

# 2<sup>nd</sup> Quarter 2016



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**San Pedro Garza Garcia, Mexico, July 18, 2016** - Axtel, S.A.B. de C.V. (“AXTEL” or “the Company”), a Mexican information and communications technology company, announced today its unaudited second quarter results ended June 30, 2016<sup>(1)</sup>. Axtel is a subsidiary of Alfa S.A.B. de C.V. (“ALFA”).

Million Pesos	Q2	Q1	Q2	(% ) 2Q16 vs.		LTM	LTM
	2016	2016	2015	1Q16	2Q15	jun-16	jun-15
Revenues <sup>(2)</sup>	3,478	2,840	2,542	22%	37%	11,510	9,911
EBITDA <sup>(6)</sup>	1,139	359	471	>100%	>100%	2,741	3,482
EBITDA Margin	32.8%	12.6%	18.5%	>100%	77%	23.8%	35.1%
Net (loss) Income	-952	-1,141	-537	17%	-77%	-3,451	-1,833
Capital Expenditures	794	1,443	570	-45%	39%	3,225	2,530
Net Debt	19,039	18,462	9,928	3%	92%		
Net Debt / EBITDA <sup>(7)</sup>						4.3x	2.9x

*Note: Figures shown throughout the document include Alestra S. de R.L. de C.V. and its subsidiaries (“Alestra”) as of February 15, 2016. However, in order to explain variations, reference is also made to pro forma figures, as if the merger had occurred at the beginning of each period.*

## Highlights:

- ❖ Synergies from the merger between Axtel and Alestra continue to be captured as planned. Four months after the merger, Axtel has captured 50% of run-rate EBITDA synergies.
- ❖ During the second quarter, as part of Axtel’s strategy to strengthen its IT capabilities, the Company completed the acquisition of the remaining 49% stake in Estratel, a Mexican firm specialized in the integration of IT solutions for government and enterprise customers generating annual revenues of 250 million pesos.
- ❖ Axtel has been actively participating in the “Red Compartida” network project to eventually become a relevant user of this network as mobility is a key element of the Company’s strategy, both in the mass market and the enterprise segment.
- ❖ Axtel’s business segments have shown mixed results during the first half of the year; the enterprise and FTTH business segments had a positive performance. However, the government segment has had a subpar performance negatively affecting the Company’s results.

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**axtel**

alestra\* axtel

## Sources of Revenues

Million Pesos	Q2 2016	Q1 2016	Q2 2015	(% 2Q16 vs.)	
				Q1 2016	Q2 2015
<b>MASS MARKET</b>	<b>806</b>	<b>771</b>	<b>834</b>	<b>5%</b>	<b>-3%</b>
FTTH	494	447	415	11%	19%
Wireless	313	324	419	-3%	-25%
<b>TELECOM</b>	<b>2,201</b>	<b>1,756</b>	<b>1,497</b>	<b>25%</b>	<b>47%</b>
Voice	707	580	465	22%	52%
Data and Internet	849	549	231	55%	267%
Managed Networks	645	628	801	3%	-19%
<b>IT</b>	<b>471</b>	<b>313</b>	<b>211</b>	<b>50%</b>	<b>123%</b>
<b>TOTAL</b>	<b>3,478</b>	<b>2,840</b>	<b>2,542</b>	<b>22%</b>	<b>37%</b>

Note: Figures shown throughout the document include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period. For historic figures, please see page 7, Notes 2 and 3.

### Mass Market:

Quarterly revenues decreased 3%:

**FTTH.** FTTH revenues totaled Ps. 494 million in the second quarter of 2016, compared to Ps. 415 million for same period in 2015, representing a 19% increase in line with a 17% increase in customers. Voice revenues increased 11% due to a 26% increase in monthly rent revenues mitigated by a 73% decline in mobile revenues due to lower billed fix-to-mobile minutes and prices. Internet and video revenues increased 20% and 36% respectively, mainly due to increases in internet and video subscribers and higher ARPU.

**Wireless.** Revenues amounted to Ps. 313 million in the second quarter of 2016, compared to Ps. 419 million in the same period in 2015, a 25% decrease explained by a 30% decline in customers. Voice revenues decreased 27% mainly explained by a 22% decline in monthly rents and a 56% decline in mobile revenues due to less billed fix-to-mobile minutes. Internet revenues decreased 17% due to a decline in internet subscribers.

