 2008. The difference in operating expenses is explained mainly by the increases in sales commissions generated by the acquisition of an additional 22% of gross lines in 2009 in comparison to 2008 and by the increase in advertising and corporate expenses including personal expenses, leases, and maintenance costs. Personal expenses increased 4.4% in 2009 in comparison to 2008.

Depreciation and Amortization. Depreciation and amortization for the twelve month period ended on December 31, 2009 was $3,066 million pesos, compared to $ 2,856 million pesos in t 2008, representing an increase of $210 million pesos, or 7.4%.

Operating Income. For year 2009, the total income after cost of sales, expenses of operation, depreciation and amortization, was $773 million pesos compared to $1,355 million pesos registered in the same period of 2008, a diminution of $582 million pesos.

Adjusted EBITDA. For the year ended December 31, 2009, Adjusted EBITDA amounted to $ 3,839 million pesos, compared to $4,075 million pesos in the same period in year 2008, which represented a decline of $237 million pesos due to changes in revenue, sales costs and operating expenses above described.

Comprehensive Financial Results. The comprehensive financial results for year 2009 shows a total cost of $409 million, against $2,291 million for year 2008. The reduction in the comprehensive financial results is mainly explained to the appreciation of the peso against the dollar that is compared with a significant depreciation in 2008 and also to a positive variation of $87 million pesos increase in the valuation of call options, so-called "Zero Strike Calls".

Taxes. During the year the 2009 the income tax charge was $181 million pesos, compared to $302 million pesos of the previous year.

3.4.2) Financial Position, Liquidity and Capital Resources

The Company has leaned mainly on supplier's financing, capital contributions, cash derived from internal operations, funds generated from the issuance of debt in the international markets, and bank loans to finance the operations of the Company, its investments of capital and requirements of working capital. Although the Company considers that will be able perform its obligations of payment of his debt and to finance his operative needs in the future with the cash flow of operation of the Company, the Company could periodically look for additional financing in the capital markets following market conditions and the financial needs of the Company. The Company will actively continue focusing on investing on fixed assets and managing its working capital, including the collection of its accounts receivable and managing its accounts payable.

The information contained in this section reflects the financial position of the company as of December 31, 2011, compared to the financial position as of December 31, 2010.

Assets

As of December 31, 2011, total assets amount $22,277 million pesos compared to $22,532 million pesos as of December 31, 2010, a decrease of $254 million pesos.

Cash and Equivalents. As of December 31, 2011, we had cash and equivalents of $1,425 million pesos compared to $1,308 million pesos as of December 31, 2010, an increase of $117 million pesos. This increase is mainly due to increases of $2,313 million pesos derived from cash generated by financing activities and $1,182 million of unfavorable exchange rate; which were reduced in $2,614 million of cash flows used in investment activities and $764 million of cash flows of financing activities.

Accounts Receivable. As of December 31, 2011, the accounts receivable were $2,018 million pesos compared with $2,241 million pesos as of December 31, 2010, a decrease of $223 million pesos.

Property, Systems and Equipment, net. As of December 31, 2011, property, systems and equipment, net, were $15,518 million pesos compared with $15,769 million as of December 31, 2010, a decrease of $252 million pesos. The property, systems and equipment, without discounting the accumulated depreciation, was $34,539 million and $32,503 million pesos as of December 31, 2011 and December 31, 2010, respectively.

Liabilities

As of December 31, 2011, total liabilities were $16,537 million pesos compared to $14,898 million pesos as of December 31, 2010, an increase of $1,639 million or 11%.

Accounts Payable and Accrued Expenses. As of December 31, 2011, the accounts payable and accrued expenses were $2,396 million pesos compared with $2,668 million pesos as of December 31, 2010, a decrease of $272 million pesos or 10%.

Stockholders' Equity

As of December 31, 2011, the stockholders' equity of the Company was $5,740 million pesos compared with $7,633 million pesos as of December 31, 2010, a decrease of $1,893 million pesos or 25%. The capital stock remained at $7,562 million pesos as of December 31, 2011, same level as in 2010.

The information contained in this section reflects the financial position of the company as of December 31, 2010, compared to the financial position as of December 31, 2009.

Assets

As of December 31, 2010, total assets amount $22,532 million pesos compared to $21,701 million pesos as of December 31, 2009, an increase of $830 million pesos.

Cash and Equivalents. As of December 31, 2010, we had cash and equivalents of $1,308 million pesos compared to $1,402 million pesos as of December 31, 2009, a decrease of $94 million pesos. This decrease is mainly due to increases of $3,614 million pesos and $194 million pesos derived from cash generated by operating and financing activities respectively, which were reduced in $3,464 million of cash flows used in investment activities and $438 million pesos of favorable exchange rate effect.

Accounts Receivable. As of December 31, 2010, the accounts receivable were $2,241 million compared with $1,852 million pesos as of December 31, 2009, an increase of $389 million pesos.

Property, Systems and Equipment, net. As of December 31, 2010, property, systems and equipment, net, were $15,769 million pesos compared with $15,264 million as of December 31, 2009, an increase of $505 million pesos. The property, systems and equipment, without discounting the accumulated depreciation, was $32,503 million and $29,157 million pesos as of December 31, 2010 and December 31, 2009, respectively. The increase in property, systems and equipment is due to a higher investment during this period, which was aimed approximately in 16% in RSS and 13.6% in business customers.

Liabilities

As of December 31, 2010, total liabilities were $14,898 million pesos compared to $13,580 million pesos as of December 31, 2009, an increase of $1,318 million or 10%.

Accounts Payable and Accrued Expenses. As of December 31, 2010, the accounts payable and accrued expenses were $2,668 million pesos compared with $2,052 million pesos as of December 31, 2009, an increase of $616 million pesos or 30%.***Stockholders' Equity***

As of December 31, 2010, the stockholders' equity of the Company was $7,633 million pesos compared with $8,121 million pesos as of December 31, 2009, a decrease of $488 million pesos or 6%. The capital stock remained at $7,562 million pesos as of December 31, 2010, same level as in 2009.

The information contained in this section reflects the financial condition of the Company as of December 31, 2009, compared with the financial condition as of December 31, 2008

Assets

As of December 31, 2009, total assets sum $21,701 million pesos compared to $21,569 million pesos as of December 31, 2008, an increase of $132 million pesos.

Cash and Equivalents. As of December 31, 2009, we had cash and equivalents of $1,402 million pesos compared to $1,106 million pesos as of December 31, 2008, an increase of $297 million pesos or 27%. This increase is explained, among others, by the issuance of senior debt for U.S. $300 million carried out in September 2009.

Accounts Receivable. As of December 31, 2009, the accounts receivable were $1,852 million pesos compared with $1,797 million pesos as of December 31, 2008, an increase of $55 million pesos.

Property, systems and equipment, net. As of December 31, 2009, property, systems and equipment, net, were $15,264 million pesos compared with $15,306 million pesos as of December 31, 2008, a decrease of $42 million pesos. Property, systems and equipment, without discounting the accumulated depreciation, was $29,157 million pesos and $26,452 million pesos as of December 31, 2009 and December 31, 2008, respectively. The increase in property, systems and equipment is due to a higher investment during this period.

Liabilities

As of December 31, 2009, total liabilities were $13,580 million pesos compared to $13,638 million pesos as of December 31, 2008, a decrease of $42 million pesos or -0.3%.

Accounts Payable and Accrued Expenses. As of December 31, 2009, the accounts payable and accrued expenses were $2,052 million pesos compared with $2,591 million pesos as of December 31, 2008, a decrease of $538 million pesos or 21%.

Stockholders' Equity

As of December 31, 2009, the stockholders' equity of the Company was $8,121 million pesos compared with $7,931 million pesos as of December 31, 2008, an increase of $190 million pesos or 2%. The capital stock remained at $7,562 million pesos as of December 31, 2009, same level as in 2008

Cash Flow Statement

As of December 31, 2011, December 31, 2010 and December 31, 2009.

Net cash flows derived from operating activities were $2,313 million pesos, $3,614 million pesos and $3,450 million pesos respectively.

As of December 31, 2011, 2010 and 2009 net cash flows used by the company in investing activities were $2,614 million pesos, $3,464 million pesos and $3,004 million pesos respectively. These amounts reflect investments in property, systems and equipment of $ 2,533 million pesos, $3,362, and $2,674million pesos for, 2011, 2010 and 2009, respectively.

As of December 31, 2011, 2010 and 2009 net cash flows generated by financing activities were $ ($764) million pesos, $194 million pesos and $131 million pesos, respectively.

As of December 31, 2011, the net debt to adjusted EBITDA ratio and the interest coverage ratio of the Company were 3.1x and 3.6x, respectively. Likewise, as of December 31, 2010 and 2009, the net debt to adjusted EBITDA ratio and interest coverage ratio, were 2.8x and 3.4x and 2.2x and 4.1x, respectively.

Since our inception, we have invested over $ 34,539 million pesos in building our infrastructure. We expect to make additional investments in the future as we expand our network into other geographic areas of Mexico in order to exploit market opportunities as well as to maintain our existing network and infrastructure.

Market risks

a) Derivative Financial instruments

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

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

The Company and its subsidiaries has derivative financial instruments registered under the classification of hedging activity, which are applied under the cash flows accounting model, associated with risk exposures in assets or liabilities recognized in the balance sheet or highly probable forecasted transactions recognized in the account of comprehensive accounting in the stockholders' equity, net of deferred tax income, without affecting the results of operation. Effective effects later reflected in the comprehensive income are recycled into results, focusing precisely where the covered primary position is recognized.

For derivative financial instruments that are designated as hedging activities, the Company and its subsidiaries formally document the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed and the methodology to measure the ineffectiveness.

The margins and collaterals are set forth in the ISDA Financial Instrument Agreement. These are set forth by the counterparty on the basis of the authorized credit lines. The Company has the policy not to operate with counterparts who do not offer reasonable lines.

As of December 31, 2011 and 2010, the Company has registered margin calls by an amount of 2.0 and 4.7 U.S. million, respectively.

The Company and its subsidiaries undertake prospective and retrospective tests of effectiveness to ascertain in every moment whether the hedging employed remains effective according to applicable accounting standards. At the moment that ineffectiveness is detected the Company registers that amount in the results as part of the consolidated financial result. Due to the fact that the fair value of derivative financial instruments may suffer significant fluctuations, it is very likely that the Company will be exposed to the volatility related to unrealized profits and losses due to the changes in the fair value of derivative financial instruments in the future.

Derivative financial instruments with hedging purposes

According to the accounting models for hedging activities that are permitted by financial accounting standards, the dimension, risks and estimated impact in the balance sheet or income statement of the following derivative financial instruments are presented below. In contrast to financial instruments with trading purposes, the derivatives designated as hedges do not generate volatility in the income statement, as long as the instruments are highly effective and continue to meet the financial accounting standards to keep the classification as hedging activities:

Fair Value Hedge

On March 22, 2007, the Company contracted a derivative financial instrument so called "Currency Swap" to cover the risk of interest rate and exchange rate generated by the syndicated term loan for U.S. $110.2 million, which matures in February 2012, in which the Company will receive payments of 3 months Libor plus 150 basis points over U.S. $110.2 million notional and will pay a monthly rate of TIIE 28 days plus 135 basis points over $1,215.5 pesos notional. This transaction, for its characteristics, is registered under the fair value hedge accounting model. During the month of September 2009 the Company prepaid U.S. $85 million of the portion in U.S. dollars of the syndicated loan, the excess of the hedge was canceled and a new financial instrument was contracted. On March 2010 the Company prepaid the remaining portions in pesos and dollars of the syndicated loan, and the over-hedge of this debt was managed as a negotiated derivative until December 2010, date on which the Company carried a restructure of operations with its counterpart Credit Suisse, cancelling this negotiated derivative and modifying some basic conditions of the other derivatives hedging instruments contracted with the counterparty.

For the year ended on December 31, 2010, the change in the fair value of the hedging activity of the syndicated loan resulted in loss amount of U.S. $1.1 million recognized in the comprehensive financial result, offset by the change in the fair value of the debt valuated at December 31, 2010 in U.S. $3.2 million.

Cash flow hedge

In August 2007, the Company issued senior unsecured notes for U.S. $ 275 million on a fixed rate. The Company decided to enter into a new derivative to cover the risk of exchange rate derived from this issuance. Under this agreement, Axtel will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of $ 3,038 million pesos (nominal value) at a fixed annual rate of 8.43%.

(Amounts in charts are expressed in millions)

			Estimated fair value (USD)		
Counterpart	**Notional**	**Basic conditions**	**2011**	**2010**	**January 1st 2010**
Credit Suisse	$. 3,039 MXP $275 USD	The Company pays fixed annual rate of 8.43% and receives fixed annual rate in USD of 7.625 %	$1.3	$ 1.0	$4.3

During the month of October 2010 the Company extended the coverage exposure of the interest rate and exchange rate resulting from the issuance of the notes referenced in the previous paragraph, for the period from February 2012 to August 2014, by contracting derivatives financial instruments with the following characteristics.

(Amounts in charts are expressed in millions)

			Estimated fair value (USD)		
Counterpart	**Notional**	**Basic conditions**	**2011**	**2010**	**January 1st 2010**
CreditSuisse	$2,480 MXP $200USD	The company pays fixed annual rate of 8.16% and receives fixed annual rate in USD of 7.625%.	$3.7	$1.0	
Citibank	$929 MXP $75 USD	The company pays fixed annual rate of 8.57% and receives fixed annual rate in USD of 7.625%	$0.6	($0.5)	

In September 2009 and March 2010, the Company issued notes for U.S. $300 million and US $190 million, respectively, on a fixed rate. Because of the above the Company decided to cover the exposure of interest rate and exchange rate with some derivative financial instruments through which the Company receives and will make payments as follows:

During the last quarter of 2011 the Company terminated the coverage of the notional of U.S. $ 65 million of the bond with Deutsche Bank AG and hired such coverage with CitiBank.

Counterpart	Notional	Basic Current Conditions	Fair Value (USD) 2011	2010	January 1st 2010
Credit Suisse	$2,885 MXP $225 USD	The Company pays a fixed interest rate in pesos of 9.059% and receives a fixed interest rate in USD of 9.00%	$7.1	$2.4	$11.9
Deutsche Bank	$1,320 MXP $100 USD	The Company pays a fixed interest rate in pesos of 10.107% and receives a fixed interest rate in USD of 9.00%	($0.7)	($4.7)	($1.4)
Citibank	$861 MXP $65 USD	The Company pays a fixed interest rate in pesos of 9.62% and receives a fixed interest rate in USD of 9.00%	$0.5	-	-
Deutsche Bank	$819 MXP $65 USD	The Company pays a fixed interest rate in pesos of 9.99% and receives a fixed interest rate in USD of 9.00%	-	($1.6)	-
Merrill Lynch	$658 MXP $50 USD	The Company pays a fixed interest rate in pesos of 10.0825% and receives a fixed interest rate in USD of 9.00%	($0.3)	($2.2)	($0.5)
Merrill Lynch	$315 MXP $25 USD	The Company pays a fixed interest rate in pesos of 9.98% and receives a fixed interest rate in USD of 9.00%	$0.2	($0.6)	-
Morgan Stanley	$327 MXP $25 USD	The Company pays a fixed interest rate in pesos of 10.080% and receives a fixed interest rate in USD of 9.00%	($0.1)	($1.0)	($0.2)

On November 2011, the Company entered into a syndicated loan for an amount of up to U.S. $ 100 million; as of December 31, 2011 $ 44.4 million dollars and $ 216.9 million pesos have been disposed. Therefore, it was decided to cover the risk based on the interest rates and the exchange rate through a "Cross Currency Swap" with Credit Suisse in order to cover the first year's interests of the syndicated loan denominated in USD.

Counterpart	Notional	Basic Current Conditions	Fair Value (USD) 2011	2010	January 1st, 2010
Credit Suisse	$614 MXP $44.4 USD	The Company pays a fixed interest rate in pesos of 5.06% and receives a fixed interest rate in USD of Libor+400	($0.1)	-	-

For the years ended on December 31, 2011 and 2010 the variations in the fair value of the unrealized revenues (losses) derived from the hedge registered as cash flow was U.S. $10.7 and (14.6) million recognized within the other comprehensive income section of stockholders' equity, net of deferred taxes.

Embedded derivatives

The Company has conducted an initiative to identify, analyze and segregate if applicable, those contractual terms and clauses that implicitly or explicitly embed derivatives characteristics within financial or non-financial agreements. These instruments are commonly known as embedded derivatives and do follow the same accounting treatment as of those free-standing contractual derivatives. Based on the above, the Company has identified and recorded on the statement of financial position the amount of U.S. ($0.25) U.S. $0.01 and U.S. ($0.11) million (in liability) as current assets to recognize the effect of the derivatives as of December 31, 2011, 2010 and January 1st 2010, respectively.

Other financial instruments.

During the months of July, August and September of 2009, the Company acquired call options denominated "Zero Strike Call" that have a notional of 26,096,700 of Axtel´s CPOs .During the months of June and July 2010, the Company acquired additional call options for 4.288 Axtel´s CPOs, under the same conditions, obtaining a total of 30,384,700 CPOs as of December 31, 2010 The underlying of these instruments is the market value of the CPOs before indicated. The premium paid was equivalent to the market value of the notional plus fees. The strike price established was $0.000001 pesos per option. This instrument is redeemable in cash and not in kind. The term of these options is six months and is extendable. However since they are American-style options, they can be exercised by the Company at any time during such time. The position is detailed in the following table:

			Fair value		
Counterpart	Notional	Current Basic Conditions	2011	2010	January 1st 2010
Bank of America Merrill Lynch	30,384,700 CPOs	• The Company receives in cash the market value of the notional	$135.2	$216.0	$309.5

For the years ended December 31, of 2011, 2010 and 2009 the change in the fair value of the Zero Strike Call resulted in an unrealized loss ($80,823), ($126,327) and $86,911 respectively recognized in the Comprehensive Financial Result.

Summary of contractual obligations

The following table discloses aggregate information about our contractual obligations of the Company which payments are about to be due.

Contractual obligations:	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(Millions of Pesos)		
Long-term debt	12,463.1	380.9	990.1	389.4	10,702.7
Interest payments	6,549.6	910.4	1,820.8	1,820.8	1,997.6
Operating leases	3,072.3	367.0	1,085.0	1,130.3	490.0
Total contractual cash obligation	22,085.0	1,658.3	3,895.9	3,340.5	13,190.3

Treasury Policies

The following information describes the main policies and operational norms of the Company with respect to its investments, cash management, reporting, payments in pesos and other foreign currencies, transfers between accounts and foreign exchange.

Any procedure or operation not contained in these policies should be executed or authorized by the Executive Director or the Director of the area.

I. - Investments. Investments are made in instruments with the lowest degree of risk according to each currency:

a) Pesos:

- Documents issued or guaranteed by Mexico's federal government such as Cetes, floating bonds (bonos de desarrollo) and IPB bonds, that have a maturity no more than 365 days after its acquisition.

- Other Instruments issued by federal entities in pesos or US dollars that have the explicit backing of the federal government of Mexico such as the UMS (international bonds in dollars or other currencies backed by the federal government of Mexico) with a maturity of no more than 365 days after acquisition.

- Certified deposit checking accounts, and denominated banker acceptances in pesos as long as these operations are in the "*Reporto*" category type of investment. Investments by means of purchasing investment papers in direct, that is to say, not reported by the bank or counterpart are prohibited; since it is the bank or counterpart the one taking the risk.

- Commercial Documents within less than 365 days issued by private institutions, as long as they have a AAA rating by Standard and Poor's or its equivalent by Moody's or Fitch Ratings Investment.

- Funds with daily or weekly liquidity with scores of at least AA/A***-3***.Transactions above mentioned are only executed with financial institutions with which we have a business relationship.

- These are the top ten financial institutions of the country based on their capital.

- Rates of return gained have to be in accordance with market conditions established through a benchmark by printing such indicators from the Reuters screen or other similar systems that indicate actual market rates.

b) Dollars:

- Paper issued by the federal government of the United States such as "Treasury Bills", and any other obligations issued by federal agencies of the United States with a maturity of not later than 365 days after its acquisition.

- Check accounts, deposit certificates and bank acceptances, euro deposits and other investments denominated in dollars with a rating of "A1/P1" from Standard and Poor's, or its equivalent by Moody's or Fitch Ratings, with a maturity of not later than 365 days.

- Commercial paper, notes and promissory notes issued by public companies of Mexico, United States and Europe with a rating of "A1/P1" from Standard and Poor's, or its equivalent by Moody's or Fitch Ratings, with a maturity of not later than 365 days.

- "Money market" investment accounts with public institutions of Mexico, United States and Europe and whose capitalization value or stockholders' equity place them among the 10 largest banks or financial institutions in their respective country. The Company may also make investments with public or private financial institutions with a rating of "AA" or higher from Standard and Poor's, or its equivalent from Moody's. Investments on this type of investment accounts shall have a daily fund liquidity;

- Rates of return obtained shall be according to market conditions, and therefore a "benchmark" shall have to be established through the printing of Bloomberg system screen, or similar, on which the current market rates are indicated.

b) Responsible

- Investments in pesos or dollars may be made by any of the following individuals subject to the following restrictions:

a) Corporate Executive Director - investments with maturity of not later than three hundred and sixty-five days.
b) Head of Department - investments with a maturity of not later than 180 days.
c) Treasury Manager - investments with a maturity of not later than thirty days.
d) Flow Management Specialist - investments with a maturity of not later than seven days.
e) Investments in investment funds may only be made or authorized by the Corporate Executive Officer or Head of Department.

II.- Cash Management. The administration of funds and liquidity is executed through treasury systems such as CERG and/or SAP where all balances and transactions realize and performed by in the Company are integrated. All checking accounts and investments are subject to the following procedures:

a) Procedures:

- Electronic files of the banking systems will be extracted via internet or modem at least once a day, and will be used for the integration of the total balances and movements of the checking accounts and investments of the company, to determine the daily treasury position. In case there is not a particular system for a particular account, there will be a manual conciliation of such account, keeping the respective documented support in file (electronic account statement);

- Once the total balances have been conciliated, they will proceed to reconcile the provisions originated from the system of SAP, in order to determine the accounts to be funded in accordance with its requirements (negative accounts);

- After accounts have been funded, they will notify the treasury to create the position and cash flow reports.

b) Responsible:

• This will be responsibility of the Flow Management Specialist. In his absence the Cash Management Analyst will be in charge

III.-Reporting. The generation of reports is made by processing files generated by the Cerg and SAP treasury systems, in order to determine the cash flow and liquidity position, along with the real and projected cash flow; also to send support information to different areas such as accounting, human resources, income assurance, etc. The following table describes which reports should be generated, the frequency and the person in charge.

