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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, 2013

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 December 31, 2013, there are 1,239,777,335 CPOs that represent 8,678,441,345 Series B Class I Shares. The capital stock of Axtel is represented by 8,776,192,202 shares of the fixed portion of the capital stock, of which, 97,750,656 are Series A, Class I and 8,678,441,546 are Series B, Class I. As of December 31, 2013, 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 or on the accuracy or reliability of the information contained in the Annual Report or validate the acts, if any, might have been made in contravention of the law.

For any questions with regards to this Annual Report, please contact Mr. Adrian de los Santos at the phone number (81) 8114-1128 or via e-mail to ir@axtel.com.mx.

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

San Pedro Garza García, N.L., as of April 30, 2014.

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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, which grant to its holders the exact same rights as the Series B shares
“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, which grant to its holders the exact same rights as the Series A shares
“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., Brokerage Firm, Member of Grupo Financiero Banamex.
“ADS” o “ADSs”	American Depositary Shares, each one representing 7 CPOs, and each CPO representing 7 Series B Shares.
“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 and its affiliates.
“BMV”	Bolsa Mexicana de Valores, S.A.B. de C.V. (<i>Mexican Stock Exchange</i>).
“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, Thursday February 16, 2012, and Friday October 12 of 2012, Tuesday April 30 and Monday July 15, 2013 and Thursday January 30, 2014.
“CNBV”	Comisión Nacional Bancaria y de Valores. (<i>Mexican Banking and Securities</i>

	<i>Commission).</i>
“Cofeco”	Comisión Federal de Competencia. (<i>Federal Antitrust Commission</i>).
“Cofetel”	Comisión Federal de Telecomunicaciones (<i>Federal Telecommunications Commission</i>), the industry regulator until September 9, 2013.
“CFE”	Comisión Federal de Electricidad (<i>Federal Electricity Commission</i>).
“DMS Switch” or “DMS equipment”	Nortel Networks’ 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”, “US\$”, “Dollars” or “USD”	Current currency of the United States of America.
“Financial Statements”	The Consolidated Financial Statements.
“Audited Financial Statements”	The audited consolidated financial statements of the Company for the fiscal years ended on December 31, 2013 and 2012 and January 1 st of 2012.
“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.
“GPON”	Gigabit Passive Optical Network
“IFT”	Instituto Federal de Telecomunicaciones (Federal Telecommunications Institute), the recently created industry regulator which, among others, absorbed the functions of the Cofetel.
“Indeval”	S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores.
“INEGI”	Instituto Nacional de Estadística Geografía e Informática (<i>National Institute of Statistics, Geography and Informatics of Mexico</i>).
“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” or “VAT”	Mexican Value Added Tax.
“LD”	Long Distance.

“LFT”	Ley Federal de Telecomunicaciones (<i>Federal Telecommunications Law</i>)
“LGSM”	Ley General de Sociedades Mercantiles (<i>General Law of Mercantile Companies</i>).
“LMV”	Ley del Mercado de Valores (<i>Mexican Securities Market Law</i>) published in the Official National Gazette on December 30, 2005, as amended from time to time.
“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.
“Nextel”	Comunicaciones Nextel de México S.A. de C.V.
“NIF” or “MFRS”	Normas de Información Financiera (<i>Mexican Financial Reporting Standards</i>).
“IFRS”	International Financial Reporting Standards
“Nokia”	Nokia Siemens Networks S.A. de C.V.
“pesos”, “M.N.”, “\$”, or “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 (<i>Mexican Supreme Court of Justice</i>).
“SCT”	Secretaría de Comunicaciones y Transportes. (<i>Ministry of Communications and Transport</i>)
“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” or “Grupo Telefónica”, or “Telefónica”	The following companies, together or 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.
“ICT”	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 expenditures

	(revenues).
“EBITDA”	Means Earnings before interest, taxes, depreciation and amortization and other non-recurrent expenditures (revenues).
RGUs	Revenue Generating Units
“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	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 fastest broadband service in Mexico, for the mass market, and one of the leading companies in ICT 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. Axtel's portfolio of services include the fastest broadband services for the mass market in Mexico through the GPON technology used by its FTTH Network, the most advanced solutions for data transmission and implementation of virtual private networks, web hosting, data centers, managed security, services for other telecommunications operators, voice services and pay television, among others.

The Company was incorporated under the corporate name of Telefonía 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 transformed 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 www.bmv.com.mx. Likewise, the same information can be accessed in Axtel's web page at www.axtel.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 three new shares for each of the shares of the same class and series that they owned; (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.

In connection with the aforementioned, and in accordance with the resolutions adopted by the Extraordinary Shareholders' Meeting held on January 25, 2013, the Company issued 972,814,143 Series B Class I shares which will be held in the treasury of the Company, to be subscribed subsequently upon the conversion of the Notes. Likewise, 1,114,029 Series A shares were issued.

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, México. Its telephone is (+52) (81) 8114-0000 and its web page is www.axtel.mx.

Axtel is one of the most relevant companies in the industry with annual sales of Ps. 10,286 million pesos in 2013. Our value-added solutions on IP technology make the convergence of voice services, data and television 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, 2013 are: Mexico City, Monterrey, Guadalajara, Puebla, Toluca, Leon, Queretaro, San Luis Potosi, Saltillo, Aguascalientes, Ciudad Juarez, Tijuana, Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Victoria City, 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, 2013, the Company had 936 thousand active lines representing 640 thousand customers in service plus 38 thousand long distance pre-paid service users. With respect to the twelve month period ended on December 31, 2013, Axtel generated income, operating income and Adjusted EBITDA for the amounts of Ps. 10,286 million pesos, Ps. 2,687 million pesos and Ps. 2,872 million, respectively. The Company's financial information is contained in more detail in paragraph 3) FINANCIAL INFORMATION of this Annual Report.

As of December 31, 2013, 62% of the lines in service came from residential customers and the remaining 38% from business customers. For the twelve months period ended on December 31, 2013, 34% of the revenue came from massive customers (residential and micro-enterprise customers), 22% from government, 28% came from medium and large businesses and financial institutions and the remaining 16% came from international LD incoming calls, telephone operators (carriers) and public telephone services.

In what regards to the behavior of the CPO, as of December 31, 2013, the Company's CPO closed at Ps. 4.68 per CPO. For more details on the CPO through the years, see Section 5.2) Stock Performance in the Stock Market.

1.3) Risk Factors

1.3.1) Risks Related to the Company

We have a history of substantial losses and may incur further losses in the future.

Since our incorporation in 1994 and as of December 31, 2013, we have incurred a cumulative net gain of Ps. 93 million. As noted in our financial statements, in recent periods we have experienced declines in revenues and cash flow and have experienced liquidity constraints. We have adopted plans to address our liquidity position, including the asset divestiture and exchange offers completed in January 2013 and the collocation of new debt completed on December 2013, however, if we continue to incur future losses or to generate future cash flows not sufficient to cover investments, interests and other costs and expenses, our business operations could be compromised and we could be forced to declare bankruptcy, liquidate or reorganize.

Our revenues, operating income and Adjusted EBITDA could decline.

In 2013, the Company recorded an increase in revenues and Adjusted EBITDA of 1% and 5%, respectively, as compared to the same period in 2012 due to an increase in integrated services and internet and video services, as well as a decrease in operating expenses. If these increases are reversed in the future, our results of operations and financial condition could be materially adversely affected. In 2012, Axtel recorded an operating loss of Ps. 535 million, compared to an operating income of Ps. 2,687 million in 2013. The improved operating income was mainly due to proceeds from the tower sale in January 2013. We have an Adjusted EBITDA generation of Ps. 2,872 million and Ps. 2,738 million for 2013 and 2012, respectively, and financial ratios with net debt (i.e., total debt net of cash and cash equivalents) to Adjusted EBITDA of 2.3x and 4.0x as of December 31, 2013 and December 31, 2012, respectively, and Adjusted EBITDA to interest expense of 3.3x and 2.6x for the twelve month period ended December 31, 2013 and December 31, 2012, respectively.

A higher leverage could affect our growth and operating results.

As of December 31, 2013, our total debt and accrued interest stood at Ps. 7,864 and Ps. 279 million, 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 may need additional financing.

We may require additional financing in the future to fund our operations. We operate a capital intensive business. Since our inception and as of December 31, 2013, we have invested Ps. 38,148 million in building our infrastructure. We expect to make additional investments in future years as we selectively expand our network into new technologies and other areas of Mexico in order to exploit market opportunities as well as to maintain our existing network and facilities. 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 mandated 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 incur additional indebtedness will be restricted by the terms of agreements currently in place or into which we may enter in the future.

Adverse and volatile 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.

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

Since our incorporation and through December 31, 2013, we have invested Ps. 38,148 million 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.

Our industry is characterized by rapid technological change, which could render our products obsolete and cause us to recognize an impairment charge to our assets.

Most of network and other system equipment used in the telecommunications industry have a limited life and must be replaced because of damage or competitive obsolescence. For example, increased demand for bandwidth-intensive services has required us to upgrade from fixed-wireless access technologies, including WiMAX, to fiber optic-based technologies like GPON. Such upgrades or migrations require significant capital expenditures and we cannot assure you that unforeseen technological evolutions will not render our services unpopular with customers or obsolete. To the extent our equipment or systems become obsolete; we may be required to recognize an impairment charge to such assets, which may have a material adverse effect on our business and results of operations.

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

Banco Nacional de México S.A. and its Mexican affiliates (collectively “Banamex”), our largest corporate customer, generated approximately 6% of our total revenues in 2013. Accordingly, our ability to maintain a satisfactory relationship with this customer has a direct impact on our revenues and profitability. In the past, Nextel de Mexico (“Nextel”) represented 17% of Axtel revenues in 2005 compared to less than 2% in 2013. If we experience a similar situation with another major customer, or if this customer breaches some or all the conditions established in the

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 which may cause us to declare bankruptcy, liquidate or reorganize. No other customer represented more than 5% of our total revenues in 2013.

We operate in a highly competitive environment and experience significant rate pressure, which may negatively affect our operating margins.

The telecommunications industry in Mexico is becoming more competitive. Over the past years, we have not increased prices for local and long distance services to our customers. Competition from established telecom companies like Telmex, Alestra and Maxcom, has expanded and also includes cable companies like Megacable and Televisa Cable Companies (Cablemás, Cablevisión and TVI). With the convergence of services, Axtel is also facing strong competition in voice and data service from mobile operators such as América Móvil, S.A.B. de C.V. (“America Movil”), Iusacell PCS, S.A. de C.V. and Telefónica Movistar.

We expect the Mexican telecommunications market to continue to experience pricing pressures, 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; and
- the further penetration of cable television operators into certain of our markets;
- and the continuous entrance of new competitors.

Telmex, a subsidiary of America Movil and the former state-owned telecommunications monopoly and dominant 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, give it 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. If there are further declines in the price of telecommunication services in Mexico, we will be forced to competitively react to those price declines by lowering our margins or risk losing market share, which would adversely affect our operating results and financial position.

Delays in the implementation and availability of new technologies or service access networks could adversely affect Axtel’s results of operations.

Telecommunications companies constantly migrate to new technologies or access networks depending on the demand for services in the market, and the characteristics of the technological alternatives available and their cost and adaptability. Since 2010, Axtel has tested different optical fiber technologies, such as GPON last mile and Fiber Optic Modem (“FOM”), to provide converged telecommunications services to its customers. Deployment of these technologies is susceptible to delays and/or such technologies may fail to meet expected capacities, which would result in slower growth and adversely affect the results of operations of the Company. Additionally, if any of our suppliers for FTTH optical fiber or ICT services fails to provide such services or equipment, our ability to make the necessary deployments in order to have the penetration and coverage we seek would be adversely affected, which could adversely affect our results of operations.

An increase in future interconnection rates or in interconnection rates applicable to past years could have a material adverse effect on our results of operations.

IFT is in the process of resolving interconnection disputes between the Company and the mobile operators for years between 2008 and 2011 and could decide to establish higher interconnection rates compared to those rates effectively paid by Axtel to such mobile operators. If IFT confirms the applicability of higher interconnection rates, Axtel may be obligated to reimburse to such mobile operators an approximate amount of up to Ps 2,169 million. An adverse ruling from IFT could have a material adverse effect on our business and results of operations.

We depend on key personnel; if they were to leave us, 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, Tomas 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 or that these systems will continue to perform as expected. Any failure in our information and processing systems could impair our ability to collect payment from customers and respond satisfactorily to customer needs.

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

Our operations are dependent upon our ability to protect our network infrastructure against damage from fire, earthquakes, hurricanes, floods, power loss, breaches of security, software defects and similar events and to construct networks that are not vulnerable to the effects 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 was 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 exerts significant influence on all aspects of the telecommunications markets 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 expired on December 31, 2008. The contract contains provisions for its continuous application; if the agreement expires without an express extension agreed to 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. For years 2009 to 2014, Cofetel has issued a resolution establishing interconnection rates for such years, which resolution has been challenged by Telmex before the Federal Court of Tax and Administrative Justice. If Telmex breaches some or all of the conditions established in the interconnection agreement, or if it is not possible to renew such agreement in acceptable terms at its expiration, we might be forced to offer services that will no longer be profitable and competitive. In addition, if IFT ceases to regulate Telmex pricing, the resulting competitive climate could have a material adverse effect on our business, financial condition and results of operations.

