

3rd Quarter 2016



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San Pedro Garza Garcia, Mexico, October 17, 2016 - Axtel, S.A.B. de C.V. (“AXTEL” or “the Company”), a Mexican information and communications technology company, announced today its unaudited third quarter results ended September 30, 2016⁽¹⁾. Axtel is a subsidiary of Alfa S.A.B. de C.V. (“ALFA”).

Million Pesos	Q3	Q2	Q3	(% 3Q16 vs.		LTM	LTM
	2016	2016	2015	2Q16	3Q15	sep-16	sep-15
Revenues ⁽²⁾	3,836	3,478	2,360	10%	63%	12,986	9,701
EBITDA ⁽⁶⁾	1,265	1,139	807	11%	57%	3,199	3,556
EBITDA Margin	33.0%	32.8%	34.2%	+ 0 bps	-4%	24.6%	36.7%
Net (loss) Income	-451	-952	-768	53%	41%	-3,134	-2,157
Capital Expenditures	942	794	515	19%	83%	3,652	2,963
Net Debt	19,693	19,039	10,929	3%	80%		
Net Debt / EBITDA ⁽⁷⁾						4.2x	1.7x

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:

- ❖ The Company’s operating performance continued improving as reflected in an 11% EBITDA sequential growth driven by the positive revenue trend from enterprise and FTTx mass-market segments. Revenue from government, which has been underperforming this year, started to recover as contracts signed in the first semester are now contributing to the Company’s results.
- ❖ As of the end of the third quarter, Axtel has captured run-rate EBITDA synergies representing 65% of the run-rate target, resulting in a cumulative benefit of approximately Ps. 300 million.
- ❖ The Company continues to experience a stronger demand in its IT and Telecom managed solutions from enterprise customers, as the new expanded portfolio of services and more robust network have become a competitive strength of the combined Company.
- ❖ Consistent with Axtel’s IT strategy, we recently launched the “Alestra Cloud Collaboration” service with Cisco technology, a solution that enhances communication while improving productivity for our customers.

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Sources of Revenues

Million Pesos	Q3 2016	Q2 2016	Q3 2015	(% 3Q16 vs.	
				Q2 2016	Q3 2015
MASS MARKET	778	806	822	-4%	-5%
FTTH	499	494	427	1%	17%
Wireless	279	313	394	-11%	-29%
TELECOM	2,491	2,201	1,337	13%	86%
Voice	717	707	519	1%	38%
Data and Internet	858	849	232	1%	270%
Managed Networks	916	645	586	42%	56%
IT	568	471	201	21%	182%
TOTAL	3,836	3,478	2,360	10%	63%

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 5%:

FTTH. FTTH revenues totaled Ps. 499 million in the third quarter of 2016, compared to Ps. 427 million for same period in 2015, representing a 17% increase in line with an 18% increase in average customers. Voice revenues increased 11% resulting from a 24% increase in monthly rent revenues mitigating a 66% decline in fixed-to-mobile revenues due to lower billed traffic and prices. Internet and video revenues increased 15% and 31% respectively, mainly due to increases in internet and video subscribers.

Wireless. Revenues amounted to Ps. 279 million in the third quarter of 2016, compared to Ps. 394 million in the same period in 2015, a 29% decrease explained by a 30% decline in average customers. Voice revenues decreased 32% mainly explained by a 27% decline in monthly rents and a 64% decline in mobile revenues due to less billed fix-to-mobile minutes. Internet revenues decreased 20% due to a decline in internet subscribers.

Telecom:

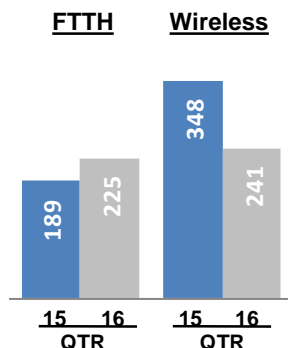
Quarterly revenues totaled Ps. 2,491 million, compared to Ps. 1,337 million in the same period in 2015, a 86% increase. On a pro forma basis, third-quarter 2015 telecom revenues totaled Ps. 2,624 million, a 5% decline, mainly due to declines in voice revenues. *Voice* revenues decreased 20% due to declines fix-to-mobile revenues, toll-free (800s) revenues and a 77% decline in international traffic revenues explained by decline in volume. *Data and Internet* revenues increased 9% due to strong demand for dedicated internet services from enterprise customers. *Managed networks* revenues decreased 2% due to weak Government segment revenues and restrictive Federal Government spending.