	Report Type	***Frequency Audiencia***	***Responsible***
i)	Cash position	Daily - send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
ii)	Actual Cash Flow	Daily - send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
iii)	Projected cash flow	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
iv)	Commissions	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
v)	Transfers	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager

vi)	Average balances	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
vii)	Investments	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
viii)	Valuation of derivatives	Monthly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager
vix)	Margin Positions	Weekly- send to Executive Corporate Director, Director of area and Treasury internal	Treasury Manager

The cash position and the cash flow are daily send to the General Director and the Corporate Executive Director for assessment

IV. Payments in dollars and other currencies. All payments made by the Treasury Department shall have the appropriate authorization according to the following procedures:

a) *Procedures*:

- Payments to be made via paper request shall have the corresponding signatures from the person and/or department requesting it, as well as the seal and number of registration by the Accounts Payable Department.
- Payments to be made via paper request shall have a purchase order to support the payment. Otherwise, they shall contain the signature of the Director of the department making the request.
- Payments to be made via electronic transfer must be requested through a list signed by the area of Accounts Payable indicating the company that shall make the payment, as well as the account to be charged from the Treasury Department indicating the total amount to be dispersed, which shall be the same as in the definitive and authorized proposal from the Treasury Department.
- In case of rejection of any payment, the Treasury Department by means of funds management shall inform to the Accounts Payable Department in order to follow the corresponding procedure for the payment subject to rejection by means of drawing a check or new transfer as the case may be.
- Payment for duties, taxes, services and similar payments shall have the seal from the Accounts Payable Department, prior review, signature and seal from the Accounts Payable Department.
- With respect to the payment of payroll, they shall be signed by the Director of Operating Human Resources after its record in SAP. The dispersion file shall be generated in the SAP system for its prior electronic processing in the Bank and which shall never be via diskette.
- All requests shall be received by the Treasury Department at least one day for its assessment and execution. In the event of exceptions it shall be notified via email to the Treasury Department one day prior to the payment date.

b) Responsible:

- All payments, without exception, shall be made with at least two signatures as a minimum.
- The Flow Management Specialist and Fund Management Analyst - are responsible for payment registration.
- The Director of the area or Treasury Manager - are responsible for authorization and release of payments.

V. - Transfers between Accounts.

a) Procedures:

- The transfers between Company accounts and their subsidiaries will be realized by means of the systems of electronic banking without the need to have a transfer request.
- Should there be no system to execute these transactions, then they will be executed via check.
- Each transfer will have to be executed by means of the joint signature of two authorized executives such as Analysts, Manager of Treasury and Director of Administration.

- In relation to the transfers to be realized between the Company and their subsidiaries, these will have to contain the legend (payment for services rendered).

b) Responsible:

- This will be responsibility of the Flow Management Specialist. In his absence the Cash Management Analyst will be in charge.
- All transfers, without exception, should be made with at least two signatures.

VI. Foreign Exchange Transactions.

- Trading foreign exchange may be made with the following institutions as counterparts:

  a) Public institutions of Mexico, United States of America and Europe, whose market capitalization, or equity, locate them between the 10 larger banks and financial institutions in their country of origin.

  b) Financial institutions being public or private have a credit rating of "AA" or higher by Standard and Poor's or Moody's.

  c) Base Internacional Casa de Bolsa S.A. and Banco Monex S.A. (, Institution of Multiple Bank),

- Whit regard to foreign exchange operations for the purchase and sale of foreign currency with Base and Monex, it is an essential requirement that such entities settled the operation before Axtel and/or its subsidiaries do, this is, the Exchange House “pays first”.

- With regard to foreign exchange operations with banks, the liquidation of Axtel and subsidiaries may be in a pre-paid basis except as otherwise agree in the operation, after the establishment of a line of credit from the Bank.

- The purchase of foreign currency in transfers other than to dollar may be pre-paid after the sending an email from the financial institution with the invoice detailing the data transfer, which may be paid in pesos and in dollars.

- Foreign exchange operations shall be within market price, so at the time of closing of the transaction the Company shall get an exchange-rate quote through the printing of the Bloomberg system screen, or from some other different institution with whom the transaction has been closed in order to establish a "benchmark".

b) Responsables:

- Esta será responsabilidad del Gerente de Tesorería. En su ausencia, estará a cargo del Especialista de Administración de Flujos.

VII.- Issuance of checks

a) Procedures:

- With the exception of employee checks, all other third party checks will necessary have the following disclaimer: “for deposit only”.

- Checks will have to be printed in security paper provided by the chosen financial institution and in accordance with the CECOBAN parameters.

b) Responsible

- The signing of checks with no exception will be done jointly.

- Checks must be signed jointly by a Signature 1 and Signature 2, according to the following conditions.

a) Checks for suppliers payment under $ 500,000 MXP

Signature 1	Signature 2
Area Director	• Director of Administration
• Treasury Manager	• Director of Financial Planning
• Flow Management Specialist	• Revenue Assurance Manager

b) Checks for suppliers payment over $500,000 MXP

Signature 1	Signature 2
Area Director	• Director of Administration.
• Treasury Manager	• Director of Financial Planning
	• Revenue Assurance Manager

c) Checks for maintenance payment of civil judgments

Signature 1	Signature 2
Area Director	• Director of Administration.
• Treasury Manager	• Director of Financial Planning
• Flow Management Specialist	• Revenue Assurance Manager

d) Checks for severance payments.

Signature 1	Signature 2
Area Director	• Director of Administration.
• Director of Administration.	• Director of Financial Planning
• Director of Financial Planning	• Revenue Assurance Manager
• Treasury Manager	

Derivatives Instruments Management Policies

(**<u>a) Basic Principles:</u>**

- Finance's mandate is to support the execution of the business strategy and not to speculative.
- Therefore, derivatives only as exposure coverage.

<u>(b) Transactions Profile:</u>

- Underlying. Just FX and interest rate.
- Instruments. Only conventional, Not exotic nor toxic - only swaps, forwards and options.
- Margin Calls. Minimize them and in case of existing, they shall not compromise the liquidity position of the company.
- Counterparts:

(a) Rating at least "AA" from Standard and Poor's, or its equivalent from Moody's.
(b) Approved on a case by case basis by Risk Committee.
(c) To have an ISDA Agreement*.
(d) To have at least two quotes.

<u>(c) Risks Committee:</u>

- Composed of Executives with financial experience and presided by the Corporate Director.
- Roles:
  (a) To approve policies and procedures.
  (b) To evaluate and to issue a recommendation on the transactions.
  (c) To submit the transactions for authorization of the CEO.
- Members: Felipe Canales, Andrés Velázquez, Adrián de los Santos, Eduardo Ruiz Esparza and Gilberto Flores.

(d) Authorization Process:

- The authorization process depends on the notional amount:
  a) Transactions exceeding $30M USD are evaluated by the Risk Committee and approved by the CEO
  b) Transactions of less than $30M USD are evaluated by the Corporate Officer and approved by the CEO.

(e) Administrative Control

- Each transaction shall be properly documented:
- Rational - risk cover, appropriateness of the instrument, etc.
- Economic profile - notional, term, sensitivity to changes in the underlying, etc.
- Authorization signatures.

3.4.3) Controls and Procedures

The Company, through its administration area, has established adequate policies and procedures for internal control purposes in order to assure reasonable security; that all operations are carried out registered and informed in compliance with such policies established according to the NIF regulations and their criteria. The Company considers that it's leading technological information platform, along with its organizational structure, offer the tools and skills necessary to apply such policies and procedures correctly. Likewise, the Company has established and periodically applies internal auditing procedures to its different operational workflows.

The Company's internal control is regulated by several policies and procedures that go from the delivery service the Company offers, to the goods and services procurement supply chain. The following are some of such policies.

- ***Expenses and Procurement Policies***. The objective of this policy is to assure that all costs or expenses incurred are in accordance with the Company's interest and its strategies, being delegated its authorization at the executive level. This policy includes from the allocation of budget that contemplates the expenditure in some determined item, until the delivery of or the service to be acquired, passing through a series of filters such as: the selection of a determined supplier, payment term agreed upon, the mode of payment and its execution. The expense and investment budget is authorized in the corporate offices of the Company. The expense budget considers the way we request for authorization, as well as the executive disregarding the amount; it requires prior authorizations before the delivery of the request for a capital investment project (SOPI for its Spanish translation). Any project that is not within the original budget will have to be authorized by top level management of the Company.

- ***Accounting Accounts Policy.*** It contemplates the classification and description of the Catalogue of accounts, which include the classification by account number, and describes the use of each account which comprises the verification balance sheet, in accordance with the NIF.

- ***Uncollectable Reserve Accounts Policy.*** The objective of this policy is to supervise the collection of the portfolio of accounts to acquire and to establish the provisions required accurately. This policy establishes the necessary requirements for the determination of the provision of uncollectable accounts, and informs the accounting records to be carried out by means of certain provisions and the tax treatment to be applied at the time of the c**ancellation of the uncollectable accounts.**

- ***Investments and Cash Policy.*** This policy has the purpose of providing a guide and frame of action to the treasury of the company, in which the operation mechanics to follow are indicated, as well as in the instruments and terms to invest the excess cash available.

- ***Derivatives or SWAPS.*** Before entering into contracts to cover exchange risks, the Company evaluates the credit quality of its counterparts. The credit risk represents the accounting loss that would be reflected if the corresponding counterparts do not fulfill the agreed upon contract. The Company does not anticipate any breach on the part of its counterparts.

3.5) Estimates, Provisions and Critical Accounting Policies.

Critical accounting policies

Below is a description of the accounting policies that are used in order to comply with the NIF and that are considered important in order to have a global comprehension of the financial information of the Company.

Use of estimates

The preparation of consolidated financial statements requires the management of the Company to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amount of property, systems and equipment, obligations for the retirement of assets, estimations for valuations of allowances for receivables, inventories and deferred income tax assets; valuation of derivative instruments; and assets and obligations related to employee benefits. Real results may vary from valuations and assumptions.

Contingencies

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

Employee Benefits

Termination benefits for reasons other than restructuring and retirement to which employees are entitled are charged to operations for each year, based on actuarial computations using the projected unit credit method. As of December 31, 2011 and for purposes of recognizing benefits upon retirement, the remaining average service life of employees entitled to plan benefits approximates 21 years.

The actuarial gain or loss is recognized directly in the results of the period as is accrued, in the case of termination benefits, and its amortized based in the remaining service life of the employees, for the retirements benefits.

Accruals

The Company recognizes based on estimates by its management, provisions of liabilities for those obligations present in the transfer of assets or the supply of services is inevitable and they arise as a result of past events, mainly interests, payroll and other payments to personnel.

Income taxes (income tax (ISR) flat rate business tax (IETU)) and workers' statutory profit sharing (PTU).

Current IT, IETU and ESPS payable for the year are determined in conformity with the tax provisions in effect.

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

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

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

Useful lives of property, systems and equipment

Axtel estimates the useful lives of particular classes of plant, property and equipment in order to determine the amount of depreciation expense to be recorded in each period. Depreciation expense is a significant element of its costs, amounting to $2,299.6, $2,524.7, 2,777.5, $2,884.3 and $3,028.5 million pesos for the years ended 2007, 2008 2009 , 2010 and 2011, respectively, or , 21%, 25%, 27%, 28% and 29% of its operating costs and expenses for each year.

The estimates are based on historical experience with similar assets, anticipated technological changes and other factors, taking into account the practices of other telecommunications companies. We review estimated useful lives each year to determine whether they should be changed, and at times we have changed them for particular classes of assets. We may shorten the estimated useful life of an asset class in response to technological changes, changes in the market or other developments.

Derivative financial instruments

The Company accounts for derivatives and hedging activities in accordance with FRS C-10, which requires that all derivative instruments be recorded on the balance sheet date at their respective fair values.

The Company uses derivative financial instruments in order to manage financial exposures, especially risks associated with foreign currency and interest rates. In accordance with FRS C-10, the Company may apply hedge accounting to such instruments if it meets certain requirements and assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. The Company accounts for the derivative financial instruments designated as hedging activities into two main classifications: (i) Fair value hedging and (ii) Cash flows hedging.

The Company uses financial derivative instruments that are designated as a Fair Value Hedge where the gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in earnings in the same accounting period. For financial derivative instruments designated as a Cash Flow Hedge the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings. The ineffectiveness of a gain or loss on the derivative instrument, if any, shall be recognized currently in earnings.

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

The Company and its subsidiaries will discontinue hedge accounting prospectively when it is determined that the derivative (i) is not highly effective, (ii) expires or is sold or exercised. In all situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the income statement.

Embedded derivatives come from contractual clauses contained in contracts which are not derivatives and that implicitly or explicitly have the characteristics of one or more derivatives. In some cases, these derivatives need to be segregated from those contracts and be valued, recognized, presented and reported as derivatives. To identify and analyze if required to segregate these embedded derivatives from host contracts, the Company reviews the contracts entered into to identify the potential existence of embedded derivatives. Identified embedded derivatives are subject to an assessment to determine whether they should be segregated and if so they are separate from the host contract and valued at fair value, taking changes in fair value at the comprehensive financing result. If it is decided that the embedded derivative is designated and qualify as hedges, one of the three models allowed hedge accounting is used. In order to obtain the fair value of derivative financial instruments, common valuation techniques customarily applied in the financial sector are used.

Inventories and cost of sales

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

Doubtful Accounts

In order to closely monitor our working capital accounts, we established a policy concerning our account receivable balances. For mass market and medium sized business customers, we reserve for any amount over 30 days past due. For corporate clients, we reserve for any amount over 90 days past due. For government and financial institutions, we do not create any reserve, since we have not experienced any non-payment on such accounts.

International Financial Reporting Standards

The CNBV issued a requirement addressed to certain entities that publicly disclose financial information through the BMV, so that as of 2012 they elaborate and disclose their financial information based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (IASB).

The consolidated Financial Statements to be issued by the Company for the year ending on December 31, 2012 will be the first annual Financial Statements that shall comply with IFRS. The transition date is January 1, 2011 and, therefore, the fiscal year ended on December 31, 2011 will be part of the comparative period provided by the standards of IFRS 1, "Initial Adoption of International Financial Reporting Standards". According to IFRS 1, the Company will apply relevant mandatory exceptions and certain optional exemptions to retrospective application of IFRS.

The Company will apply the relevant mandatory exceptions to retrospective application of IFRS as follows:

Calculation of Estimates - Estimates as of the date of transition are consistent with the estimates at the same date under Mexican Normas de Información Financiera, unless there is evidence of error in such estimates.

Hedge accounting - Hedge accounting will be applied only if the hedging relationship meets the criteria set out in IFRS at the transition date.

Non-controlling interest - The Company does not include a non-controlling interest in its financial statements which requires the application of the IAS 27 requirements, *Consolidated or individual Financial Statements*, in regards to non-controlling prospectively as of the date of transition.

The Company has elected the following optional exemptions to retrospective application of IFRS as follows:

Business combinations - The exemption will apply to business combinations. Therefore no business combinations that occurred before the transition date have been reformulated.

Borne Cost – Borne Cost (also known as afforded cost) exemption will be applicable. Therefore, it has been resolved to use book value under NIF regarding the following items: property, systems and equipment, which include inflation adjustments as of December 31, 2007, which was the last period in which NIF required inflation adjustments to financial information.

Employee benefits - Employee benefits exemption will be applicable. Therefore all cumulative accrued gains and losses are recognized at the transition date against accumulated losses from previous years.

Interest Expense - The Company will apply the exemption of interest expense in order to avoid redemption of the capitalized interest over qualifying assets for a period that started and ended before transition date.

The following summarizes the main differences that the Company has identified in its transition from NIF to IFRS to the date of these consolidated financial statements:

Effects of inflation - Pursuant IFRS, the inflationary effects are recognized in the financial statements when the economy of the currency used by the Company qualifies as hyperinflation. The Mexican economy ceased to be hyperinflationary in 1998 and, consequently, inflationary effects that were recognized by the Company until December 31, 2007 under NIF were reinvested. The value decrease in the intangible asset was of $ 210,005, other assets by $7,483, the reclassification of the capital stock was $ 936,539 and premium for share purchase was $ 96,961 against the accumulated losses from prior years at transition date.

Employee benefits – Pursuant IFRS, provisions for termination benefits are recognized until the Company has a demonstrable commitment to end the relationship with the employee, or has made an offer encouraging a voluntary resignation, therefore, the $55,816 recognized as liability under NIF were removed. Additionally, IFRS does not allow recognition of assets or liabilities deferred due to *PTU*, therefore $18,581recognized as asset under NIF were removed.

Deferred tax - Adjustments to be acknowledged by the Company represent an impact on the calculation of deferred income taxes in accordance with the income taxes requirements of IAS 12. This resulted in an increase of deferred tax assets by $ 287,194.

Embedded derivative financial instruments - *IAS 39 Financial Instruments: Acknowledgment and Measurement*, establishes embedded derivatives as exceptions in agreements that are denominated in foreign currency when the foreign currency is commonly used in the economic environment of the Company, which is the case of the U.S. Dollar, thus the company canceled the balance filed under FRS embedded derivatives for $196.

Other differences in presentation and disclosures of the financial statements - Generally, the disclosure requirements of IFRS are broader than those of NIF, which can result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. In addition, there may be differences in presentation.

The information presented in this note has been prepared in accordance with the standards and interpretations issued or issued and early adopted as of the date of preparation of these consolidated financial statements. The standards and interpretations that will be applicable to December 31, 2012, including those that will be optional applicable are not uncertain as of the time of the preparation of the consolidated financial statements for December 31, 2011 and 2010 attached herein. Additionally, the accounting policies elected by the Company may be modified as a result of modifications in the economic or relevant industry market after the issuance of these consolidated financial statements. The information presented herein is does not pretend to comply with IFRS, because pursuant to IFRS, only one set of financial statements comprising the statements of financial position, comprehensive income, changes in stockholders' equity and cash flow balances, together with comparative information and explanatory notes can provide an adequate presentation of the financial position of the Company, the results of its operations and cash flows.

4) MANAGEMENT

4.1) External Auditors

The independent auditors of the Company are KPMG Cárdenas Dosal, S.C., which their offices are located in Los Parque-Torre II, Blvd. Díaz Ordaz 140 Pte, Piso8, Col. Santa María, 64650 Monterrey, Nuevo León. KPMG was designated by the Board of Directors of the Company in its full and legal capacity.

Since 1999, the public practice of KPMG Cardenas Dosal has performed as external auditors for the Company. In the last three fiscal years they have audited the Company and they have not issued a conditional opinion or a negative opinion nor have they stopped from making an opinion about the financial statements.

The Auditing and Corporate Practices Committee approves the annual hiring of the independent external auditor. The external auditor presents the Company with a project that is reviewed and approved by the Company and evaluates annually and on occasion complements with specific activities that the board or the administration of the Company requires. The Company reviews that the auditor is within the four largest auditing companies that is not a part of a situation or an event that could question its impartiality, prestige or the experience of their own activities and that its economic requirements are according to market pricing, among others. Once the Company has evaluated the auditor and acknowledges the project, the proposal it is then presented to the Auditing and Corporate Practices Committee for their final approval.

During 2011, KPMG Cardenas Dosal S.C. provided the Company the following services with their respective compensation:

Auditing Compensation	$3.7million
Compensation for Audited Financial Statements	$0.3 million
Other Compensation	$0.6 million
TOTAL	$4.6million

4.2) Transactions with Related Parties and Conflict of Interests

Banamex and/or Citigroup Inc. Agreements

- *Revolving Loan with Banamex*

A revolving credit agreement was signed on October 22, 2010 between Axtel, S.A.B de C.V. and Banco Nacional de México SA member of Grupo Financiero Banamex. This credit line includes a committed line for up to U.S. $30.0 million or its equivalent in Mexican Pesos and contemplates a period of three years. On December 7, 2010 the credit line was drawn in an amount of $280.0. Million pesos M.N., renewable every ninety days and paying interests every month. Once the availability period concludes, the amount will be repayable in two more years. During the month of November of 2011, this loan was paid in its entirety.

- *Syndicated Loan with Banamex*

On November 17, 2011 the Company announced the closing of a four-year syndicated loan with Banco Nacional de México, S.A., (Grupo Financiero Banamex); Banco Mercantil del Norte, S.A., Institución de Banca múltiple, Grupo Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank N.V., Dublin Branch and Standard Bank Plc. The loan is for an amount up to US$100 million on a four-year term with a two-year grace period consisting on a funded tranche and short-term committed revolving facility tranche. The loan is guaranteed by the receivables of certain customers of the Company. As of December 31, 2011 US$44.4 million and $216.9 million pesos have been funded under the term loan tranche, the revolving tranche has not yet been funded. The operation is based on a variable rate Libor +3.0% to Libor+4.5% and of TIIE+3.0% to TIIE+4.5%, pursuant to the Company’s leverage. Interest payments are made quarterly. The purpose of the operation if to strengthen the Company’s Liquidity position, investment, debt payment and other corporate purposes.

- *Banamex Master Services Agreement*

On November 27, 2006, Axtel, Avantel and Banamex entered into a master services agreement in which it was agreed that all service agreements in effect between Avantel and Banamex as of the date of the acquisition would survive with substantially identical terms and Axtel would provide telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico. During the term of the agreement, Banamex has agreed to contract with us for all of its current and future telecommunications needs, and we have agreed to grant Banamex a most favored customer benefit with respect to rates and services levels. The initial term of this agreement is for five years, with automatic renewal for similar periods of five years if at that time of renewal we are not in breach of our obligations. As of December 31, 2011 this agreement still in full force and effect and a renewal is being negotiated.

- *TelHolding Agreement*

On November 30, 2006, we entered into an agreement with Tel Holding whereby Tel Holding was granted the option to subscribe for a number of shares (in the form of CPOs) representing up to 10% of our outstanding shares. Pursuant to this subscription agreement, Tel Holding subscribed and paid for 82,151,321 Series B shares in the form of CPOs on January 4, 2007. According to the terms of this subscription agreement, Tel Holding agreed not to transfer any of the CPOs acquired pursuant to such subscription agreement for a period of 364 days following the date of the acquisition of such CPOs, except in certain circumstances. In addition, Tel Holding was granted the right to request us to assist and support them, at our expense, in preparing and issuing placement prospectus and in participating in investor meetings for the offer of the CPOs, *provided* that (i) three years have elapsed since the acquisition of the CPOs by Tel Holding and (ii) such offer is made in any securities exchange where the CPOs representing our shares are trading at the time.

Blackstone's Advisory Services

We have engaged and may continue to engage The Blackstone Group and certain of its affiliates from time to time in connection with strategic advice related to our business.

Other Transactions

- On March and May 2000, we and Gemini, S.A. de C.V. (a company related to Alberto Garza Santos, one of our directors) entered into lease agreements for the lease of land and property on which our corporate offices and a switch are located.. In 2007, the agreement was modified and signed between Axtel and Delta Inmobiliaria y Valores S.A. de C.V. (previously Inversiones DD, S.A. de C.V.)..For the periods ending on December 31, 2011 and 2010 we paid Delta Inmobiliaria y approximately US $3.0 million dollars and $2.5million dollars, respectively in rental payments under these leases.

