

**San Pedro Garza García, México, July 19, 2006** - Axtel, S.A. de C.V. (“AXTEL”), one of the leading telecommunications services providers in Mexico, today announced its unaudited second quarter results ended June 30, 2006. Figures in this release are based on Mexican GAAP, stated in constant pesos (Ps.) as of June 30, 2006. Comparisons in pesos are in real terms, that is, adjusted for inflation.

## Revenues

We derive our revenues from:

- *Local calling services.* We generate revenue by enabling our customers to originate and receive an unlimited number of calls within a defined local service area. Customers are charged with a flat monthly fee for basic service, a per call fee for local calls (“measured service”), a per minute usage fee for calls completed on a cellular line (“calling party pays,” or CPP calls) and a monthly fee for value added services and internet when requested by the customer.
- *Long distance services.* We generate revenues by providing long distance services (domestic and international) for our customers’ completed calls.
- *Other services.* We generate revenues from other services, which include activation fees for new customers as well as data, interconnection and dedicated private line service charged on a monthly basis.

The following table summarizes our revenues from operations based on the above mentioned sources:

### LTM Revenues

Million Pesos	2006 LTM	% of Total	2005 LTM	% of Total	% of Change
Local	3,881.8	72.5%	3,213.4	71.0%	20.8%
Long Distance	464.3	8.7%	429.9	9.5%	8.0%
Other	1,005.4	18.8%	884.5	19.5%	13.7%
<b>Total</b>	<b>5,351.5</b>	<b>100.0%</b>	<b>4,527.9</b>	<b>100.0%</b>	<b>18.2%</b>

### Quarterly Revenues

Million Pesos	Q2 2006	% of Total	Q2 2005	% of Total	% of Change
Local	1,025.0	72.5%	892.1	71.9%	14.9%
Long Distance	121.6	8.6%	115.9	9.3%	5.0%
Other	267.7	18.9%	233.4	18.8%	14.7%
<b>Total</b>	<b>1,414.3</b>	<b>100.0%</b>	<b>1,241.3</b>	<b>100.0%</b>	<b>13.9%</b>

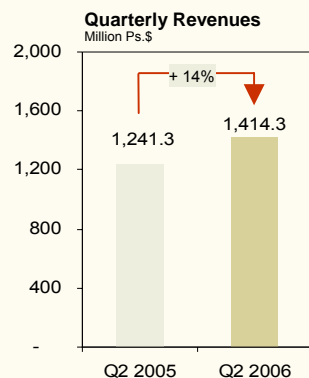
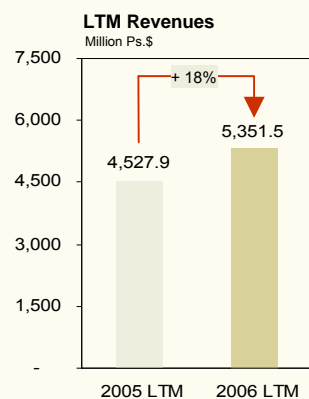
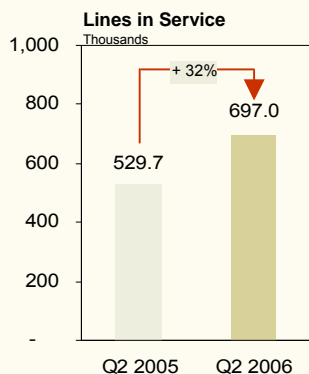
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## Revenues from operations

Revenues from operations increased to Ps. 1,414.3 million in the second quarter of year 2006 from Ps. 1,241.3 million for the same period in 2005, an increment of Ps. 172.9 million or 14%. Our lines in service at the end of the second quarter of 2006 totaled 696,968 compared to 529,653 at the end of the same period in 2005, an increase of 32%.

Revenues from operations totaled Ps. 5,351.5 million in the twelve month period ended June 30, 2006, compared to Ps. 4,527.9 million in the same period in 2005, an increase of Ps. 823.7 million or 18%.

We derived our revenues from the following sources:

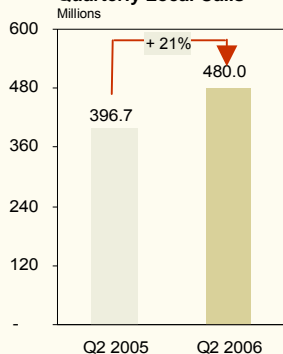
**Local services.** Local service revenues amounted to Ps. 1,024.9 million for the three-month period ended June 30, 2006, compared to Ps. 892.1 million for the same period ended in 2005, an increase of Ps. 132.9 million or 15%. For the twelve-month period ended June 30, 2006, revenue from local services totaled Ps. 3,881.7 million, an annual improvement of Ps. 668.4 million, or 21%, from Ps. 3,213.4 million recorded in the same period in 2005. The main drivers of these improvements were increased monthly rents and revenues from cellular consumption originated from higher number of lines in service in existing and new cities.