IT:

IT revenues amounted to Ps. 568 million in the third quarter of 2016, compared to Ps. 201 million in the same period in 2015, a 182% increase. On a pro forma basis, third quarter 2015 IT revenues totaled Ps. 541 million, an increase of 5% due to better performance in hosting, cloud and system integration services.

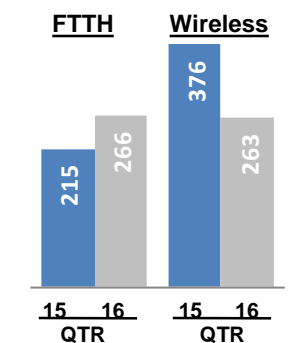
Customers

(in 000s)



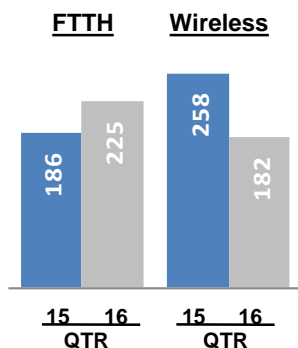
Lines in Service

(in 000s)



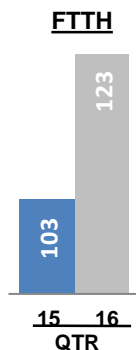
Broadband subs.

(in 000s)



Video subs.

(in 000s)



Mass Market Operating Data

Customers. As of September 30, 2016, customers totaled 467 thousand, a reduction of 70 thousand from the same date in 2015 due to the continued decline in Wireless customers. Total customers declined 9 thousand on a sequential basis. ARPU for FTTH and wireless customers is Ps. 811 and Ps. 415, respectively.

RGUs⁽⁸⁾. As of September 30, 2016, RGUs (Revenue Generating Units) totaled 1,059 thousand. During the third quarter of 2016, there were less than 1 thousand net disconnections, compared to 29 thousand net disconnections in the third quarter of 2015 due to larger FTTH additions in 2016 and a smaller customer base in legacy wireless technologies.

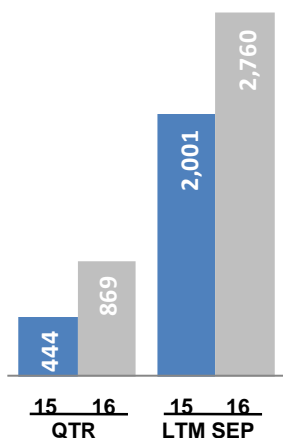
Voice RGUs (lines in service). As of September 30, 2016, lines in service totaled 529 thousand, composed of 266 thousand for FTTH segment and 263 thousand for wireless segment. Lines in service in the third quarter of 2016 decreased 3 thousand, compared to a decrease of 20 thousand in the same period of 2015, due to continued decline in wireless customers.

Broadband RGUs (broadband subscribers). Broadband subscribers decreased 9% year-over-year totaling 406 thousand as of September 30, 2016. During the third quarter of 2016, broadband subscribers' net disconnections totaled 2 thousand compared to 12 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 September 30, 2016, legacy wireless broadband subscribers reached 182 thousand, compared to 258 thousand a year ago, while AXTEL X-tremo, or FTTH customers, totaled 225 thousand compared to 186 thousand a year ago. Broadband penetration has increased from 75% in September 2015 to 77% in September 2016.

Video subscribers. As of September 30, 2016, video subscribers reached 123 thousand compared to 103 thousand a year ago, a 20% increase. Video penetration within the FTTH broadband subscriber remained flat at 55% compared to September 2015.

Cost of Revenues

(in MPs.)