- On August 2002, we and Neoris de Mexico, S.A. de C.V. (a company related to Impra Café, S.A. de C.V., a company related to certain members of the board) entered into a professional services agreement for the provision of technical assistance to us with respect to a customer care platform. For the years ended on December 31, 2011 and 2010 we paid an aggregate amount of US$0.4 million and US$0.2 million for professional services fees.

- On April 2002, we and Instalaciones y Desconexiones Especializadas, S.A. de C.V. (a company controlled by the son of Alberto Santos Boesch, one of our alternate members of the Board of Directors of the Company) entered into a services agreement for the installation of equipment for customers. For the years ended in 2011 and 2010 we paid approximately US$2.1 million and US$1.9 million in consideration for professional services, respectively.

- Fundación Axtel A.C., a non-profit charity, was founded in 2005 to provide assistance in the communities where we operate has Tomas Milmo Santos and Patricio Jimenez as Directors in Fundación Axtel. For the years ended on December 31, 2011 and 2010, we contributed approximately with US$1.3 million and US$1.0 million to Fundación Axtel.

- On November 24, 2006, our shareholders Thomas Milmo Zambrano, Maria Luisa Santos de Hoyos, Alberto Santos de Hoyos, Tomas Milmo Santos and Impra Cafe, S.A. de C.V., entered into a shareholders' agreement pursuant to the LMV whereby they agreed, among other things, to vote their shares (in any meeting of shareholders whereby the members of the board are to be elected) in order to designate one director (and its alternate) to our board as proposed jointly by Citigroup Inc., its subsidiaries and Tel Holding and its assigns, so long as such entities collectively hold or beneficial own (directly or indirectly through CPOs) shares representing between 7% less than 10% of our outstanding shares.

The above mentioned commercial agreements had been entered in accordance with market conditions.

4.3) Senior Management and Share Holders

Pursuant to our bylaws and Mexican law, management is entrusted to a Board of Directors and a Chief Executive Officer. The Board of Directors is composed of a maximum of 21 regular members and their respective alternate directors, as approved by a shareholders meeting. At least 25% of the members of the Board of Directors must be independent pursuant to Mexican Securities Market Law. Our Board of Directors currently is comprised of ten regular members and ten alternate directors. Pursuant to our bylaws and Mexican law, the members of the Board of Directors remain in office for thirty days after their resignation or conclusion of the term to which they were appointed unless replaced; the Board of Directors may appoint interim directors.

The following table presents updated information regarding the members of the board of directors and executive officers:

Name	Position
Tomás Milmo Santos	Chairman, Director and Chief Executive Officer
Felipe Canales Tijerina	Executive Corporate Director
Andrés Velázquez Romero(1)	Executive Director— Business Market.
José Luis Luna Cárdenas	Executive Director—Process Transformation and Information Technology, Alternate Director.
Bruno Gustavo Ramos Maza	Executive Director—Marketing and Innovation
Noé Garza González	Executive Director— Field Operations and Network Operations
Alberto de Villasante Herbert(1)	Executive Director—negotiations and Strategic Accounts , Alternate Director
José Eloy Valerio Treviño	Executive Director -Human Resources and communication—
Antonio de Nigris Sada	Executive Director - Mass Market.
Gerardo González Villarreal	Audit Director
Patricio Jiménez Barrera	Director
Alberto Santos de Hoyos	Director
Lorenzo H. Zambrano Treviño	Director
Alberto Garza Santos	Director
Héctor Medina Aguiar(2)(3)	Director
Bernardo Guerra Treviño(2)(3)	Director
Fernando Quiroz Robles(2)	Director
Fernando A. González Olivieri	Director
Lawrence H. Guffey(2)(3)	Director
Balbina Milmo Santos(1)	Alternate Director
Francisco Javier Garza Zambrano(1)	Alternate Director
Alberto Santos Boesch(1)	Alternate Director
David Garza Santos(1)	Alternate Director
Ramiro Villarreal Morales(1)	Alternate Director
Mauricio Morales Sada(1)(4)	Alternate Director
Javier Arrigunaga Gómez del Campo (2)	Alternate Director
Benjamin Jenkins(1)(4)	Alternate Director

(1) Alternate Director
(2) Independent Director.
(3) Owner Member of audit and corporate practices committee.
.(4) Alternate member of audit and corporate practices committee

Set forth below is a summary of the business experience, functions and areas of expertise of our main officers, current directors and alternate directors of Axtel. The business address for each of our current directors, alternate directors and senior management is Blvd. Díaz Ordaz km. 3.33 No. L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., Mexico, CP 66215.

Tomás Milmo Santos has held the position of Chief Executive Officer of Axtel since 1994 and Director since October 1997. Mr. Milmo was also appointed Chairman of the Board of Directors in October 2003. Prior to joining Axtel, Mr. Milmo worked at Carbonifera de San Patricio, S.A. de C.V., a mining company in Mexico. In 1988 he was named CEO of that same company, holding this post until 1990, when he founded and became CEO of Milmar, S.A. de C.V., a housing development company that developed and sold over 10,000 homes between 1990 and 1993. He is a member of the Board of Directors of Cemex, Instituto Tecnológico de Estudios Superiores de Monterrey, A.C, Promotora Ambiental, Instituto Nuevo Amanecer and NCCEP (the National Council for Community and Education Partnerships). Mr. Milmo holds a degree in Business Economics from Stanford University.

Felipe Canales Tijerina is Chief Financial Officer of Axtel since February 2009 jointly as responsible of strategy, management, and supply-chains and legal. Prior to joining Axtel, Mr. Canales was in charge of finance and administration of Sigma a processed food company. During his 30 years in Alfa, Mr. Canales also held several executive positions; including member of the board of managers of Alestra, a telecommunications company, Senior Vice-President of Corporate Planning and Economic Studies, and Corporate Treasurer of Alfa Corporativo. Mr. Canales has a Bachelor’s Degree in Industrial engineering from the Instituto Tecnologico y de Estudios Superiores de Monterrey and a MBA from The Wharton School at the University of Pennsylvania. Mr. Canales participated in the formation of Alestra.

Andrés Velázquez Romero is the Executive Director of Mass Markets in Axtel. Mr. Velazquez is Alternate Director of Axtel since March 2007. Prior to his current position Mr. Velazquez was Director of Process Transformation and Information Technology during 2011. In commercial areas Mr. Velazquez has held various positions in Axtel including Executive Director since 2004 as responsible for Mass Market and Business Market at different times. Mr. Velazquez has held Senior Management positions in Axtel including Executive Director for Central Region and Treasurer and Administrative Director among other responsibilities. Before joining Axtel 14 years ago Mr. Velazquez had several positions in the financial sector such executing activities related to risk management, credit lines, funding structure and foreign exchange for a number of banking institutions. Additionally, he was the COO in charge of the Banca Serfín International Agency in New York. Mr. Velázquez holds a degree in Economics from the ITAM in México City.

Jose Luis Luna Cardenas serves as Executive Director of Process and Information Technology since September 2011. Prior to joining Axtel, Jose Luis Luna held the position of Senior Vice President of Innovation at CEMEX, a company in which he worked over 25 years and served in other positions such as Director of Technology Development, Director of Continuing Improvement and Senior Vice President of Processes and IT. Among his most significant achievements Mr. Luna created and implemented the transformation process known as CEMEX Way, which has served as a case study in the world's most recognized Universities. Mr. Luna graduated in Computer Systems Engineering at the Instituto Tecnologico y de Estudios Superiores de Monterrey and completed the Masters in Business Administration and Information Systems at such institute.

Bruno Ramos Maza is the Strategic Accounts Executive Director since December 2006 until March 2011. Before the acquisition of Avantel by AXTEL, he served as Avantel’s Executive Director of Strategic Planning, Public Relations, International Traffic, Regulation and Legal affairs. Prior to that, Mr. Ramos directed efforts related to Strategic Planning for Banamex. Mr. Ramos has accumulated over twenty eight years of experience in the telecommunications sector within different government and private organizations. Bruno Ramos has a B.S. degree in Electronics and Communications Engineering from Universidad Nacional Autonoma de Mexico and a specialization in Satellite Technology from Hughes Aircraft.

Antonio De Nigris Sada is the Massive Market Executive Director since March 2011. Before its current position, Mr. De Nigris worked in various positions within Axtel as Northern Regional Director for massive market, Operations Director, and Service Delivery Director since September 1999. Before joining Axtel, Mr. De Nigris worked as Director of Business and Entrepreneur Banking Services in Bital (now HSBC) and in Financial Lease Institutions (Prime International). Antonio De Nigris obtained an Industrial Engineer Degree from the Universidad Anahuac in Mexico City.

José Eloy Valerio Treviño is the Executive Director of Human Resources and communication of Axtel since February 2009. Prior to his present position, Mr. Valerio was Director for Planning of Human Resources & Human Development at Axtel. Mr. Valerio has 26 years of experience in Human Resources and Administration as directive and consultant positions at Telecommunications, Paper and Cellulose, Tourism, Steel-Mechanical, Automotive and Pharmaceutical Industry. He was President of the Human Resources Executives Association (ERIAC), Secretary of the Board of the North American Resources Managers Association (NARHMA) and has been an Advisor for Academic, Governmental and Non-Governmental Organizations. Mr. Valerio holds a degree in Administration and an M.B.A.

Gerardo González Villarreal has held the position of Audit Director in Axtel since March 2000. Prior to his current position, Mr. González held the Comptroller Director position. Mr. González has over 20 years of experience in the audit, tax and accounting field. Prior to joining Axtel, he collaborated with international accounting firms such as Coopers & Lybrand International and DFK International, and was a member of the Mexican and International DFK Audit Committee, in his capacity as Chairman in the Mexican accounting firms. Mr. González holds a degree as CPA & BA from Universidad del Norte.

Alberto de Villasante Herbert is the Executive Director of Negotiations strategic accounts and alternate director of Axtel since March, 2007. Previously, Mr. De Villasante was Vice-president of Negotiations, Alliances and Institutional Relations, responsible for relations with regulators, purchases of strategic assets, real estate, public telephony and Axtel'S strategic alliances. Prior to joining Axtel, he occupied several positions in Xignux including CEO of Multilec. He is a member of the Board of Directos of Concresa S.A of C.V. and Productora de Terrasos S.A. de C.V. He holds a degree in marketing from the Instituto Tecnológico de Estudios Superiores de Monterrey, A.C. and a Masters of public accountant, administration and total quality.

Noé Garza González is Executive Director of field Operations and Network Operations since March 2011 and was previously Director of Network Administration Operations and Maintenance. Mr. Garza has over 22 years of experience in the telecommunications industry. Prior to joining Axtel in December 1999, Mr. Garza was Director of Network Planning and Engineering for Iridium Central America and México. He also collaborated for over 5 years with Celular de Telefonía (Cedetel) in the deployment and management of the first cellular telephony network in the northeast part of México. Mr. Garza has a Bachelor´s degree in Systems Engineering, an MBA from the University Autonoma de Nuevo León and he also holds a degree in International Management from the University of Phoenix.

Thomas Lorenzo Milmo Zambrano has been a Director of Axtel since October 1997 and held the position of Chairman of the Board of Directors from October 1997 until 2003. Mr. Milmo Zambrano was founder and Chairman of Grupo Javer S.A. de C.V., one of the largest housing development companies in Mexico, and of Incasa, S.A. de C.V., one of the largest aggregate producers in Mexico. He was also Chairman and CEO of both Carbonifera de San Patricio S.A. de C.V. and Carbon Industrial, S.A. de C.V., medium-sized mining companies in Mexico. He was a Director of Cemex, S.A. de C.V. until 1996.

Patricio Jiménez Barrera has been a Director of Axtel since 1998 and held the position of Chief Financial Officer of Axtel from January 1998 until March 2009. Prior to joining Axtel, Mr. Jiménez held a variety of finance-related positions, including investment banker while at Invermexico Casa de Bolsa, a corporate treasurer while at Grupo Cydsa, S.A. and an investment banker, international treasurer, financing and correspondent banker while at Banca Serfín, S.A. (Mexico's third largest bank).Mr. Jiménez is a CPA and holds a degree from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Alberto Santos de Hoyos Founding member and Member of the Board since 1997. He is a Member of the regional Board of Banco de Mexico, Board Member of Grupo Cydsa, Grupo Senda and Madisa. He has been a Senator and Representative in the Mexican Congress, President of the Nuevo León Chamber of Industry (CAINTRA), Vice

President of the Confederation of Industrial Chambers (CONCAMIN) and President of the National Chamber of the Sugar and Alcohol Industries. He was Chairman of the Board, CEO and a Member of the Board of Gamesa. He is currently a Member of the Boards of Desarrollo Social, Casa Paterna La Gran Familia, Andares, Instituto Nuevo Amanecer, Renace, Admic and Patronato Pro Educación Marista, and Chairman of the Boards of Empresas Santos, Ingenio Santos and Tres Vidas. Mr. Santos holds a degree in Business Administration from Tecnológico y de Estudios Superiores de Monterrey.

Lorenzo Zambrano Treviño Founding member and Member of the Board since 1997. He is CEO and Chairman of the Board of Cemex, S.A.B. de C.V. and Chairman of the Board of Instituto Tecnológico de Estudios Superiores de Monterrey, A.C. He is a Member of the Board of IBM and a Member of the International Advisory Boards of Allianz and Citigroup. He is also a Member of the Boards of Alfa, Femsa, Grupo Financiero Banamex, Vitro and Televisa, as well as a Member of Stanford University's Graduate School of Business, Advisory Council and of the Board of Monterrey's modern art museum, MARCO, and the US-Mexico Commission for the Educational and Cultural Exchange Mr. Zambrano holds a B.S. degree in Mechanical Engineering from the Instituto Tecnológico y de Estudos Superiores de Monterrey and an M.B.A. from Stanford University.

Alberto Garza Santos has been a Director of Axtel since October 2003. Mr. Garza is the founder and Chairman of the Board of Directors of Promotora del Viento, S.A de C.V., a company dedicated to wind power in Mexico. He is also founder and Chairman of the Board of Promotora Ambiental, S.A.B. de C.V. (PASA), a leading waste management company in Mexico. Mr. Garza has engineered PASA's growth through multiple acquisitions, local unit start-ups, municipal concessions and the development of world-class landfills, including Mexico's first five privately owned landfills. In 2002, he positioned PASA as PEMEX's waste services provider of choice, winning various large, multiyear contracts. Mr. Garza is member of the Board of Directors of Maquinaria Diesel S.A.B. de C.V. (MADISA), Desarrollo Inmobiliario Delta y Gemini. Mr. Garza holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and a title in Political Sciences from the Southern Methodist University.

Héctor Medina Aguiar has been a Director of Axtel since October 2003 and member of the Audit Committee and Corporate practices. Mr. Medina held the position of Executive Vice-President of Finance and legal of Cemex, since October 1996 until February 2010. He worked in Grupo ALFA. He is Chairman of the Board of Universidad Regiomontana, and Board Member of Banco Ahorro Famsa among other private companies. Mr. Medina is also member of the Advisory Committee of the Monterrey Institute of Technology (Instituto Tecnológico y de Estudios Superiores de Monterrey). Mr. Medina is a graduate of the Instituto Tecnológico y de Estudios Superior de Monterrey with a degree in Chemical Engineering. He also holds an M.S.C. degree in Management from the University of Bradford Management Center in England and an M.S. degree from the Escuela de Organización Industrial in Spain.

Bernardo Guerra Treviño he is member of the board of directors of Axtel since 2006, and Chairman of the Audit and Corporate Practices Comitee. Mr.Guerra is founding partner of MG Capital. He is member of the board of directors and president of the autdit comitee of Promotora Ambiental and Banco de Ahorro FAMSA. Mr. Guerra holds an Industrial Engineering degree from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Fernando Quiroz Robles Member of the Board of AXTEL since April 2007. He is vicepresident of the citigroup Executive Committee of Institutional Client Group. Latin America and Mexico, Member of the Executive Committee of Grupo Financiero Banamex, he is also member of the board of directors of Grupo Financiero Banamex Banamex, Chairman of the Board of Acciones y Valores Banamex, (Accival), He is member of the directory of the bank of Chile. He began his career with Banamex in 1979.

Lawrence H. Guffey Member of the Board since May 2000.hes is member of the Board of directors of Axtel since May 2000. He is member of the board of directors since 2000 and member of the Audit and Corporate Practices committee. Also, he is Senior Managing Director of Blackstone Group International. Before he joint Blackstone he worked in the Acquisitions Group at Trammell Crow Ventures, the principal investment arm of Trammel Crow Company. He is a Member of the Boards of Directors of CineworldGroup PLC, Deutsche Telekom and TDC. Mr. Guffey is a Rice University Alumnae.

Fernando A. González Olivieri is a Board Member for Axtel since 2010. Since he entered CEMEX in 1989, he has worked in various positions, including Corporate Vice-president of Strategic Planning, President of CEMEX Venezuela, President of CEMEX Asia, President of CEMEX Europe, Middle East, Africa, Asia and Australia and Executive Vice-president for Planning and Development. Currently he is the Vice-president of Planning and Finance.

Benjamin Jenkins has been an Alternate Director of Axtel for Mr. Lawrence H. Guffey since October 2003. Mr. Jenkins is a director in the Private Equity group of Blackstone. Since joining Blackstone in 1999, Mr. Jenkins has been involved in the execution of Blackstone's investment in Axtel and has evaluated numerous industrial and communications investments. Previously, Mr. Jenkins was an Associate at Saunders Karp & Megrue. Prior to that, Mr. Jenkins worked in the Mergers & Acquisitions Department at Morgan Stanley & Co. Mr. Jenkins holds a B.A. in Economics from Stanford University and an M.B.A. from Harvard Business School.

Francisco Javier Garza Zambrano has been an Alternate Director of Axtel for Mr. Lorenzo Zambrano Trevio since June 17, 2005. Mr. Garza has held the position of President of Cemex America region; He has been Chairman of Cemex Mexico, Cemex Panama, Venezolana de Cementos (Vencemos, S.A.), Vice President of Cemex Trading and Chairman in charge of Cemex's operations in the United States. Mr. Garza holds a degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey and an M.B.A. by Cornell University-Johnson Graduate School of Management.

Alberto Santos Boesch has been an Alternate Director of Axtel for Mr. Alberto Santos de Hoyos since June 2005. Mr. Santos has held the position of Chief Executive Officer at Empresas Santos, S.A. since 2000. He is a shareholder and director of Grupo Tres Vidas Acapulco, S.A., Desarrollos Marinos del Caribe and Gimnasio Body-tek, S.A. Mr. Santos is also a member of Generación 2000 and Grupo Mexico Nuevo. He is currently the Chairman of the Board of Directors of Grupo Monde. Mr. Santos holds a degree in International Studies from the Universidad de Monterrey as well as international studies from Cushing Academy.

David Garza Santos has been an Alternate Director of Axtel for Mr. Alberto Garza since November 2005. Mr. Garza is Chairman of the Board of Directors and Chief Executive Officer of Maquinaria Diesel, S.A de C.V., a company which distributes Caterpillar, Ingersoll Rand and other construction equipment in Mexico and is also Chairman of the Board of Directors of Comercial Essex, S.A. de C.V., which is the largest distributor of Exxon Mobil lubricants in Mexico. Mr. Garza is also a member of the Board of Directors of Desarrollos Delta, S.A. de C.V., a real estate developer for residential, offices and resorts in Mexico, a member of the Board of Directors of Promotora Ambiental, S.A. de C.V., a leading waste management company in Mexico and also a member of the Advisory Committee of the School of Business Administration of the Instituto Tecnológico y de Estudios Superiores de Monterrey. Mr. Garza holds a degree in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Mauricio Morales Sada has been an Alternate Director of Axtel for Mr. Bernardo Guerra Treviño since April 2006. Mr. Morales Sada is president, and founding member in 1995, of MG Capital, an independent asset management firm in Mexico. From 1984 to 1995, he held different positions in financial institutions in Monterrey. Mr. Morales holds a Mechanical Engineering degree from the Instituto Tecnológico y de Estudios Superiores de Monterrey, and currently serves in the Advisory Committee for the Business Incubator of the same institute.

Ramiro G. Villarreal Morales is an Alternate Director of Axtel for Mr. Fernando A. González Olivieri since april 2011 and he was alternate director of Héctor Medina Aguiar since April 2006. Mr. Villarreal is the General Counsel of Cemex S.A.B. de C.V. since 1987. Mr. Villarreal is also Secretary of the Board of Directors of Cemex S.A. de C.V. since 1995. Prior to joining Cemex, he served as Assistant General Director of Grupo Financiero Banpais (now part of Banco Mercantil del Norte S.A.) from 1985 to 1987. Mr. Villarreal is a graduate of the Universidad Autonoma de Nuevo Leon with a degree in law and holds a Master of Science in Finance from University of Wisconsin.

Javier Arrigunaga Gómez del Campo is an Alternate Director of Axtel for Fernando Quiroz since April 2011. He is the General Director of Grupo Financiero Banamex, being responsible of the business related to Corporate and Investment Banking, Markets, Treasury and GTS in Mexico. Mr Arrigunaga is member of the Executive Committee of Banamex. His areas of responsibility include among others, Legal, Human Resources, Economic Research, Institutional Relations, Compliance, Operations and Technology and Marketing for Banamex and Latin America as well as foundations such as “Fomento Social y Fomento Cultural Banamex” and the Financial Education Program in Mexico. He is member of the Board of Directors of Grupo Financiero Banamex, of National Bank of Mexico, of Banamex´s and of Aeromexico. Before joining Banamex in 2002, Mr. Arrigunaga was Mexico's Ambassador before the Organization for Economic Cooperation and Development (OCDE), and previously served as General Counsel at the Bank of Mexico, where he worked for 16 years. He graduated in Law from the Universidad Iberoamericana and he got a Master in Law from Columbia University.

Balbina Milmo Santos she is an Alternate Director of Mr.Thomas Milmo Zambrano, she was born on October 8, 1970 in Monterrey, N.L. She holds a degree in Graphic Design from the Art and Restoration Institute of Florence, Italy. She has also pursued studies at the Chamberlayne School of Design in Newton, MA. She has also conducted several activities as an entrepreneur.

A description of the relationship of some of the members of the Board of Directors and some of the Executive officers of the Company is presented as follows:

- Tomás Milmo Santos is son of Thomas Milmo Zambrano, he is also brother of Balbina Milmo Santos, nephew of Alberto Santos de Hoyos and Lorenzo Zambrano Treviño, cousin of Alberto Garza Santos, David Garza Santos and Alberto Santos Boesch, and Patricio Jiménez Barrera’s brother-in-law.

- Thomas Lorenzo Milmo Zambrano is cousin of Lorenzo Zambrano.

- Alberto Santos de Hoyos is the father of Alberto Santos Boesch, and uncle of the brothers Alberto Garza Santos and David Garza Santos.