The Federal and Administrative Justice Court may rescind or overturn the decision of Cofetel approving a reduction in termination rates for domestic long distance calls from Axtel to Telmex, which could have a material adverse effect on our business and our results of operations.

Teléfonos de México, S.A.B. de C.V. ("Telmex") has challenged before federal courts certain resolutions issued by Cofetel pursuant to which Cofetel established lower interconnection rates for years between 2009 and 2014. If Telmex obtains a favorable resolution, the Company may be obligated to pay Telmex higher interconnection rates compared to those rates effectively paid to Telmex for such years. The Company has estimated the contingency in

an approximate amount of up to Ps. 1,240 million. We believe that the rates set pursuant to Cofetel's administrative resolution will be sustained and therefore we have recognized costs based on the tariffs approved by Cofetel. However, we cannot assure you that the Federal Tax and Administrative Court will not rule against us by declaring Cofetel's resolutions null and void, increasing the rates we have to pay Telmex going forward, and possibly, by giving retroactive application to the pre-existing Ps. 0.75 tariff, thereby obligating us to pay the unpaid amounts invoiced by Telmex. An adverse ruling from the Federal Tax and Administrative Court could have a material adverse effect on our business, financial condition and results of operations.

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 provision of services before we are able to link these customers to our own network, 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 to provide 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 Mexican Federal Telecommunications Law (*LFT*) enacted in 1995, as amended, 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 Mexican Federal Telecommunications Law and any other provision contained in the concession title. The Mexican Federal Telecommunications Law provides, 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 IFT;
- 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 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, we cannot assure you 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 legal provisions related to concessionaires, including, among others, the requirement to receive the authorization by the regulatory authority to be a holder of the concession.

We could lose or encounter unfavorable conditions and fees with respect to our concessions.

Under our concessions, we are subject to various financial and technical conditions imposed by IFT. 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. Furthermore, our concessions are of a fixed duration and are scheduled to expire between 2018 and 2026. 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 renewal. A failure to renew or maintain our concessions could have a materially adverse effect on our business.

The regulatory authorities could require us to offer services in certain geographical areas where we may experience a lower operating margin.

The SCT has granted us the necessary permits to provide services in the entire Mexican territory. Some of our concessions require us to offer 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 2013, we have complied with such coverage requirements. If needed in the future, we may request extensions from the SCT (or the IFT) in order to comply with the terms of some of our concessions. 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.

High-volume customers —like financial institutions, corporate customers and federal and state government entities— are among the most attractive niches in the telecommunications market. This niche is being pursued by a number of carriers, including Telmex, Alestra and Televisa's subsidiary Bestel, that offer competitive telecommunications services solutions in order to gain these accounts. Losing some of these customers could lead to a significant loss of revenue and lower operating income.

We face increased competition for residential customers.

Competition from established telecom companies targeting residential customers has increased in recent years and now includes former video-only companies like Megacable and Televisa Cable Companies, which has increased and may continue to increase competitive pressure in the market. An erosion of margins, a failure to continue attracting new customers, or an increase in existing customer's attrition ratio, or churn, or any combination of these three elements, could lead to a significant loss of revenue and lower operating income.

We generate significant revenues from wholesale services and the prices and margins of such services have declined significantly.

Prices and margins for international traffic have declined significantly due to competition. The gross margin from this segment declined 70% in 2013 compared to the same period of 2012 and declined 72% compared to the same period of 2011. If this situation is repeated with other wholesale customers or services and we are unable to replace lost revenues with revenues from enterprise or residential customers, it could have a material adverse effect on our business, financial condition and results of operations.

We have experienced losses in the past in connection with derivative financial instruments.

We use derivative financial instruments to manage risk associated with interest rates and to hedge our U.S. dollar syndicated loan facility and a portion of the interest payments associated with the 2017, 2019 and 2020 Notes. Our policy is not to enter into derivative transactions for speculative purposes; however, we may continue to enter into derivative financial instruments as an economic hedge against certain business risk, even if these instruments do not qualify for hedge accounting under IFRS. The mark to market accounting for derivative financial instruments is reflected in our income statement.

The technology we use may be made obsolete by the technology used by our competitors. Delays in the implementation and availability of services based on new technologies or access networks could adversely affect our results of operations.

Our fixed wireless system, fiber optic network, point-to-multipoint and point-to-point infrastructure may not be as efficient as technologies used in the future by our competition. We have relied heavily on the continued performance of wireless technology and selected new technologies to provide the best services that the market demands.

Technological changes or advances in alternative technologies may adversely affect our competitive position and require us to reduce our prices, substantially increase capital expenditures and/or write down obsolete technology.

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 in 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 ICT 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.

A number of our residential and small and medium-sized enterprises are served using WiMAX-based technology. As of December 31, 2013, we have 347 thousand customers connected with WiMAX-based technology. The technology is capable of providing up to 10 Mbps in each of its three sectors, but the average speed currently offered to customers served with WiMAX is 1 Mbps, which is significantly less than competing technologies. WiMAX technology was originally developed by Motorola, which sold the technology to Nokia-Siemens Networks who, in 2011, sold the technology to NewNet. We do not expect its current owner to invest materially in further developments to upgrade its capabilities. As other access technologies, such as FTTH, continue to evolve the lack of upgrades to WiMAX technology may adversely affect the competitiveness of Axtel's commercial offers to customers served with WiMAX. If Axtel is not able to migrate WiMAX customers to other technologies like FTTH, and if WiMAX-based customers demand services that cannot be provided, a significant disconnection of customers could occur which could adversely affect the operating results of the Company.

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. Our average monthly churn rate has been stable during the 12 month period ended December 31, 2013 at approximately 1.9%. Our churn rate mainly results from customer deactivations due to non-payment of bills. If 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 conditions could lead to an increase in churn, particularly among our residential customers.

Restrictive covenants in the indenture of our Senior Notes may restrict our ability to pursue our business strategies.

The indenture governing the 2020 Notes limit our ability, among other things, to:

- incur additional indebtedness or contingent obligations;
- pay dividends or make distributions to our stockholders;
- repurchase 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, the indenture requires us to maintain certain 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 indenture governing the 2020 Notes may also impair our ability to finance future operations or capital needs or to enter into acquisitions or joint ventures or engage in other favorable business activities.

If we default under the indenture, the bondholders could require immediate repayment of the entire principal amount of such debt. If those lenders require immediate repayment, we will not be able to repay the 2020 Notes in full.

1.3.2) Risks Relating to Our Indebtedness and Possible Bankruptcy.

We and our subsidiary guarantors may incur substantially more debt, which could further exacerbate the risks associated with our indebtedness.

We may be able to incur substantial additional debt in the future. Although the agreements governing our and our subsidiary guarantors' outstanding indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Adding new debt to our current indebtedness levels would increase our leverage. The related risks that we now face could intensify.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures and research and development efforts will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

Restrictive covenants in our debt agreements may restrict the manner in which we can operate our business.

The agreements governing our and our subsidiary guarantors' outstanding indebtedness limit, among other things, our ability and the ability of our restricted subsidiaries to:

- borrow money or issue guarantees;
- pay dividends, redeem capital stock or make other restricted payments;
- create liens to secure indebtedness;
- make certain investments;
- sell certain assets;
- pledge assets;
- participate in joint-venture agreements;
- enter into transactions with our affiliates; and
- merge with another entity or sell substantially all of our assets.

Our future indebtedness agreements may contain additional affirmative and negative covenants which could be more restrictive than those contained in the instruments governing our existing indebtedness.

1.3.3) Risks Relating to the Mexican Telecommunications Industry.

We operate in a highly regulated industry.

As public services providers, we are subject to extensive regulation. The basic regulatory framework governing telecommunications sector is currently being modified and will be subject to changes in the near future, which changes may materially and adversely affect our business, operations, financial condition and prospects. The operation of telecommunications systems in Mexico, including ours, is currently subject to laws and regulations administered by IFT, which have been and may be amended from time to time. The regulatory changes could adversely affect our business and subject us to additional legal liability or obligations.

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 and 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.

Fraud 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.

1.3.4) 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. 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. We have not adopted any written preventive measures or contingency plans to combat any future outbreaks or any other epidemic.

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. Mexico lacks a solid and independent internal economy. As a result, external economic events could significantly affect Mexico's general economy and cause sudden economic shocks like those experienced in 2009 when Mexico's GDP declined 4.7%. Mexico's volatile economy could significantly affect our business and results of operations.

According to INEGI estimates, in 2010, GDP increased by 5.1% and inflation increased to 4.4%. In 2011, GDP increased by 4.0% and inflation reached 3.8%. In 2012 GDP increased by 3.9% and inflation reached 3.6%. Finally, in 2013, GDP increased 1.1% and inflation reached 4.0%.

Mexico has had stable nominal and real interest rates for the past four years. The rate on 28-day CETES averaged approximately 4.4%, 4.2%, 4.2% and 3.7% for 2010, 2011, 2012 and 2013. Relative to the U.S. dollar, the peso appreciated 5.7% in 2010, depreciated 11.7% in 2011, appreciated 7.5% in 2012 and depreciated 0.5% in 2013 in nominal terms.

Political events in Mexico may affect our operations.

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 Mexico in the 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. 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.

Mexican federal governmental policies or regulations, as well as economic, political and social developments in Mexico, could adversely affect our business, financial condition, results of operations and prospects.

We are a Mexican *sociedad anónima bursátil de capital variable* and substantially all of our assets are located in Mexico. As a result, our business, financial condition, results of operations and prospects are subject to political, economic, legal and regulatory risks specific to Mexico. The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. We cannot predict the impact that political conditions will have on the Mexican economy. Furthermore, our business, financial condition, results of operations and prospects may be affected by currency fluctuations, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. We cannot assure investors that changes in Mexican federal governmental policies will not adversely affect our business, financial condition, results of operations and prospects. We do not have and do not intend to obtain political risk insurance.

Violence and crime associated with activities of drug cartels in Mexico could adversely affect the Mexican economy, our business, financial condition, results of operations and prospects.

Mexico has recently experienced periods of violence and crime due to the activities of drug cartels. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, drug-related crime continues to exist in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in the future. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, financial condition, results of operations and prospects.

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.

In addition, the correlation between economic conditions in Mexico and the U.S. has sharpened in recent years as a result of NAFTA and increased economic activity between the two countries. As a result of the slowing economy in the United States and the uncertain impact it could have on general economic conditions in Mexico and the United States, our financial condition and results of operations could be adversely affected. In addition, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict our ability to obtain financing or refinance our existing indebtedness on favorable terms, if at all.

High interest rates in Mexico could increase our financing and operating costs.

In the 1980s and 1990s, Mexico experienced very high rates of interest that even exceeded 100% annual returns. An improvement in the management of public finances over the last 20 years has allowed interest rates in Mexico to remain relatively stable and mostly below levels of 10%. The interest rates on 28-day Mexican government treasury securities, CETES, averaged approximately 4.4%, 4.2%, 4.2% and 3.7% for 2010, 2011, 2012 and 2013, respectively and we cannot assure you 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.

A 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 98% of our contracted debt as of December 31, 2013 is 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 19.7% against the U.S. dollar in nominal terms. In 2009 and 2010, the peso appreciated 3.7% and 5.7%, in 2011 depreciated into 11.7%, in 2012 it appreciated 7.5% and in 2013 it depreciated 0.5%. Further declines in the value of the peso may also result in disruption of the international foreign exchange markets. This may limit our ability to transfer or convert Pesos into U.S. dollars and other currencies and adversely affect our ability to meet our current U.S. dollar-denominated obligations and any other U.S. dollar-denominated obligations that we may incur in the future. While the Mexican federal government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos into U.S. dollars or other currencies, the Mexican federal government could institute restrictive exchange control policies in the future.

Hurricanes and other natural disasters could disrupt our business and affect our results of operations.

Hurricanes and other natural disasters, such as earthquakes, floods or tornadoes, have disrupted our business and the businesses of our suppliers and customers in the past and could do so in the future. If similar weather-related events occur in the future, we may suffer business interruption which could adversely and materially affect our results of operations.

1.3.5) Risks Related to the 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 lower level of liquidity and the higher level of volatility of the Mexican Stock Exchange may decrease the market price of the CPOs and limit the ability of ADS holders to sell the underlying CPOs.

Our CPOs have been approved for listing on the Mexican Stock Exchange, which is Mexico's only stock exchange. The Mexican securities market is substantially smaller, less liquid and more volatile than the major securities markets in the United States and certain other developed market economies. The relatively small market capitalization and illiquidity of the Mexican equity markets may limit substantially the ability of holders of CPOs to sell CPOs and holders of ADSs to sell the CPOs underlying the ADSs, and may also affect the market price of the ADSs and CPOs.

The price of our CPOs may be volatile and you may lose all or part of your investment.

The market price of our CPOs could fluctuate significantly, in which case you may not be able to resell your CPOs at or above the offering price. The market price of our CPOs may fluctuate based on a number of factors in addition to those listed in this Statement, including:

- our operating performance and the performance of our competitors and other similar companies;
- the public's reaction to our press releases, our other public announcements;
- changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry;
- changes in general economic conditions;
- the number of remaining CPOs available to be publicly traded in México;
- changes in Axtel's current rating by the principal rating agencies;
- actions of our current shareholders, including sales of common stock by our directors and executive officers;
- the arrival or departure of key personnel;
- acquisitions, strategic alliances or joint ventures involving us or our competitors; and
- other developments affecting us, our industry or our competitors.

In addition, in recent years international equity markets have experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may cause declines in the market price of our CPOs. The price of our CPOs could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our stock price.