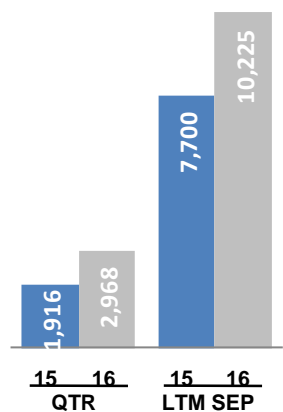
Cost of Revenues and Operating Expenses

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 September 30, 2016, the cost of revenues represented Ps. 869 million, an increase of 96% or Ps. 424 million, compared to the same period of year 2015. On a pro forma basis, costs totaled Ps. 890 million in the year-earlier quarter, a decrease of 2% mainly due to managed network costs within *Telecom* segment costs. *Mass market* costs increased 17% due to a 27% increase in FTTH video costs, which was compensated by a decrease of 37% in voice-related costs. *IT* segment costs increased 6% in line with a 5% increase in IT revenues.

Gross Profit

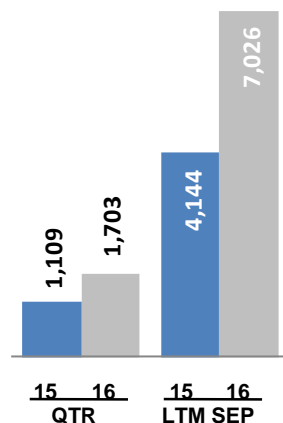
(in MPs.)



Gross Profit. Gross profit is defined as revenues minus cost of revenues, excluding depreciation costs. For the third quarter of 2016, the gross profit accounted for Ps. 2,968 million, 55% higher than the same period in year 2015. On a pro forma basis, third-quarter 2015 gross profit represented Ps. 3,096 million, a 4% decrease due to the decline in *Telecom* revenues. The gross profit margin remained flat at 77% year-over-year resulting from a decline in the contribution margin of the *Mass market* segment and an improvement in the margin of *Telecom* revenues.

Operating Expenses

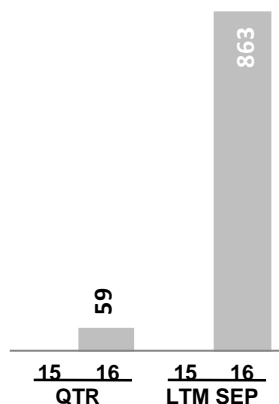
(in MPs.)



Operating expenses. In the third quarter of year 2016, operating expenses totaled Ps. 1,703 million, 54% higher than the operating expenses recorded in the same period in 2015. On a pro forma basis, operating expenses amounted Ps. 1,697 million in the third quarter of 2015, very similar to third quarter 2016. The declines in personnel, outsourcing and marketing mitigated the increase in non-recurring merger expenses and maintenance expense which resulted from a larger number of customer-related maintenance contracts and the impact of the peso devaluation on the Company's IT and network maintenance contracts.

Merger Expenses

(in MPs.)



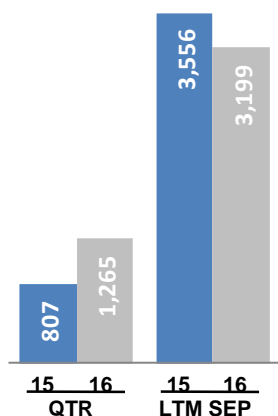
Merger Expenses, EBITDA, Operating income (loss)

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.

Merger and Integration Expense. For the third quarter 2016 expenses related to the Axtel-Alestra merger totaled Ps. 59 million pesos. In the previous quarter, merger-related expenses totaled Ps. 28 million. For the twelve month period ended September 30, 2016, pro forma merger expenses totaled Ps. 863 million, the most relevant being severance payments, a non-cash pension-related charge and consulting fees.

EBITDA

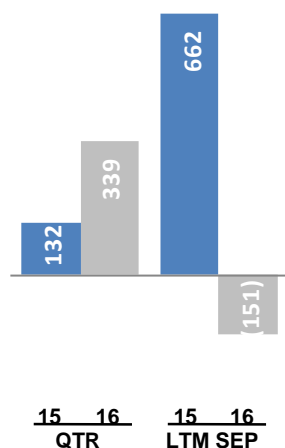
(in MPs.)