### Telecom:

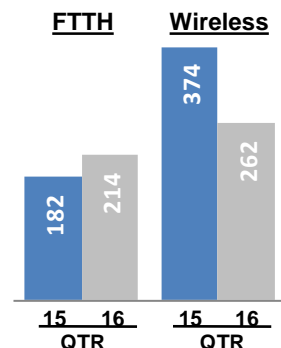
Quarterly revenues totaled Ps. 2,201 million, compared to Ps. 1,497 million in the same period in 2015, a 47% increase. On a pro forma basis, revenues decreased 19% due to declines in managed networks and voice revenues. Voice revenues decreased 17% due to declines fix-to-mobile revenues, toll-free (800s) revenues and a 82% decline in international traffic revenues explained by both volume and price declines. Data and Internet revenues increased 12% due to an increase in services to existing Alestra customers. Managed networks revenues decreased 42% mainly due to an extraordinary level of revenues in the same quarter last year and a cancellation of a provision from a government project during this quarter.

### IT:

IT revenues amounted to Ps. 471 million in the second quarter of 2016, compared to Ps. 211 million in the same period in 2015, a 123% increase. On a pro forma basis, revenues increased 4% due to strong increases in system integration and hosting revenues related to new projects mainly from the government segment.

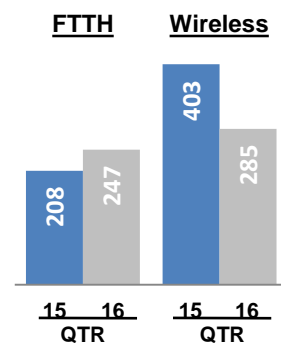
## Customers

(in 000s)



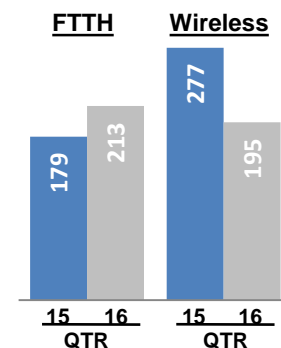
## Lines in Service

(in 000s)



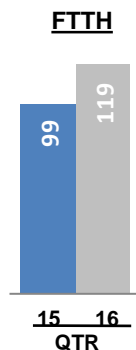
## Broadband subs.

(in 000s)



## Video subs.

(in 000s)



## Mass Market Operating Data

**Customers.** As of June 30, 2016, customers totaled 476 thousand, a reduction of 80 thousand from the same date in 2015 due to the continued decline in Wireless customers. Total customers declined 18 thousand on a sequential basis. ARPU for FTTH and wireless customers is Ps. 841 and Ps. 424, respectively.

**RGUs<sup>(8)</sup>.** As of June 30, 2016, RGUs (Revenue Generating Units) totaled 1,060 thousand. During the second quarter of 2016, there were 20 thousand net disconnections, compared to 42 thousand net disconnections in the second quarter of 2015 due to stronger FTTH additions in 2016.

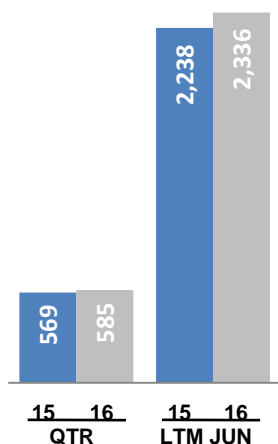
**Voice RGUs (lines in service).** As of June 30, 2016, lines in service totaled 532 thousand, composed of 247 thousand for FTTH segment and 285 thousand for wireless segment. Lines in service in the second quarter of 2016 decreased 14 thousand, compared to a decrease of 25 thousand in the same period of 2015, due to continued decline in wireless customers.

**Broadband RGUs (broadband subscribers).** Broadband subscribers decreased 11% year-over-year totaling 408 thousand as of June 30, 2016. During the second quarter of 2016, broadband subscribers' net disconnections totaled 10 thousand compared to 17 thousand in the same period of 2015, due to continued disconnections of wireless subscribers and an increase in FTTH net additions this quarter. As of June 30, 2016, wireless broadband subscribers reached 195 thousand, compared to 277 thousand a year ago, while AXTEL X-tremo, or FTTH customers, totaled 213 thousand compared to 179 thousand a year ago. Broadband penetration has increased from 75% in June 2015 to 77% in June 2016.