Future issuances of CPOs may result in a decrease of the market price of the CPOs.

Future sales by our existing shareholders of a substantial number of our CPOs, or the perception that a large number of our CPOs will be sold, could depress the market price of our CPOs.

The Series B Shares may not be acquired by non-Mexican holders over the percentages permitted by the applicable law on foreign investment unless the acquisitions are made indirectly through the CPO Trust. Upon termination of the CPO Trust in 50 years, or in the event of its early termination, the Series B Shares are required to be deposited in a new trust under conditions similar to the CPO Trust or to be sold in accordance with the provisions of the CPO Trust to the extent necessary to maintain the thresholds established by applicable law. We cannot assure you that a new trust similar to the CPO Trust will be created upon termination of the CPO Trust. In the event a new trust is not created, because the Series B Shares may not be acquired by non-Mexicans the non-Mexican holders of ADSs or CPOs will be obligated to sell their Series B Shares to Mexican nationals.

Preemptive rights may be unavailable to certain holders of our ADSs and CPOs, which may result in a dilution of such ADS and CPO holders' equity interest in our company.

Under Mexican law, subject to limited exceptions, if we issue new shares for cash as part of a capital increase, we generally must grant preemptive rights to our shareholders, giving them the right to purchase a sufficient number of shares to prevent dilution. However, the CPO Trustee will offer holders of CPOs, whether directly or through ADSs, preemptive rights only if the offer is legal and valid in the CPO holder's or ADS holder's country of residence. Accordingly, we may not be legally permitted to offer non-Mexican holders of ADSs and CPOs the right to exercise preemptive rights in any future issuances of shares unless:

- we file a registration statement with the SEC with respect to that future issuance of shares; or
- the issuance qualifies for an exemption from the registration requirements of the Securities Act.

At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, the benefits of enabling U.S. holders of ADSs and CPOs to exercise preemptive rights and any other factors that we consider important in determining whether to file a registration statement. However, we have no obligation to file a registration statement and it is possible that we will not file one. As a result, the equity interests of U.S. holders of ADSs and CPOs would be diluted to the extent that such holders cannot

participate in future capital increases. Please see “Description of Capital Stock” for additional information concerning the ability of holders of Series B Shares to participate in future capital increases.

In addition, although the deposit agreements permit the ADS depositary, if lawful and feasible at the time, to sell preemptive rights and distribute the proceeds of the sale to entitled ADS holders, sales of preemptive rights are not currently permitted in Mexico.

Non-Mexican holders of our securities forfeit their shares if they invoke the protection of their government.

Pursuant to Mexican law, our bylaws provide that non-Mexican holders of CPOs may not ask their government to interpose a claim against the Mexican government regarding their rights as shareholders. If non-Mexican holders of CPOs violate this provision of our bylaws, they will automatically forfeit the Series B Shares underlying their CPOs to the Mexican government.

Non-Mexican holders of our securities have limited voting rights.

Holders of ADSs or CPOs who are not Mexican nationals will have limited voting rights with respect to the underlying Series B Shares. As to most matters, voting rights with respect to the Series B Shares held in the CPO Trust on behalf of holders of ADSs and CPOs who are non-Mexican investors will be voted in the same manner as the majority of the Series A Shares and Series B Shares that are held by Mexican investors and voted at the relevant meeting. (See “Applicable Legislation and Tax Law – (ii) Limitation on capital stock investments by foreign shareholders- Foreign Investment Law”)

Holders of ADSs and CPOs may face disadvantages when attempting to exercise voting rights as compared to an ordinary shareholder.

You may instruct the Depositary or CPO Trustee as to the exercise of your voting rights, if any, pertaining to the deposited Series B Shares underlying your securities. If we so request, the Depositary or CPO Trustee will try, as far as practical, to arrange to deliver our voting materials to you. We cannot assure you that you will receive the voting materials in time to ensure that you can give timely instructions as to how to vote the Series B Shares underlying your securities on your behalf. If the Depositary or CPO Trustee does not receive your voting instructions in a timely manner, it will provide a proxy to a representative designated by us to exercise your voting rights or refrain from representing and voting the deposited Series B Shares underlying your securities, in which case, those securities would be represented and voted by the CPO Trustee in the same manner as the majority of the Series A and Series B Shares that are held by Mexican investors are voted at the relevant meeting. This means that you may not be able to exercise your right to vote, and there may be nothing you can do if the Series B Shares underlying your securities are not voted as you requested.

Minority shareholders may be less able to enforce their rights against us, our directors or our controlling shareholders in Mexico.

Under Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because Mexican laws concerning fiduciary duties of directors are not well developed, it is difficult for minority shareholders to bring an action against directors for breach of this duty as permitted in most jurisdictions in the United States. The grounds for shareholder derivative actions under Mexican law are extremely limited, which effectively bars most of these kinds of suits in Mexico. Procedures for class action lawsuits do not exist under Mexican law. Therefore, it may be more difficult for minority shareholders to enforce their rights against us, our directors, or our controlling shareholders than it would be for minority shareholders of a U.S. company.

Any actions shareholders may wish to bring concerning our bylaws or the CPO Trust must be brought in Mexican court.

Pursuant to our bylaws and the CPO trust documents, you will have to bring any legal actions concerning our bylaws or the CPO Trust in courts located in Monterrey, Nuevo Len and México, regardless of where you reside. Any such action you may wish to bring will be governed by Mexican laws. As a result, it may be difficult for non-Mexican national shareholders to enforce their rights as shareholders.

Our bylaws contain certain provisions restricting takeovers which may affect the liquidity and value of the stocks.

Our bylaws provide that, subject to certain exceptions, (i) any person that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such person holding individually or together with such other persons shares representing certain threshold amounts from 5% to 45% or more of our outstanding capital stock, and (ii) any competitor that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such competitor holding individually or together with such other persons shares representing 3% or more of our outstanding capital stock or any multiple thereof, must obtain the prior approval of our Board of Directors and/or of our shareholders, as the case may be. Persons that acquire shares in violation of our antitakeover provision will not be recognized as owners or beneficial owners of such shares under our bylaws, will not be registered in our stock registry and will be required to transfer such shares to a third party who has been approved by our Board of Directors or by the general shareholders meeting. Accordingly, these persons will not be able to vote such shares or receive any dividends, distributions or other rights in respect of these shares. This restriction does not apply to transfers of shares by inheritance. These provisions of the bylaws will operate in addition to, and not affect, if any, the obligations to conduct public offerings and to disclose transfers of shares representative of Axtel's capital, established in the applicable legislation and the general regulations issued by competent authority.

This provision could discourage possible future purchases of CPOs and, accordingly, could adversely affect the liquidity and price of the CPOs. (See "Company's Bylaws and Other Agreements – Measures to prevent the change of control in Axtel" in this Annual Report).

1.3.6) 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 8,776,192,202 ordinary, non-par value shares representing the fixed portion of its capital stock, of which 97,750,656 shares belong to the Class "I", Series "A" and 8,678,441,546 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 1,239,777,335 CPOs that represent 8,678,441,345 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: www.axtel.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, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade 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 it to service the entire Mexican territory. 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 US\$516 million (including the acquisition of net passives of US\$205 million). Following receipt of all required approvals from Axtel's shareholders and government regulators, we completed the acquisition on December 4, 2006.

Along with the acquisition of Avantel, in January 2007, the Company issued 246,542,625 new Series B Shares (represented by 35,220,375 CPOs). Of this amount, Tel Holding subscribed and paid 246,453,963 Series B Shares and other shareholders of the Company exercising their right of first refusal, subscribed and paid 88,662 Series B Shares through the CPO Trust. The new Series B shares were subscribed and paid at a price of Ps. 1.52 each.

With the acquisition of Avantel, we became the second largest fixed-line integrated telecommunications company in Mexico, providing local and long distance telephony, broadband Internet, data services, web hosting, information security services, virtual private networks, paid television, and a wide range of integrated telecommunications services. As of December 31, 2013, 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.

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, Colonia 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.mx.

2.2) Business Overview

2.2.1) General

Axtel is the Mexican telecommunications company with the fastest broadband service in Mexico, for the mass market, and one of the leading companies in ICT 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. Axtel's portfolio of services include the fastest broadband services for the mass market in Mexico through the GPON technology used by its FTTH Network, the most advanced solution for data transmission and implementation of virtual private networks, web hosting, data centers, managed security, services for other telecommunications operators, voice services and pay television, among others.

The thirty nine metropolitan areas in which Axtel provided its integrated communication services as of September 30, 2013 are: 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 Río, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun, Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlan, Coatzacoalcos and Minatitlan, which, according to *Instituto Nacional de Estadística Geografía e Informática* (INEGI), represent more than 48% of Mexico's total population.

As of December 31, 2013, the Company amounted 936 thousand lines in service, which represented 640 thousand customers. Regarding the fiscal year ended December 31, 2013, Axtel generated income, operating income and Adjusted EBITDA for the amounts of Ps. 10,286 million, Ps. 2,687 million and Ps. 2,872 million, respectively. During 2013, 34% of the revenue came from massive customers (residential and micro-enterprise customers), 22% from government, 28% came from medium and large businesses and financial institutions and the remaining 16% came from international LD incoming calls, telephone operators (carriers) and public telephone services.

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 7,630 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, 2013, the Company invested Ps. 38 billion mainly in its network, which includes digital switching stations, Fixed Wireless Access and WiMAX sites, point-to-multipoint, and point-to-point links, metropolitan optical fiber rings and FTTH technology.

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 ICT 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 growth in high-speed broadband and ICT services with differentiated products, (2) to gain market share in selected high value segments, (3) compete with quality of service differentiation, innovation and commercial creativity, (4) re-orient culture towards greater productivity and profitability of the operation of assets and (5) optimize the operating model.

Our approach to bundle multiple voice, data, Internet and television 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.

As of December 31, 2013, 62% of the lines in service came from residential customers and the remaining 38% from business customers. We estimate that our total lines represent approximately 9% 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 value added service providers in the future.

2.2.2) Competitive Strengths

a) Leading Market Position.

The Company believes it is able to meet pent-up demand for an alternative service provider, as well as establish brand awareness and build strong relationships with existing customers 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 9% share of our total fixed line addressable market in the 39 cities where we offer local services. As of December 31, 2013 in Monterrey and Guadalajara, the first two markets where Axtel launched operations in 1999, we estimate that we have achieved an approximately 22% and 12%, respectively, share of our coverage market in each of these cities. During 2012, AXTEL has strengthened its market position as the first company to consolidate with optical fiber service directly to home (FTTH) in 8 of the main cities in Mexico and achieving a 49% growth in FTTH broadband subscribers.

b) Comprehensive Voice, Data and Video 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, pay television 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 200 symmetrical Mbps) and incorporate next-generation services demanding high transmission capacity.

c) Reliable, Flexible and Technologically Advanced 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. During 2013 Axtel promoted the growth of its FTTH network in the three major cities in the country and 5 new cities (Puebla, Queretaro, San Luis Potosí, Aguascalientes and Leon), achieving coverage to more than 1.4 million units passed and 148 thousand customers with FTTH technology installed, complementing its ability to deliver converged services with up to 200 megabits per second. As of December 31, 2013, the Company invested Ps. 38 billion, mainly in its network, which includes 63 stations of digital switching, 437 sites of fixed wireless access, 997 WiMAX sites, 292 point-to-multipoint links, 6,539 point-to-point links and 1,965 kilometers of metropolitan fiber optic rings and 4,183 FTTH kilometers to provide service to its 640 thousand customers.

d) Scale—Second-Largest Fixed-Line Integrated Telecommunications Company in México – excluding cable companies.

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.

The Company has an adequate cash flow generation (Adjusted EBITDA of Ps. 2,872 million in 2013) and financial ratios with net debt to Adjusted EBITDA of 2.3x and Adjusted EBITDA to net interest expense of 3.3x, both for the year ended December 31, 2013.

f) Experienced Management Team and Internationally Renowned Equity Partners.

Our senior management team has extensive entrepreneurial, financial, marketing and telecommunications expertise. The diverse experience and stability 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 Citigroup. Among the investors and directors of the Company are entrepreneurs with great financial, operational and managerial experience in large Mexican corporates, such as Tomás Milmo Santos, Thomas Milmo Zambrano, Lorenzo Zambrano Treviño and senior executives from Cemex.