Powers of the Board of Directors.

The following are the main functions of the Board of Directors and its Committees:

The Board of directors is responsible for the legal representation of the Company and is authorized to perform any act which is not expressly reserved to the shareholders. Under the LMV, some of the main matters that must be approved by the board include:

- Transactions with related persons that arise from the regular course of operations of the Company;

- Acquisitions or transfers of a substantial part of the assets of the Company;

- The granting of guarantees with respect to third party obligations, and

- Other relevant transactions.

The meetings of the board of directors shall be deemed legally convened when the majority of its members are present and its resolutions shall be valid when adopted by vote of a majority of directors present whose personal interests with respect to a particular case are not contrary to the Company. The Chairman of the Board of Directors has the casting vote in case of a tie.

Under the LMV, the board of directors must deal with the following issues, among others:

- Establish the overall strategy of the Company;

- Approve, subject to prior review of the audit committee, (i) the policies and guidelines for the use of the property the Company by related persons, and (ii) each individual transaction with related persons the Company might intend to carry out, subject to certain restrictions, and any transaction or series of unusual or nonrecurring transactions involving the acquisition or disposition of property, the granting of guarantees or assumption of liabilities totaling not less than 5% in the consolidated assets of the Company;

- The appointment and dismissal of the general director of the Company, and policies for the appointment of other key officers;
- The financial statements, accounting policies and guidelines on internal control of the Company;
- The hiring of external auditors and
- Approve the disclosure policies of relevant events.

The LMV requires the board members to have duties of care and loyalty.

The duty of care means that the directors of the Company must act in good faith and in the best interest of it. In fact, the directors of the Company are obliged to ask the CEO, managers and external auditors relevant information reasonably required for decision making. Board members meet their duty of care primarily through attendance at meetings of the Board and its committees, and the revelation during such sessions, of any important information obtained by them. The directors who fail in their duty of care will be jointly liable for the damages caused to the Company or its subsidiaries.

The duty of loyalty means that directors of the Company must maintain confidentiality regarding information which they acquire by reason of their positions and should not participate in the deliberation and vote on any matter in which they have a conflict of interest. Directors will incur disloyalty against the company when they obtain economic benefits for themselves, when knowingly promote a particular shareholder or group of shareholders, or take advantage of business opportunities without a dispensation from the board. The duty of loyalty also means that directors must (i) inform the audit committee and external auditors all the irregularities of acquiring knowledge during the performance of their duties, and (ii) to refrain from spreading false information and order or cause it to skip the registration of transactions by the Company, affecting any concept of its financial statements. The directors who fail in their duty of loyalty will be subject to liability for damages caused to the Company or its subsidiaries as a result of acts or omissions described above.

Board members can be subject to criminal penalties consisting of up to 12 years imprisonment for committing acts of bad faith involving the Company, including the alteration of its financial statements and reports.

Responsibility for damages resulting from the violation of the duties of diligence and loyalty of directors may be exercised by the Company or for the benefit of it by shareholders who individually or collectively, hold shares representing 5% or more of its capital stock. The prosecution may only be exercised by the Ministry of Finance and Public Credit (SHCP) hearing the opinion of the NBSC.

Board members will not incur in the responsibilities described above (including criminal liability) when acting in good faith (i) will comply with the requirements established by law for approval of matters concerning the board of directors or its committees, (ii) make decisions based on information provided by relevant officers or others whose capacity and credibility do not offer cause for reasonable doubt, and (iii) have selected the most suitable alternative to the best knowledge and belief, or negative economic effects have not been predictable.

Audit and Corporate Practices Committee

Under the LMV, the board of directors in their oversight functions, may be assisted by one or more committees

For purposes of corporate practices, the committee must (i) provide feedback to the Governing Board on matters within its competence, (ii) seek the advice of independent experts whenever it sees fit, (iii) convene meetings of shareholders, (iv) support the Board of Directors in preparing annual reports and compliance with the obligations of information delivery, and (v) prepare and submit to the Governing Board an annual report on its activities

In its audit functions in accordance with the LMV, the authority of the committee includes (i) evaluate the performance of external auditors, (ii) to discuss the financial statements of the Company, (iii) overseeing internal control systems (iv) evaluate the conclusion of transactions with related persons, (v) request reports to relevant officers as it deems necessary, (vi) report to the board all the irregularities of acquiring knowledge, (vii) receive and analyze comments and observations made by the shareholders, directors and key officers, and perform certain acts that to their best judgment become pertinent in connection with such observations, (viii) convene shareholders' meetings, (ix) evaluate the performance of the CEO of the Company and (x) prepare and submit to the Governing Board an annual report of its activities.

In accordance with the SML and the bylaws of the company, the audit committee and corporate practices should be composed solely of independent directors and at least three members of the Board of Directors.

As of December 31, 2011 the audit and corporate practices committee of the Company consists of Bernardo Guerra Treviño, Héctor Medina Aquilar and Lawrence H. Guffey, as Owner Members and as Alternate Members , Mauricio Morales Sada and Benjamin Jenkins. In the ordinary general meeting of shareholders of April 27, 2011, was ratified Mr. Bernardo Guerra Treviño as committee chairman.

Compensation

During the fiscal year concluded on December 31, 2011, the compensation that the Company paid its board members and executives total approximately $67 million pesos. At the time of this report neither Axtel nor its subsidiaries have any pension plans, retirement plans or any other type of such benefits.

4.4) Company's Bylaws and Other Agreements

Shareholders Meetings and Voting Rights

The general shareholders meetings may be ordinary or extraordinary. At each general shareholder meeting every shareholder shall be entitled to one vote per share.

The extraordinary general shareholders meetings shall be those convened to decide on the following issues:

- Extending the term of the Company or early dissolution;
- Increases or reductions to the fixed part of the capital stock;
- Amendment to the Company's purpose and changes of nationality;
- Mergers or transformations;
- Issuance of bonds and preferred stock;
- Any amendment to the bylaws;
- Divisions;
- Cancellation of shares by retained earnings and
- Cancellation of the registration of shares in the RNV or any other stock market (except for automatic trading systems).

Ordinary shareholders' meetings are those convened to decide on any matter not reserved for extraordinary meetings. The ordinary general meeting of shareholders shall meet as least once a year within the first four months after the end of the fiscal year, to address, among other things, the following:

- Discussion and approval of the reports of the Board of Directors and the General Director referred by LMV and discussion about the use of the results of the immediately preceding year.

- Appointment of members of the Board of Directors and the Audit and Corporate Practices Committee, and any other committee that is created, as well as the determination of their compensation;

- Determine the maximum amount that may be used to repurchase shares, and

- Discussion and approval of the annual report made by the President of the Audit and Corporate Practices Committee to the Board of Directors.

In accordance with the provisions of the LMV, the general ordinary shareholders meeting shall deal, in addition to the matters described above, to approve any operation involving 20% or more of the consolidated assets of the Company within one year.

To attend the shareholders meeting, holders of shares must be registered in the Company's stock registration book or provide sufficient proof of the ownership of their stocks.

For an ordinary shareholders' meeting to be legally gathered by virtue of a first call, at least half the Company's capital must be represented, and its resolutions will be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. In the case of second or subsequent call, annual shareholder meetings may be held valid irrespective of the number of shares represented and its resolutions shall be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. For a special shareholders meeting to be legally under the first call, there must be represented at least three-quarters of the capital stock, and its resolutions will be valid when taken by the affirmative vote of at least more than half of the stock with voting rights. In case of second or subsequent call, the extraordinary shareholders meetings may be held valid if they are represented at least fifty-one percent of the Company's stock, and its resolutions shall be valid if taken by the affirmative vote of at least half of such stock.

Notices to call for shareholders meetings must be made by the Board of Directors, its President, its Secretary, or by one or more committees that carry out the functions of corporate and audit practices. Shareholders holding shares entitled to vote, including limited or restricted vote, that individually or jointly hold at least 10% (ten percent) of the Company's stock shall be entitled to request from the Chairman of the Board of Directors or the Chairmen of the committees that carry out the functions of audit and corporate practices, to gather the general meeting of shareholders on the terms set out in Article 184 of the Ley General de Sociedades Mercantiles, this, notwithstanding the applicable percentage specified in such Article. Any shareholder shall have the right referred to in both cases specified in Article 185 of the Ley General de Sociedades Mercantiles. If the notice for the shareholders meeting is not done within 15 (fifteen) days from the date of the request, a Civil Judge or District of domicile of the Company, will, at the request of any interested shareholder who must prove ownership of shares for this purpose issue such notice. Notices for ordinary, extraordinary, general or special meetings, ought to be published in the Official Paper of the State of the Company's domicile, or on any of the major newspapers in such domicile, at least 15 (fifteen) calendar days in advance to the date set for the meeting (the day in which the publication of the call is made, will be computed within the 15 (fifteen) day period). When the quorum has not been sufficient for a meeting, record shall be taken in the respective book, stating that fact, along with the signatures in such records of the President and Secretary and the appointed Examiners, in which the date of issuance of the paper on which such call for shareholders meeting was published must be mentioned. In a second or subsequent call, the publication referred to above, must be made with no less than seven (7) calendar days prior to the date set for the new meeting. Calls to express the place, date and time that the Meeting should be held, shall contain the agenda which may not include matters under the rubric of general affairs or equivalent, and shall be signed by the person or persons who make them. With at least fifteen (15) calendar days prior to the date in which a shareholders' meeting shall be hold, all the appropriate information and documents related to each of the points contained in the agenda of the meeting must be available to shareholders at the offices of the Company, free of charge.. In accordance with the second paragraph of Article 178 of the General Corporations Law, decisions taken outside the shareholders meeting, by the unanimous vote of the shareholders representing all of the shares entitled to vote, or in the case of a special meeting, the holders of such special series of actions involved, shall for all legal purposes be deemed as valid as if they were adopted at a general or special shareholders meeting, provided that such decisions are confirmed in writing by the shareholders.

Only persons registered as shareholders in the Stock Record, as well as those holding certificates stating the amount of such securities held by such person, issued by the institution for the deposit of securities, along with the list of holders of such securities issued by such institution, shall be entitled to appear or be represented at the shareholders meeting, in which case, the content of the LMV shall be applied.

The records of the shareholders meetings shall be prepared by the Secretary of the Board, or the person who had acted as Secretary of the shareholders meeting to be entered in the respective book, and will be signed by the President, Secretary and the appointed examiners.

Dividend Payment and Settlement

Prior to the payment of any dividend, the Company shall relegate 5% of their net profits to integrate the legal reserve fund referred to in Article 20 of the *Ley General de Sociedades Mercantiles*, until such fund reaches the equivalent to 20% of the subscribed capital paid by the Company. Shareholders may agree to allocate additional amounts to the legal reserve fund, including the amounts destined for repurchase of stock. The remainder, if any, may be paid as a dividend to shareholders. Where appropriate, the payment of cash dividends to shares that are not deposited in Indeval will be made against delivery of the applicable coupon, if any.

To the extent that dividends are declared and paid to shareholders, holders of shares purchased in the U.S. or any other country other than Mexico are entitled to receive such dividends in Pesos. Currently there is no tax or withholding tax in accordance with Mexican law on shares acquired outside of Mexico or the dividends declared on such shares.

At the time of dissolution and liquidation of the Company, the ordinary general shareholders meeting shall designate one or more liquidators, who must liquidate the Company. In case of liquidation, all shares fully subscribed and paid shall be entitled to receive its proportionate share in the distribution of the Company's assets.

Purchase of Shares by Subsidiaries Axtel

Any company in which Axtel is the majority shareholder may not, directly or indirectly, acquire shares of the Company or companies who hold a majority of share of the Company. Under the LMV this restriction does not apply to the acquisition of shares representing the Company's capital, through mutual funds.

Measures to prevent the change of control in Axtel

General

The Company's bylaws provide, subject to certain exceptions, that: (i) Any person who individually, or together with one or more Related Parties, seeking to acquire Shares or rights over Shares, by any means or title, directly or indirectly, either in an act or a succession of acts without a time limit between each other, and as a result of such acquisition its stock holdings as an individual and / or in conjunction with the Related Party(ies) represent a participation of 5% (five percent) or more of all Shares Series "A" or Series "B", shall require prior written consent of the Board of Directors and / or the Shareholders meeting, likewise, (B) any person who individually or together with one or more Related Parties, which holds 5% (five percent) or more of the Series "A" or "B" Shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and / or in conjunction with the Related Party(ies) represent a participation of 15% (fifteen percent) or more of all Series "A" or Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the shareholders meeting as provided below (C) any person who individually or together with one or more Related Parties, which maintain a 15% (fifteen percent) or more of the Series "A" or "B" shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and / or in conjunction with the Related Party(ies) represent a participation of 25% (twenty percent) or more of all Series "A" or Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below; (D) any person who individually or together with one or more Related Parties, which maintaining a 25% (twenty percent) or more of the Series "A" or "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in an act or a succession of acts without a time limit between each other, and as a result, its shareholding as an individual and / or in conjunction with the Related Party(ies) represent 35% (thirty five percent) or more, of all Series "A" or Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below, (E) any person who individually or in combination with one or more Related Parties, which maintained a 35% (thirty five percent) or more of the Series "A" or "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result its shareholding as an individual and / or in conjunction with the Related Party(ies) represent 45% (forty-five percent) or more of all Series "A" or Series "B" Shares, as applicable, shall require prior permission in writing by the Board of Directors and / or the Shareholders Meeting, as provided below, (F) any person who is a competitor of the Company or of any Subsidiary of the Company, which individually or together with one or more Related Parties, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result their shareholding as an individual and / or in conjunction with the Related Party(ies) represent 3% (three percent) or more of all Series "A" or Series "B" Shares, as applicable, or multiples thereof, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as applicable.

The person that acquired shares without having met any of the procedures, requirements, authorizations and other provisions stated in the bylaws, shall not be inscribed in the shares registry of the Company, and accordingly, such person may not exercise the corporate rights corresponding to such shares, specifically including the right to vote at shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. For Persons who already are shareholders of the Company and, therefore, the ownership of their shares has already been entered in the Company’s shares registry, the shares acquired without having complied with the procedures, requirements, authorizations and other provisions of such clause of the bylaws will not be entered in the Company’s registry of shares and, accordingly, such persons may not exercise the corporate rights that apply to such actions, specifically including the right to vote in shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. In cases in which the procedures, requirements, authorizations and other provisions stated in the bylaws, the certificates. or the listing of records referred to in the first paragraph of Article 290 of the LMV are not met, ownership of the Shares shall not be proved, neither the right to attend shareholders' meetings and the registration of shares of the Company shall be deemed as proved, nor the exercise of any actions, including those of a procedural nature, shall be deemed as legitimated, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. Additionally and in accordance with Article 2117 of the Federal Civil Code, any person who acquires shares in contravention of the provisions of the bylaws, shall be required to pay a penalty to the Company for an amount equivalent to the price paid for all the Shares that were wrongfully acquired. In the case of shares acquired in contravention of the provisions of the bylaws, free of charge, the penalty shall be for an amount equal to the market value of the wrongfully acquired Shares. Approvals granted by the Board of Directors or the Shareholders Meeting as provided in the bylaws, shall cease to have effect if the information and documentation based on which these approvals were granted is not or ceases to be true. Likewise, the person who acquires shares in contravention of the provisions of the bylaws, must transfer the wrongfully acquired Shares, to a third party approved by the Board of Directors or the Company’s general extraordinary shareholders meeting, in which case, the provisions for such matters contained in the Company’s bylaws must be followed and complied with in order to carry out such sale, including delivery to the Board of Directors of the Company, through its President and Secretary, of the information referred to in the bylaws.

Requirements and Approvals from the Board of Directors and Shareholders Meeting

To obtain the prior consent of the Board of Directors, the potential purchaser must submit an application for authorization, which should contain some specific information. During the authorization process, certain terms must be met. The Board of Directors may, without liability, submit the application for approval to the general extraordinary shareholders meeting for resolution. The determination of the Board of Directors to submit for the consideration of the Shareholders Meeting should consider various factors such as the potential conflict of interest, equity in the proposed price or when the Council is not capable of meeting having been convened more than two times, among other factors. The Board of Directors may reject any authorization previously granted before the date on which the transaction is concluded, in the event that the Board receives a better offer for the shareholders of the Company. If the Board of Directors or the Shareholders Meeting does not resolved, in a negative or positive way, on the term and form prescribed by Axtel’s bylaws, it is understood that the request for authorization to acquire shares in question has been rejected.

Mandatory Public Offer to Purchase in Certain Acquisitions

In the case that the Board of Directors authorizes the requested acquisition of Shares, and such acquisition implies an acquisition of a participation of between 20% or 40% in the Company, or when such acquisition implies a Change of Control in the Company, and notwithstanding the approval, the person that intends to acquire such Shares must do a public offer to purchase, in cash, and a for a price determined in accordance with the procedure mentioned in the following paragraph, of an additional 10% (ten percent)of the Company's stock with voting rights.

In the case that the Board of Directors or the General Extraordinary Shareholder Meeting, as applicable, approves an acquisition that may result in a change of control, the purchaser must do a public offer to purchase 100% (one hundred percent) minus one, of the existing Shares of the Company, at a price in cash that shall not be under the highest of the following:

a) .- The book value of the shares, according to the latest quarterly income statement approved by the Board of Directors, or **b)** .- the highest closing price of listed shares during the three hundred sixty-five (365) days prior to the date of the authorization granted by the Board of Directors, **c)** .- The highest price paid in the purchase of Shares at any time by the person who individually or jointly, directly or indirectly, acquire Shares subject to the application authorized by the Board of Directors; o **d)** multiple of highest enterprise value of the Company for the last 36 months, multiplied by the operating cash flow or EBITDA (operating income before depreciation, interest and taxes) known for the last 12 months minus the net debt known more recently. The multiple of enterprise value referred to above, is the market value of the Company (the share or regular participation certificate or CPO closing price multiplied by the total number of shares or CPOs outstanding representative of 100% of the share capital of the Company) plus net debt known at that time, divided between the operating cash flow or EBITDA known for the past 12 months.

Any public offer to purchase that must be conducted in connection therewith, shall be subject to certain specific requirements. All shareholders of the Company's shares must be receive the same price for their shares in the public tender offer. The provisions of the Company's bylaws summarized in this paragraph, related to the mandatory tender offer for certain acquisitions, is generally more rigid than the provisions of the LMV. Some of the provisions of the statutes relating to public offer to purchase in the case of certain acquisitions differ from the requirements contained in the LMV, this under the understanding that the provisions of the bylaws gives greater protection to minority shareholders than those provided by law. In these cases, the provisions contained in the bylaws, and relevant provisions of the LMV, apply to the acquisitions specified hereby.

Exceptions

The provisions of the Company's bylaws summarized above, do not apply to purchases or transfers of Shares to be made via inheritance or from an estate by means of a testamentary succession, those acquired by the person or persons who control the Company and those managed by Axtel, its subsidiaries or affiliates or by any trust created by the Company or any of its subsidiaries, among others.

Amendments to the Provisions on the Protection against hostile takeover

Any amendment to the provisions on protection against hostile takeover must be made in accordance with the terms contained in the LMV and registered in the Public Registry of Commerce from the Company's domicile.

Other provisions

Appraisal Rights and Other Minority Rights

If shareholders agree to modify the Company's purpose, nationality or agree to transform it into other type of corporation, any shareholder who voted against the amendment may exercise its withdrawal right, receiving the book value of shares (in accordance with the last balance sheet approved by the shareholders), provided that the withdrawal request is made within 15 days following the day in which such amendments were adopted.

Under the LMV, issuers are required to comply with certain minority rights, including rights that allow:

- shareholders representing at least 10% of the duly subscribed and paid stock of the Company, to call for a meeting in which they are entitled to vote;

- shareholders representing at least 15% of the Company's stock, to claim, subject to certain legal requirements, certain civil responsibilities against the members of the Board of Directors of the Company;

- shareholders representing at least 10% of the stock with voting rights who are present or represented at a shareholders meeting, may request to postpone the voting of issues on which there are not sufficiently informed; and

- shareholders representing at least 20% of the duly subscribed and paid capital stock, to oppose and stop any resolution adopted by the shareholders, subject to compliance with certain legal requirements.

Additionally, in accordance with the LMV, Axtel is subject to comply with certain corporate governance issues, including the requirement to maintain a committee performing the functions of Audit and corporate practices, and the election of independent directors.

The rights granted to minority shareholders, and the liabilities of directors of the Company under Mexican law are different from those given by law in the United States and other countries. Mexican courts have not deeply addressed the issues of responsibilities of directors, unlike the courts of different states of the United States, where court decisions in this area have identified some of the rights attributable to minority shareholders. Mexican procedural law does not contemplate the possibility of class actions and shareholder lawsuits, which allow U.S. shareholders to include in their demands to other shareholders or to exercise rights attributable to the Company. Mexican company's stockholders do not have the power to oppose resolutions adopted at shareholders' meetings unless they comply with strict procedural requirements. As a result of the foregoing, it is usually more complicated for the minority shareholders of Mexican corporations to bring lawsuits against the Company or its directors, in comparison with the shareholders of U.S. companies.

Responsibilities of Directors and Committee Members

Liability claims against directors and committee members will stick to the provisions stated on the LMV. Under the LMV, shareholders representing at least 5% of the Company's stock may carry on liability claims against directors for breach of due diligence duties and loyalty from them, and obtain for the benefit of the Company, the payment of a compensation equivalent to the amount of damages and consequential damages to the Company. Such tort actions prescribe after five years and may not be exercised if the directors are protected by the exceptions stated in the LMV.

Conflicts of Interest

A shareholder vote on any resolution in which there is a conflict of interest may incur in a responsibility for direct and consequential damages incurred to the Company, provided that the resolution could not have been approved without the affirmative vote of such shareholder. Additionally, a member of the Board of Directors or a committee member that performs audit and corporate governance functions, that have any conflict of interest should make it known to other members of such board or committee, or of the Company, and restrain from voting on any resolution regarding such matter. Failure to comply with these obligations by a director or committee member that performs audit and corporate governance functions may result in liability to such director or committee member that performs audit and corporate governance functions in question, and may also be accountable for the payment of direct and consequential damages.

Suspension of the Resolutions Adopted by Shareholders

Holders of shares entitled to vote, including limited or restricted *vote*, that individually or jointly hold 20% (twenty percent) or more of the *Company's stock,* may judicially oppose the resolutions of general *shareholders* meetings *in* which *they were* entitled to vote. *The above,* subject to the terms and conditions set out in Article 201 of the General

Corporations Law, not being applicable *the* percentage referred to *in* that article, *but* being applicable Article 202 of *such law*.

Regulation in the Field of Foreign Investment

Participation of foreign investors in the stock of Mexican companies is regulated by the Foreign Investment Law and its Regulations. The National Foreign Investment Commission and the National Registry of Foreign Investment are the entities responsible for implementing the Foreign Investment Law and its Regulations.