**Video subscribers.** As of June 30, 2016, video subscribers reached 119 thousand compared to 99 thousand a year ago, a 20% increase. Video penetration within the FTTH broadband subscriber base increased from 55% a year ago to 56% in June 2016.

## Cost of Revenues

(in MPs.)



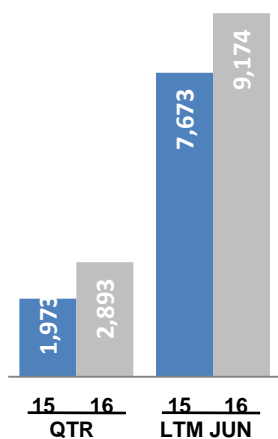
## Cost of Revenues and Operating Expenses

Note: Figures shown in graphs include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period.

**Cost of Revenues.** For the three month period ended June 30, 2016, the cost of revenues represented Ps. 585 million, an increase of 3% or Ps. 16 million, compared to the same period of year 2015. On a pro forma basis, costs decreased 28% mainly due to *Telecom* costs. *Mass market* costs declined 17% due to declines in wireless segment voice costs, which compensated an increase in FTTH segment video costs. *Telecom* costs declined 38% mainly due to a strong decline in *Managed Networks* associated to lower revenues. *IT* segment costs decreased 2%.

## Gross Profit

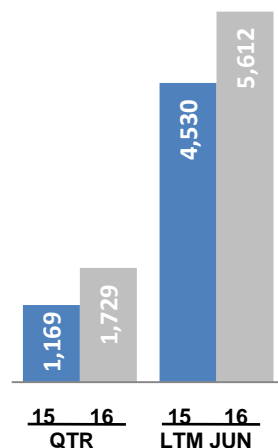
(in MPs.)



**Gross Profit.** Gross profit is defined as revenues minus cost of revenues, excluding depreciation costs. For the second quarter of 2016, the gross profit accounted for Ps. 2,893 million, 47% higher than the same period in year 2015. On a pro forma basis, gross profit decreased 10% due to the decline in *Telecom* revenues. The gross profit margin increased from 79.7% to 83.2% year-over-year, mainly due to increases in *IT* and *Managed Networks* projects' margins.

## Operating Expenses

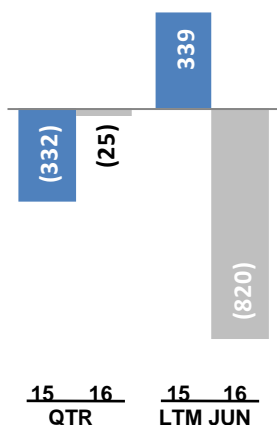
(in MPs.)



**Operating expenses.** In the second quarter of year 2016, operating expenses totaled Ps. 1,729 million, 48% higher than the Ps. 1,169 million recorded in the same period in 2015. On a pro forma basis, operating expenses remained unchanged, due to declines in personnel and rents derived from the merger synergies, mitigated by the increase in a one-time maintenance expense.

### Other income (expense)

(in MPs.)



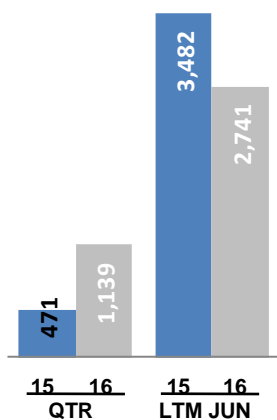
### Other income / (expense), EBITDA, Operating income (loss)

Note: Figures shown in graphs include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period.

**Other income (expense).** For the three month period ended June 30, 2016, other expenses reached Ps. 25 million, compared to Ps. 332 million in the same quarter of 2015, a decrease of Ps. 307 million. On a pro forma basis, net other expenses declined from Ps. 293 million in the second quarter 2015 to Ps. 25 million in the same period of 2016. Other expenses in the second quarter of 2016 include severance expenses related to the post-merger integration process. In the second quarter of 2015 other expenses include the agreement between Axtel and Telefonica Mexico to terminate disputes related to interconnection tariffs for the period 2005-2011.

### EBITDA

(in MPs.)



**EBITDA<sup>(6)</sup>.** For the second quarter of 2016, EBITDA reached Ps. 1,139 million, a 142% increase from the same period in 2015. On a pro forma basis, EBITDA declined 3% compared to the same period in 2015. EBITDA margin increased from 29.3% to 32.8%.