2.2.3) Business Strategy

The key elements of our business strategy are:

a) Target Service Sectors with High Profitability Potential

The Company focuses commercial efforts and investments in two core segments: mass market, which includes residential customers, and small and micro businesses; and the business segment that includes medium and large enterprises, including federal government entities, financial institutions, multinational corporations and wholesaler customers. In the mass market, Axtel is focused on being the leading provider of high-speed broadband and value-added solutions, thus achieving a higher degree of differentiation from the competition, strong customer satisfaction and an orientation to high-value segments. With respect to business segments including strategic accounts, efforts are focused on delivering a wide array of services, incorporating selected ICT solutions, such as *cloud* services, security, data centers, contact centers and managed services, among others. These services are offered in an integrated manner with conventional or infrastructure-based telecommunication services by adapting the solutions to the needs of our customers. In small and medium businesses, there are a number of standard offers, while in large corporate accounts and government entities, the design of the solutions is tailor made. The Company has developed customized service plans 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 value or 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, Internet and video services to provide communication solutions for its customers, allows it to generate higher revenues per customer, more gains for every Peso invested in its access infrastructure and greater customer loyalty. During 2013 Axtel consolidated its “Axtel Xtremo” offer which is a high speed internet, telephone and pay television-package service that allows the customer to order 4 to 200 Mbps of symmetrical internet bandwidth or speed through FTTH. Additionally, the service includes unlimited local service and, depending on the selected package, it may include unlimited LD minutes to Mexico, United States 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 fixed-to-mobile and long distance minutes. On the other hand, for mass-market customers with less broadband needs, Axtel continues to provide its “Acceso Universal” packages using WiMAX and other wireless technologies through which the client can access speeds from 0.5 to 2 Mbps and phone service.

c) Consolidate our participation in the Information and Communication Technologies Service Solutions

We are focusing our efforts on strengthening 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 such as dedicated links, VPNs and frame-relays, among many others, tailoring our solutions to the needs of our customers. This will allow us to offer more comprehensive differentiated solutions for our customers and increase our profitability by combining infrastructure-based services with services based on skills and expertise. 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 accounts, the design of our solutions is 100% tailor made.

d) Maintain Voice Revenues Stream

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

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

Axtel is the first competitor to offer high speed broadband services of 200 symmetrical megabytes per second to mass-market customers in Mexico. Our scope is to take advantage of this opportunity to provide integrated voice, internet services and pay television at speeds that our competitors are not able to offer, satisfying the growing demand of this type of services both in the residential and business segments.

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 believes that focusing on customer service provides our clients with a high quality experience and therefore a higher satisfaction, which helps the Company 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, video games and television

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 high speed Internet service that can offer speeds up to 200 symmetrical megabits per second, which allows the same speed for uploading and downloading data. For this cutting edge service, Axtel uses its fiber optic network deployed in Mexico City, Monterrey, Guadalajara, Puebla, Aguascalientes, San Luis Potosi, Queretaro and Leon, implying that for the first time in Mexico, the client can receive telephony services, internet and television by using optical fiber delivered directly to its home or business, known as FTTH. This innovative product positions Mexico at the level of internet speeds of the most advanced countries in the world and allows users to access applications that require high bandwidth use, such as high-definition video, multimedia applications, as well as downloading large files with an experience of high speed and quality. It also provides Axtel with the infrastructure through which a greater number of ICT 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 gain 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. During 2014, the Company plans to expand its FTTH coverage to new cities: Toluca and Juarez given their significant population and economic activity, providing Axtel an opportunity to increase its FTTH subscriber base.

i) Focusing to Service Quality

During 2013, with the active participation of over 200 employees, Axtel continued its quality program through Lean Six Sigma projects and continuous improvement groups embedded in core operations, all of them focusing in customer service, productivity and quality of service offered. This program positions Axtel as a best practice reference in the industry and Axtel has been asked to share its experience in important academic and industrial forums. Additionally, in 2013, the company also kept its ability to deliver ICT managed services and operate under an integrated management system ISO 9001:2008, ISO 20000-1:2011 and ISO 27001:2005 within an Advanced Services Center. The scope of the management system of Axtel IT Governance includes the activities required to deliver quality services to customers, by ensuring availability, integrity, confidentiality of information, a working philosophy based on continuous improvement of our processes and service reliability within an IT governance framework. In the same year Axtel obtained recertification ISO 9001:2008 for the areas responsible for the quality of products and services it provides to the business market.

2.3) Business Activity

Axtel's corporate purpose, 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, television, 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.

To analyze revenues, we track the following seven categories:

- (i.) *Local services:* We generate revenue by enabling our customers to originate and receive calls within a defined local service area and by providing offers with local calls, calls completed on a cellular line ("calling party pays," or CPP calls) and long distance minutes included in the monthly rent. Customers are charged a flat monthly fee for a variety of commercial offers and in certain offers, a per call fee for local calls ("measured service"), a per minute usage fee for CPP calls and value added services.
- (ii.) *Long distance services:* We generate revenues by providing long distance services (domestic and international completed calls).
- (iii.) *Internet & video:* We generate revenues by providing "on demand" Internet access and video (Pay-TV) services.
- (iv.) *Data & network:* We generate revenues by providing data, dedicated Internet and network services, like virtual private networks and private lines, to the enterprise segment.
- (v.) *Integrated Services & equipment sale:* We generate revenues from managed telecommunications services provided to corporate customers, financial institutions and government entities and the sale of customer premises equipment ("CPE") necessary to provide these services.
- (vi.) *International traffic:* We generate revenues by transporting and, in some cases, terminating fixed or mobile calls originated outside of Mexico.
- (vii.) *Other services:* Include, among others, memberships, late payment charges, spectrum, interconnection, activation and wiring and presubscription.

The products and services offered by the Company are, among others:

Residential and Micro and Small Business Segment	Enterprise and Government Segment
TRADITIONAL TELEPHONY	TRADITIONAL TELEPHONY
<i>Telephone lines</i>	<i>Telephone lines</i>
<i>Long Distance (national and international)</i>	<i>Smart lines</i>

800 Service (national)

IP TELEPHONY

AXTEL Conmigo

VOICE, INTERNET AND TELEVISION PACKAGES

Voice plans

AXTEL X-tremo

Acceso Universal

Entretenimiento Xtremo

VALUE ADDED SERVICES

Xtremo Support (Soporte Xtremo)

PC/MAC Expert

AXTEL Store

Family Membership AXTEL

SME Assistance

Antivirus

Long Distance (national and international)

800 Service (national and international)

Digital Trunks

IP TELEPHONY

SIP Trunks

INTERNET

Internet2

Dedicated Internet

Broadband Internet Enterprise

Internet Enterprise

WiFi Metropolitano

VOICE AND INTERNET PACKAGES

AXTEL X-tremo

Acceso Universal

Smart Voice

Unlimited Businesses

DATA NETWORKS (National and International)

Lan to Lan

VPN – Multiservices, IP, Broadband

Private Lines

COMPLETE SECURITY

Clean Pipes

Integrated Security Business

AXTEL Track

Managed Security (SOC)

COLLABORATION

Audio Connection

Net Conference

Private Cloud Collaboration

Public Cloud Collaboration

Contact Center

GLOBAL INFRASTRUCTURE

Site adjustments

CPE (Sale and maintenance of equipment)

Structured Cabling

Dynamic Server (IaaS – Infrastructure as a Service)

Flexible Data Center (collocated, dedicated)

Managed Monitoring (NOC)

Dedicated Hosting

Collocated Hosting

On Demand Disaster Recovery

ENTERTAINMENT

Axtel TV Enterprise

INTEGRATION WITH THIRD PARTIES

Field Services

Managed Services

Cloud Services

Equipment

2.4) Marketing and Sales

Axtel strives to be a leader in high speed broadband and selected ICT service areas in Mexico with differentiated services oriented to high value segments in the residential, micro and small businesses, enterprise, corporate, financial and government markets. The Company uses a variety of marketing strategies, such as direct mail (both special customer distributions and regular correspondences included in customer invoices) and telemarketing, which Axtel uses to promote awareness of its brand in various geographic regions and to sell new services to its clients. Likewise, Axtel creates brand awareness through outdoor advertising (such as billboards, newspapers, magazines and other print materials), radio and TV announcements and sponsorships in local news. The Company's marketing strategy is to combine an attractive and modern image that reflects a human approach.

We complement this marketing campaign with focused sales efforts directed at our target customer segments using a variety of sales channels. Our primary sales methods are: direct sales, online sales, door to door sales, telemarketing, sales booths (in strategically determined areas, including department stores, where potential customers carry out their shopping activities), MAPs ("*Módulos de Atención y Pago*"), which are Axtel-branded sales and service offices located at strategic locations within our targeted cities, and sales distributors who are certified to carry out sales activities on our behalf and target specific niche markets.

For business customers, financial institutions and government entities, we are positioned as a trusted advisor on ICT with the commitment to provide solutions that help our customers optimize their activities, increase flexibility and reduce technology investments on ICT, thus letting them focus on the core business. The solutions that we provide are grouped in two business lines, Telecom and IT, each of which hold four Product Families.

- Telecom Business line holds the following products: Traditional Voice, Voice over IP, Internet and Network.
- IT Business line holds the following products: Global Infrastructure, Complete Security, Total Collaboration and Universal Applications.

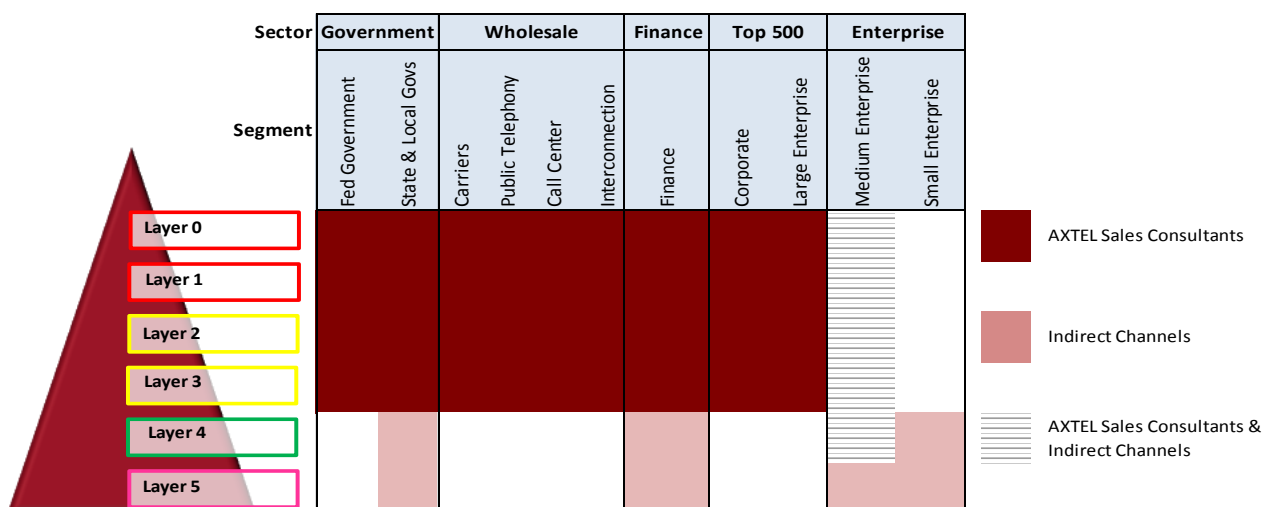
To promote products and services in the enterprise and government segment, Axtel uses various communication and business development tools, including special events in connection with new product launches, publications in journals, forums, online communication and direct promotion with the support of tools and presentations.

Customer churn occurs primarily from disconnecting customers for non-payment of bills. Churn also occurs when a customer chooses to switch to a competing service or to terminate service altogether. Churn results in the loss of future revenue from customers whose service is disconnected and limits our ability to recoup costs incurred in acquiring customers such as switching costs, commissions and installation costs. Our average monthly churn rate during 2013 was 1.9 %.

2.4.1) Sales Channels and Strategy

Advertising campaigns are complemented by sales objectives aimed at specific market segments using various sales channels.

Axtel's Enterprise Segment model is based on sales teams that include a Sales Consultant, a Customer Service Rep, a Solution Design Engineer and a Service Delivery Rep. Accounts are grouped into categories depending on the revenues and/or business potential of the customer. Resources are allocated according to the block prioritization scheme described in the below diagram. Sales Consultants can be either Axtel employees or ICT Integrator Indirect Channel representatives.



The main sale methods used by Axtel for both the Mass Market and Enterprise Segments are:

Direct Sales. Sales executives seek out potential business clients and schedule initial appointments with them. They also develop relationships with assigned accounts and act as a consultant, providing advice with regard to Axtel's products and services based on each customer's individual needs.

Door to Door. Sales agents search for potential clients in residential areas and areas with micro and small businesses.

Telemarketing. The Company has two distinct telemarketing techniques. On the one hand, a team of sales agents seeks potential clients by calling customers listed on a data file created by the Company. This team also responds to calls from potential clients which have received advertising through promotional campaigns. On the other hand, executives from the Service Center for Enterprise customers offer products and services to customers with basic needs through targeted phone calls.

Online Sales. Through our website, residential and micro and small businesses customers can acquire Axtel's services.

Point of Sales. The sales agents are strategically located at sales points where potential customers go shopping.

MAPs (Attention and Payment Modules). Axtel seeks sales through its service offices, which are strategically located in cities where the Company provides its services.

Indirect Channels (Sales Distributors). Certain companies are authorized to engage in activities on behalf of Axtel. These companies focus on sectors in which they have a certain influence. For the Enterprise segment, we work with companies specializing in IT services that integrate our products with a global solution that is provided to the customer; this method allows us to approach new customers in the Enterprise segment.

Axtel's sales efficiency is measured in comparison to 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 targets customers located within a specific geographic area with network access and interested in acquiring our services. By pre-selecting potential customers based on network availability and coverage, the Company can manage its advertising expenses more efficiently and reduce its costs of acquisition. The completeness and accuracy of our database also helps the Company to make installations more effective.

Also, the Company answers all incoming calls generated by advertising in magazines, newspaper, television, billboards, flyers, among others.

Subscriber cancellation is mainly a result of the Company's decision to shut down lines due to lack of payment and the clients' decision to change its service provider or completely cancel its subscription. Subscriber cancellations result in a loss of future income that was expected from clients whose service was disconnected. Likewise, such cancellations limit the Company's ability to recover the costs incurred in connection with the service installation. Management has developed initiatives that focus on retaining clients and improving billing and collection systems. As a result of these initiatives, the percentage of average monthly cancellations is 1.9% for the twelve month period ended December 31, 2013.