In general, the Foreign Investment Law allows the participation of foreign investors in up to 100% of the capital of Mexican companies, except for those companies engaged in restricted activit***ies***. Foreign investment in Axtel's capital is restricted.

Under the LFT and the Foreign Investment Law, local telephony concessions can only be granted to:

- Individuals of Mexican nationality, and
- Mexican corporations with less than 49% of participation of foreigners in its equity, and which are not under the control of foreigners.

Notwithstanding the foregoing, in the case of corporations holding concessions to provide mobile services, participation of foreigners may exceed 49% of the share capital with voting rights, provided that has the approval of the National Commission Foreign Investment of the Ministry of Economy.

According to the Foreign Investment Law *(Ley de inversion extranjera)*, the Ministry of Economy may authorize the issuance of shares without voting rights or limited voting rights, called neutral actions, which according to the Foreign Investment Law are not counted to determine the percentage of foreign investment in Mexican corporations. Any transfer of shares in contravention of the provisions of the Foreign Investment Act is null and void.

Admission of Foreigners

In accordance with applicable law, the Company’s bylaws state that when purchasing Company’s stock, foreign shareholders are compelled to: (i) be considered as Mexican in everything relating to their shares, properties, rights, concessions, participations or interests in which the Company is the holder, and the rights and obligations resulting from any contract between the Company and the federal government, and (ii) do not seek the protection of their government. If a shareholder seeks such protection, in contravention with the provisions of the statutes, it’s bound to lose its Shares in the benefit of the Mexican Nation. This prohibition does not apply to proceedings in foreign courts.

Jurisdiction

The Company’s bylaws show that any dispute between the shareholders and the Company, or between the shareholders on matters relating to the Company, the parties hereby agree to submit such matters to the jurisdiction of the courts located on the state of Nuevo Leon, Mexico.

5) STOCK MARKET

5.1) Shareholders Structure

The CPOs of the Company are conformed by Shares Series B Class I that represent 7 shares of the mentioned series and trade in the BMV.

Mexican law limits ownership to foreigners to certain industries such as the Telecommunications sector, where foreigners cannot own more than 49% of the voting shares of companies that own fixed telephony concessions. The following table shows certain shareholders of the Company of whom we have knowledge own more than 5% of the capital stock of the Company:

Name	**Mexican/ Foreign**[1]
Tomás Milmo Santos	Mexican
Thomas Milmo Zambrano	Mexican
Alberto Santos de Hoyos	Mexican
Credit Suisse y BBVA (a través de un contrato forward de 3-años con Impra Café S.A. de C.V.) [2]	Foreign
Blackstone Capital Partners III Merchant Banking Fund, L.P.	Foreign
Telecomunicaciones Holding Mx, S. de R.L. de C.V. (afiliada de Citigroup, Inc.)	Foreign

NOTES:

(1) The foreign title holders must own their Series B shares through CPOs or ADSs.

(2) Information including a 3-year forward contract between Impra Café. SA of C.V., a subsidiary of Cemex S.A.B. de CV, Credit Suisse and BBVA, on March 31, 2009.

5.2) Stock Performance in the Stock Market

The following table shows the maximum and minimum prices of the CPOs in the Mexican Stock Exchange (BMV) in each of the said periods. Prices are expressed in constant pesos.

		High	Low
		(Pesos per CPO)	
Annual High and Low			
	2007……………………...........	31.41	11.30
	2008……………………...........	27.66	5.09
	2009……………………...........	12.58	4.43
	2010……………………………	13.38	6.51
	2011	7.29	4.21
Quarterly High and Low			
2010			
	First Quarter	13.38	9.24
	Second Quarter	10.56	6.98
	Third Quarter	8.34	6.51
	Fourth Quarter	7.79	7.11
2011			
	First Quarter	7.29	6.7
	Second Quarter	7.17	5.97
	Third Quarter	6.9	5.05
	Fourth Quarter	5.29	4.21
Monthly High and Low			
2011			
January………………………..		7.23	6.97
February………………………		7.29	6.95
March…………………………		6.95	6.70
April…………………………...		7.17	6.74
May…………………………....		6.91	6.29
June……………………………		6.70	5.97
July……………………………		6.85	6.28
August…………………………		6.90	5.11
September……………………..		5.97	5.05
October………………………..		5.15	4.37
November……………………..		5.29	4.21
December……………………..		4.49	4.21

5.3) Market Maker

In December 31, 2011, Acciones y Valores Banamex, SA de CV was serving as our Market Maker:

1. Type of Security: Ordinary Participation Certificates.
2. Ticker: Axtel CPO.
3. ISIN Code: MX01AX040009

The contracted services are aimed at increasing the liquidity of the issuer, as well as maintaining stability and continuity in prices. The contract was signed on November 8, 2010 and lasts six months from its execution. And it may be renewed for equal periods, unless the parties wish to terminate with 30 days notice. As of this date the agreement still in full force and effect.

In consideration for services rendered under this contract, the Market Maker shall receive from the Issuer the amount of $ 30,000.00 (Thirty thousand pesos 00/100 National Currency) plus Value Added Tax, VAT, monthly.

Also, the Market Maker will receive a special bonus from the Contracting Issuer in the amount of $ 30,000.00 (Thirty thousand pesos 00/100 National Currency) plus Value Added Tax, VAT, for each month in which the Market Maker meets the following three objectives: (1) have a stake of at least 15% of daily trading volume, as well as being at least 15% of the transactions made in the BMV, (2) maintain the average spread in a maximum of 90 base points (0.90%) between the buying position and the selling position, and (3) Operate a minimum of 10,000,000 (ten million) securities each month. This payment, if achieved, will be settled on presentation of invoice in compliance with the applicable tax requirements.

This contract shall be terminated without trial, in the following cases:

- By mandate of the National Banking and Securities Commission.

- In case the Exchange does not gives its approval to Market Maker to act as such in the securities identified in the third clause.

- In case the Exchange revokes the authorization to Market Maker to act as such in the securities identified in the third clause, under any of the grounds set out in the Exchange's Handbook and/or Rules of Procedure.

- Either party contravenes any term or condition set forth herein.

- Any of the parties is declared in bankruptcy, insolvency or liquidation, either by forced agreement or in court.

- If the Contracting Issuer or the Market Maker fail to comply with or observe any of the terms, covenants or agreements contained in this Agreement.

- If the Contracting Issuer, regardless of the cause, no longer has the form of publicly traded Stock Corporation.

6) Authorized Representatives

The undersigned declare under penalty of perjury, that the scope of our respective duties, we prepared the issuer's information contained in this Annual Report, which, to our knowledge and belief, reasonably reflects its present situation. Furthermore, we state that we have no knowledge of any relevant information that has been omitted or distorted in this Annual Report or that it contains information that could mislead investors.

Tomás Milmo Santos General Director	Felipe Canales Tijerina Corporate Director	Federico Gil Chaveznava Legal Counselor

Just in relation to the Consolidated Financial Statements of Axtel, S.A.B. de C.V. and Subsidiaries ("Axtel") as of 31 of December of 2011 and 2010 and January 1st 2010 and for the years ending on those dates, that are included here in the following Exhibits in the present Annual Report, along with any other financial information included in the present Annual Report, which comes from the audited consolidated financial statements above mentioned, the present statement is issued as follows:

"The Subscriber manifests under oath, that the consolidated financial statements of Axtel as of 31 of December of 2011 and 2010 and January 1st 2010 and for the years ended on those dates, and that are included as exhibits in the present Annual Report, were audited according to the generally accepted auditing norms in Mexico. Furthermore, manifests that, within the scope of the realized work, does not have any knowledge of relevant financial information that may had been omitted of falsely stated in this Annual Report or that it may contain information that could lead to an error to the investors."

C.P.C. Leandro Castillo Parada
Partner
KPMG Cárdenas Dosal, S.C.

EXHIBIT A

AUDITED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2011, 2010
AND JANUARY 1ST 2010.

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

Consolidated Financial Statements

December 31, 2011 and 2010; and January 1, 2010

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Blvd. Díaz Ordaz 140 Pte. Piso 8
Col. Santa María
64650 Monterrey, N.L.

Teléfono: + 01 (81) 81 22 18 18
Fax: + 01 (81) 83 33 05 32
kpmg.com.mx

Independent Auditors' Report

(Translation from Spanish Language Original)

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

We have audited the accompanying consolidated statements of financial position of Axtel, S.A.B. de C.V. and subsidiaries (the Company) as of December 31, 2011 and 2010 (restated) and as of January 1, 2010 (restated); and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

During 2011, accounting changes were made as disclosed in note 4 to the consolidated financial statements. Therefore, the financial statements as of December 31, 2010 and the statement of financial position as of January 1, 2010 were adjusted to recognize the effects of the application of the accounting changes disclosed in note 4.

As mentioned in notes 23 (a) and 23 (b), the Company has contingencies related to interconnection rates with mobile operators and with long distance terminating calls with one of its main suppliers. On December 31, 2011, the differences between the amounts paid by the Company and the amounts billed by the mobile operators and one of its main suppliers amounted to approximately Ps. 1,979 million and Ps. 1,240 million, respectively, before value added tax. At the date of this report, the Administration of the Company and its legal advisors consider that they have sufficient elements to obtain favorable results in the trials related to such contingencies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Axtel, S.A.B. de C.V. and its subsidiaries as of December 31, 2011 and 2010, and as of January 1, 2010; and the results of their operations, and the changes in their stockholders' equity and cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

KPMG Cardenas Dosal, S.C.

Leandro Castillo Parada

Monterrey, N.L., Mexico
February 29, 2012

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

Consolidated Statements of Financial Position

(Thousands of Mexican pesos)

Assets		**December 31, 2011**	**Restated (note 4) December 31, 2010**	**Restated (note 4) January 1, 2010**
Current assets:				
Cash and cash equivalents	Ps.	1,425,023	1,308,264	1,402,240
Accounts receivable, net (note 6)		2,018,013	2,240,534	1,851,688
Refundable taxes and other accounts receivable (note 23b)		344,080	401,682	197,946
Prepaid expenses		79,580	55,032	33,833
Inventories (note 9)		152,756	165,629	170,681
Financial instruments (note 7a and 7b)		323,278	272,013	574,132
Total current assets		4,342,730	4,443,154	4,230,520
Long-term accounts receivable		17,712	27,346	18,491
Property, systems and equipment, net (note 10)		15,517,788	15,769,472	15,264,454
Intangible assets, net (note 12)		447,879	515,331	582,782
Deferred income taxes (note 18)		1,526,009	1,332,960	1,180,761
Deferred employee statutory profit sharing (note 18)		18,082	18,581	9,707
Investment in shares of associated company and other permanent investments (note 11)		9,667	44,341	16,295
Other assets, net (note 13)		397,405	380,393	398,289
Total assets	Ps.	22,277,272	22,531,578	21,701,299
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	Ps.	2,395,837	2,668,135	2,052,204
Accrued interest		297,107	261,692	215,538
Taxes payable		168,319	153,733	108,033
Short-term debt (note 14)		-	280,000	-
Current maturities of long-term debt (note 15)		380,880	375,996	944,553
Other accounts payable (note 16)		199,849	198,629	371,503
Deferred revenue		567,878	667,665	559,542
Derivative financial instruments (note 7a)		20,609	131,344	30,941
Total current liabilities		4,030,479	4,737,194	4,282,314
Long-term debt, excluding current maturities (note 15)		12,130,494	9,808,869	8,947,650
Asset retirement obligation and other long-term accounts payable (note 19)		265,362	242,359	192,370
Employee benefits (note 17)		76,891	75,788	70,630
Deferred revenue		33,900	33,900	87,117
Total liabilities		16,537,126	14,898,110	13,580,081
Stockholders' equity (note 20):				
Common stock		7,562,075	7,562,075	7,562,075
Additional paid-in capital		741,671	741,671	741,671
Reserves for own shares		162,334	162,334	162,334
Deficit		(2,703,703)	(660,781)	(353,641)
Change in the fair value of derivative financial instruments (note 7a)		(22,231)	(171,831)	8,779
Total stockholders' equity		5,740,146	7,633,468	8,121,218
Commitments and contingencies (note 23)				
Subsequent event (notes 23 and 24)				
Total liabilities and stockholders' equity	Ps.	22,277,272	22,531,578	21,701,299

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

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

Consolidated Statements of Operations

Years ended December 31, 2011 and 2010

(Thousands of Mexican pesos)

		2011	2010 (note 4)
Telephone services and related revenues (note 21)	Ps.	10,829,405	10,651,961
Operating costs and expenses:			
Cost of revenues and services		(2,799,269)	(2,955,488)
Selling and administrative expenses		(4,455,551)	(4,468,693)
Depreciation and amortization		(3,137,098)	(2,993,357)
		(10,391,918)	(10,417,538)
Operating income		437,487	234,423
Comprehensive financing result:			
Interest expense (note 15)		(1,002,580)	(956,125)
Interest income		22,340	23,707
Foreign exchange (loss) gain, net		(1,181,567)	437,450
Change in the fair value of financial instruments (notes 7a and 7b)		(77,615)	(99,233)
Comprehensive financing result, net		(2,239,422)	(594,201)
Employee statutory profit sharing (note 18)		(4,955)	(6,051)
Deferred employee statutory profit sharing (note 18)		(499)	8,874
Other (expenses) income (note 22)		(419,450)	38,468
Other expenses income, net		(424,904)	41,291
Loss before income taxes and equity in earnings of associated company		(2,226,839)	(318,487)
Income taxes (note 18):			
Deferred income tax		273,963	(2,509)
Flat tax		(73,105)	(63,454)
Deferred flat tax		(16,800)	77,304
Total income tax benefit		184,058	11,341
Equity in earnings of associated company (note 11)		(141)	6
Net loss	Ps.	(2,042,922)	(307,140)
Weighted average of common shares outstanding		8,769,353,223	8,769,353,223
Basic and diluted loss per share (note 20)	Ps.	(0.23)	(0.03)

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, 2011 and 2010

(Thousands of Mexican pesos)

		2011	2010 (note 4)
Operating activities:			
Net loss	Ps.	(2,042,922)	(307,140)
Income taxes		(184,058)	(11,341)
Employee statutory profit sharing		5,454	(2,823)
Items related to investing activities:			
Depreciation		3,028,501	2,884,318
Amortization		108,597	109,039
Disposal of inventories of fixed assets		324,409	-
Loss on sale of property, system and equipment		71,493	13,637
Impairment of other permanent investments		36,938	-
Equity in earnings of associated company		141	(6)
Items related to financing activities:			
Interest expense		1,002,580	956,125
Amortization of bond issuing premium		(6,236)	(4,677)
Cancellation of intangible assets		-	8,613
Change in fair value of derivative financial instruments		77,615	99,233
Subtotal		2,422,512	3,744,978
Decrease (increase) in accounts receivable		35,826	(550,705)
Increase in allowance for doubtful accounts		186,695	161,860
Decrease in inventories		12,874	5,051
Decrease (increase) in other accounts receivable		98,651	(202,016)
(Decrease) increase in accounts payable		(272,119)	578,015
Taxes paid		(69,314)	(19,038)
(Decrease) increase in deferred revenue		(99,788)	54,907
Decrease in other accounts payable and other liabilities		(2,632)	(158,792)
Net cash flow from operating activities		2,312,705	3,614,260
Investing activities:			
Acquisition and construction of property, systems and equipment, net		(2,532,772)	(3,361,921)
Increase in financial instruments and other investments		(2,405)	(60,897)
Other assets		(78,780)	(41,593)
Net cash flow from investing activities		(2,613,957)	(3,464,411)
(Cash to be obtained from financing activities) Cash surplus to be applied in financing activities		(301,252)	149,849
Financing activities:			
Interest paid		(969,724)	(876,444)
Bond issuance		-	2,369,851
Payments of bank loans		(352,000)	(1,757,087)
Proceeds of bank loans		964,092	688,634
Other Long terms loans, net		(351,188)	(213,116)
Change in fair value of derivative financial instruments		(54,736)	(18,213)
Net cash flow from financing activities		(763,556)	193,625
Net (decrease) increase in cash and cash equivalents		(1,064,808)	343,474
Effects from cash value changes		1,181,567	(437,450)
Cash and cash equivalents at beginning of the year		1,308,264	1,402,240
Cash and cash equivalents at the end of the year	Ps.	1,425,023	1,308,264

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

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

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2011 and 2010

(Thousands of Mexican pesos)

		Capital stock	Additional paid-in capital	Reserves for own shares	Deficit	Valuation effects of derivative financial instrumentsl	Total stockholders' equity
Balances as of January 1, 2010, as previously reported	Ps.	7,562,075	741,671	162,334	(273,926)	8,779	8,200,933
Recognition of the cumulative effects of FRS C-18 "Obligations associated with the retirement of property, plant and equipment" (note 4)		-	-	-	(79,715)	-	(79,715)
Restated balances as of January 1, 2010 (note 4)		7,562,075	741,671	162,334	(353,641)	8,779	8,121,218
Comprehensive loss (note 20c)		-	-	-	(307,140)	(180,610)	(487,750)
Balances as of December 31, 2010		7,562,075	741,671	162,334	(660,781)	(171,831)	7,633,468
Comprehensive loss (note 20c)		-	-	-	(2,042,922)	149,600	(1,893,322)
Balances as of December 31, 2011	Ps.	7,562,075	741,671	162,334	(2,703,703)	(22,231)	5,740,146

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

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

(1) Financial statement authorization and presentation

On February 29, 2012, the Chief Financial Officer of the Company authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

According to Mexican General Corporation Law and bylaws of the Company, the stockholders are empowered to modify the financial statements after their issuance. The accompanying financial statements will be submitted to the next Stockholders' Meeting for approval.

The accompanying consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards (FRS) in effect as of the balance sheet date.

The aforementioned financial statements are presented in Mexican pesos (reporting currency), which is the same as the recording currency and the functional currency.

(2) Description of business and significant transactions

Description of business

Axtel, S.A.B. de C.V. and subsidiaries (the Company or AXTEL) is a Mexican corporation engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls. A concession is required to provide these services and carry out the Company's activity, (see notes 23 (f) and (g)). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years.

Significant transactions

- On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount of the line is US$ 100 million with a four year period, two year grace period of principal and made up of a funded amount and a committed short term revolving facility. The loan is secured by the accounts receivable of certain corporate customers of the Company. As of December 31, 2011 US$ 44.5 million and Ps. 216.9 million have been funded, while the revolving facility has not been disbursed. This loan contemplates a variable interest rate, going from LIBOR+3.0% to LIBOR+4.5% in dollars and a TIIE+3.0% to TIIE+4.5% in pesos, according to the leverage of the Company. Interest payments are on a quarterly basis and the purpose of the loan is to strengthen liquidity, capital investments, debt repayment and other corporate general purposes.

(Thousands of Mexican pesos)

- On March 22, 2010, the Company completed an issuance of senior unsecured notes, for U.S. $190 million with due date on September 22, 2019 and with an annual interest rate of 9.0% which will be paid semiannually starting September 22, 2010. The proceeds of this issuance were used mainly to prepay the remaining balance of the USD and Ps. portions of the Syndicated loan that amounted to U.S. $ 22.7 million and Ps. 938.1 million, respectively. The remaining proceeds were used to pay other short-term debt and for general corporate purposes.

- In order to implement the strategic plans, the Company is restructuring some of the operational areas. The costs of restructuring, which consists of compensation and employee severance payments amounted to Ps. 63,500 and Ps. 163,215 and is included in the statement of operations for the years ended December 31, 2011 and 2010, respectively, as part of the other expenses.

(3) Summary of significant accounting policies

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

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

Significant accounting policies and practices applied in the preparation of the accompanying financial statements follow:

(a) Recognition of the effects of inflation

The accompanying consolidated financial statements have been prepared in accordance with financial reporting standards (FRS) in effect as of the balance sheet date and include the recognition of the effects of inflation on the financial information through December 31, 2007, based upon the Mexican National Consumer Price Index (NCPI) published by Banco de México. Cumulative inflation percentage of the three preceding years and the indexes used to recognized inflation through such year were as follows:

December 31,	NCPI	Inflation	
		Yearly	Cumulative
2011	103.551	3.80%	12.26%
2010	99.742	4.40%	15.19%
2009	95.536	3.57%	14.48%

(Thousands of Mexican pesos)

(b) Principles of consolidation

The consolidated financial statements include the financial statements of Axtel and its subsidiaries. All significant balances and intercompany transactions have been eliminated in the preparation of the consolidated financial statements. The consolidation was based on the audited financial statements of the issuing companies as of December 31, 2011 and 2010, which have been prepared in accordance with the Mexican FRS.

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

	Main activity
Instalaciones y Contrataciones, S. A. de C. V. (“Icosa”)	Administrative services
Servicios Axtel, S. A. de C. V. (“Servicios Axtel”)	Administrative services
Avantel, S. de R.L. de C.V. (“Avantel”)*	Telecommunication services
Avantel Infraestructura S. de R.L. de C.V. (“Avantel Infraestructura”)*	Telecommunications services
Telecom Network, Inc. (“Telecom”)	Telecommunications services

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

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

(c) Cash and cash equivalents

Cash equivalents of Ps. 628,062, Ps. 1,184,280 and Ps. 1,335,670 at December 31, 2011 and 2010 and January 1, 2010, respectively, consist of overnight repurchase agreements and certificates of deposit with an initial term of less than three months. Cash equivalents are carried at the lower of acquisition cost plus accrued interest as of the most recent statement of financial position date and net estimated realizable value. Interest and foreign currency exchange fluctuation are included in the statements of operations as part of the comprehensive financing result.

As of December 31, 2011 and 2010, the Company restricted cash amounted to of Ps. 52,127 and Ps. 58,121, respectively, derived from various financial instrument contracts mentioned in note 7, and the syndicated loan mentioned in note 15.

		2011	**2010**
Financial instruments (note 7)	$	28,104	58,121
Syndicated loan (note 15)		24,023	-
Restricted cash	$	52,127	58,121

(d) Trade accounts receivable

Trade accounts receivable includes the amount billed to customers and a provision for services rendered at the balance sheet date but not billed. Amounts billed are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company reviews its allowance for doubtful accounts on a monthly basis. Account balances are charged to the allowance after all means of collection have been exhausted and the potential recovery is considered remote. Additionally, the realizable value of long-term receivables is determined considering their present value.

(e) Investment in shares of associated company and other permanent investments

Permanent investment in the associated company in which the Company holds 50% of its capital stock, are accounted for by the equity method based on the audited financial statements of the investees as of December 31, 2011, 2010 and January 1, 2010.

Other permanent investments in which the Company holds between 10% and 20% of the investees' capital stock are recorded at cost.

(f) Inventories and cost of sales

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

(g) Property, systems and equipment

Property, systems and equipment, including capital leases, are initially recorded at acquisition cost and the present value of total payments, respectively, and through December 31, 2007, adjusted for inflation by using NCPI factors.