### Operating income (loss)

(in MPs.)



**Operating income (loss).** In the second quarter of 2016, operating income totaled Ps. 155 million, compared to an operating loss of Ps. 135 million. On a pro forma basis, operating income was Ps. 321 million in the second quarter of 2015, representing a decrease of Ps. 166 million for 2016 period mainly due to a higher level of depreciation.

## Comprehensive Financing Result

Million Pesos	Q2 2016	Q1 2016	Q2 2015	(% 2Q16 vs.)		LTM	LTM
				Q1 2016	Q2 2015	Q2 2016	Q2 2015
Net interest expense	(256)	(1,010)	(284)	-75%	-10%	(1,899)	(1,046)
FX gain (loss), net	(1,211)	(177)	(278)	>100%	>100%	(2,461)	(1,694)
Ch. in FV of fin. Instruments	(96)	(9)	(9)	>100%	>100%	42	(4)
<b>Total</b>	<b>(1,563)</b>	<b>(1,196)</b>	<b>(571)</b>	<b>31%</b>	<b>&gt;100%</b>	<b>(4,318)</b>	<b>(2,744)</b>

**Comprehensive financing result.** The comprehensive financing cost reached Ps. 1,563 million in the second quarter 2016, compared to a cost of Ps. 571 million in the same period of 2015, which on a pro forma basis is Ps. 708 million. On a pro forma basis, the comprehensive cost of financing increased Ps. 855 million mostly explained by the higher FX loss during the second quarter of 2016 compared to the second quarter of 2015.

### Total Debt and Net Debt <sup>(9)</sup>

Million Pesos	Q2 2016	Q1 2016	Q2 2015
2017 and 2019 Senior Notes	-	-	2,368
2020 Senior Secured Notes	-	-	8,636
Syndicated Credit Facility	15,715	13,461	130
Other loans	3,745	4,953	222
Other financing obligations	751	834	799
Accrued interests	106	60	545
<b>Total Debt</b>	<b>20,317</b>	<b>19,307</b>	<b>12,700</b>
(-) Cash and cash equivalents	(1,279)	(845)	(2,772)
<b>Net Debt</b>	<b>19,039</b>	<b>18,462</b>	<b>9,928</b>

**Total Debt.** At the end of the second quarter 2016, total debt increased Ps. 7,618 million in comparison with second quarter 2015, explained by (i) a Ps. 13,913 million increase related to the new Syndicated Credit Facility, (ii) a Ps. 11,004 million decrease related to the prepayment of the 2017, 2019 and 2020 Notes, (iii) an increase of Ps. 2,962 million related to Alestra's debt, (iv) a Ps. 177 million decrease in leases and other financial obligations, (v) a Ps. 2,362 million non-cash increase caused by the 18% depreciation of the Mexican peso, and (vi) a Ps. 439 million decrease in accrued interests.

**Cash.** As of the end of the second quarter of 2016, the cash and equivalents balance totaled Ps. 1,279 million, compared to Ps. 3,651 million pro forma a year ago, and Ps. 845 million at the beginning of the quarter.

**Capital Investments.** In the second quarter of 2016, capital investments totaled Ps. 794 million, or \$44 million, compared to pro forma Ps. 990 million, or \$65 million, in the year-earlier quarter. This decrease is partly due to Capex synergies resulting from the merger between Axtel and Alestra.

## Other important information

- 1) We are presenting financial information based on International Financial Reporting Standards (IFRS) in nominal pesos for the following periods:
  - Consolidated income statement information for the three month periods ending on June 30, 2016 and 2015, and March 31, 2016; and twelve month period ending on June 30, 2016 and 2015, and
  - Balance sheet information as of June 30, 2016 and 2015; and March 31, 2016.
- 2) 2015 and 1Q16 revenues (include Alestra as of February 15, 2016) under the new segmentation:

Million Pesos	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
<b>MASS MARKET</b>	<b>856</b>	<b>834</b>	<b>822</b>	<b>804</b>	<b>771</b>
FTTH	391	415	427	437	447
Wireless	465	419	394	367	324
<b>TELECOM</b>	<b>1,430</b>	<b>1,497</b>	<b>1,337</b>	<b>1,603</b>	<b>1,756</b>
Voice	526	465	519	470	580
Data and Internet	214	231	232	234	549
Managed Networks	689	801	586	899	628
<b>IT</b>	<b>130</b>	<b>211</b>	<b>201</b>	<b>425</b>	<b>313</b>
<b>TOTAL</b>	<b>2,416</b>	<b>2,542</b>	<b>2,360</b>	<b>2,832</b>	<b>2,840</b>