2.4.2) Pricing

In order to attract new subscribers in residential markets, we actively promote attractive packages or bundles such as voice plans, *Acceso Universal*, *Axtel X-Tremo* or *Axtel TV* packages, which may include unlimited local calls, domestic and U.S. long distance minutes, broadband Internet access and pay television to mass market customers, which generate recurring monthly payments. Once a customer has chosen our services, we focus on customer satisfaction and offer the customer benefits, rather than reducing prices, in order to maximize our retention rate. For example, with regard to *Axtel X-Tremo* packages, we install and activate a client's second line at a very low cost and we also allow customers to try our added value services for free. Also, we provide our customers a better broadband service than the service they requested for the first 30 days free of charge so that they can try the superior service and consider upgrading.

In the micro/small business segment, Axtel has very competitive pricing because, unlike competition, Axtel has the same price for micro/small business offers and residential offers.

In the Enterprise segment, we attract users by offering a wide variety of IT and communication services (such as VPNs, Ethernet Connectivity (Lan to Lan), collaboration and network monitoring) in addition to value added services (such as 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 for larger bills and through product bundling. Our ability to introduce new products, such as *Axtel X-Tremo*, *Axtel Connigo* or *Axtel TV*, allows us to position ourselves as a value-added service provider rather than a company that competes only based on prices.

2.4.3) 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, television 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 to additions and changes resulting from billing inquiries and technical support.
- **Operator Service** 24 hours a day. Includes wake-up calls, time of day, emergency calls and assistance for placing domestic and international long distance calls.
- **Advanced Services Center.** For customers with advanced services that require high availability, there is a monitoring center that maintains proper operation of services, correcting faults and deviations proactively.

- Repair Calls. 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 Testing. Analyzes and tests all reports that are not resolved on-line by Repair Calls. This team is accountable for routing these reports to Repair Dispatch.

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

2.4.4) Billing and Collection

The Company believes its billing and collection processes are an important aspect of its competitive advantage.

Axtel's billing team receives and validates the calls detail record from the network and bills customers on a monthly basis. The Client typically receives the printed invoice at home, within 14 days following the end of the billing period. If requested, the client also receives its electronic invoice (CFDI) via email within the following five days after the end of its billing period. A Payment Reminder is sent 7 days before their payment due date –only if payment is not detected yet. In both modes of transmission of invoice there is monitoring of the delivery efficiency.

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 frauds and risks.

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 webpage;
- 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. 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 the reconnection of the service under a pre-payment scheme with an appropriate payment schedule for the outstanding balance according to each customer's needs.

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;
- short text messages and radio localization services;
- data, video, audio and videoconference services;
- message delivery service (SMS);
- point to point and point to multipoint links;
- satellite restricted TV service;
- delivery of data and internet access through satellite;
- 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 TV, delivery of data through satellite and 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 year term and may be renewed at our discretion for an equal term. The renewal is conditioned upon the Company's compliance with all its obligations under the concession and to the achievement of a new understanding with IFT 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 regions¹ for local telephony using fixed wireless access technology;

¹ The telephone regions in the country are divided as follows: Region 1: the states of 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

- 28 MHz at 7 GHz, nationwide, for long-haul point-to-point transport;
- 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.

In order to guarantee its obligations under the 2020 Notes, the Company (as well as some of the subsidiary guarantors under such Notes), created a security interest through a telecommunications mortgage over the aforementioned concessions, as well as over the equipment used for the provision of its telecommunications services.

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, Axtel holds the following relevant trademarks:

NAME	FILE NUMBER	TERM	OWNER
Axtel	584,421	July 13, 2018	Axtel, S.A.B. de C.V.
Axtel. Su Acceso a las Telecomunicaciones	17,076	March 4, 2019	Axtel, S.A.B. de C.V.
Soluciones Axtel	625,940	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL	871,511	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL.NET	638,715	November 30, 2019	Axtel, S.A.B. de C.V.
AXTEL PUNTO NET	638,713	November 30, 2019	Axtel, S.A.B. de C.V.
Tu Nueva Compañía Telefónica	38,729	June 9, 2016	Axtel, S.A.B. 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.
Axtel TV	1,361,372	January 23, 2023	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	1,195,317	October 15, 2020	Axtel S.A.B. de C.V
Axtel Acceso Universal Axtel X-tremo	1,195,315	October 15, 2020	Axtel S.A.B. de C.V
Axtel Único Oficina Virtual	1,204,031	November 3, 2020	Axtel S.A.B. de C.V
Mejor Comunicación, Mejores Negocios	62,437	November 17, 2020	Axtel S.A.B. de C.V
AXTEL SOPHTPHONE	1,245,261	May 27, 2021	Axtel S.A.B. de C.V
ZONA AXTEL	1,250,250	July 13, 2021	Axtel S.A.B. de C.V

In order to guarantee its obligations under the 2020 Notes, the Company (as well as some of the subsidiary guarantors under such Notes), created a security interest through a non-possessory pledge over each and all of its

equipment, inventory, cash, accounts receivables (excluding certain accounts receivables), intellectual property (including the aforementioned trademark) and other assets of the Company.

2.5.3) Interconnection

All holders of concessions for public telecommunications networks shall provide the interconnection services for which such concessions were granted to other holders of public telecommunications network concessions that require such services. Interconnection agreements provide all terms and conditions required for the rendering of such services such as interconnection points, fees, and protocols, among the most important.

Significant regulatory changes on interconnection

In the Telecommunications, Broadcasting and Antitrust Constitutional Reform published on June 11, 2013 (the “Reform”), there are three main regulatory changes in the industry that may have implications on interconnection conditions:

- i. The creation of the Federal Institute of Telecommunications (the “IFT” or “Institute”) with exclusive faculties to regulate competition in the industry, replacing the former regulator Cofetel;
- ii. The integration of IFT’s Plenum on September 10, 2013, through the ratification of its new commissioners, thereby officially initiating IFT’s regulatory duties; and
- iii. The issuance by the IFT, in compliance with the provisions of the Reform, of the declarations and guidelines on preponderance, which includes new figures and obligations to preponderant holders of concessions, such as asymmetrical interconnection terms and conditions and the obligation to make available to the rest of the industry a reference offer, among other measures that may have a significant impact on the conditions of interconnection.²

Regardless of the changes outlined above, it is expected that the new Federal Telecommunications Law (LFT), will continue prohibiting holders of telecommunications concessions from conducting discriminatory practices in the application of rates or any other terms of interconnection.

Similarly, agreements regarding the determination of interconnection rates between particular parties are expected to continue, and in case of disagreement in the conditions for the establishment of interconnection services, the parties may request the intervention of the IFT 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, signaling, co-locations, and local transit. Most of these agreements date from year 1999 and have suffered small changes throughout time; therefore are still enforceable under the *Continuing Application*³ conditions provided in such agreements.

In addition to local interconnection agreements with Telmex, the Company has established interconnection agreements with other local fixed carriers in operation, such as Teléfonos del Noroeste, S.A. de C.V. (“Telnor”), Alestra, Marcatel, GTM (Telefonica), Nextel, Maxcom, Cablemas, Cablecom, providing telephony services.

The local interconnection agreements, in most cases include the billing and financial set-off agreements also known

² Dated March 7, 2014, IFT published the declarations and guidelines on preponderance in the sector, formally establishing as preponderant telecommunication players the group formed by América Móvil, S. A. B. de C. V., Teléfonos de México, S. A. B. de C. V., Teléfonos del Noroeste, S. A. de C. V., Radiomóvil Dipsa, S. A. B. de C. V., Grupo Carso, S. A. B. de C. V., and Grupo Financiero Inbursa, S. A. B. de C. V.

³ 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.

as *Bill and 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.

Applicable rates. Given that in most of fixed local interconnection agreements *Bill and Keep* prevails, interconnection tariffs have not been a critical issue. However, following the Telnor-Telmex resolutions of July 2013, identified with number P/310713/484, interconnection rates were reduced from \$0.008 dollars per minute to Ps. 0.02392 per minute for 2013, and Ps. 0.02445 per minute for 2014. Also transit tariffs have been subject to change, from \$0.003 dollars per minute to Ps. 0.00968 per minute for both 2013 and 2014.

Due to the above, interconnection rates with some operators have also changed, such as the rates agreed with Nextel, which have been modified in the same proportion as those of the Telnor-Telmex resolution P/140813/602. However, in most cases where this has happened, there has not been an economic impact due to the *Bill and Keep* agreements.

When rates are denominated in dollars, they are exchanged into pesos each month using the exchange rates published by Banco de Mexico for the month in which the services were rendered.

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 for local and long distance calls 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, without affecting the traffic exchange in any way.

Applicable rates. It is noteworthy that, although the Company had resolved interconnection rates until 2011, these were determined by SCT, but a SCJN ruling revoked these rates. The legal status for the mobile termination rates disputes is as follows:

- i. 2005–2007 period. The rates resolved by Cofetel were upheld by the SCJN in 2013. Since the tariffs paid by Axtel-Avantel during this period were those determined by Cofetel, there is no economic contingency.
- ii. Telefonica, 2008–2001 period. In the case with Telefonica, rates were resolved in accordance with the SCT's criteria, subsequently confirmed by Cofetel's resolution P/201010/492. Currently, a resolution for these rates by the Federal Judiciary is pending.
- iii. Telcel, 2008–2011 period. In the case with Telcel, rates have not been yet resolved by IFT. We expect rates to be determined during 2014 and are consistent to those set by Cofetel in the Telefonica case. It is important to note that for year 2011, there is no uncertainty because Telcel billed a rate of Ps. 0.4179, which was the one Axtel paid and Cofetel recognized for that year.
- iv. 2012–2013 period. Although there are legal actions pending resolutions, IFT has been asked to determine the new interconnection rates for this period, which have not yet been defined. However, it is expected that these rates are consistent with the ones billed by Telcel: Ps.0.3618 per minute for 2012 and Ps.0.3305 for 2013.
- v. 2014-2015 period. Axtel has initiated processes to require mobile operators additional reductions in interconnection rates for this period, which should be defined according the asymmetric criteria discussed in the IFT's preponderance guidelines, product of the Reform. The rate that Telcel has recognized for 2014 is Ps. 3094 per minute.

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 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, Telnor, Alestra, Telefonica, Bestel or Nextel, 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, or by means of a letter of transit, 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 (now IFT) to us.

Applicable rates. On July 31, 2013, the authority resolved the interconnection dispute between Axtel-Avantel vs. Telmex-Telnor for 2012-2014. According to that resolution, the Company must pay Telmex-Telnor interconnection rates of Ps. 0.02392, Ps. 0.02683, or Ps. 0.0278 per minute for 2013, and of Ps. 0.02445, Ps. 0.02739, or Ps. 0.02838 per minute for 2014, depending each year on the point of delivery of the long distance call. Telmex-Telnor has initiated some legal processes to try to overturn that resolution.

Preponderance

Derived from the declarations and guidelines on preponderance, as well as the new LFT, starting in 2014, interconnection rates should be defined asymmetrically, respecting the public offer reference approved by IFT. There are potential benefits to the extent that this will lead to reductions in interconnection rates of preponderant players.

2.6) Main Customers and Markets

Banamex and affiliates represented 6.2% of our total revenues for 2013. The top five costumers of the Company represented 17% of our total revenues. Other main customers include government entities, call centers, Verizon and Nextel. 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. Additionally, in May 2013, Axtel signed a new five year contract with Banamex to provide voice cloud-based managed services and collaboration applications to its branches and offices in Mexico.

Additionally, Axtel terminates a significant volume of Verizon's international traffic in Mexico, and also provides services to Verizon's global customers; these services represented 2.1% of total revenues. Finally, Nextel has provided telecommunications services to its customers through access to our network since more than ten years ago.

2.6.1) Markets

Commercial Operations for the Company started in the City of Monterrey, Nuevo Leon, on June 1999. As of September 30, 2013, 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 48% of the total population of Mexico. Axtel has long distance connectivity and certain other data and voice services in approximately 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, 2013, significantly all net-additional lines in Mexico were concentrated in 4 out of 32 states: México, Nuevo León, San Luis Potosí and Coahuila. Five out of the 39 cities we serve as of December 31, 2013 are located in these states and four of them are state capitals.
- **Regional economy.** According to INEGI, in 2012, almost 89% of the total gross domestic product in Mexico was generated in the 25 states in which we have a local presence as of 2013.

- **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 9% market penetration 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 22% and 12%, respectively. The table below provides our estimated market share as of December 31, 2013.

Market Share within Coverage Market
As of December 31, 2013

City	Start Date	Market Share (%)
Acapulco	Jan-09	5%
Aguascalientes	Sep-04	15%
Cancún	Jan-09	10%
Cd Victoria	Oct-07	11%
Celaya	May-06	11%
Chihuahua	Mar-06	7%
Coatzacoalcos	May-08	9%
Culiacán	May-08	4%
Cuernavaca	Mar-07	4%
Durango	Jan-09	6%
Guadalajara	Dec-99	12%
Hermosillo	Jul-07	5%
Irapuato	Aug-06	10%
Juárez	Oct-04	7%
León	Jan-01	10%
Matamoros	Jun-08	11%
Mazatlán	May-08	4%
Mérida	Jun-07	7%
México	Mar-00	7%
Mexicali	Jan-09	7%
Minatitlán	Jun-08	5%
Morelia	May-07	7%
Monterrey	Jun-99	22%
Nuevo Laredo	May-08	17%
Pachuca	Oct-07	10%
Puebla	Jan-01	7%
Querétaro	Jun-04	8%
Reynosa	Oct-07	11%
Saltillo	Sep-04	13%
San Juan del Rio	Oct-07	16%
San Luis Potosí	Jun-04	15%
Tampico	Mar-07	7%
Tijuana	Nov-04	3%
Toluca	Jan-01	7%

Torreón	Feb-06	10%
Veracruz	Feb-06	8%
Villahermosa	Jan-09	10%
Xalapa	Jun-07	6%
Zacatecas	Jan-09	5%
Grand Total		9%

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.