**Long distance services.** Long distance service revenues amounted to Ps. 121.6 million for the three-month period ended June 30, 2006, compared to Ps. 115.8 million in the same period in 2005, an increase of Ps. 5.7 million or 5%. For the twelve month period ended June 30, 2006, long distance services grew to Ps. 464.3 million from Ps. 429.9 million registered in the same period in 2005, an increment of Ps. 34.4 million or 8%.

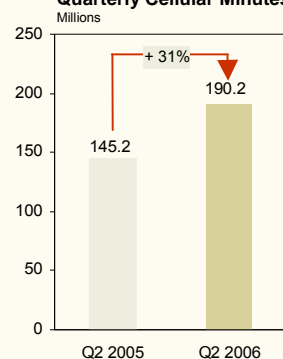
**Other services.** Revenue from other services totaled Ps. 267.7 million in the second quarter of 2006, a positive variation of Ps. 34.3 million, or 15%, from Ps. 233.4 million registered in the same period in 2005. Other services revenue increased to Ps. 1,005.4 million for the twelve month period ended June 30, 2006, from Ps. 884.5 million for the same period in year 2005, an increment of Ps. 120.9 million or 14%.

## Consumption

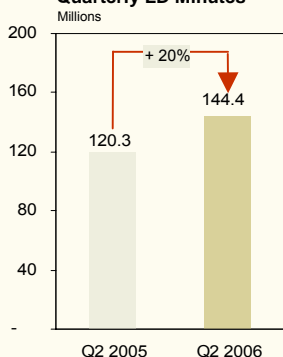
**Quarterly Local Calls**



**Quarterly Cellular Minutes**



**Quarterly LD Minutes**

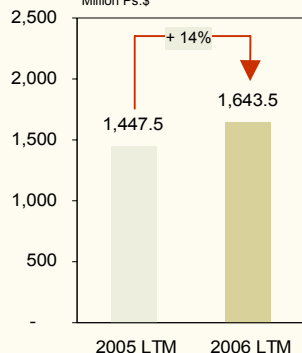


**Local Calls.** Local calls totaled 480.0 million in the three-month period ended June 30, 2006, an increase of 83.2 million, or 21%, from 396.7 million recorded in the same period in 2005. For the twelve month period ended June 30, 2006, local calls increased to 1,798.2 million from 1,386.9 million registered in the same period in 2005, an increment of 411.3 million calls or 30%. A higher number of lines in service was the main driver for these increases.

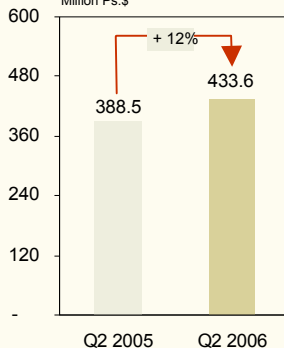
**Cellular (“Calling Party Pays”).** Minutes of use of calls completed to a cellular line amounted to 190.2 million in the three-month period ended June 30, 2006, compared to 145.2 million in the same period in 2005, a 31% improvement equivalent to 45.0 million. For the twelve month period ended June 30, 2006, cellular minutes grew 184.4 million, or 37%, from 505.1 million registered in the the twelve-month period ended June 30, 2005, to 689.5 million in the same period in 2006.

**Long distance.** Long distance minutes increased to 144.4 million for the three-month period ended June 30, 2006 from 120.3 million in the same period in 2005, an increment of 24.1 million or 20%. For the twelve month period ended June 30, 2006, long distance minutes amounted 523.8 million, compared to 423.5 million registered in the same period in 2005, an increase of 100.3 million of minutes, or 24%. These increases are explained by the larger consumption of bundled offers that incorporate long distance minutes.