EBITDA⁽⁶⁾. For the third quarter of 2016, EBITDA reached Ps. 1,265 million, a 57% increase from the same period in 2015. Pro forma EBITDA in the third-quarter of 2015 was Ps. 1,399 million, a decline of 10%, summarized as the result of a 4% decline in revenues and a 32 bps decline in margin of contribution. EBITDA margin decreased from 35.1% to 33.0%.

Operating income (loss)

(in MPs.)



Operating income (loss). In the third quarter of 2016, operating income totaled Ps. 339 million, compared to an operating income of Ps. 132 million. On a pro forma basis, operating income was Ps. 467 million in the third quarter of 2015, representing a decrease of Ps. 127 million for 2016 period mainly due to non-recurrent merger expenses, an increase in depreciation and amortization expenses and lower gross profit.

Comprehensive Financing Result

Million Pesos	Q3 2016	Q2 2016	Q3 2015	(% 3Q16 vs.)		LTM	LTM
				Q2 2016	Q3 2015	Q3 2016	Q3 2015
Net interest expense	(268)	(256)	(324)	5%	-17%	(1,843)	(1,165)
FX gain (loss), net	(483)	(1,211)	(951)	-60%	-49%	(1,993)	(2,371)
Ch. in FV of fin. Instruments	(79)	(96)	91	-18%	n.a.	(128)	95
Total	(829)	(1,563)	(1,184)	-47%	-30%	(3,964)	(3,441)

Comprehensive financing result. The comprehensive financing cost reached Ps. 829 million in the third quarter of 2016, compared to a cost of Ps. 1,184 million in the same period of 2015, or Ps. 1,598 million on a pro forma basis. The reduction in pro forma comprehensive financing result is explained by lower interest and FX losses during the third quarter of 2016 compared to the third quarter of 2015.

Total Debt and Net Debt ⁽⁹⁾

Million Pesos	Q3 2016	Q2 2016	Q3 2015
2017 and 2019 Senior Notes	-	-	2,587
2020 Senior Secured Notes	-	-	9,409
Syndicated Credit Facility	16,010	15,715	-
Other loans	3,809	3,745	338
Other financing obligations	666	751	802
Accrued interests	114	106	284
Total Debt	20,599	20,317	13,421
(-) Cash and cash equivalents	(906)	(1,279)	(2,492)
Net Debt	19,693	19,039	10,929

Total Debt. At the end of the third quarter 2016, total debt increased Ps. 7,178 million in comparison with third quarter 2015, mostly explained by (i) a Ps. 14,763 million increase related to the new Syndicated Credit Facility which refinanced Ps. 11,996 million of 2017, 2019 and 2020 Notes, (ii) an increase of Ps. 3,210 million related to Alestra's debt and (iii) a Ps. 1,751 million non-cash increase caused by the 13% depreciation of the Mexican peso.

Cash. As of the end of the third quarter of 2016, the cash balance totaled Ps. 906 million, compared to Ps. 3,194 million pro forma a year ago, and Ps. 1,279 million at the beginning of the quarter. The cash balance at the end of the quarter includes restricted cash of Ps. 152 million.

Capital Investments. In the third quarter of 2016, capital investments totaled Ps. 942 million, or \$50 million, compared to pro forma Ps. 865 million, or \$53 million, in the year-earlier quarter.

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 September 30, 2016 and 2015, and June 30, 2016; and twelve month period ending on September 30, 2016 and 2015, and
 - Balance sheet information as of September 30, 2016 and 2015; and June 30, 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
MASS MARKET	856	834	822	804	771
FTTH	391	415	427	437	447
Wireless	465	419	394	367	324
TELECOM	1,430	1,497	1,337	1,603	1,756
Voice	526	465	519	470	580
Data and Internet	214	231	232	234	549
Managed Networks	689	801	586	899	628
IT	130	211	201	425	313
TOTAL	2,416	2,542	2,360	2,832	2,840

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

- 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, costs associated with sales and marketing, the maintenance of our network and other, net not recurrent expenses including merger and integration expenses.