2.6.2) Competition

Within the telecom industry, our main competitors are: Telmex, cable companies such as Televisa's cable companies (Cablevisión, Cablevisión MTY and Cablemas), Megacable, Totalplay and Bestel, Alestra and Maxcom.

Telmex. Our main competitor is Telmex, the former state-owned telecommunications monopoly. Telmex has significantly greater financial strength and other resources and serves all of the cities and markets that we serve. In addition, Telmex has an established customer base which represents the vast majority of the fixed telephony lines in Mexico. Telmex is the dominant provider of local telephony and internet services and, as such, a significant number of our customers maintain an ongoing relationship with Telmex. Telmex has a presence throughout Mexico and its established and long-standing customer base gives it a substantial competitive advantage.

As a result of the convergence legislation enacted in 2006, Telmex will be able to provide video subject to obtaining the relevant modification of its concession and complying with certain other obligations. Telmex's large existing customer base provides a significant advantage which it can leverage to launch a triple play (voice, Internet and video) product offering. Telmex has publicly stated its intention to offer triple-play services in the near future, however regulatory constraints have prevented it from offering TV service directly. To circumvent these regulatory constraints, in 2009 Telmex entered into an alliance with Dish Mexico under which Telmex customers receive TV service via Dish TV, allowing Telmex to participate indirectly in the TV market. Since November 2012, Telmex began providing video services, Claro Video, to its Infinitem customers under the modality OTT (Over the Top). This video service allows the operator to provide video even without regulatory approval.

Since 2011, Telmex has deployed its fiber to the home (FTTH) technology to offer higher speed internet which competes with Axtel X-tremo offerings.

Televisa. Televisa, the largest Spanish-speaking media company, is the majority owner of Cablevisión, TVI or Cablevisión Monterrey and Cablemas. By taking advantage of its position in media and its strong financial situation, Televisa has been able to enter the telecom industry and quickly become the number two player. Televisa is also majority owner of SKY, leading pay TV service in Mexico under DTH (Direct to Home) technology with 5.9 million subscribers as of 2013. Cablevisión, Cablevisión Monterrey and Cablemas' offerings are focused on video complemented with high speed internet and/or telephony services to create double play and triple play packages. They have also enhanced their TV offering by incorporating HD content, video on demand and value added services such as DVR. Televisa is now a major competitor in telephony services as well as in the related bundled services, such as internet, that we currently offer or may offer in the future.

Bestel. Company with over 15 years' experience, which provides voice services, data, Internet, information technology, managed services, among others, to business and residential users. Bestel is part of Grupo Televisa since 2007.

Megacable. During 2009, the four main cable companies in Mexico (Cablevisión, Cablevisión Monterrey, Cablemas, and Megacable) created a commercial alliance called YOO, by which they created an integrated offering of double play and triple play packages at very competitive prices. Additionally they used their media and financial power to position this single brand as a strong player in the market. Megacable partnered with Movistar in late 2011 as an MVNO (Mobile Virtual Network Operator). However, after several months of low profitability, it decided not to proceed and wait for new regulations to define the future for this service, while continuing to serve its nearly 10 thousand Megacel customers.

Alestra. Alestra commenced operations in 1996, providing only long distance telephony services to residential and business customers. In 2000, Alestra also started to offer local services to corporate customers in Mexico, Monterrey and Guadalajara, primarily. Currently, it offers value-added services to the enterprise, government and financial segments, among others. Alestra is a wholly-owned subsidiary of Alfa, S.A.B. de C.V. Alestra has invested for the past 5 years to achieve a leadership position in IT and Managed Solutions.

Maxcom. Maxcom commenced operations in 1999 targeting, initially, residential and small business customers in the cities of Puebla, Mexico City, Querétaro, San Luis Potosi, and Tehuacan. Maxcom provides services including local and long distance voice, data, public telephony, IP-based pay TV. It also provides mobile service through resale and capacity leasing to third parties.

Iusacell. Iusacell, a cellular operator backed by Televisa and Grupo Salinas launched Totalplay in 2011, a service that offers a triple play packages using FTTH technology, mainly in Mexico City. According to Pyramid Research figures, Totalplay currently has 45 thousand pay television users. Iusacell Enlace is the brand that offers fixed business solutions, its main products include fiber optic links, Voice over IP (VoIP), Virtual Private Networks and LAN to LAN solutions.

2.7) Human Resources

As of December 31, 2011 and 2012, and December 31, 2013, we had 8 thousand 24 employees, 6 thousand 524 employees and 6 thousand 791 employees, respectively.

As of December 31, 2013, certain of our employees, excluding executives and managers, were members of the *Sindicato Nacional de Trabajadores de la Industria de Telecomunicaciones de la República Mexicana* (the Workers' National Union for the Telecommunications Industry in Mexico). Such unionized employees represented 19% of our employees as of December 31, 2013. The remaining 81% were non-union management 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 the afore-mentioned union.

2.8) Description of the main assets – The Company's Network

2.8.1) 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 3,000 square meters include the following:

Name	Use	Location	Area in m2	Property	Contract Ending Date
Corporativo Monterrey	Administrative	Monterrey	39,779	Lease	31/10/2023
CIC,CDA y Voice Center Apodaca	Operating Center	Monterrey	16,423	Lease	06/30/2014
Switch 1	Technology Facility	Guadalajara	5,550	Owned	-
Reforma 265	Administrative	Mexico	4,161.85	Lease	07/31/2017
Call Center Culiacán	Operating Center	Culiacan	3,067	Lease	08/31/2016

In order to guarantee its obligations under the 2020 Notes, the Company (as well as some of the subsidiary guarantors under such Notes), created a security interest through mortgages, over all of the real estate properties owned by the Company, including the constructions and fixtures thereon.

2.8.2) Telecommunications Network

The Company provides network transport using a national fiber optic network combined with local access hybrid designed to optimize capital investment through the deployment of equipment to access the network, based on the specific needs of each client. Access options for the Company include fixed wireless, fiber optic last mile access point-to-point, point-to-multipoint, and copper, all connected through 1,964.7 kilometers of fiber optic metro rings. Our options for last mile access include wireless access technologies such as proximity and symmetry, such as WiMAX 802.16e mobile, wireless technologies point-to-point and point-to-multipoint, and fiber to the customer's home or office (FTTH). The Company switched traffic DMS services using equipment that interconnect with Telmex teams and other local service providers and long distance in each of the cities we serve.

The Company's wireless network uses microwave radios, switches TDM and next generation (Softswitch) and other infrastructure provided by recognized providers including Motorola, Nokia-Siemens Networks, Ericsson, Genband, among others. The Internet platform of the Company is based on Cisco routers with Hewlett Packard servers and software applications developed by Microsoft Corporation. Local fiber networks or metropolitan fiber optic rings of the Company use OFS Optical Fibers of Mexico, Samsung, Huawei and AFL and optical transmission equipment Ciena, Alcatel-Lucent, Nokia-Siemens Networks and Huawei. The combination of these components allows the Company to offer network reliability, which is superior than the network used by other providers. Through the current use of fixed wireless access technology, including technology Symmetry and WiMAX, the Company is able to provide services of high quality voice and data at speeds of up to 2 megabits per second for our customers. With the network of last mile fiber optic (FTTH), Axtel provides converged data, voice, games, images and video at speeds up to 200 megabits per second in symmetric mode. Axtel believes that fixed wireless access technology is ideal for covering large areas of cities offering services to residential customers as micro-enterprises and small businesses. The fixed wireless access technology gives customers data connections using Internet protocol interface and dynamic allocation of "time slots", which increases the efficiency of our network. Basic voice services and data are delivered through all of our access technologies.

The last mile fiber optic network (FTTH) is ideal for residential areas of medium and high socioeconomic status who demand high-speed broadband and also in areas of high concentration of businesses and offices since it has a more focused coverage area.

In general, the ability to access advanced technologies directly increases the cost of the solutions. The capacity of our local hybrid access allows the Company to:

- Provide a variety of voice, Internet and data services;
- Meeting the demand quickly;
- Penetrate specific markets, and
- Size the deployed infrastructure to meet the market demand and the individual needs of customers.

This network infrastructure enables Axtel to meet the needs of various market segments while maintaining a low cost solution relative to those of competitors.

2.8.3) Network Deployment Strategy

While we continue to maintain a wireless model that allows us great flexibility in the network, our focus today is the deployment of the fiber optic network. In this regard, the Company has concentrated its efforts on those areas where our high-speed Internet services, television and others, create value for our customers.

2.8.4) 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 to be used is determined based on a cost-benefit analysis, depending on customer needs and service availability. We use fixed wireless access to serve customers requiring between one to nine lines (basic telephony service “POTS”) and Internet access of up to 2 Mbps in a single point of service.

With the GPON technology used in the last mile fiber optic network (FTTH), Axtel provides converging services of data, voice, games, video and TV with speeds up to 200 megabits per second, in symmetrical mode to residential customers and to small and medium businesses. Using the FOM technology with last mile fiber optic services, Axtel provides advanced data and voice services with high security standards to large companies and financial institutions.

Point-to-multipoint technology 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, like fiber optic access, is used for customers requiring digital trunks or dedicated private lines over 2Mbps. The Company also uses hybrid solutions or combine multiple technologies to reach more customers by expanding service using digital fiber solutions and specific technologies for building apartments.

We have contracts with Telefonica Data de Mexico, a subsidiary of Telefonica, 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 740 kilometers of long distance fiber optic network in the Gulf of Mexico region.

2.8.5) Local Network

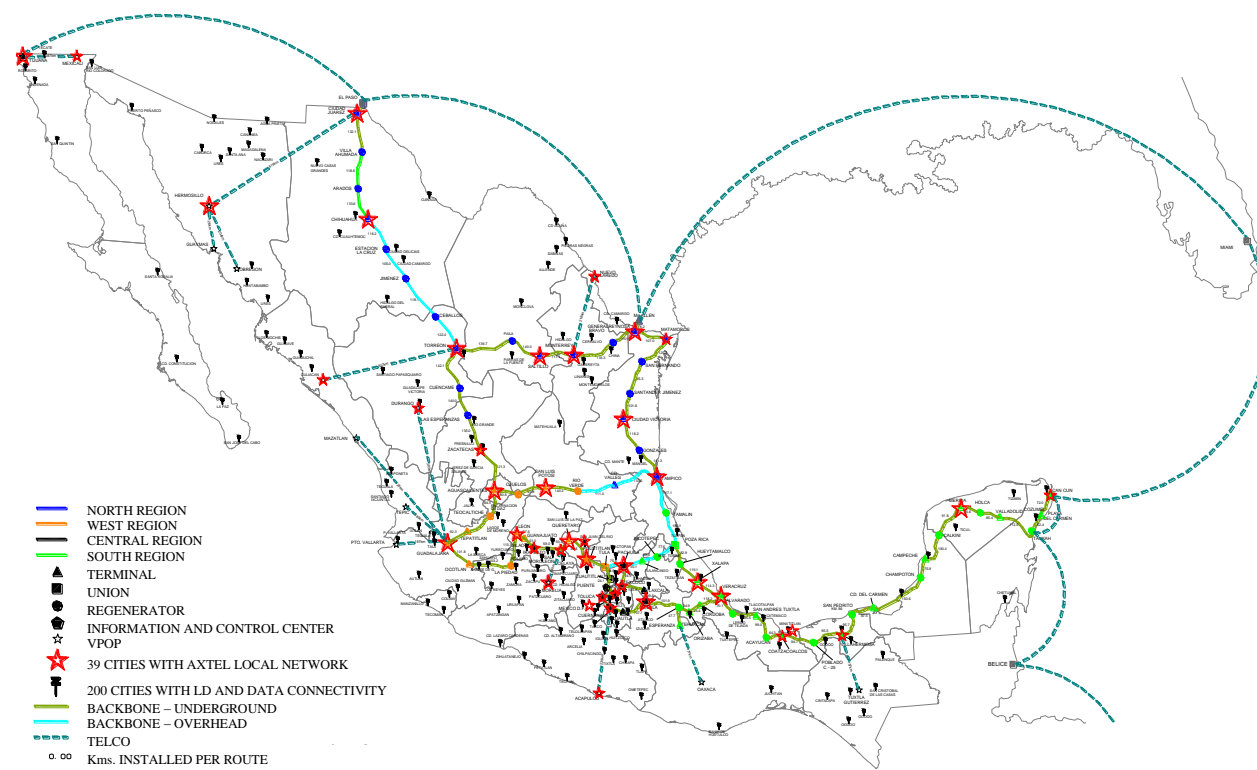
As of December 31, 2013, our metropolitan fiber optic rings totaled 1,964.7 kilometers in the cities where we offer local services. Our network is comprised of several technologies, including fixed wireless access, WiMAX, copper, point-to-point, point-to-multipoint and fiber optic links.