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

Depreciation on property, systems and equipment is calculated using the straight-line method, over the estimated useful lives of the assets as determined by the Company's management. Useful lives are described in note 10.

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

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

(h) Telephone concession rights

Telephone concession rights that are included in intangible assets were restated by NCPI factors through December 31, 2007 and amortized under the straight-line method over a period of 20 to 30 years (the initial term of the concession rights).

(i) Other and intangible assets

Other assets include mainly costs related to Telmex / Telnor infrastructure costs, guarantee deposits, prepaid expenses and notes issuance costs (see note 13).

As a consequence of the acquisition of Avantel and based upon calculations prepared by an independent expert appraiser, the Company recognized certain intangible assets as follows: trade name, customer relationships and concession rights (see note 12).

(j) Employee benefits

Termination benefits for reasons other than restructuring and retirement to which employees are entitled are charged to operations for each year, based on actuarial computations using the projected unit credit method. As of December 31, 2011 and for purposes of recognizing benefits upon retirement, the remaining average service life of employees entitled to plan benefits approximates 21 years.

The actuarial gain or loss is recognized directly in the results of the period as is accrued, in the case of termination benefits, and amortized based on the remaining service life of the employees, for the retirements benefits.

(k) Derivative financial instruments

The Company accounts for derivatives and hedging activities in accordance with FRS C-10, which requires that all derivative instruments be recorded on the balance sheet date at their respective fair values.

The Company uses derivative financial instruments in order to manage financial exposures, especially risks associated with foreign currency and interest rates. In accordance with FRS C-10, the Company may apply hedge accounting to such instruments if it meets certain requirements and assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. The Company accounts for the derivative financial instruments designated as hedging activities into two main classifications: (i) Fair value hedging and (ii) Cash flow hedging.

The Company uses financial derivative instruments that are designated as a Fair Value Hedge where the gain or loss on a derivative instrument designated and qualifying as a fair value hedging instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk shall be recognized currently in earnings in the same accounting period. For financial derivative instruments designated as a Cash Flow Hedge the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument shall be reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

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

The Company and it's subsidiaries will discontinue hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised. In all situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in the fair value of the financial instrument directly in the income statement. (see note 7a).

Embedded derivatives arise from contractual covenants contained in non-derivative contracts, implicitly or explicitly having features of one or more derivatives. In some instances, these embedded derivatives must be segregated from the host contracts and be valued, recognized, presented and reported as if they were free-standing derivative financial instruments. To determine and analyze whether the embedded derivatives must be segregated from the host contracts, the Company reviews the contracts entered into for identifying the potential existence of embedded derivatives. Embedded derivatives so identified are subject to assessment to determine whether they are to be segregated. If so, they are segregated from the host contract and recorded at fair value, with changes in fair value reported in comprehensive financial results. If a decision is made that the embedded derivative is to be designated and qualifies for hedge accounting purposes, one of the three permissible hedge accounting models is followed.

(l) Income taxes (IT), Flat Rate Business Tax (IETU) and employee statutory profit sharing (ESPS)

Current IT, IETU and ESPS payable for the year are determined in conformity with the tax provisions in effect.

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

(m) Comprehensive loss

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

(n) Comprehensive financing result (CFR)

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

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

(o) Revenue recognition

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

- *Telephony Services* - Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services.
- *Activation* - At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized according to the length of the contract between the customer and the Company.
- *Equipment* - At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* - At the moment when the client receives the service.

The Company provides an allowance for doubtful accounts based on management's analyses and estimations. The allowance expense is included as selling and administrative expenses in the consolidated statement of operations.

(p) Business risk concentration

The Company rendered services to three clients that represented approximately 14% and 19% of total net telephone services and related revenues during 2011 and 2010, respectively. Also, the Company mainly receives interconnection services from Telmex.

(q) Contingencies

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

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

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

(s) Segment information

The Company considers that it operates in a single business segment. Management oversees the business as two revenue streams (Mass Market and Business Market); however it is not possible to attribute direct or indirect costs to the individual streams other than selling expenses.

(t) Accruals

Based on management's estimates, the Company recognizes accruals for present obligations where the transfer of assets or the rendering of services is virtually inevitable and arises as a consequence of past events, mainly interests, salaries and other payments to employees.

(u) Advertising expenses

Advertising costs are expensed as incurred.

(4) Accounting changes

The FRS and improvements mentioned below, issued by the Mexican Board for Research and Development of Financial Reporting Standards (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera or CINIF) became effective for fiscal years beginning on or after January 1, 2011, with the respective prospective or retrospective application being specified in each case.

(a) FRS C-4 "Inventories" – FRS C-4 is effective beginning January 1, 2011 with retrospective application, supersedes Bulletin C-4 and establishes new valuation, presentation and disclosure rules for initial and subsequent recognition of inventories on the statement of financial position. The principal changes are as follows:

- FRS C-4 eliminates: a) direct cost as a valuation system and, b) the inventory cost formula (formerly method) referred to as Last In – First Out (LIFO).

- Inventory cost can only written down under the base of net realizable value.

- For inventories acquired on an installment payment basis, the difference between the purchase price under normal credit conditions and the amount paid must be recognized as financial cost during the financing period.

- Under certain circumstances, estimates of impairment losses on inventories recognized in a prior period may be deducted or charged off against results of operations for the period in which such modifications occur.

- Items whose benefits and risks have already been transferred to the entity must be recognized as inventories; therefore, prepayments are not part of inventory.

The application of this FRS did not result in accounting changes to the consolidated financial statements of the Company.

(b) FRS C-5 "Prepayments" – FRS C-5 is effective beginning January 1, 2011, with retrospective application, supersedes Bulletin C-5, and includes primarily the following changes:

- Advances for purchase of inventories (current assets) or property, plant and equipment and intangible assets (non-current assets), among others, must be reported under prepayments provided the benefits and risks inherent in the assets to be acquired or the services to be received have not yet been transferred to the entity. Furthermore, prepaid expenses must be reported based on the nature of the item to be acquired, either under current assets or non-current assets.

- Among other things, the following must be disclosed in notes to financial statements: breakdown of prepayments, accounting policies for recognition and impairment losses, as well as relevant reversal of impairments.

The application of this FRS resulted in a reclassification in the consolidated financial statements from property, systems and equipment to other assets amounting Ps. 13,428 and Ps. 14,128 as of December 31, 2010 and January 1, 2010, respectively.

(c) FRS C-6 "Property, plant and equipment" – FRS C-6 is effective beginning January 1, 2011. The accounting changes resulting from the initial application of this FRS must be prospectively recognized. The principal changes with respect to the superseded Bulletin include the following:

- The bases for determination of the residual value of a component are added.

- The requirement to assign an appraised value to property, plant and equipment acquired at no cost or at an inadequate cost is eliminated.

- Depreciation for components representative of a property, plant and equipment item is mandatory, independently of the depreciation of the rest of the item as if it were a single component.

- Depreciation of idle components must continue, unless depreciation is determined based on the activity.

The application of this FRS did not result in accounting changes to the consolidated financial statements of the Company.

(Thousands of Mexican pesos)

*(d) **FRS C-18*** **"Property, plant and equipment retirement obligations" –** FRS -18 is effective beginning January 1, 2011 and primarily provides for the following:

- Requirements that must be considered for valuation of a obligation associated with the retirement of a component of fixed assets.
- Requirement to recognize retirement obligations as a provision that increases the acquisition cost of a component.
- How changes in the valuation of retirement obligations (provisions) resulting from revisions to the cash flows, the periodicity for settlement and the suitable discount rate to be used must be recognized for accounting purposes.
- Use of a suitable discount rate on estimated future cash flows, incorporating the cost of money and the entity's credit risk.
- Use of the expected present value technique to determine the best estimate for retirement obligations.
- Disclosures that are to be made in case an entity has component retirement obligation.

Based on the requirements of the NIF C-18, the Company conducted an analysis of the obligations associated with the retirement of property, systems and equipment, mainly identifying sites built on leased land on which it has a legal obligation or assumed the retirement thereof.

Accounting changes resulting from the initial application of this standard were recognized retrospectively, affecting the financial statements as follows:

December 31, 2010		Previously reported amounts	Accounting change	Adjusted amounts
Assets				
Property, systems and equipment, net	$	15,698,182	84,717	15,782,899
Deferred income taxes		1,294,679	38,281	1,332,960
Total assets	$	22,408,580	122,998	22,531,578
Asset retirement obligation and other long-term accounts payable		18,535	223,824	242,359
Total liabilities	$	14,674,286	223,824	14,898,110
Stockholders' equity		7,734,294	(100,826)	7,633,468
Total liabilities and stockholders' equity	$	22,408,580	122,998	22,531,578

(Thousands of Mexican pesos)

Year ended December 31, 2010		Previously reported amounts	Accounting change	Adjusted amounts
Depreciation and amortization	$	(2,986,997)	(6,360)	(2,993,357)
Interest expense		(933,347)	(22,778)	(956,125)
Deferred income tax		(10,536)	8,027	(2,509)
Net loss	$	(286,029)	(21,111)	(307,140)

January 1, 2010		Previously reported amounts	Accounting change	Adjusted amounts
Assets				
Property, systems and equipment, net	$	15,210,619	67,963	15,278,582
Deferred income taxes		1,150,507	30,254	1,180,761
Total assets	$	21,603,082	98,217	21,701,299
Asset retirement obligation and other long-term accounts payable		14,438	177,932	192,370
Total liabilities	$	13,402,149	177,932	13,580,081
Stockholders' equity		8,200,933	(79,715)	8,121,218
Total liabilities and stockholders' equity	$	21,603,082	98,217	21,701,299

***(e) 2011 FRS Improvements* –** In December 2010, the CINIF issued the document referred to as "2011 FRS Improvements", which contains precise modifications to some FRS. The modifications that bring about accounting changes are listed below:

- **FRS B-1 "Accounting Changes and Error Corrections"-** FRS B-1 requires the presentation of the initial statement of financial position when there are retrospective adjustments, as well as the presentation in the statement of changes in stockholders' equity of previously reported initial balances, the effects of retrospective application and restated initial balances. These improvements were effective beginning January 1, 2011 and were retrospectively applicable.

- **FRS B-2 "Statement of cash flows"-** The requirement to present in the statement of cash flows the line item "cash surplus to be applied in financing activities or, cash to be obtained from financing activities" is eliminated and is left at a recommendation level. This revision was effective for fiscal years beginning January 1, 2011 and was retrospectively applicable.

- **Bulletin C-3 "Accounts receivable" -** Interest income on accounts receivable is recognized when accrued, provided the relevant amount is reliably determined and likely to be recovered. Furthermore, it is provided that interest income on accounts receivable unlikely to be recovered must not be recognized. These improvements are effective beginning January 1, 2011 y are prospectively applicable.

- **FRS C-10 "Derivative financial instruments and hedging activities" –** The improvements to this new FRS are effective beginning January 1, 2011, with retrospective application. The principal improvements include the following:

  - Certain effects of hedge effectiveness may be excluded.

  - An intra-group transaction may be recognized as hedging only when the functional currencies of the related parties are different from each other.

  - Reporting of the effect of the hedged interest rate risk is required, when a portfolio portion is the hedged position.

  - Account margins must be reported separately.

  - In a hedge relationship, a proportion of the total amount of the hedging instrument may be designated as the hedging instrument. The impossibility of designating a hedge relationship for a portion of the term of the hedging instrument is specified.

- **FRS C-13 "Related parties"-** The definition of "immediate family" is now more specific as it was limited to providing a list of the family members that fell within such definition. This revision was effective for fiscal years beginning January 1, 2011 and was retrospectively applicable.

- **Bulletin D-5 "Leases"-** The discount rate to be used on capital leases is established, disclosures related to such leases are added, and the timing for recognition of the gain or loss on a sale and leaseback transaction is modified. Application is on a prospective basis, except for the changes in disclosures, which must be retrospectively recognized and are effective beginning January 1, 2011.

The application of this improvements did not result in accounting changes to the consolidated financial statements of the Company, except for the application of the improvements to FRS B-1.

(5) Foreign currency exposure

Monetary assets and liabilities denominated in dollars as of December 31, 2011, 2010 and January 1, 2010 are as follows:

	(Thousands of dollars)		
	2011	**2010**	**January 1, 2010**
Current assets	117,550	131,409	94,360
Current liabilities	(125,882)	(177,566)	(138,535)
Long-term liabilities	(820,471)	(780,642)	(617,908)
Foreign currency liabilities, net	(828,803)	(826,799)	(662,083)

As of December 31, 2011 and 2010, the Company recorded Ps. (1,181,567) and Ps. 437,450 of foreign exchange (loss) gain, respectively.

The U.S. dollar exchange rates as of December 31, 2011, 2010 and 2009 were Ps. 13.99, Ps. 12.35 and Ps. 13.05, respectively. As of February 29, 2012, the exchange rate was Ps. 12.87.

As of December 31, 2011, the Company had foreign exchange derivative instruments (see note 7).

Following is a summary for the years ended December 31, 2011 and 2010, of transactions carried out with foreign entities, excluding imports and exports of systems and equipment:

	(Thousands of dollars)	
	2011	**2010**
Interest expense	70,267	66,517
Administrative and technical advisory services	3,740	4,077
Commissions	2,481	2,030
Cost of services	7,983	7,477
	84,471	80,101

(6) Accounts receivable

Accounts receivable consist of the following:

		2011	2010	January 1, 2011
Trade	Ps.	4,025,091	4,059,229	3,509,743
Less allowance for doubtful accounts		2,007,078	1,818,695	1,658,055
Accounts receivable, net	Ps.	2,018,013	2,240,534	1,851,688

The activity in the allowance for doubtful accounts for the years ended December 31, 2011 and 2010 was as follows:

		2011	2010
Balances at beginning of year	Ps.	1,818,695	1,658,055
Bad debt expense		188,383	160,640
Balances at year end	Ps.	2,007,078	1,818,695

(7) Financial instruments

(a) Derivative Financial instruments

The Company and its subsidiaries are exposed, thrugh their normal business relations, to some financial risks denominated as interest rate risk and currency exchange rate risk, mainly. To reduce exposure to those risks the Company and its subsidiaries use derivative financial instruments.

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

The Company and its subsidiaries recorded derivative financial instruments with hedging purposes, that are designated as cash flows hedges, relating to asset or liability risk exposures recognized in the balance sheet or forecast future transactions, where the effective portion of the changes in the fair value of the derivative, adjusted for deferred income taxes, are reported under comprehensive income within stockholders' equity, without affecting the income statement, and reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

For derivative financial instruments that are designated as hedges, the Company and its subsidiaries formally document the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed and the methodology to measure the ineffectiveness.

Margins calls and collaterals are established also in the contract of financial derivative instruments or International Swap Derivatives Association (ISDA). These are established by the counterparties depending on the authorized credit lines. The Company does not operate with counterparts that do not offer reasonable lines of credit.

As of December 31, 2011 and 2010 the Company has U.S. $ 2.0 million and U.S. $ 4.7 million, respectively, posted as collateral.

The Company and its subsidiaries undertake prospective and retrospective tests of effectiveness to ascertain at all times whether the hedging employed remains effective according to applicable accounting standards. At such time that ineffectiveness is detected the Company registers that amount in the results as part of the CFR. Due to the fact that the fair value of derivative financial instruments may suffer significant fluctuations, it is very probable that the Company will be exposed to the volatility related to unrealized profits and losses due to the changes in the fair value of derivative financial instruments in the future.

Derivative financial instruments with hedging purposes

According to the accounting models for hedging activities that are permitted by financial accounting standards, the dimension, risks and estimated impact on the balance sheet or income statement of the following derivative financial instruments are presented below. In contrast to financial instruments for trading purposes, the derivatives designated as hedges do not generate volatility in the income statement, as long as the instruments are highly effective and continue to meet the financial accounting standards to keep the classification as hedging activities.

Fair value hedge

On March 22, 2007, the Company contracted a CCS (Currency Swap) to hedge the risk of interest rate and exchange rate generated by the syndicated term loan for U.S. $110.2 million, which matures in February 2012, whereby the Company will receive payments of 3 months Libor plus 150 base points over U.S. $110.2 million notional and will pay a monthly rate of TIIE 28 days plus 135 base points over Ps. 1,215.5 notional which includes the amortizations of principal. Due to this transaction's characteristics, it is registered under the fair value hedge accounting model. During September 2009 the Company prepaid U.S. $85 million of the portion in U.S. dollars of the syndicated loan, the respective hedge was canceled, and the fair value of such positions was used in a new financial instrument. During March 2010, the Company prepaid the Syndicated Term Loan which was hedged by a "full cross currency swap"; therefore, this derivative was treated as a negotiation hedge until December 2010, when there was a restructuring of the operation with counterpart Credit Suisse canceling this negotiations hedge derivative and modifying some basic conditions of the others contracts with the counterpart.

For the year ended December 31, 2010 the change in the fair value of the hedging activity of the syndicated term loan resulted in a loss of U.S. $1.1 million recognized in the comprehensive financial result, offset by the change in the fair value of the debt valuated at December 31, 2010 in U.S. $3.2 million.

Cash flow hedge

In August 2007, the Company issued senior unsecured notes for U.S. $ 275 million on a fixed rate. The Company decided to enter into a new derivative to hedge the risk of exchange rate derived from this issuance denominated ("Currency Swap"). Under this agreement, Axtel will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 3,038 million (notional value) at a fixed annual rate of 8.43%.

The CCS information is as follows:

(Amounts in charts are expressed in millions)

			Estimated fair value (USD)		
Counterpart	**Notional**	**Basic conditions**	**2011**	**2010**	**January 1, 2010**
Credit Suisse	Ps. 3,039 Ps $275 USD	The Company pays fixed annual rate of 8.43% and receives fixed annual rate of 7.625%	$ 1.3	$ 1.0	$4.3

During October 2010, the Company decided to enter into a new derivative to hedge the exchange rate derived from the issuance mentioned in the preceding paragraph, for the period between February 2012 and August 2014, under these agreements, the Company will receive and will make the payments listed in the following table:

			Estimated fair value (USD)		
Counterpart	**Notional**	**Basic conditions**	**2011**	**2010**	**January 1, 2010**
Credit Suisse	Ps. 2,480 Ps $200 USD	The Company pays fixed annual rate of 8.16% and receives fixed annual rate of 7.625%	$ 3.7	$ 1.0	-
Citibank	Ps. 929 Ps $75 USD	The Company pays fixed annual rate of 8.57% and receives fixed annual rate of 7.625%	$ 0.6	($ 0.5)	-

In September 2009 and March 2010, the Company issued senior unsecured notes for U.S. $ 300 million and U.S. $190 million, respectively, on a fixed rate. The Company decided to hedge the risk of exchange rate derived from this issuance with some derivative financial instruments. Under these agreements, the Company will receive and will make the payments listed in the following table.

During the last quarter of 2011, the Company got rid of the notional hedging of U.S. $65 million of the bonus contracted with Deutsche Bank A.G. and engaged such hedging with Citibank.

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Counterpart	Notional	Conditions	Estimated Fair Value (USD) 2011	2010	2009
Credit Suisse	Ps.2,885 Ps $225 USD	The Company pays fixed rate in pesos of 9.059% and receives fixed rate in usd of 9.00%	$7.1	$2.4	$11.9
Deutsche Bank	Ps.1,320 Ps $100 USD	The Company pays fixed rate in pesos of 10.107% and receives fixed rate in usd of 9.00%	($0.7)	($4.7)	($1.4)
Citibank	Ps. 861 Ps $65 USD	The Company pays fixed rate in pesos of 9.62% and receives fixed rate in usd of 9.00%	$0.5	-	-
Deutsche Bank	Ps.819 Ps $65 USD	The Company pays fixed rate in pesos of 9.99% and receives fixed rate in usd of 9.00%	-	($1.6)	-
Merrill Lynch	Ps.658 Ps $50 USD	The Company pays fixed rate in pesos of 10.0825% and receives fixed rate in usd of 9.00%	($0.3)	($2.2)	($0.5)
Merrill Lynch	Ps.315 Ps $25 USD	The Company pays fixed rate in pesos of 9.98% and receives fixed rate in usd of 9.00%	$0.2	($0.6)	-
Morgan Stanley	Ps.327 Ps $25 USD	The Company pays fixed rate in pesos of 10.080% and receives fixed rate in usd of 9.00%	($0.1)	($1.0)	($0.2)

On November, 2011, the Company closed a syndicated loan up to an amount of US$ 100 million; as of December 31, 2011 US$ 44.4 million and Ps. 216.9 million have been funded. Therefore, the Company decided to hedge the risk related to interest rate and exchange rate through a “Cross Currency Swap” contracted with Credit Suisse to hedge the interest of the first year of the dollar tranche.

(Amounts in charts are expressed in millions)

Counterpart	Notional	Conditions	Estimated Fair Value (USD) 2011	2010	2009
Credit Suisse	Ps.614 MXP $44.4 USD	The Company pays fixed rate in pesos of 5.06% and receives LIBOR + 400	($0.1)	-	-

For the year ended December 31, 2011 and 2010, the change in the fair value of these CCS is an unrealized gain (loss) amounted to U.S. $10.7 and U.S. ($14.6) million. This gain (loss) was recognized within the other comprehensive income section of equity, net of deferred taxes.

Embedded derivatives

The Company has conducted an initiative to identify, analyze and segregate if applicable, those contractual terms and clauses that implicitly or explicitly embed derivatives characteristics within financial or non financial agreements. These instruments are commonly known as embedded derivatives and do follow the same accounting treatment as of those free-standing contractual derivatives. Based on the above, the Company identified and recognized an amount of U.S. ($0.25), U.S. $0.01 and U.S. ($0.11) million within the current (liabilities) assets from embedded derivatives effects as of December 31, 2011, 2010 and January 1, 2011, respectively.

(b) Other financial instruments.

During July, August and September 2009, the Company acquired call options denominated "Zero Strike Call" that have a notional of 26,096,700 CPOs of Axtel. During the months of June and July of 2010, the Company acquired additional call option for 4,288,000 CPOs of Axtel, on the same conditions, obtaining a total of 30,384,700 CPOs as of December 31, 2010. The underlying of these instruments is the market value of the CPOs previously indicated. The premium paid was equivalent to the market value of the notional plus fees. The strike price established was 0.000001 pesos per option. This instrument is redeemable in cash and not in kind. These are American options. At the Company's decision, they can be exercised at any time, for a six months period and are extendable. The position is listed in the following table:

			Fair value (Millions of pesos)		
Counterpart	**Notional**	**Conditions**	**2011**	**2010**	**January 1, 2010**
Bank of America Merrill Lynch	30,384,700 CPOs	The Company receives in cash the market value of the notional	Ps.135.2	Ps.216.0	Ps. 309.5

For the years ended December 31, 2011, 2010 and 2009 the change in the fair value of the Zero Strike Call resulted in an unrealized (loss) gain of (Ps.80,823), (Ps.126,327) and Ps. 86,911, respectively, recognized in the CFR.