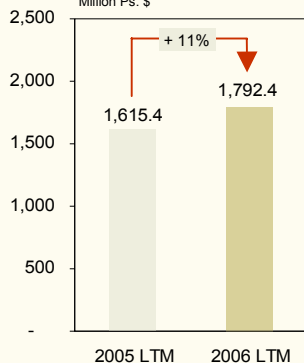
**LTM Costs**  
Million Ps.\$



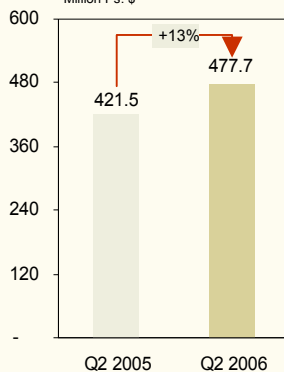
**Quarterly Costs**  
Million Ps.\$



**LTM Op. Expenses**  
Million Ps. \$



**Quarterly Op. Expenses**  
Million Ps. \$



## Cost of Revenues and Operating Expenses<sup>2</sup>

**Cost of Revenues.** For the three-month period ended June 30, 2006, the cost of revenues totaled Ps. 433.6 million, an increase of Ps. 45.0 million compared with the same period of year 2005. For the twelve month period ended June 30, 2006, the cost of revenues reached Ps. 1,643.5 million, an increase of Ps. 195.9 million in comparison with the same period in year 2005. These increments were mainly due to a higher consumption in cellular minutes.

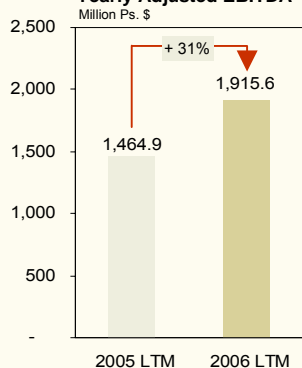
**Gross Profit.** Gross profit is defined as revenues minus costs of revenues. For the second quarter of 2006, the gross profit accounted for Ps. 980.7 million, an increase of Ps. 127.9 million or 15%, compared with the same period in year 2005. For the twelve month period ended June 30, 2006, our gross profit totaled Ps. 3,708.0 million, compared to Ps. 3,080.3 million recorded in the same period of year 2005, a positive variation of Ps. 627.7 million or 20%.

**Operating expenses.** For the second quarter of year 2006, operating expenses grew Ps. 56.3 million, or 13%, totaling Ps. 477.7 million compared to Ps. 421.5 million for the same period in year 2005. The two main factors that generated this increment were the greater customer base and business scale in the twelve cities in operations in the second quarter of 2005, and the incremental expenses associated with the four new cities opened in 2006. For the twelve month period ended June 30, 2006, operating expenses added Ps. 1,792.4 million, coming from Ps. 1,615.4 million in the same period in 2005, an increase of Ps. 176.9 million. This increase was attributable primarily to salaries, rents, sales commissions and network maintenance based on the current operational level of the Company.

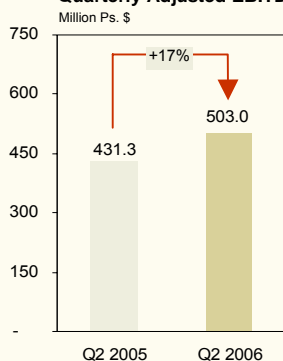
<sup>2</sup> Our costs are categorized as follows:

- Cost of revenues include expenses related to the termination of our customers' cellular and long distance calls in other carriers' networks, as well as expenses related to billing, payment processing, operator services and our leasing of private circuit links.
- Operating expenses include costs incurred in connection with general and administrative matters which incorporate compensation and benefits, the costs of leasing land related to our operations and costs associated with sales and marketing and the maintenance of our network.
- Depreciation and amortization includes depreciation of all communications network and equipment and amortization of preoperating expenses and the cost of spectrum licenses.

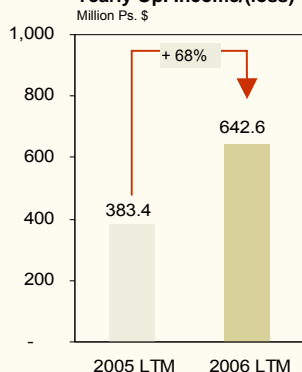
### Yearly Adjusted EBITDA



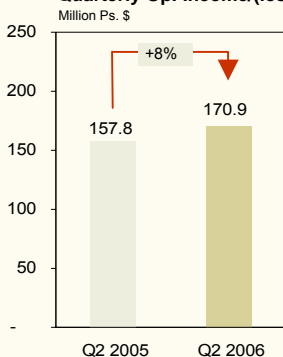
### Quarterly Adjusted EBITDA



### Yearly Op. Income/(loss)



### Quarterly Op. Income/(loss)



**Adjusted EBITDA.** (1) The Adjusted EBITDA was Ps. 503.0 million for the three-month period ended June 30, 2006 as compared to Ps. 431.3 million for the same period in 2005, an increase of 17%. As a percentage of total revenues it was 35.6% for the three month period ended June 30, 2006. For the twelve-month period ended June 30, 2006 amounted to Ps. 1,915.6 million, compared to Ps. 1,464.9 million in the same period in year 2005, a positive variation of Ps. 450.7 million, or 31%.