The following table summarizes our local infrastructure as of December 31, 2013:

City	Fixed Wireless Access Sites	Symmetry	Wimax	Point-to-Multipoint Sites	Point-to-Point	Switches	Fiber (Kms)	FTTH (Kms)
Monterrey	63	19	90	32	807	9	460	966
Guadalajara	65	8	62	27	656	8	207	647
México	159	34	173	69	2,328	15	605	1,616
Puebla	20	5	37	11	235	3	70	193
Toluca	9	3	24	6	181	1	21	-
León	13	5	24	7	150	1	41	155
Querétaro	8	6	17	7	127	-	18	216
San Luis Potosí	12	5	26	6	122	-	25	222
Saltillo	7	5	18	5	105	-	37	-
Aguascalientes	9	5	23	5	82	-	16	168
Cd. Juárez	10	5	24	7	82	1	31	-
Tijuana	9	1	27	11	91	2	14	-
Torreón	7	5	26	6	88	2	27	-
Otros	46	49	426	93	1,485	21	393	-
TOTAL	437	155	997	292	6,539	63	1,965	4,183

2.8.6) Long Distance Network

Our long distance fiber-optic network is approximately 7,630 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 50 cities through owned infrastructure, and 148 additional cities through leased infrastructure.



2.8.7) Switching

We use 14 Genband denominated DMS-100 digital switches ten of which are established to route traffic in 13 cities, four of them to receive the traffic from close to 198 cities and international traffic from the U.S. and rest of the world and six 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 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, among others.

2.8.8) 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 another one in Guadalajara. Our CORE centers supervise the correct operation of connections and equipment. The monitoring occurs 24 hours a day, seven days a week. When there is an inappropriate performance of the network, the CORE initiates the process to correct any fault and notifies the affected areas of such fault.

2.8.9) 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.

2.9) Applicable Legislation and Tax Situation

2.9.1) 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*). As of this date, we are still waiting for the elaboration of the new secondary telecommunications laws or the modification of the current secondary laws in telecommunications matters, which are to be made as a result of the Reform, therefore, the LFT is still applicable, except for some parts of it that were expressly modified by the Reform.

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 enforces the correspondent regulation. (See “Risk Factors”)

Notwithstanding the aforesaid, and by means of the Reform, the attributions previously granted to the Cofetel are now attributions granted to the IFT. Likewise, the Reform conferred the IFT some attributions in addition to the aforementioned. Finally, it is worth mentioning that the group of secondary rules that will arise from the Reform, will modify the current norms that rule the telecommunications matters (such modification may include an increase

or diminish the attributions currently granted to the IFT and to the SCT).

Concessions and permits

To provide telephony services in Mexico through a public telecommunications network, a service provider must first obtain a concession from the IFT or the Executive Branch. 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 IFT (or 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 the IFT 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 (or the IFT) 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, the IFT is authorized to impose specific rate, quality and service requirements on those companies determined by the IFT to have substantial market power provisions of Mexico's antitrust statute and other applicable regulations. All rates for telecommunications services (other than value-added services) must be registered with the IFT 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.

2.9.2) 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 Commission 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 Commission 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 against 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.

2.9.3) Income tax (IT) and Flat Rate Tax (IETU)

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented, and repealed. This decree became effective as of January 1, 2014. Upon enactment of a new IT Law, the IETU Law and the IT Law in effect as of December 31, 2013 were repealed.

Given that the IETU Law was repealed, as of December 31, 2013, the Company wrote off its deferred IETU assets generated by subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. e Instalaciones y Contrataciones, S.A. de C.V. recording a charge to operations in 2013 in the amount of Ps. 190.7 million. Furthermore, the Company determined its deferred income taxes (IT) as of December 31, 2013, recognizing deferred income tax assets in the amount of Ps. 38.2 million, recording a credit to operations in fiscal year 2013.

According to the IT Law in effect as of December 31, 2013, the IT rate for fiscal years 2013 and 2012 was 30%; for 2014, the rate would be 29%, and for 2015 and thereafter, 28%. The new IT law imposes an IT rate of 30% for 2014 and thereafter.

The IETU rate for 2013 and 2012 was 17.5%.

2.10) Environmental Performance and Social Responsibility

Operating under a sustainability framework involves addressing and improving continuously social, environmental and financial aspects of the company.

Since its foundation in 1994, AXTEL has taken different measures in favor of sustainability, such as using wireless technologies to support social development projects as well as supporting social development projects, not to mention the wellbeing of its collaborators.

After several years of working in key areas, AXTEL defined a sustainable business approach which allowed it to take action, and establish and evaluate performance indicators annually.

In 2011, AXTEL defined its global sustainability strategy:

Contribute to a more sustainable future with our labor and environmental practices by proposing, in an honest, ethical and responsible way, innovating solutions to make information and communication technologies available to the society.

This strategy is the framework for all the efforts to continuously improve the performance of the company and is reflected in the Sustainability Model, which is based on five fundamental themes:

- Ethics, accountability and quality
- Innovation in Information and Communication Technologies (ICT)
- Social investment
- Labour welfare
- Environment

2.10.1) Ethics, accountability and quality

AXTEL collaborators' performance is based on the principles and guidelines stated in its Code of Ethics, its policies of no gifts, anti-corruption and social responsibility with competitors.

These documents are a guide to the resolution of conflicts of interests between collaborators and external entities with which the company interacts, as well as identify the ethical obligations to the company, investors, customers, creditors, suppliers, competitors and authorities.

Collaborators learn about these principles in two courses in AXTEL's online university: Code of Ethics and Good Practices. Also, AXTEL sends commitment letters to suppliers regarding these and some parameters of social responsibility.

AXTEL has a Transparency box, in which any collaborator or supplier can report any breach of the Code of Ethics, organizational values or policies, via email or phone call available 24 hours a day. In addition, we have implemented communication channels through social networks, email and phone number, to listen to our customers and respond to their needs. Aware of that commitment, we have certified under the international standard ISO 9001 in our Contact Centers in Apodaca, Guadalupe and Culiacán.

2.10.2) Innovation in Communication and Information Technologies

The evolution of the information and communication technologies has taken AXTEL to innovate and create new and better products and services for its customers.

These products not only improve the efficiency of communication, but also help customers reduce their environmental impact by avoiding unnecessary travel and delays in project implementations. This way, AXTEL contributes in improving the environment by designing products and services that prevent the emission of gases into the atmosphere and contributes to the preservation of the Planet, while helping people communicate and collaborate remotely. Some of these products are Total Collaboration, Universal Applications, Global Infrastructure, AXTEL Connigo and Axtel X-tremo.

2.10.3) Social investments

Since 2005, AXTEL has worked in communities across Mexico, supporting 300 social, environmental, education and health projects, benefiting more than 500 thousand people.

Fundación AXTEL mainly supports causes such as Human, Community and Environmental development. It promotes the social engagement among its collaborators through a volunteer program that works to benefit children in elementary and middle schools located in 11 cities in Mexico through an education system called *Impulsa*. Additionally, *Fundación AXTEL* has created alliances with institutions with similar goals such as *Alianza Educativa Ciudadana por Nuevo Leon*, *Red SumaRSE* and *Potencia Joven*, seeking to foster education, to promote social behavior, to strengthen the families, individual development and community involvement in the state of Nuevo Leon.

In 2013, AXTEL supported 26 Social Projects of NGOs located throughout the country.

2.10.4) Labor Welfare

One of AXTEL's basic premises is to provide optimal conditions for the development of its collaborators in their facilities, as well as offer the tools for their development, training and equal opportunities.

Based on the Declaration of Human Rights, the Principles of the UN's World Pact and the labor legislation, the Recruitment, Selection and Hiring of Personnel legislation, the Company assures equal opportunity for all its employees, who are hired and promoted based on their professional skills and without distinction on race, gender, religion or sexual preference.

Regarding Industrial Safety, the accident record for 2013 was 4% below the average for the industry of professional and technical services, according to the Ministry of Labor and Social Welfare (Secretaría de Trabajo y Previsión Social) – a 13% improvement compared to 2012. However, the severity of accidents increased 17% compared to 2012, but remained 40% below the national average for the STPS.

AXTEL, as part of its commitment, cares about the security and health of its collaborators and organizes accident prevention campaigns, assures basic services in its facilities and meets the regulatory aspects of *Protección Civil and the Secretaría del Trabajo y Previsión Social*.

2.10.5) Environment

The conservation of the environment is a fundamental part of AXTEL's business and community development strategy. Axtel has institutionalized its actions in an Environmental Management System, which has been reviewed and approved by the *Procuraduría Federal de Protección al Ambiente* (PROFEPA), an entity belonging to the *Secretaría de Medio Ambiente y Recursos Naturales* (SEMARNAT).

Based on its Environmental Policies of energy savings, water savings, and waste management and disposal, AXTEL has improved its environmental performance and, voluntarily, participated in the Environmental Audit Program of the PROFEPA, obtaining the Certificate of *Empresa de Calidad Ambiental* in May 2013.

These are some of the actions that helped AXTEL be part of the Sustainability Index of the Mexican Stock Exchange (BMV) in 2013, a signatory of the UN's Global Compact since 2011, hold the Socially Responsible Company Distinctive since 2008 and obtain the Environmental Quality certificate in May 2013 for the corporate offices in Monterrey and in December 2013 for the Santa Fe offices in Mexico City.

In 2013, we continued with the campaigns of Saving Energy and Recycling nationwide, thus mitigating our impact to the environment. Also, due to the Electronic Billing program and our partnership with Xerox replacing printing equipment during 2013, we ceased to use 7.9 thousand kg. of paper.

Lastly, to share our environmental practices, we invited 15 SMEs suppliers to participate in the Environmental Leadership Workshop held in our facilities by PROFEPA staff. Other participants include employees of Axtel's contact center, network maintenance, fleet, service delivery and property management areas.

2.10.6) Certifications

- **Distinctive ESR** (Empresa Socialmente Responsable) granted by the CEMEFI (Centro Mexicano para la Filantropía).
- **Gold Star** Distinction by Cisco due to the Excellence in Customer Satisfaction
- Certification **Telepresence Video Master Authorized Technology Provider -ATP-** (Proveedor de Tecnología Autorizado para Video y Telepresencia), Cisco.
- Certifications **Cisco Gold Partner, Managed Services Channel Partner (MSCP)**
- **ISO 27001.**
- **ISO 9001:2008**
- **ISO 20000-1:2011**
- **ISO 27001:2005.**
- Certification of Uptime Institute **TIER III Certification of Design Documents.**
- Certification of the International Computer Room Experts Association (ICREA) **Level 3 S-WCQA Safety World Class Quality Assurance Data Center.**

- Certification of **Empresa de Calidad Ambiental**, Procuraduría de Protección al Ambiente (PROFEPA), organismo de SEMARNAT.
- Sustainability Index of the Bolsa Mexicana de Valores since February 2013 due to its environmental, financial and corporate governance performance
- Certificate *Empresa de Calidad Ambiental* since May 2013 as evidence of their actions on behalf of the environment.

2.11) Market Information–Mexican Telecommunications Industry

Market Size and Projected Growth. Mexico is the second largest country in Latin America in terms of population, with approximately 118 million people, a gross domestic product of US\$1,280 billion and a gross domestic product per capita of over US\$11,010 as 2013, one of the highest GDPs per capita in Latin America. The Mexican telecommunications market, the second largest in Latin America, is generated approximately US\$27,000 million in revenues in 2013 and is forecast to grow at a CAGR of 4.1% over the next five years, to approximately US\$32,992 million in 2018, according to data from *Pyramid Research*. For the year 2013, income from fixed telephony amounted US\$4,156 million. For mobile telecommunications services, considering voice and data, revenues amounted US\$16,041 million and is expected to grow at a CAGR of 4.9% for the next five years. One of the main drivers of growth of the telecommunications industry is the fixed broadband service. Revenue for this service in 2013 totaled US\$3,757 million and is expected to grow at a CAGR of 10%, exceeding US\$6,000 million in 2018. The fixed telecommunications sector, which includes basic telephone services such as local and long distance calls as well as data and internet services, is a very important part of the telecommunications industry in Mexico. For 2013, revenue from the fixed telecommunications industry was US\$7,952 million, or 29% of the total telecommunications market in Mexico.

According to information provided by the *Comisión Federal de Telecomunicaciones* (Cofetel) and by INEGI, Mexico has relatively low wire line penetration compared to other countries in Latin America. According to Pyramid Research, broadband penetration in households is estimated to grow from 38% in 2013 to 49% in 2018, and voice telephony penetration is expected to be in the range of 20-21% for the next five years. The total number of broadband subscribers in Mexico reached 14.9 million in 2013, and will grow to approximately 22.9 million subscribers by 2018, representing a compound annual growth rate of 9.0% from 2013 to 2018.

Competitive Environment. The Mexican telecommunications market has long been dominated by Teléfonos de Mexico, S.A.B. de C.V. (“Telmex”), the former government-owned telecommunications monopoly. However, since the Mexican government completed the privatization of Telmex in 1990, the Mexican telecommunications sector has become increasingly open to competition which has created an opportunity for competitive carriers to capture market share from Telmex. As the owner and operator of a network servicing Mexico’s largest metropolitan markets, we believe we are well positioned to continue to take advantage of this market opportunity.