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 converted to dollars at the end of the period by the respective LTM pro forma EBITDA converted to US dollars at the average exchange rate for the period.
- 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

Enterprise and Government services website: www.alestra.mx

Mass Market services website: www.axtel.mx

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

ASSETS	September-2016	June-2016	September-2015
Current assets:			
Cash and equivalents	754,412	1,128,269	2,491,867
Accounts receivable	3,856,445	3,670,387	2,893,739
Related parties	23,872	24,562	-
Refundable taxes and other accounts receivable	999,722	1,010,391	891,654
Advances to suppliers	787,526	728,060	106,627
Inventories	145,056	98,792	54,747
Financial Instruments	193,830	272,492	343,766
Total current assets	6,760,862	6,932,953	6,782,400
Non current assets			
Restricted cash	151,807	150,498	-
Property, plant and equipment, net	19,769,153	19,692,789	13,357,364
Long-term accounts receivable	52,244	77,845	154,558
Intangible assets, net	1,969,355	2,024,338	137,235
Deferred income taxes	3,454,978	3,395,218	2,125,766
Investment in shares of associated company & other inve	13,207	18,131	8,217
Other assets	209,702	177,789	129,660
Total non current assets	25,620,446	25,536,608	15,912,800
TOTAL ASSETS	32,381,308	32,469,561	22,695,200
LIABILITIES			
Current liabilities			
Account payable & Accrued expenses	3,592,068	3,342,188	2,780,314
Accrued Interest	113,802	105,737	284,236
Short-term debt	9,750	15,137	130,000
Current portion of long-term debt	498,492	509,442	385,940
Taxes payable	51,154	57,319	17,280
Deferred Revenue	312,602	367,322	596,667
Provisions	67,813	72,190	-
Other accounts payable	2,550,755	2,318,968	1,076,057
Total current liabilities	7,196,435	6,788,303	5,270,494
Long-term debt			
Long-term debt	19,767,875	19,450,433	12,520,980
Derivative Financial Instruments	-	-	114,009
Employee Benefits	429,325	415,110	26,835
Deferred revenue	-	-	33,900
Other LT liabilities	2,737	380,793	80,388
Total long-term debt	20,199,938	20,246,336	12,776,112
TOTAL LIABILITIES	27,396,373	27,034,639	18,046,606
STOCKHOLDERS EQUITY			
Capital stock	10,362,334	10,362,334	6,799,820
Additional paid-in capital	644,710	644,710	644,710
Reserve for repurchase of shares	-	-	90,000
Cumulative earnings (losses)	(6,022,109)	(5,572,123)	(2,885,936)
TOTAL STOCKHOLDERS EQUITY	4,984,936	5,434,922	4,648,594
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	32,381,308	32,469,561	22,695,200

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

Unaudited **PRO FORMA** Consolidated Balance Sheet

2015

(in Thousand Mexican pesos)

ASSETS	March-2015	June-2015	September-2015	December-2015
Current assets:				
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
Total current assets	9,063,466	9,321,221	9,175,808	9,199,820
Non current assets				
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
Total non current assets	22,806,062	23,305,479	23,627,574	23,746,740
TOTAL ASSETS	31,869,528	32,626,700	32,803,381	32,946,559
LIABILITIES				
Current liabilities				
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
Total current liabilities	6,835,702	7,624,463	8,142,010	8,775,481
Long-term debt				
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
Total long-term debt	15,480,094	15,725,588	16,523,238	16,572,816
TOTAL LIABILITIES	22,315,796	23,350,051	24,665,248	25,348,297
STOCKHOLDERS EQUITY				
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)
TOTAL STOCKHOLDERS EQUITY	9,553,733	9,276,649	8,138,133	7,598,263
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	31,869,528	32,626,700	32,803,381	32,946,559

Axtel, S.A.B. de C.V. and Subsidiaries
Unaudited Consolidated Income Statement
Periods ended September 30, 2016 and 2015
(in Thousand Mexican pesos)