**Depreciation and Amortization.** As a result of the continuing expansion of our asset base, depreciation and amortization totaled Ps. 332.0 million in the three-month period ended June 30, 2006 compared to Ps. 273.5 million for the same period in year 2005, an increase of Ps. 58.5 million or 21%. Depreciation and amortization for the twelve-month period ended June 30, 2006 reached Ps. 1,273.0 million, from Ps. 1,081.5 million in the same period in year 2005, an increment of Ps. 191.5 million, or 18%.

**Operating Income (loss).** Operating income totaled Ps. 170.9 million in the three-month period ended June 30, 2006 compared to an operating income of Ps. 157.8 million registered in the same period in year 2005, an increase of Ps. 13.1 million or 8%. For the twelve month period ended June 30, 2006 our operating income reached Ps. 642.6 million when compared to the income registered in the same period of year 2005 of Ps. 383.4 million, an increment of Ps. 259.2 million or 68%.

(1) For additional detail on the Adjusted EBITDA Reconciliation, go to AXTEL's web site at [www.axtel.com.mx](http://www.axtel.com.mx)

**Comprehensive financial result.** The comprehensive financial loss was Ps. 89.8 million for the three-month period ended June 30, 2006, compared to a gain of Ps. 14.4 million for the same period in 2005. The loss evidenced in the second quarter of 2006 was a result of a significant non-cash foreign exchange loss of Ps. 40.6 million, compared to a gain of Ps. 91.8 million in the same period in 2005, partially offset by a decrease of Ps. 30.0 million in net interest expense due to our reduced indebtedness level. For the twelve month period ended June 30, 2006, the comprehensive financial result was affected in Ps. 105.8 million by the partial early redemption of our 11% Senior Notes, compensated in part by an increment of Ps. 51.3 million in interest income. The following tables illustrate the comprehensive financial results:

#### Quarterly Comprehensive Financial Result

Million Pesos	Q2 2006	Q2 2005	% of Change
Net interest expense	(51.4)	(81.4)	37%
Foreign exchange gain (loss), net	(40.6)	91.8	N/A
Monetary position gain	2.3	4.1	-44%
<b>Total</b>	<b>(89.8)</b>	<b>14.4</b>	<b>N/A</b>

#### Yearly Comprehensive Financial Result

Million Pesos	2006 LTM	2005 LTM	% of Change
Net interest expense	(360.6)	(301.8)	-19%
Foreign exchange gain (loss), net	(47.2)	108.2	N/A
Monetary position gain	46.2	64.5	-28%
<b>Total</b>	<b>(361.6)</b>	<b>(129.0)</b>	<b>-180%</b>

**Capital Expenditures.** AXTEL invested Ps. 379.3 million in fixed assets during the second quarter of 2006 vs. Ps. 325.0 million during the same period in 2005, a 17% increase. For the twelve month period ended June 30, 2006, Axtel invested Ps. 1,744.9 million in fixed assets compared to Ps. 1,654.8 million in the same period of year 2005, an increase of Ps. 90.1 million. This investment was targeted towards the expansion of our network infrastructure in current and new cities.

**Highlights.** In June 2006, AXTEL extended the business agreement with Nextel de Mexico through December 31, 2007. Additionally, during the second quarter of 2006, AXTEL launched operations in Celaya, increasing AXTEL's presence to 16 cities.

#### About Axtel

AXTEL is one of the leading fixed-line telecommunications providers in Mexico. It offers local services, national and international long distance services, internet and value-added services. It provides a basic telecom infrastructure in Mexico through its intelligent network, offering a wide range of services to all its markets. Headquartered in Monterrey, AXTEL also has presence in Guadalajara, Leon, Mexico, Puebla, Toluca, Queretaro, San Luis Potosi, Aguascalientes, Saltillo, Cd. Juarez, Tijuana, Torreon, Veracruz, Chihuahua and Celaya.