- 3) Pro forma 2015 and 1Q16 revenues (include Alestra as of the beginning of each period) under the new segmentation:

Million Pesos	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016
<b>MASS MARKET</b>	<b>856</b>	<b>834</b>	<b>822</b>	<b>804</b>	<b>771</b>
FTTH	391	415	427	437	447
Wireless	465	419	394	367	324
<b>TELECOM</b>	<b>2,654</b>	<b>2,729</b>	<b>2,624</b>	<b>2,863</b>	<b>2,402</b>
Voice	920	850	895	778	755
Data and Internet	741	760	791	812	831
Managed Networks	993	1,118	939	1,273	815
<b>IT</b>	<b>296</b>	<b>452</b>	<b>540</b>	<b>822</b>	<b>447</b>
<b>TOTAL</b>	<b>3,805</b>	<b>4,015</b>	<b>3,986</b>	<b>4,489</b>	<b>3,620</b>

- 3) Costs of revenues include expenses related to the termination of our customers' cellular and long distance calls in other carriers' networks, as well as expenses related to billing, payment processing, operator services and our leasing of private circuit links.
- 4) Operating expenses include costs incurred in connection with general and administrative matters which incorporate compensation and benefits, the costs of leasing land and towers related to our operations and costs associated with sales and marketing and the maintenance of our network.

## ***Other important information***

- 6) EBITDA is defined as operating income (loss) plus depreciation and amortization, plus impairment of assets.
- 7) Net Debt to EBITDA: The figure comes from dividing the net debt at the end of the period by the respective LTM pro forma EBITDA.
- 8) Revenue Generating Unit, or RGU, represents individual service subscriptions who generates recurring revenue for the Company. Total RGUs include the sum of all lines in service, broadband service and video subscriptions.
- 9) Total debt includes accrued interests for each period. Net debt is calculated subtracting cash and equivalents including non-current restricted cash from total debt.

## ***Other important information***

### **About AXTEL**

Axtel is a Mexican Information and Communication Technology Company that serves the enterprise, government, and residential markets with a robust portfolio of offers through its brands Alestra (Enterprise and government services) and Axtel (residential and small businesses). With a network infrastructure of over 39 thousand kilometers and more than 6 thousand square meters of data center, Axtel enables organizations to be more productive and bring people together to improve their quality of life. As of February 15, 2016, Axtel is a subsidiary of Alfa, which owns 51% of its equity.

Axtel shares, represented by Ordinary Participation Certificates, or CPOs, trade on the Mexican Stock Market under the symbol "AXTELCPO" since 2005.

Visit AXTEL's Investor Relations Center at [axtelcorp.mx](http://axtelcorp.mx)

Enterprise and Government services website: [www.alestra.mx](http://www.alestra.mx)

Mass Market services website: [www.axtel.mx](http://www.axtel.mx)



**Axtel, S.A.B. de C.V. and Subsidiaries**  
 Unaudited Consolidated Balance Sheet  
 June 30, 2016 and 2015 and March 31, 2016  
 (in Thousand Mexican pesos)