	Third Quarter ended September 30			LTM ended September 30		
	2016	2015	Δ%	2016	2015	Δ%
Total Revenues	3,836,227	2,360,413	63%	12,985,943	9,701,044	34%
Operating cost and expenses						
Cost of sales and services	(868,668)	(444,303)	96%	(2,760,464)	(2,001,486)	38%
Selling, administrative and other expenses	(1,702,973)	(1,109,385)	54%	(7,026,433)	(4,143,780)	70%
Asset impairment	54,621	-	n.a.	51,553	-	n.a.
Depreciation and amortization Cost	(829,668)	(584,468)	42%	(2,956,067)	(2,894,271)	2%
Depreciation and amortization Expenses	(150,132)	(89,759)	67%	(445,298)	-	
	<u>(3,496,819)</u>	<u>(2,227,915)</u>	57%	<u>(13,136,709)</u>	<u>(9,039,537)</u>	45%
Operating income (loss)	<u>339,408</u>	<u>132,498</u>	>100%	<u>(150,766)</u>	<u>661,507</u>	n.a.
Comprehensive financing result:						
Interest expense	(275,222)	(333,381)	-17%	(1,866,614)	(1,200,566)	55%
Interest income	7,105	8,896	-20%	23,926	35,484	-33%
Foreign exchange gain (loss), net	(482,535)	(950,760)	-49%	(1,993,213)	(2,371,227)	-16%
Change in the fair value of financial instrument	(78,662)	91,406	n.a.	(127,893)	94,861	n.a.
Comprehensive financing result, net	<u>(829,314)</u>	<u>(1,183,839)</u>	-30%	<u>(3,963,794)</u>	<u>(3,441,448)</u>	15%
Equity in results of associated company	<u>(4,924)</u>	<u>-</u>	n.a.	<u>(4,929)</u>	<u>(160)</u>	>100%
Income (loss) before income taxes,	<u>(494,829)</u>	<u>(1,051,341)</u>	-53%	<u>(4,119,489)</u>	<u>(2,780,101)</u>	48%
Income taxes:						
Current	(15,677)	(3,949)	>100%	(72,326)	(98,498)	-27%
Deferred	<u>59,663</u>	<u>287,172</u>	-79%	<u>1,057,609</u>	<u>721,966</u>	46%
Total income taxes	<u>43,986</u>	<u>283,223</u>	-84%	<u>985,283</u>	<u>623,468</u>	58%
Net Income (Loss)	<u>(450,843)</u>	<u>(768,118)</u>	-41%	<u>(3,134,206)</u>	<u>(2,156,633)</u>	45%

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

Periods ended September 30, 2016 and 2015

(in Thousand Mexican pesos)

	Third Quarter ended September 30		Δ%
	2016	2015	
Total Revenues	3,836,227	3,985,940	-4%
Operating cost and expenses			
Cost of sales and services	(868,668)	(889,895)	-2%
Selling, administrative and other expenses	(1,702,973)	(1,697,438)	0%
Asset impairment	54,621	1,042	>100%
Depreciation and amortization Cost	(829,668)	(800,259)	4%
Depreciation and amortization Expenses	(150,132)	(132,754)	13%
	<u>(3,496,819)</u>	<u>(3,519,304)</u>	-1%
Operating income (loss)	<u>339,408</u>	<u>466,635</u>	-27%
Comprehensive financing result:			
Interest expense	(275,222)	(371,169)	-26%
Interest income	7,105	13,887	-49%
Foreign exchange gain (loss), net	(482,535)	(1,332,544)	-64%
Change in the fair value of financial instrument	(78,662)	91,406	n.a.
Comprehensive financing result, net	<u>(829,314)</u>	<u>(1,598,419)</u>	-48%
Equity in results of associated company	<u>(4,924)</u>	<u>-</u>	n.a.
Income (loss) before income taxes,	<u>(494,829)</u>	<u>(1,131,784)</u>	-56%
Income taxes:			
Current	(15,677)	(15,442)	2%
Deferred	59,663	322,048	-81%
Total income taxes	<u>43,986</u>	<u>306,606</u>	-86%
Net Income (Loss)	<u>(450,843)</u>	<u>(825,178)</u>	-45%

Axtel, S.A.B. de C.V. and SubsidiariesUnaudited **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 instrument	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>284,164</u>	<u>(302,886)</u>	<u>(825,178)</u>	<u>(252,902)</u>