(8) Related parties transactions and balances

The transactions with related parties during the years ended December 31, 2011 and 2010, are mainly with Banamex, and are as follows:

		2011	**2010**
Telecommunication service revenue	Ps.	596,517	570,324
Commission and administrative services		14,811	14,127
Interest expense		28,400	4,694
Rent expense		37,061	31,182
Deferred revenue		452,925	570,324
Installation service expense		26,696	24,562
Others		21,691	15,376

(Thousands of Mexican pesos)

The balances with related parties as of December 31, 2011, 2010 and January 1, 2010, included in accounts receivable and accounts payable, respectively, are as follows:

		2011	2010	January 1, 2010
Due from:				
Inversiones DD, S.A. de C.V.	Ps	-	2,343	-
Due to:				
Instalaciones y Desconexiones Especializadas, S.A. de C.V.	Ps	843	949	132
GEN Industrial, S.A. de C.V.		54	162	-
Total	Ps	897	1,111	132

Compensation paid to key directors for the years ended December 31, 2011 and 2010 amounted to approximately Ps. 67 million and Ps. 68 million, respectively. At December 31, 2010 the Company has debt with a related party as described in note 14.

(9) Inventories

Inventories consist of the following:

		2011	2010	January 1, 2010
Routers	Ps.	38,552	41,022	36,695
Installation material		24,276	33,723	32,731
Network spare parts		20,796	26,510	27,156
Tools		13,332	15,261	19,745
Telephones and call identification devices		9,122	11,024	19,849
Others		46,678	38,089	34,505
Total inventories	Ps.	152,756	165,629	170,681

(10) Property, systems and equipment

Property, systems and equipment are as follows:

		2011	2010	January 1, 2010	Useful lives
Land	Ps.	167,331	167,331	167,331	
Building		263,659	263,659	263,659	25 years
Computer and electronic equipment		3,040,278	2,717,392	2,482,616	3 years
Transportation equipment		378,071	355,631	200,373	4 years
Furniture and fixtures		215,919	207,057	183,577	10 years
Network equipment		27,518,874	26,312,273	23,476,290	6 to 28 years
Leasehold improvements		417,957	391,134	372,363	5 to 14 years
Construction in progress		2,536,711	2,088,815	2,011,216	
		34,538,800	32,503,292	29,157,425	
Less accumulated depreciation		19,021,012	16,733,820	13,892,971	
Property, systems and equipment, net	Ps.	15,517,788	15,769,472	15,264,454	

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	December 2010	Additions	Writte off	Capitalization	December 2011
Land	$ 167,331	-	-	-	167,331
Building	263,659	-	-	-	263,659
Computer and electronic equipment	2,717,392	163	-	322,723	3,040,278
Transportation equipment	355,631	7,635	9,987	24,792	378,071
Furniture and fixtures	207,057	797	-	8,065	215,919
Network equipment	26,312,273	631,188	806,363	1,381,776	27,518,874
Leasehold improvements	391,134	179	-	26,644	417,957
Construction in progress	2,088,815	2,440,896	229,000	(1,764,000)	2,536,711
	32,503,292	3,080,858	1,045,350	-	34,538,800
Less accumulated depreciation	16,733,820	3,025,469	738,277	-	19,021,012
Property, systems and equipment, net	$ 15,769,472	(173,611)	78,073		15,517,788

	January 1, 2010	Additions	Writte off	Capitalization	December 2010
Land	$ 167,331	-	-	-	167,331
Building	263,659	-	-	-	263,659
Computer and electronic equipment	2,482,616	-	154	234,930	2,717,392
Transportation equipment	200,373	9,045	2,988	149,201	355,631
Furniture and fixtures	183,577	226	-	23,254	207,057
Network equipment	23,476,290	154,071	255,510	2,937,422	26,312,273
Leasehold improvements	372,363	-	-	18,771	391,134
Construction in progress	2,011,216	3,441,177	-	(3,363,578)	2,088,815
	29,157,,425	3,604,519	258,652	-	32,503,292
Less accumulated depreciation	13,892,971	2,886,904	46,054	-	16,733,820
Property, systems and equipment, net	$ 15,264,454	717,615	212,598	-	15,769,472

The Company has capitalized CFR as a complement of the acquisition cost, of Ps.151,922 and Ps.17,938 for the years ended December 31, 2011 and 2010, respectively.

As of December 31, 2011, certain financial leases amounting to approximately Ps.19 million were guaranteed with the equipment acquired with those leases.

(Thousands of Mexican pesos)

(11) Investment in shares of associated company and other permanent investments

As of December 31, 2011, the investment in shares of associated company through Avantel is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to $9,667. The operation of this company consists of providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the Company requested the concession.

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

Other permanent investments

The other permanent investments are as follows:

		2011	2010	January 1, 2010
Opanga Networks	Ps.	17,798	17,798	-
Eden Rock Communications		16,735	16,735	6,493
		36,938	34,533	6,493
Less impairment of other permanent investments		36,938	-	-
Other permanent investments	Ps.	-	34,533	6,493

(12) Intangible assets

Intangible assets with defined useful lives consist of the following:

		2011	2010	January 1, 2010
Telephone concession rights Axtel	Ps.	1,073,135	1,073,135	1,073,135
Telephone concession rights Avantel		114,336	114,336	114,336
Customers relationships		324,183	324,183	324,183
Trade name “Avantel”		186,074	186,074	186,074
		1,697,728	1,697,728	1,697,728
Less accumulated amortization		1,249,849	1,182,397	1,114,946
Intangible assets, net	Ps.	447,879	515,331	582,782

Concessions rights of the Company

The main concessions of the Company are as follows:

- On June, 1996 Axtel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

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

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

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

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

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel, 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 FRS B-7. 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. As of December 31, 2010 the values of the trade name “Avantel” and of customer relationships were totally amortized.

(Thousands of Mexican pesos)

(13) Other assets

Other assets consist of the following:

		2011	2010	January 1, 2010
Notes issuance costs	Ps.	172,062	172,062	131,348
Long-term prepaid expenses		55,142	75,765	85,054
Telmex / Telnor infrastructure costs		68,279	68,279	68,279
Guarantee deposits		48,357	41,983	43,730
World Trade Center concession rights		22,474	22,474	22,474
Deferred financing costs		66,849	-	41,016
Rights of use		31,159	31,159	31,159
Advances to suppliers		10,204	13,428	14,128
Others		142,695	138,959	136,965
		617,221	564,109	574,153
Less accumulated amortization		219,816	183,716	175,864
Other assets, net	Ps.	397,405	380,393	398,289

Notes issuance costs

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

Telmex / Telnor infrastructure costs

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

Deferred financing costs

During 2011 Ps. 66,849 were capitalized from costs related to the new syndicated loan mentioned in note 15.

The deferred financing costs incurred in the acquisition of Avantel will be amortized based upon the terms of the loans to which they are related. During 2010, derived from the prepayment of the syndicated loan mentioned in note 15, the Company cancelled approximately Ps. 41,016 of deferred financing costs related to those obligations less their accumulated amortization of Ps. 32,403.

(Thousands of Mexican pesos)

(14) Short-term debt

Short-term debt as of December 31, 2010 consists of a revolving unsecured credit agreement with Banamex in Mexican pesos, due in March 2011 and renewable on a quarterly basis. The interest rate is TIIE + 375 base points and it is due monthly. On November 2011 this loan was paid in full.

(15) Long-term debt

Long-term debt as of December 31, 2011, 2010 and January 1, 2010 consist of the following:

		2011	2010	January 1, 2010
U.S. $275,000,000 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.	Ps.	3,847,360	3,398,203	3,591,143
U.S. $300,000,000 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually in arrears starting on March 22, 2010.		4,197,120	3,707,130	3,917,610
U.S. $190,000,000 in aggregate principal amount of 9 % Senior Unsecured Notes due in 2019. Interest is payable semiannually in arrears starting on September 22, 2010.		2,658,176	2,347,849	-
Premium on Senior Unsecured Notes with an aggregate principal of U.S. $190,000,000 with an interest rate of 9%, due in 2019.		48,332	54,569	-
Syndicated loan totaling U.S. $100 million with variable interest rate from LIBOR + 3.0% to LIBOR + 4.5% and from TIIE + 3.0% to TIIE + 4.5% according to the leverage of the Company. Interest payments are made quarterly. As of December 31, 2011 U.S. $ 44.5 million and Ps. 216.9 million have been funded.		838,904	-	-
Subtotal continued next page	Ps.	11,589,892	9,507,751	7,508,753

(Thousands of Mexican pesos)

Subtotal to coming of previous page	Ps.	11,589,892	9,507,751	7,508,753
Unsecured Syndicated Loan with Citibank, N.A., as the administrative agent, and Banamex as the peso agent, with a peso tranche in the aggregate amount of Ps. 1,042.4 and a U.S. dollar tranche in the aggregate amount of U.S. $110.2. The final maturity date is February 2012, with quarterly principal repayments starting February 2010, with an interest rate for the tranche in pesos of TIIE + 150 base points, and the tranche in U.S. dollar of LIBOR + 150 base points.		-	-	1,371,770
Change in the fair value of syndicated loan (mencioned above)		-	-	39,740
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011.		453,237	127,642	280,336
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.		468,245	549,472	691,604
Total long-term debt		12,511,374	10,184,865	9,892,203
Less current maturities		380,880	375,996	944,553
Long-term debt, excluding current maturities	Ps.	12,130,494	9,808,869	8,947,650

Annual installments of long-term debt are as follows:

Year		Amount
2013	Ps.	389,124
2014		600,975
2015		389,406
2016 and thereafter		10,750,989
	Ps.	12,130,494

For the years ended December 31, 2011 and 2010, the debt interest expense was Ps. 976,819 and Ps. 888,926, respectively.

Most significant changes in the long-term debt during 2011, 2010 and 2009 are as follows:

On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount of the line is US$ 100 million with a four year period, two year grace period of principal and made up of a funded amount and a committed short term revolving facility. The loan is secured by the accounts receivable of certain corporate customers of the Company. As of December 31, 2011 US$ 44.5 million and Ps. 216.9 million have been funded, while the revolving facility has not been disbursed. The operation contemplates a variable rate from LIBOR+3.0% to LIBOR+4.5% in dollars and a TIIE+3.0% to TIIE+4.5% in pesos, according to the leverage of the Company. Interest payments are on a quarterly basis and the purpose of the loan is to strengthen liquidity, capital investments, debt repayment and other corporate general purposes.

On March 22, 2010, the Company completed an issuance of senior unsecured notes, for an amount of U.S. $190 million with due date on September 22, 2019 and with an annual interest rate of 9.0% which will be paid semiannually starting September 22, 2010. The proceeds of this issuance were mainly used to prepay the remaining balance of the USD and Ps. portions of the Syndicated loan that amounted to U.S. $ 22.7 million and Ps. 938.1 million, respectively. The remaining proceeds will be used to pay other short-term debt and in general corporate purposes.

On September 22, 2009, the Company issued U.S. $300 million of 10-year 9% unsecured senior notes. The notes mature on September 22, 2019. Interest will be payable semiannually and the senior notes bear interest at 9.0% commencing on March 22, 2010. The proceeds of this issuance were used to prepay the debt described as follows.

During September, October and December 2009, the Company redeemed U.S. $162.5 million aggregate principal amount of its 11% Senior Unsecured Notes due 2013 equal to 100% of the remaining balance. The redemption was as follows:

Amounts in millions of USD:

Date		Amount	Price
September 22, 2009	$	128.5	105.750%
October 1, 2009		2.2	102.750%
December 15, 2009		31.8	103.667%
	$	162.5	

Additionally, the Company paid all accrued interest at the date of redemption. The premium paid in these transactions was U.S. $8.6 million, which was included in the comprehensive financial result (“CFR”).

(Thousands of Mexican pesos)

On September 25, 2009, the Company prepaid U.S. $85.0 million of the portions in USD of the Syndicated Loan, including accrued interest at the date of redemption.

Some of the debt agreements that remain outstanding establish certain covenants, the most significant of which refer to limitations on dividend payments and comprehensive insurance on pledged assets and the compliance with certain financial ratios. As of December 31, 2010 and February 29, 2011, the Company was in compliance with all of its covenants.

(16) Other accounts payable

As of December 31, 2011, 2010 and January 1, 2010 other accounts payable consist of the following:

		2011	2010	January 1, 2010
Restructuring accruals	Ps.	59,855	100,000	-
Guarantee deposit (SR Telecom)		11,034	9,746	10,300
Guarantee deposits (note 23(c))		-	-	169,763
Interest payable (note 23(c))		-	-	108,925
Liabilities derived from payroll and other accounts payable		128,960	88,883	82,515
	Ps.	199,849	198,629	371,503

(17) Employee benefits

The cost, obligations and other elements of pensions, seniority premiums and severance compensations plans for reasons other than restructuring have been determined based on computations prepared by independent actuaries at December 31, 2011 and 2010. The components of the net periodic cost for the years ended December 31, 2011 and 2010 are as follows:

		2011		
		Termination	Retirement	Total
Net periodic cost:				
Service cost	Ps.	10,557	756	11,313
Interest cost		4,390	290	4,680
Amortization of transition obligations		2,301	-	2,301
Net actuarial gain		(6,232)	-	(6,232)
Amortization of prior service cost and plan modifications		(3,596)	(27)	(3,623)
Net periodic cost	Ps.	7,419	1,019	8,439

(Thousands of Mexican pesos)

		2010		
		Termination	**Retirement**	**Total**
Net periodic cost:				
Service cost	Ps.	9,917	626	10,543
Interest cost		4,946	288	5,234
Amortization of transition obligations		2,301	-	2,301
Net actuarial loss		6,228	-	6,228
Amortization of prior service cost and plan modifications		(3,596)	(28)	(3,624)
Net periodic cost	Ps.	19,796	886	20,682

The actuarial present value of benefit obligations of the plans at December 31, 2011, 2010 and January 1, 2010 are follows:

		2011		
		Termination	**Retirement**	**Total**
Accumulated benefit obligation (ABO)	Ps.	-	424	424
Projected benefit obligation (PBO)	Ps.	70,001	4,719	74,720
Unrecognized items:				
Transition asset		(2,301)	-	(2,301)
Variances in assumptions		3,596	441	4,037
Actuarial loss		-	435	435
Net projected liability	Ps.	71,296	5,595	76,891

		2010		
		Termination	**Retirement**	**Total**
Accumulated benefit obligation (ABO)	Ps.	54,214	71	54,285
Projected benefit obligation (PBO)	Ps.	68,622	4,140	72,762
Unrecognized items:				
Transition asset		(4,602)	-	(4,602)
Variances in assumptions		7,192	468	7,660
Actuarial loss		-	(32)	(32)
Net projected liability	Ps.	71,212	4,576	75,788

(Thousands of Mexican pesos)

		January 1, 2010		
		Termination	**Retirement**	**Total**
Accumulated benefit obligation (ABO)	Ps.	51,021	8	51,029
Projected benefit obligation (PBO)	Ps.	63,055	3,388	66,443
Unrecognized items:				
Transition asset		(6,903)	-	(6,903)
Variances in assumptions		10,788	494	11,282
Actuarial loss		-	(192)	(192)
Net projected liability	Ps.	66,940	3,690	70,630

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

	2011	**2010**	**January 1, 2010**
Discount rate (net of inflation) used to reflect the present value of obligations	7.5%	7.00%	8.50%
Rate of compensation increase	4.00%	4.00%	5.50%
Amortization period of unrecognized items	5 años	5 años	5 años
Average remaining labor life of employees	20.6 años	21.1 años	20.5 años

(18) Income tax (IT), Flat Rate Tax (IETU) and employee statutory profit sharing (ESPS)

Under the current tax legislation, companies must pay the greater of their IT or IETU. If IETU is payable, the payment will be considered final and not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, 29% for 2013 and 28% for 2014 and thereafter. The IETU rate is 17.5 % for 2010 and thereafter.

According to financial accounting standards, management performed an evaluation of the tax that the Company and its subsidiaries will be subject for the years ended December 31, 2011 and 2010. In 2008, the Company determined that certain subsidiaries will be subject to IETU. For presentation purposes of deferred taxes, deferred IETU and IT are presented jointly.

(Thousands of Mexican pesos)

The income tax benefit attributable to loss before income taxes differed from the amounts computed by applying the Mexican statutory rates of 30% for IT in 2011 and 2010 to loss, as a result of the items mentioned below:

		2011	2010
Computed "expected" tax benefit	Ps.	668,052	95,546
Increase (decrease) resulting from:			
Effects of inflation, net		82,102	126,525
Change in valuation allowance		(163,520)	(49,288)
Accelerated depreciation		(48,613)	(123,938)
Non-deductible expenses		(136,007)	(10,000)
Deferred IETU		(89,905)	13,850
IT cancellation from subsidiarie		(52,534)	-
Effects on base for IETU and IT rate		(63,138)	(43,571)
Other		(12,379)	2,217
IT and IETU benefit	Ps.	184,058	11,341

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2011, 2010 and January 1, 2010 are presented below:

		2011	2010	January 1, 2010
Deferred tax assets:				
Net operating loss carryforward	Ps.	1,024,651	619,924	726,134
Allowance for doubtful accounts		513,353	477,701	432,756
Fair value of derivative financial instruments		-	94,744	-
Accrued liabilities and others		166,688	315,275	186,807
Recoverable tax on assets		330,363	398,084	382,104
Deferred IETU		121,602	138,402	61,098
Premium on bond issuance		14,500	16,371	-
Property, systems and equipment		358,001	217,276	402,976
Total gross deferred tax assets		2,529,158	2,277,777	2,191,875
Less valuation allowance		822,953	765,361	726,076
Net deferred tax assets for IT and IETU		1,706,205	1,512,416	1,465,799

		2011	2010	January 1, 2010
Deferred tax liabilities:				
Telephone concession rights		103,301	123,920	149,889
Fair value of derivative financial instruments		37,360	-	58,067
Intangible and other assets		39,535	55,536	77,082
Total deferred tax liabilities		180,196	179,456	285,038
Deferred tax assets, net for IT and IETU	Ps.	1,526,009	1,332,960	1,180,761

(Thousands of Mexican pesos)

The rollforward for the net deferred tax asset for the years ended December 31, 2011, 2010 and January 1, 2010 is presented below:

		2011	**2010**	**January 1, 2010**
Balances at beginning of year	Ps.	1,332,960	1,180,761	1,222,577
Deferred IT benefit (expense)		273,963	(2,509)	(119,431)
Deferred IETU (expense) benefit		(16,800)	77,304	29,052
Deferred IT from the application effect of FRS C-8		-	-	7,558
Deferred IT of derivative financial instruments		(64,115)	77,404	41,005
Expiration of tax loss		24,117	-	-
Expiration of tax on assets		81,811	-	-
Change in valuation allowance		(105,928)	-	-
Balances at end of year	Ps.	1,526,009	1,332,960	1,180,761

The valuation allowance as of January 1, 2011, 2010 and January 1, 2010 was Ps. 822,953, Ps. 765,361 and Ps. 726,076, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2011. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2011, the tax loss carryforward and the refundable tax on assets expire as follows:

Year		**Inflation-adjusted tax loss carryforward**	**Tax on assets**
2012	Ps	460,535	52,743
2013		539,257	84,977
2014		107,286	81,522
2015		-	29,823
2016		23,378	26,942
2017		-	54,356
2018		990,239	-
2019		-	-
2020		172,758	-
2021		1,722,284	-
	Ps.	4,015,737	330,363

(Thousands of Mexican pesos)

The recoverable tax loss carry - forwards includes Ps. 487,845 from companies in which deferred IETU was calculated.

The tax effects of temporary differences that gave rise to deferred employee profit sharing as of December 31, 2011, 2010 and January 1, 2010 are presented below:

		2011	2010	January 1, 2010
Deferred ESPS assets:				
Accrued liabilities	Ps.	6,175	3,817	2,016
Accrued for labor obligations		7,689	20,238	7,063
Other payroll accruals		10,972	-	4,352
Net deferred ESPS asset		24,836	24,055	13,431
Deferred ESPS liabilities:				
Deferred income		6,200	3,278	2,079
Property, systems and equipment		554	274	907
Other		-	1,922	738
Total deferred ESPS liability		6,754	5,474	3,724
Deferred ESPS asset, net	Ps.	18,082	18,581	9,707

The rollforward for the net deferred employee profit sharing asset for the years ended December 31, 2011, 2010 and January 1, 2010 is presented below:

		2011	2010	January 1, 2010
Balances at beginning of year	Ps.	18,581	9,707	7,815
Deferred ESPS (expense) benefit		(499)	8,874	1,892
Balances at end of year	Ps.	18,082	18,581	9,707

During the years ended December 31, 2011 and 2010 employee profit sharing was Ps.4,955 and Ps.6,051, respectively.

(19) Asset retirement obligation and other long-term accounts payable

As of December 31, 2011, 2010 and January 1, 2011 is as follows:

		2011	2010	January 1, 2010
Asset retirement obligation (note 4)	Ps.	253,129	223,824	177,932
Other long-term accounts payable		12,233	18,535	14,438
	Ps.	265,362	242,359	192,370

Based on the requirements of the NIF C-18, the Company conducted an analysis of the obligations associated with the retirement of property, systems and equipment, mainly identifying sites built on leased land on which it has a legal obligation or assumed the retirement thereof.

As a result of the adoption of this new accounting standard, the financial statements previously reported were adjusted retrospectively.

(20) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

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

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

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

At December 31, 2011, the common stock of the Company is Ps. 6,625,536. The Company has 8,769,353,223 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. From the total shares, 96,636,627 shares are Series A and 8,672,716,596 shares are Series B. At December 31, 2009 the Company has only issued Class "I" shares. Also, at December 31, 2010 and 2009 all shares issued are part of the fixed portion.

(b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps. 8,346,917 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Some of the debt agreements mentioned in note 15 establish limitations on dividend payment.

(Thousands of Mexican pesos)

(c) Comprehensive loss income

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

		2011	**2010**
Net loss	Ps.	(2,042,922)	(307,140)
Fair value of derivative financial instruments		213,715	(258,014)
Deferred IT of derivative financial instruments		(64,115)	77,404
Comprehensive loss	Ps.	(1,893,322)	(487,750)

(21) Telephone services and related revenues

Revenues consist of the following:

		2011	**2010**
Local calling services	Ps.	4,160,082	4,481,829
Long distance services		1,233,985	1,150,122
Data services		2,594,528	2,504,115
International traffic		1,246,418	1,175,293
Other services		1,604,392	1,340,602
	Ps.	10,829,405	10,651,961

(22) Other (expenses) income, net

Other (expenses) income consists of the following:

		2011	**2010**
Write off of fixed assets inventories	Ps.	(324,409)	-
Restructuring cost (note 2)		(63,500)	(163,215)
Gain on guarantee deposit cancelation (note 23 c)		-	196,302
Impairment of other permanent investments		(36,938)	-
Others, net		5,397	5,381
	Ps.	(419,450)	38,468

(Thousands of Mexican pesos)

(23) Commitments and contingencies

As of December 31, 2011, the Company has the following commitments and contingencies:

(a) On September 1, 2008, the Department of Communications and Transportation (*Secretaría de Comunicaciones y Transportes* "SCT"), issued four rulings resolving four administrative review proceedings regarding interconnection disagreements that were previously filed before the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones* "Cofetel") against the following companies: Radiomovil Dipsa, S.A. de C.V. ("Telcel"), Iusacell PCS, S.A. de C.V. and others ("Grupo Iusacell"), Pegaso PCS, S.A. de C.V. and others ("Grupo Telefonica") and Operadora Unefon, S.A. de C.V. ("Unefon").