Visit AXTEL on the web at [www.axtel.com.mx](http://www.axtel.com.mx)

\*\*Financial Tables will Follow\*\*

## Axtel, S.A. de C.V. and Subsidiaries

Unaudited Consolidated Balance Sheet

June 30, 2006 and 2005

(Thousand of constant pesos with purchasing power as of June 30, 2006)

<b>ASSETS</b>	<b>Jun-06</b>	<b>Jun-05</b>
<b>Current assets:</b>		
Cash and equivalents	1,034,116	1,144,038
Accounts receivable	714,050	632,781
Refundable taxes and other accounts receivable	85,097	128,449
Prepaid Expenses	24,983	36,438
Inventories	67,742	63,534
Accounts receivable from related parties	-	-
Financial Instruments	-	-
<b>Total current assets</b>	<b>1,925,988</b>	<b>2,005,240</b>
<b>Non current assets</b>		
Property, plant and equipment, net	7,276,812	6,666,601
Long-term accounts receivable	21,586	20,019
Telephone concession rights	654,734	708,082
Pre-operating results, net	166,455	191,059
Deferred income tax	-	70,013
Other assets	160,299	163,012
<b>Total non current assets</b>	<b>8,279,886</b>	<b>7,818,786</b>
<b>TOTAL ASSETS</b>	<b>10,205,874</b>	<b>9,824,026</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Account payable & Accrued expenses	644,351	495,848
Accrued Interest	8,851	15,541
Short-term debt	-	111,847
Current portion of long-term debt	43,782	49,516
Taxes payable	42,147	35,605
Financial Instruments	44,652	44,165
Other accounts payable	262,621	221,599
Due to related party	-	-
<b>Total current liabilities</b>	<b>1,046,404</b>	<b>974,121</b>
<b>Long-term debt</b>		
Long-term debt	1,920,303	2,901,821
Deferred income tax	5,526	-
Seniority premiums	3,212	2,190
Allowance for severance payments	21,400	-
Other long-term liabilities	2,859	3,099
Premium on bond issuance	-	-
<b>Total long-term debt</b>	<b>1,953,300</b>	<b>2,907,110</b>
<b>TOTAL LIABILITIES</b>	<b>2,999,704</b>	<b>3,881,231</b>
<b>STOCKHOLDERS EQUITY</b>		
Capital stock	8,125,928	7,421,908
Additional paid-in capital	512,547	146,852
Accumulated losses	(1,535,645)	(1,707,266)
Cumulative deferred income tax effect	123,763	123,763
Change in the fair value of derivative instruments	(20,423)	(42,462)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>7,206,170</b>	<b>5,942,795</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>10,205,874</b>	<b>9,824,026</b>

**Axtel, S.A. de C.V. And Subsidiaries**
**Unaudited Consolidated Income Statement**

Periods ended June 30, 2006 and 2005

(Thousand pesos of constant purchasing power as of June 30, 2006)

	Second Quarter ended June 30			LTM ended June 30		
	2006	2005	Effect	2006	2005	Effect
Total Revenues	Ps.\$ 1,414,287	Ps.\$ 1,241,316	13.9%	Ps.\$ 5,351,528	Ps.\$ 4,527,859	18.2%
Operating cost and expenses						
Cost of sales and services	(433,587)	(388,546)	-11.6%	(1,643,481)	(1,447,524)	-13.5%
Selling and administrative expenses	(477,733)	(421,474)	-13.3%	(1,792,423)	(1,615,448)	-11.0%
Depreciation and amortization	(332,036)	(273,512)	-21.4%	(1,273,017)	(1,081,486)	-17.7%
Total Operating Costs and Expenses	(1,243,356)	(1,083,532)	-14.8%	(4,708,921)	(4,144,458)	-13.6%
Operating income (loss)	170,931	157,784	8.3%	642,607	383,401	67.6%
Comprehensive financing result:						
Interest expense	(65,137)	(91,150)	28.5%	(446,459)	(336,416)	-32.7%
Interest income	13,719	9,717	41.2%	85,868	34,605	148.1%
Net interest income (expense)	(51,418)	(81,433)	36.9%	(360,591)	(301,811)	-19.5%
Foreign exchange gain (loss), net	(40,604)	91,750	N/A	(47,204)	108,237	N/A
Monetary position gain	2,263	4,053	-44.2%	46,207	64,532	-28.4%
Comprehensive financing result, net	(89,759)	14,370	N/A	(361,588)	(129,042)	-180.2%
Other income (expenses), net	(12,497)	573	N/A	(179)	4,222	N/A
Special item	-	-	N/A	-	-	N/A
Income (loss) before income taxes and employees' profit sharing	68,675	172,727	-60.2%	280,840	258,581	8.6%
Asset Tax	-	-	N/A	-	-	N/A
Deferred income tax	(22,635)	(50,130)	54.8%	(109,219)	(205,894)	47.0%
Deferred employees' profit sharing	-	-	N/A	-	-	N/A
Total income tax and employees' profit sharing	(22,635)	(50,130)	54.8%	(109,219)	(205,894)	47.0%
Net Income (Loss)	Ps.\$ 46,040	122,597	-62.4%	Ps.\$ 171,621	52,687	225.7%

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