	June-2016	March-2016	June-2015
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and equivalents	1,128,269	695,882	2,772,136
Accounts receivable	3,670,387	3,928,409	2,876,466
Related parties	24,562	21,060	-
Refundable taxes and other accounts receivable	1,010,391	1,045,777	956,990
Advances to suppliers	728,060	693,447	95,409
Inventories	98,792	111,412	67,099
Financial Instruments (Zero Strike Call)	272,492	368,538	202,073
<b>Total current assets</b>	<b>6,932,953</b>	<b>6,864,526</b>	<b>6,970,173</b>
<b>Non current assets</b>			
Restricted cash	150,498	149,285	-
Property, plant and equipment, net	19,692,789	19,872,296	13,423,562
Long-term accounts receivable	77,845	102,565	179,368
Intangible assets, net	2,024,338	1,982,381	149,476
Deferred income taxes	3,395,218	2,898,399	1,838,594
Investment in shares of associated company & other inve	18,131	18,131	8,217
Other assets	177,789	183,207	129,646
<b>Total non current assets</b>	<b>25,536,608</b>	<b>25,206,265</b>	<b>15,728,863</b>
<b>TOTAL ASSETS</b>	<b>32,469,561</b>	<b>32,070,791</b>	<b>22,699,036</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Account payable & Accrued expenses	3,342,188	3,004,736	2,635,593
Accrued Interest	105,737	60,343	513,135
Short-term debt	15,137	609,053	130,000
Current portion of long-term debt	509,442	1,364,590	389,068
Taxes payable	57,319	44,022	39,378
Deferred Revenue	367,322	444,640	745,643
Provisions	72,190	205,187	-
Other accounts payable	2,318,968	2,106,265	1,081,575
<b>Total current liabilities</b>	<b>6,788,303</b>	<b>7,838,834</b>	<b>5,534,392</b>
<b>Long-term debt</b>			
Long-term debt	19,450,433	17,075,414	11,529,534
Derivative Financial Instruments	-	-	73,148
Employee Benefits	415,110	406,971	26,463
Deferred revenue	-	-	33,900
Other LT liabilities	380,793	351,521	103,912
<b>Total long-term debt</b>	<b>20,246,336</b>	<b>17,833,906</b>	<b>11,766,957</b>
<b>TOTAL LIABILITIES</b>	<b>27,034,639</b>	<b>25,672,741</b>	<b>17,301,349</b>
<b>STOCKHOLDERS EQUITY</b>			
Capital stock	10,362,334	10,364,785	6,780,795
Additional paid-in capital	644,710	644,710	644,710
Reserve for repurchase of shares	-	-	90,000
Cumulative earnings (losses)	(5,572,123)	(4,611,445)	(2,117,818)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>5,434,922</b>	<b>6,398,051</b>	<b>5,397,687</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>32,469,561</b>	<b>32,070,791</b>	<b>22,699,036</b>

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

Unaudited **PRO FORMA** Consolidated Balance Sheet

2015

(in Thousand Mexican pesos)

<b>ASSETS</b>	<b>March-2015</b>	<b>June-2015</b>	<b>September-2015</b>	<b>December-2015</b>
<b>Current assets:</b>				
Cash and equivalents	3,776,414	3,504,140	3,046,575	3,255,436
Accounts receivable	3,467,874	3,964,336	4,142,705	4,060,045
Related parties	10,284	15,740	20,380	25,773
Refundable taxes and other accounts receivable	1,149,677	1,258,226	1,219,588	1,084,534
Advances to suppliers	381,803	263,054	287,210	304,064
Inventories	101,740	113,651	115,583	91,869
Financial Instruments (Zero Strike Call)	175,675	202,073	343,766	378,099
<b>Total current assets</b>	<b>9,063,466</b>	<b>9,321,221</b>	<b>9,175,808</b>	<b>9,199,820</b>
<b>Non current assets</b>				
Restricted cash	146,217	147,033	147,874	148,291
Property, plant and equipment, net	19,253,316	19,575,519	19,609,935	19,739,425
Long-term accounts receivable	205,210	179,368	154,558	128,613
Intangible assets, net	1,090,358	1,121,489	1,104,191	1,259,765
Deferred income taxes	1,904,851	2,076,192	2,398,315	2,280,016
Investment in shares of ass. Co. & other investments	1,708	1,708	1,708	1,708
Other assets	204,402	204,170	210,992	188,923
<b>Total non current assets</b>	<b>22,806,062</b>	<b>23,305,479</b>	<b>23,627,574</b>	<b>23,746,740</b>
<b>TOTAL ASSETS</b>	<b>31,869,528</b>	<b>32,626,700</b>	<b>32,803,381</b>	<b>32,946,559</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Account payable & Accrued expenses	2,909,942	3,121,804	3,405,160	3,443,523
Accrued Interest	293,518	537,027	313,291	572,084
Short-term debt	660,397	693,442	738,256	754,029
Current portion of long-term debt	393,526	435,830	938,027	950,003
Taxes payable	61,356	76,635	84,517	43,737
Deferred Revenue	469,314	783,569	637,433	548,866
Provisions	-	-	-	160,000
Other accounts payable	2,047,648	1,976,156	2,025,326	2,303,239
<b>Total current liabilities</b>	<b>6,835,702</b>	<b>7,624,463</b>	<b>8,142,010</b>	<b>8,775,481</b>
<b>Long-term debt</b>				
Long-term debt	14,643,493	14,946,648	15,711,224	15,714,911
Derivative Financial Instruments	71,070	73,148	114,009	65,222
Employee Benefits	202,634	220,043	235,542	255,058
Deferred revenue	33,900	33,900	33,900	-
Long-term provisions	407,268	254,092	254,092	-
Other LT liabilities	121,729	197,756	174,470	537,624
<b>Total long-term debt</b>	<b>15,480,094</b>	<b>15,725,588</b>	<b>16,523,238</b>	<b>16,572,816</b>
<b>TOTAL LIABILITIES</b>	<b>22,315,796</b>	<b>23,350,051</b>	<b>24,665,248</b>	<b>25,348,297</b>
<b>STOCKHOLDERS EQUITY</b>				
Capital stock	7,945,617	7,962,141	7,981,166	8,043,332
Additional paid-in capital	644,710	644,710	644,710	644,710
Reserve for repurchase of shares	90,000	90,000	90,000	90,000
Cumulative earnings (losses)	873,405	579,798	(577,743)	(1,179,780)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>9,553,733</b>	<b>9,276,649</b>	<b>8,138,133</b>	<b>7,598,263</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>31,869,528</b>	<b>32,626,700</b>	<b>32,803,381</b>	<b>32,946,559</b>