The resolutions issued by the SCT, primarily consider the application of new rates regarding consumption beginning in September 2008, and secondly, the retroactive application of those rates. In the case of Telcel in effect since January 1, 2008, and for the case of the other mobile operators (Grupo Iusacell, Grupo Telefonica and Unefon), in effect since October 2006.

Therefore, effective September 2008, the mobile carriers are obligated to bill the Company for the termination of calls in mobile phones under the modality of "Calling Party Pays" according to the terms of the resolutions (using rates based on the actual duration of the call), and in addition, according to such resolutions, the Company could claim the amounts that the Company has paid in excess during the periods referred to under the above mentioned resolutions, that is, the difference between the interconnection rates applied by the mobile carriers and paid by the Company during such period, and the rates established by the SCT in the resolutions.

As of December 31, 2011, according to the resolutions of the SCT and using some preliminary information of the Company, both Axtel and Avantel would have paid approximately Ps. 397.7 million in excess to Telcel, and to the rest of the mobile operators, Ps. 396.6 million, as shown in the following table:

Telcel		**Axtel**	**Avantel**	**Total**
2006	Ps.	-	-	-
2007		-	-	-
January - July 2008		355.0	42.7	397.7
Total	Ps.	355.0	42.7	397.7

Other Operators		**Axtel**	**Avantel**	**Total**
2006	Ps.	53.5	7.7	61.2
2007		181.7	25.9	207.6
January – July 2008		112.8	15.0	127.8
Total	Ps.	348.0	48.6	396.6

With respect to the possibility of the Company to recover the payments made in excess of applicable amounts due under the resolutions for periods prior to August 2008, it is important to mention that collection or recovery of such amounts is not automatic, therefore, in order to collect or recover, among other alternatives, the Company may initiate ordinary commercial lawsuit against the mobile carriers. In this case any claimed amounts by the Company in such litigation will be subject to the interpretation of the Judges based upon the evidence and documents presented by the parties, that in case that the Company decides to follow this alternative. Considering the characteristics and complexity of the resolutions of the SCT and their effects, plus the fact that there is little or no precedents, it is very likely that these proceedings will be lengthy. As of December 31, 2011, the Company has not recognized the benefit of any such possible recovery.

As a result of the resolutions issued by the SCT, the Company recognized from August 2008 and thereafter, the interconnection rate applicable for termination is: Ps. 0.5465, Ps. 0.5060, Ps. 0.4705 and Ps. 0.4179 for each actual minute for Telcel and Telefonica for the years 2008, 2009, 2010 and 2011, respectively; and Ps. 0.6032 per minute for the rest of the carriers. Applying the concept of non-discriminatory treatment, Avantel also adopted the rates mentioned above. The rates that Axtel and Avantel were paying before the resolutions amounted to Ps. 1.3216 for each actual minute for Telcel and Ps. 1.21 for each rounded minute for the rest of the mobile carriers. As of December 31, 2011, the difference between the amounts paid by the Company according to the new rates established by the SCT, and the amounts billed by the mobile carriers, amounted to approximately Ps. 1,979 million not including value added tax.

The Company is aware that Telcel and the other mobile carriers have filed before the Federal Courts, their disagreement with respect to the resolutions issued by the SCT, and there is a contingency for the Company (Axtel and Avantel) in case that the Courts rule against these resolutions, and that as a result, different rates are established in comparison to those established by the SCT. The contingency would be the difference between the rates established by SCT, and those rates established by the Courts under the respective resolutions, such contingency in case that these rates are higher than Ps. 0.5465, Ps. 0.5060, Ps. 0.4705 and Ps. 0.4179 for each actual minute for Telcel and Telefonica for 2008, 2009, 2010 and 2011, respectively; and Ps. 0.6032 for each actual minute for the rest of the mobile carriers. The Company's management believes that the Company has the necessary elements to prevail under these proceedings before the Court, therefore, since August 2008 and thereafter, it has recognized the cost based on Ps. 0.5465 per each actual minute for Telcel and Ps. 0.6032 per each minute for the rest of the mobile carriers.

In April 2010, with respect to Iusacell court case, a Federal Judge issued a resolution (in first instance) in which it determined, that the SCT was competent to resolve the respective administrative review proceeding filed by Axtel, but instead of having determined directly the interconnection rates, the SCT should have provided guidelines on this matter to Cofetel, in order for Cofetel to issue the disputed interconnection tariffs. Afterwards, a Federal District Court determined on this matter, that the administrative review proceeding had to be resolved by Cofetel, and not by the SCT, by means of which, now Cofetel is in the process of issuing a new ruling on this matter. This implies that the SCT's resolution regarding interconnection rates was revoked, and remitted to Cofetel for its determination of the applicable interconnection rates. On October 20, 2010, Cofetel issued resolution P/201010/492 by means of which, it determined the interconnection tariffs applicable between Axtel and Telefonica, for the period 2008 – 2011, considering the same amounts established by the SCT in its resolution dated September 01, 2008, this is, Ps. 0.5465 per actual minute for the year 2008, Ps. 0.5060 for the year 2009, Ps. 0.4705 for the year 2010, and Ps.0.4179 for the year 2011.

On February, 2012, the Supreme Court of Justice, ruled that the SCT had no standing to resolve the review proceedings filled by Axtel, and that the Cofetel is the Authority that should solve these review procedures. By means of the above, Cofetel must, in the following months, determine yet again, the interconnection tariffs applicable between Axtel and the Mobile Service Providers, mentioned in the precedent paragraphs. Therefore, the interconnection tariffs that Axtel has to pay to these Mobile Service Providers, are not definitely determined, due to the fact that these new resolutions could be, once again, contested by the Parties.

After evaluating the actual status of the foregoing proceedings and according to the available information and information provided by the legal advisors, management of the Company considers that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal process the interests of the Company will prevail.

Company's management is aware of the fact that Telcel and the other mobile operators have asked the federal courts for the suspension of the resolutions by the SCT, but the Supreme Court of Justice resolved that the resolutions regarding interconnection tariffs cannot be legally suspended.

Due to Cofetel resolution P/201010/492, whereby the interconnection rates applicable between Axtel and Telefonica for the period 2008 – 2011 were determined, these are the current rates between Telefonica and Axtel. Such rates are lower than the interconnection tariffs that were previously paid by Axtel to Telefonica. Telefonica contested this resolution by means of filing a Constitutional Trial (*Juicio de Amparo*), which is currently at its initial stage with a Federal District Judge.

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

Until June 2010, Telmex billed the Company for the termination of long distance calls applying the rates that were applicable prior to the resolutions mentioned above, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2011, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps. 1,240 million, not including value added tax.

Telmex filed for nullification of the proceeding with the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*) requesting the nullification of Cofetel's administrative resolution. The Company (Axtel and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and that as a result, establishes different rates compared to those established by Cofetel. Telmex obtained a suspension for the application of the interconnection rates established by Cofetel, such suspension came into effect on January 26, 2010, but ceased to be in force and effect as of February 11, 2010, since the Company decided to exercise its right to leave without effect the suspension by guaranteeing any damages that could be caused to Telmex. Nonetheless, the Court revoked Telmex's guarantee, taking into consideration the issuance of resolution P/140410/189, whereby Cofetel resolved the same low rates between Axtel and Telmex for the year 2010.

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

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

The Company believes that the rates under Cofetel resolution will prevail, therefore has recognized the cost based on the rates approved by Cofetel. Due to the fact that the proceedings followed by Telmex are recent, the Company and its legal advisors are evaluating the steps to be followed.

As of December 31, 2009, there was a letter of credit for U.S. $34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's acquired obligations in several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. As of December 31, 2011, Avantel has been able to recover Ps.335,883 from the amount mentioned above, through the compensation collection with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis. The remaining balance of Ps. 139,790 is recognized in the "other accounts receivable" line item in the balance sheet.

(c) On January 24, 2001, an agreement was entered into with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.), with expiration on January 24, 2004, whereby Global Towers was to provide to the Company with services for the location, construction, setting up and selling of sites within the Mexican territory. As part of the operation, the Company agreed to lease from Global Towers 650 sites in a time frame period of three years.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. According to the agreement, these funds are not subject to restrictions with respect to their use and destination. However, the agreement contemplates the payment of interest at a Prime Rate in favor of Global Towers on the warranty amount corresponding to the number of sites that as of June 24, 2004, were not sold or leased in accordance with the terms of the agreement.

During 2002, Spectrasite Communications México, S. de R.L. de C.V., filed an Ordinary Mercantile Trial against the Company before the Thirtieth Civil Court, which was filed under the number 203/2002, claiming the refund of the guarantee deposit for an amount of USD$13,000,000 (Thirteen million dollars 00/100 US currency), plus interest and trial-related expenses; the Company gave answer to this Law Suit, by opposing to the reimbursement of such deposit, and counterclaiming from its North American Holding Spectrasite Communications Inc., the payment of any and all losses incurred to Axtel as a result of the unlawful termination of the agreement, made unilaterally by Spectrasite.

Finally, after 3 *Amparo* Trial rulings, on December 15 2011, was confirmed the resolution issued by the Third Civil Chamber by means of the Appellate Court File 1242/2008, issued on September 22, 2010. Due to the above said, there is no liability against Axtel arising from the Agreement entered with Global Towers.

Additionally, Global Towers and Spectrasite Communicatrion Inc., were condemned to pay to Axtel, the amount of USD$13,000,000 (Thirteen million dollars 00/100 US currency), as a result of Damages caused to Axtel, due to their non-compliance with the obligation regarding to the construction or acquisition from Axtel, of the 650 specific contracts, that came as a result of the unlawful termination of the Agreement.

Global Towers Comunications México, S. de R.L. de C.V., formerly Spectrasite Comunications México, S. de R.L. de C.V., as well as its American holding, were condemned to the payment of interests in favor of Axtel, at a rate of six percent per year, accrued since the 28 day of February, 2002, date in which the Agreement was unlawfully terminated.

(d) During September and November 2005, Avantel Infraestructura filed a lawsuit against the resolution of the "*negativa ficta*" (automatic negative ruling as a result of lack of answer) with the Federal Court of Tax and Administrative Justice arising from the fact that there was no resolution during the 3 months period as stated under the Federal Tax Code (*Código Fiscal de la Federación*) with respect to the request for a confirmation of criteria in the sense that Avantel Infraestructura is not obliged to pay duties under article 232 Section I of the Federal Duties Law, with respect to the use of exclusive economic geographic zone in Mexico related to certain landing points in "Playa Niño", region 86, Benito Juarez, Itancah Tulum, Carrillo Puerto, and Quintana Roo.

The suit was turned for study and resolution to the 5th Metropolitan Regional Court of the Federal Court of Tax and Administrative Justice, who declared the annulment of the "*negativa ficta*", in order for the authority being sued to issue another resolution legally supported, considering the terms of the resolution.

In disagreement with the ruling pronounced by the Federal Court of Tax and Administrative Justice, Avantel Infraestructura filed an *Amparo Directo* (Constitutional Review), while at the same time, the authority started a Tax Review, proceedings that were already resolved, determining the obligation of Avantel to pay duties for to the use of the exclusive economic geographic zone mentioned above, at a rate of 7.5% of the value determined by the Administration and Valuation of National Property Institute (*Instituto de Administración y Avaluos de Bienes Nacionales*). As of this date, we are awaiting the issuance by the Administration and Valuation of National Property Institute, of the master valuation that allows payment.

(e) The Company is involved in a number of lawsuits and claims arising in the normal course of business. It is expected that the final outcome of these matters will not have significant adverse effects on the Company's financial position and results of operations.

(f) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps. 5,025 and to other service providers amounting to Ps. 1,011,226.

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

(h) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for 2011 and 2010 was Ps. 567,986 and Ps. 518,735, respectively.

The annual payments under these leases as of December 31, 2011 are as follows:

		Contracts in:	
		Pesos (thousands)	**Dollars (thousands)**
2012	Ps.	247,449	8,547
2013		359,813	11,019
2014		435,462	9,690
2015		459,210	7,285
2016		489,569	5,691
2017 and thereafter		360,198	9,279
	Ps.	2,351,701	51,511

(i) As of December 31, 2011, the Company has placed purchase orders which are pending delivery from suppliers for approximately Ps. 708,460.

(24) International Financial Reporting Standards

The National Banking and Securities Commission (CNBV) requires certain entities that disclose their financial information to the public through the Mexican Stock Exchange, that beginning in 2012, they must prepare and disclose their financial information according to International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS. The transition date is January 1, 2011 and, therefore, the year ended December 31, 2011 will be the comparative period established by IFRS 1, First-Time Adoption of International Financial Reporting Standards. According to IFRS 1, the Company will apply the relevant mandatory exceptions and certain optional exemptions.

The Company will apply the relevant mandatory exceptions to the retroactive application of IFRS as follows:

Calculation of estimates - Estimates at the date of transition are consistent with estimates at the same date under MFRS, unless there is evidence of error in these estimates.

Hedge accounting - Hedge accounting will be applied only if the hedge relationship meets the criteria established by IFRS as of the date of transition.

Non-controlling interests - The Company does not include a non-controlling interest in its financial statements requiring the application of the requirements of IAS 27, Consolidated and Separate Financial Statements, relating to non-controlling interest prospectively from the date of transition.

The Company chose the following optional exemptions to the retroactive application of IFRS:

Business combinations - The business combinations exemption will be applied; therefore, no reformulations have been made to business combinations that took place before the date of transition.

Deemed cost - The deemed cost exemption will be applied; therefore, the Company has opted for using the restated amounts according to Mexican Financial Reporting Standards of the items of property, systems and equipment, which include inflation adjustments until December 31, 2007, being the last period when FRS required the recognition of the effects of inflation on financial information by using general indexes.

Employee benefits - The employee benefits exemption will be applied; therefore, all cumulative actuarial gains and losses as of the date of transition are recognized on the cumulative losses from previous years.

Borrowing costs – The Company will apply the borrowing costs exemption to not modify the capitalized borrowing costs on qualified assets for a period that commenced and ended before the transition date.

The following is a summary of the main differences between Mexican Financial Reporting Standards and IFRS that the Company has identified as of the date of the accompanying consolidated financial statements:

Effects of inflation - Under IFRS, the inflationary effects are recognized in the financial statements when the economy of the currency used by the Company qualifies as hyperinflationary. The Mexican economy was no longer hyperinflationary in 1998 and, consequently, inflationary effects that were recognized by the Company until December 31, 2007 under NIF were reversed. The reduction of value in the intangible asset was Ps.210,005, other assets by Ps.7,483, the reclassification of the capital stock was Ps.936,539 and additional paid-in capital was Ps.96,961 against the accumulated losses from prior years at the transition date.

Employee benefits - Under IFRS, provisions for severance compensations are recognized until the Company has a demonstrable commitment to end the relationship with the employee or has made an offer to encourage voluntary retirement, therefore, the liability recognized under FRS of Ps.55,816 was eliminated. Also, IFRS does not allow the recognition of Deferred ESPS assets or liabilities; therefore, the Deferred ESPS asset recognized under FRS of Ps.18,581 was eliminated.

Deferred tax - The adjustments to be recognized by the Company represent an impact on the deferred income taxes calculation, according with the requirements established by IAS 12, *Income Taxes*. The impact resulted in an increase in deferred tax assets by Ps.287,194.

Embedded derivative financial instruments - IAS 39 *Financial Instruments: Recognition and Measurement,* establishes an exception to embedded derivatives in contracts that are denominated in foreign currency when the foreign currency is commonly used in the economic environment of the Company, which is the case of U.S. dollar, so the Company canceled the balance recognized under FRS in embedded derivatives for Ps.196.

Other differences in presentation and disclosures in the financial statements - IFRS disclosure requirements are, generally, wider in scope than those of FRS. This may result in a larger number of disclosures regarding accounting policies, significant judgments and estimates; financial instruments and risk management, among others. In addition, there may be differences in presentation.

The information contained in this note has been prepared in accordance with the standards and interpretations issued and in effect, or issued and adopted in advance of the date of preparation of these consolidated financial statements. Standards and interpretations that will be applicable as of December 31, 2012, including those that may be applied optionally, are not known with certainty at the time of preparation of the consolidated financial statements as of December 31, 2011 and 2010. In addition, the accounting policies selected by the Company could be modified as a consequence of changes in the economic environment or industry trends that occur after the issuance of these consolidated financial statements. The information contained in this note is not intended to comply with IFRS, as only a group of financial statements that includes the statements of financial position, comprehensive income, changes in stockholders' equity and cash flows, along with comparative information and explanatory notes, can provide an appropriate presentation of the financial position of the Company, the result of its operations and its cash flows in accordance with IFRS.

(25) Recently issued international standards

A series of new standards, amendments to standards and interpretations are applicable to the annual periods that start after January 1, 2012 and have not been applied in the preparation of these consolidated financial statements.

- In October 2010, the IASB issued NIIF 9 *Financial Instruments* (NIIF 9 (2010)) effective on January 1, 2013. NIIF 9 (2010) supersedes the previous version issued in November 2009 (NIIF 9 (2009)). Early adopters can choose to apply NIIF 9(2010) or NIIF 9 (2009) for periods starting before January 1, 2013.

- In December 2010, the IASB issued *Deferred Tax: Recovery of Relevant Assets – Modifications to NIC 12* that came into effect on January 1, 2012.

- In May 2011, the IASB issued NIIF 10 *Consolidated Financial Statements*, NIIF 11 *Joint Agreements*, NIIF 12 *Information to Disclose on Shares in Other Entities* and NIIF 13 *Fair Value Measuring* and all become effective on January 1, 2013. Besides, IASB issued NIC 27 *Separate Financial Statements* (2011), superseding NIC 27 (2008) and NIC 28 *Investments in Associated Companies and Joint Businesses* (2011) superseding NIC 28 (2008). All these standards come into effect on January 1, 2013.

- In June 2011, the IASB issued the *Presentation of Items of the Other Comprehensive Result* (Amendments to 1 *Presentation of Financial Statements*) effective on July 1, 2012.

  Company management is in the process of analyzing and evaluating possible effects, if any, that enforcing these changes could generate.

EXHIBIT B

ANNUAL REPORT OF THE ACTIVITIES OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE

INFORME ANUAL DE ACTIVIDADES
COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

26 de marzo de 2012.

Al Consejo de Administración
de Axtel, S.A.B. de C.V.

P R E S E N T E . -

En cumplimiento de lo dispuesto por el artículo 43 de la Ley del Mercado de Valores, y en mi carácter de Presidente del Comité de Auditoría y Prácticas Societarias (el "Comité") de Axtel, S.A.B. de C.V. (la "Sociedad"), me permito presentar un informe sumario de las actividades desempeñadas por dicho comité durante el ejercicio social que concluyó al 31 de Diciembre de 2011.

Este informe se presenta con el conocimiento de los miembros del Comité, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y/o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Asuntos en Materia de Auditoría.

a) Se analizó el estado que guarda el sistema de control interno, siendo informados de los programas y desarrollo del trabajo de auditoría interna y de auditoría externa. Se determinó que se cumple con la efectividad requerida para que la Sociedad y sus subsidiarias operen en un ambiente general de control, y no se detectaron deficiencias o desviaciones materiales.

b) Se realizaron las investigaciones necesarias para estar en aptitud de informar que no se encontraron incumplimientos relevantes de los lineamientos y políticas de operación y de registro contable de la Sociedad y sus subsidiarias.

c) Se evaluó el desempeño de la firma que presta los servicios de auditoria externa, así como del auditor externo encargado de la misma. Se determinó que dicho desempeño fue satisfactorio y que los socios de la firma KPMG Cárdenas Dosal, S.C. reúnen los requisitos de calidad profesional e independencia requeridos.

d) Se analizaron los servicios adicionales o complementarios proporcionados por la firma que presta los servicios de auditoría externa, no encontrándose situaciones que comprometan su independencia.

e) Se revisaron los estados financieros de la Sociedad y sus subsidiarias, por el ejercicio social que concluyó el 31 de Diciembre de 2011, y se analizó con los auditores externos de la Sociedad el dictamen sobre dichos estados financieros, así como las notas a los mismos.

f) En la preparación y elaboración de los estados financieros, las principales políticas contables fueron aplicadas consistentemente con el ejercicio anterior.

g) La información financiera fue preparada conforme a las Normas de Información Financiera.

h) Se revisó el Informe del Director General a que se refiere el Artículo 44, fracción XI de la Ley del Mercado de Valores, emitiendo opinión favorable del mismo.

i) Se nos informó sobre las políticas contables aprobadas durante el ejercicio 2011, sin que se hayan presentado modificaciones importantes a las mismas.

j) No se formularon observaciones relevantes por parte de accionistas, consejeros, directivos relevantes, empleados (todos ellos de la Sociedad) y, en general, de cualquier tercero, respecto de la contabilidad, controles internos y temas relacionados con la auditoria interna o externa de la Sociedad o subsidiarias, ni tampoco se realizaron denuncias sobre hechos que se estimen irregulares en la administración de la Sociedad o subsidiarias.

II. Asuntos en Materia de Prácticas Societarias.

a) No se consideraron observaciones respecto al desempeño de los directivos relevantes de la Sociedad y sus subsidiarias.

b) Se revisaron los mecanismos implementados por la Sociedad para evaluar el desempeño de sus directivos relevantes.

c) Se analizó el desempeño y la remuneración integral de los directivos relevantes de la Sociedad y sus subsidiarias.

d) En el ejercicio social del 2011 no se celebraron operaciones significativas con partes relacionadas salvo los servicios prestados a Grupo Financiero Banamex y filiales, que representaron ingresos de $646 millones de pesos, $8 millones menos que los ingresos del 2010. Con respecto a los diversos financiamientos contratados con Grupo Financiero Banamex y filiales durante 2011, todas las operaciones realizadas fueron pactadas en condiciones competitivas de mercado.

e) En el ejercicio social del 2011 no se presentaron situaciones por virtud de las cuales se hubiere requerido otorgar dispensas para el aprovechamiento de negocios por parte de personas relacionadas a la Sociedad.

Atentamente,

Bernardo Guerra Treviño
Presidente del Comité de
Auditoría y Prácticas Societarias