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

Unaudited Consolidated Income Statement

Periods ended June 30, 2016 and 2015

(in Thousand Mexican pesos)

	Second Quarter ended June 30			LTM ended June 30		
	2016	2015	Δ%	2016	2015	Δ%
Total Revenues	3,478,222	2,541,985	37%	11,510,128	9,910,936	16%
Operating cost and expenses						
Cost of sales and services	(584,944)	(569,369)	3%	(2,336,100)	(2,238,238)	4%
Selling and administrative expenses	(1,729,056)	(1,169,429)	48%	(5,612,428)	(4,530,173)	24%
Other income (expenses), net	(24,950)	(332,194)	-92%	(820,417)	339,296	n.a.
Asset impairment	(3,061)	-	n.a.	(3,068)	-	n.a.
Depreciation and amortization Cost	(825,109)	(556,224)	48%	(2,710,867)	(3,052,499)	-11%
Depreciation and amortization Expenses	(156,103)	(50,151)	>100%	(384,925)	-	
	<u>(3,323,223)</u>	<u>(2,677,367)</u>	<u>24%</u>	<u>(11,867,805)</u>	<u>(9,481,614)</u>	<u>25%</u>
Operating income (loss)	<u>154,999</u>	<u>(135,382)</u>	<u>n.a.</u>	<u>(357,677)</u>	<u>429,322</u>	<u>n.a.</u>
Comprehensive financing result:						
Interest expense	(260,863)	(295,295)	-12%	(1,924,773)	(1,076,069)	79%
Interest income	5,096	11,701	-56%	25,717	30,525	-16%
Foreign exchange gain (loss), net	(1,211,148)	(277,699)	>100%	(2,461,438)	(1,694,248)	45%
Change in the fair value of financial instrument	(96,046)	(9,482)	>100%	42,175	(4,255)	n.a.
Comprehensive financing result, net	<u>(1,562,961)</u>	<u>(570,775)</u>	<u>&gt;100%</u>	<u>(4,318,319)</u>	<u>(2,744,047)</u>	<u>57%</u>
Equity in results of associated company	<u>(0)</u>	<u>-</u>	<u>n.a.</u>	<u>(5)</u>	<u>(160)</u>	<u>-97%</u>
Income (loss) before income taxes,	<u>(1,407,962)</u>	<u>(706,157)</u>	<u>99%</u>	<u>(4,676,001)</u>	<u>(2,314,885)</u>	<u>&gt;100%</u>
Income taxes:						
Current	(38,916)	(21,825)	78%	(60,598)	(94,360)	-36%
Deferred	494,445	191,332	>100%	1,285,118	576,651	123%
Total income taxes	<u>455,529</u>	<u>169,507</u>	<u>&gt;100%</u>	<u>1,224,520</u>	<u>482,291</u>	<u>154%</u>
Net Income (Loss)	<u><u>(952,433)</u></u>	<u><u>(536,650)</u></u>	<u><u>77%</u></u>	<u><u>(3,451,481)</u></u>	<u><u>(1,832,594)</u></u>	<u><u>88%</u></u>

**Axtel, S.A.B. de C.V. and Subsidiaries**Unaudited **PRO FORMA** Consolidated Income Statement

Periods ended June 30, 2016 and 2015

*(in Thousand Mexican pesos)*

	Second Quarter ended June 30		Δ%
	2016	2015	
Total Revenues	3,478,222	4,015,060	-13%
Operating cost and expenses			
Cost of sales and services	(584,944)	(808,362)	-28%
Selling and administrative expenses	(1,729,056)	(1,735,563)	0%
Other income (expenses), net	(24,950)	(293,003)	-91%
Asset impairment	(3,061)	(2,412)	27%
Depreciation and amortization Cost	(825,109)	(763,497)	8%
Depreciation and amortization Expenses	(156,103)	(90,743)	72%
	<u>(3,323,223)</u>	<u>(3,693,580)</u>	-10%
Operating income (loss)	<u>154,999</u>	<u>321,480</u>	-52%
Comprehensive financing result:			
Interest expense	(260,863)	(331,206)	-21%
Interest income	5,096	15,688	-68%
Foreign exchange gain (loss), net	(1,211,148)	(383,227)	>100%
Change in the fair value of financial instruments	(96,046)	(9,482)	>100%
Comprehensive financing result, net	<u>(1,562,961)</u>	<u>(708,227)</u>	>100%
Equity in results of associated company	<u>(0)</u>	<u>-</u>	n.a.
Income (loss) before income taxes,	<u>(1,407,962)</u>	<u>(386,747)</u>	>100%
Income taxes:			
Current	(38,916)	(87,428)	-55%
Deferred	494,445	171,289	>100%
Total income taxes	<u>455,529</u>	<u>83,861</u>	>100%
Net Income (Loss)	<u>(952,433)</u>	<u>(302,886)</u>	>100%

**Axtel, S.A.B. de C.V. and Subsidiaries**Unaudited **PRO FORMA** Consolidated Income Statement

2015

*(in Thousand Mexican pesos)*

	<u>1Q</u>	<u>2Q</u>	<u>3Q</u>	<u>4Q</u>
	<u>2015</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
Total Revenues	3,805,441	4,015,060	3,985,940	4,489,321
Operating cost and expenses				
Cost of sales and services	(773,124)	(808,362)	(889,895)	(1,051,010)
Selling and administrative expenses	(1,729,865)	(1,735,563)	(1,736,049)	(1,879,208)
Other income (expenses), net	737,930	(293,003)	38,610	(318,937)
Asset impairment	(762)	(2,412)	1,042	(3,014)
Depreciation and amortization Cost	(837,220)	(763,497)	(800,259)	(819,593)
Depreciation and amortization Expenses	(92,000)	(90,743)	(132,754)	(91,869)
	<u>(2,695,040)</u>	<u>(3,693,580)</u>	<u>(3,519,304)</u>	<u>(4,163,631)</u>
Operating income (loss)	<u>1,110,401</u>	<u>321,480</u>	<u>466,635</u>	<u>325,690</u>
Comprehensive financing result:				
Interest expense	(327,361)	(331,206)	(371,169)	(353,448)
Interest income	13,253	15,688	13,887	34,683
Foreign exchange gain (loss), net	(421,310)	(383,227)	(1,332,544)	(171,770)
Change in the fair value of financial instruments	26,189	(9,482)	91,406	55,593
Comprehensive financing result, net	<u>(709,229)</u>	<u>(708,227)</u>	<u>(1,598,419)</u>	<u>(434,943)</u>
Equity in results of associated company	<u>(155)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before income taxes,	<u>401,018</u>	<u>(386,747)</u>	<u>(1,131,784)</u>	<u>(109,253)</u>
Income taxes:				
Current	(105,620)	(87,428)	(15,442)	(23,650)
Deferred	(11,234)	171,289	322,048	(119,999)
Total income taxes	<u>(116,854)</u>	<u>83,861</u>	<u>306,606</u>	<u>(143,649)</u>
Net Income (Loss)	<u><u>284,164</u></u>	<u><u>(302,886)</u></u>	<u><u>(825,178)</u></u>	<u><u>(252,902)</u></u>