Recent Reforms in Mexico’s Telecommunication Sector. On June 2013, important amendments to the Mexican Constitution aimed at reforming Mexico’s telecommunications sector became effective. One key element of the reforms includes permitting up to 100% foreign ownership of companies (like Axtel) engaged in telecommunications services, which will inject new resources to established operators. Also, under the amended legal framework, the Mexican Federal government created a new industry regulator known as IFT or Ifetel (*Instituto Federal de Telecomunicaciones*), which shall regulate the telecommunications and broadcast media sectors and has enforcement powers. Ifetel has authority to grant and revoke all forms of concessions and licenses, as well as to impose fines and sanctions and ensure greater competition in the industry. The Reform, along with the secondary laws, encourage a higher level of competition, not only in fixed services, but also on the pay television and mobile services. Increased competition will be obtained by asymmetric regulation which, among other things, requires the dominant operator to unbundle its network for use by other operators, encouraging competition in the broadband market. The Reform also establishes must-carry and must-offer regulations which, applied to the pay television sector, enables operators not declared as preponderant to offer certain content free of charge. Several secondary rules of this reform are still in the process of elaboration or modification.

Below is a breakdown of the main participants in the Mexican telecommunications market (the figures show revenues for 2013 in millions of pesos):

Fix Service Providers	Income	%	Mobile Service Providers	Income	%
Telmex	105,593	86%	América Móvil	179,353	78%
Axtel	10,286	8%	Telefónica Movistar	26,749	12%
Alestra	5,067	4%	Nextel	23,914	10%
Maxcom	2,482	2%			
TOTAL	123,429	100%	TOTAL	230,017	100%

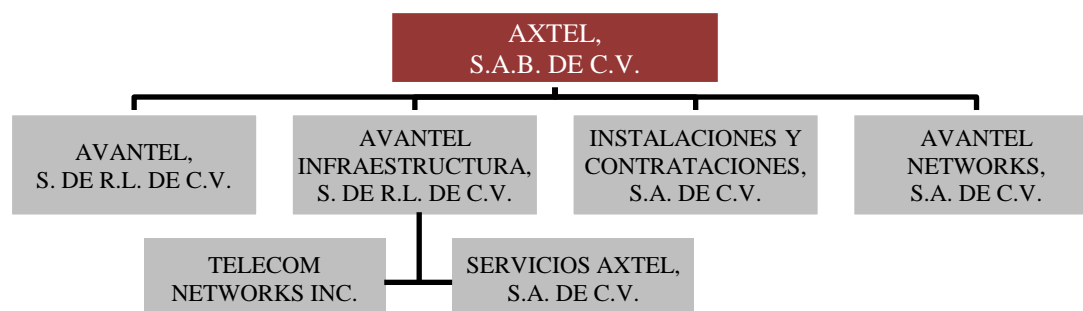
Information reported by companies and estimates of the Company. Rounded up numbers.

2.12) 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):

SUBSIDIARY	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%
Avantel Networks, S.A. de C.V.	Telecommunication Services	100%
Instalaciones y Contrataciones, S.A. de C.V.	Administrative Services	100%
Servicios Axtel, S.A. de C.V.	Administrative 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 valued through a participation method.



2.13) Judicial, Administrative and other Legal Proceedings

As of December 31, 2013, the Company has the following commitments and contingencies:

- (a) **Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007.** On the second quarter of the year 2007, and the first quarter of the year 2008, the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*) (“Cofetel”) ruled interconnection disagreements between the Company and the following mobile carriers: 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”).

With respect to Telcel, the Supreme Court of Justice (*Suprema Corte de Justicia de la Nación*) (“SCJN”) decided to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel by means of which it determined the interconnection tariffs for the years 2005 to 2007. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

With respect to Grupo Iusacell, Grupo Telefonica and Unefon, the Company filed an administrative review proceeding, which was resolved on June 19, 2013 by the Cofetel and by means of which it revoked its previous rulings and determined tariffs only for years 2005 to 2007, therefore annulling the tariffs set forth for the period 2008 to 2010. Such tariffs are being contested in an amparo trial. In the new resolutions, Cofetel determined a weighted average tariff, as it had initially done so with Telcel, which can be applied to Grupo Iusacell, Grupo Telefónica and Unefon if the interconnection rate were not applied and their services were being sold at a price below such rate.

The result of the above mentioned proceedings do not create an economic contingency to the Company due to the fact that for years 2005, 2006 and 2007, it paid the interconnection tariffs order by Cofetel in the aforementioned resolutions.

- (b) **Interconnection Disagreements – Mobile Carriers – Years 2008 to 2011.** With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in first instance by the SCT, on the first day of September, 2008, which as mentioned before, arose from a proceeding filed by Axtel. In such ruling, the SCT set the cost based interconnection tariffs of \$0.5465 pesos, \$0.5060 pesos, \$0.4705 and \$0.4179 pesos for the years 2008, 2009, 2010 and 2011, respectively.

Telcel challenged the resolution issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceeding filed by Axtel, and that the Cofetel is the authority that should determine such interconnection tariffs, therefore the Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones*) (“IFT”) will have to set forth the interconnection tariffs applicable between Axtel and Telcel, and consequently, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

With respect to Grupo Telefonica, the Cofetel determined on October 20th, 2010, the interconnection tariffs for Axtel and Grupo Telefonica applicable to the period between 2008 and 2011, which consider the same amounts set forth by the SCT in the ruling issued on September 1, 2008, that is, \$0.5465 pesos per real minute for 2008, \$0.5060 pesos for 2009, \$0.4705 pesos for 2010, and \$0.4179 pesos for 2011.

This ruling was challenged via amparo trial by Grupo Telefonica, and its currently on its first stage. Final ruling on this matter is expected on the year 2014.

With respect to Grupo Iusacell and Unefon, the Cofetel determined the interconnection tariffs for the years of 2008 to 2010 on the second quarter of the year 2009, such determination being challenged by the Company via an administrative review proceeding, which is in the process of being solved by the IFT. As a result, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

As a consequence of the rulings issued by the SCT on September 2008, the Company recognized since August 2008, the interconnection tariff of: \$0.5465 pesos, \$0.5060 pesos, \$0.4705 y \$0.4179 per real minute for Telcel, and of \$0.6032 pesos for the other mobile carriers.

The tariffs that the Company was paying prior to the rulings, was of \$1.3216 pesos per real minute to Telcel, and \$1.21 pesos per rounded minute to the other mobile carriers. As of December 31, 2013, the

difference between the amounts paid by the Company according to these tariffs, and the amounts billed by the mobile carriers, amounted to approximately Ps. 2,169 million not including value added tax.

After evaluating the actual status of the foregoing proceedings, and taking into consideration the information available and the information provided by the legal advisors, the Company's Management consider that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal proceedings, the interests of the Company will prevail.

- (c) **Interconnection Disagreements – Telmex – Years 2009 to 2013.** In March 2009, the Cofetel resolved an interconnection disagreement proceeding existing between the Company (Axtel) and Teléfonos de México, S.A.B. de C.V. ("Telmex") related to the rates applicable for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, the Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps. 0.75 per minute to 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 aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2013, 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 the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*) requesting the annulment of Cofetel's administrative resolution. The Company (Axtel and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel.

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 traffic. Based on this resolution, the Company paid approximately Ps. 20 million in excess. Telmex challenged the resolution before the Federal Court of Tax and Administrative Justice, and such proceeding is in an initial stage.

On May 2011, the Cofetel issued a ruling resolving an interconnection disagreement proceeding between Telmex and the Company, related to the tariff applicable to the termination of long distance calls from the Company to Telmex, for the year 2011. In such administrative resolution, 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.

Finally, in July 2013, Cofetel ruled on an administrative review proceeding between Telmex and the Company in connection with the tariffs applicable to the termination of long distance calls from the Company to Telmex for the years 2012, 2013 and 2014. In such administrative resolution, Cofetel determined for year 2012, tariffs per minute that go from \$0.02831 to \$0.01007, depending if it is a regional or national node; for year 2013, tariffs that go from \$0.02780 to \$0.00968, depending if it is a regional or national node; and for year 2014, tariffs that go from \$0.02838 to \$0.00968, depending

if it is a regional or national node. Telmex challenged this resolution in an amparo trial which is currently in the evidence stage.

As of December 31, 2013, the Company believes that the rates determined by the Cofetel in its resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for US \$ 34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. As of December 31, 2013, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

- (d) **Tecnocom.** The company Tecnocom Telefonía y Redes de Mexico, S.A. De C.V. ("Tecnocom"), and the Company executed on May 30, 2011 a Services Agreement, under which Tecnocom breached the obligations therein assumed, reason for which the Company executed a letter of credit for US\$1,300,898. Due to the aforementioned, Tecnocom commenced a mercantile ordinary trial against the Company before the Fifth Concurrent Court located in Monterrey, N.L., claiming the payment of the amounts agreed to be paid under the Services Agreement, for the provision of the services, as well as interests and judicial costs and expenses. This trial is in the stage of evidence. In addition to the aforementioned, Tecnocom commenced another mercantile ordinary trial before the Thirteenth District Court in Civil Matters located in Mexico City, by means of which Tecnocom claims from the Company, the declaration that the requirements for the withdrawal of the aforementioned Letter of Credit were not met, and from the bank that issued the letter of credit, they claim the payment or reimbursement of the letter. Under those claims, the Company promoted a motion requesting a joinder of the trials, due to the fact that Tecnocom filed two different trials before different courts, both of which arise from the same cause and involve the same parties. After evaluating the arguments presented by the parties involved in the trials, and taking into consideration the arguments presented by our legal advisors, the Company's Management considers that at the end of the legal proceedings, the Company's interests shall prevail.
- (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.

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, 2013, the subscribed and paid in capital was comprised by 8,776,192,202 stocks that represented the fixed part of the capital stock, from which 96,750,651 are to Class I of the A Series and 8,678,441,546 are to the Class I of the B Series. As of December 31, 2012, 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, or (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. As of December 31, 2012, we repurchased 26,096,700 CPOs (182,676,900 shares). During July, August and September 2009 all CPOs were repositioned in the market.

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 (“Depository 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 Depository 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 three years

As of December 31, 2013, the common stock of the Company is Ps. 6,627,890 thousand. The Company has 8,776,192,202 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. Of the total shares, 97,750,656 are series A and 8,678,441,546 series B. At December 31, 2013 the Company has issued only Class "I".

In accordance with the resolutions adopted by the Extraordinary General Shareholders Meeting held on January 25, 2013, the Company issued 972,814,143 Class "I" Series B shares that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible Notes. During the last quarter of 2013 the conversion option was exercised for a total of 5,724,950 Series B shares representing an increase of Ps. 1,970 thousand in the capital stock of the Company.

Likewise, the resolutions adopted by the Extraordinary General Shareholders Meeting held on January 25, 2013, approved the issuance of 1,114,029 Series A shares. During April 2013 a contribution of capital stock for Ps. 384 thousand was made for the subscription of 1,114,029 of the aforementioned Series "A" shares.

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

On January 1, 2012, the Company adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its accounting framework to prepare and present its financial statements.

The consolidated financial statements as of December 31, 2011, 2012 and 2013 and for the years then ended have been prepared in accordance with IFRS. The Company applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, the financial statements of the Company have been prepared in accordance with MFRS.

The amounts shown in this Annual Report cannot be added by applying rounding.

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 as of December 31, 2011, 2012 and 2013; and for the years then ended. The summary corresponding to the consolidated information as of December 31, 2012 and 2013 and for the years then ended derives from the information contained in the Audited Financial statements that are enclosed to this Annual Report. The summary corresponding to the consolidated information as of December 31, 2011 and for the year then ended derives from the information contained in the Audited 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.

	Years ended as of December 31		
	2011	2012	2012
	(Pesos in Millions)		
Statement of Income Data:			
Telephone services and related revenues.....	10,829.4	10,189.7	10,286.5
Cost of revenues and operating expenses	10,782.9	10,724.6	7,599.8
Operating income (loss)	46.5	(534.9)	2,686.7
Interest expense, net.....	(980.2)	(1,035.5)	(866.2)
Foreign exchange (loss) gain, net	(1,276.3)	797.6	39.7
Result from exchange of debt, net.....	—	—	1,569.0
Change in the fair value of financial instruments	(73.9)	(109.2)	(5.3)
Equity in results of associated company.....	(0.1)	—	2.0
(Loss) income before income taxes	(2,284.1)	(882.0)	3,425.8
Income tax benefit	214.0	173.1	(1,018.1)
Net (loss) income from continuing operations ...	(2,070.1)	(708.9)	2,407.7
Net (loss) income	(2,070.1)	(708.9)	2,407.7
Net (loss) income from continuing operations per share.....	(0.2)	(0.1)	0.3
Net (loss) income per share:			
Net (loss) income per share:			
Basic	(0.2)	(0.1)	0.3
Diluted			

Weighted average of shares outstanding (in millions):			
Basic	8,769.4	8,769.4	8,770.2
Diluted			
Net (loss) income from continuing operations	(2,070.1)	(708.9)	2,407.7
Net (loss) income from continuing operations per share.....	(0.2)	(0.1)	0.3
Dividends decreed per share	—	—	—
Statement of cash flow data:			
Net Cash Flows from:			
Operating activities	3,547.8	2,204.2	2,559.5
Investing activities	(2,534.3)	(2,031.3)	1,050.0
Financing activities	(828.6)	(1,003.0)	(2,934.1)
Net Increases (net decreases) in cash or cash equivalents	184.9	(830.1)	675.4
Other Financial Data:			
Depreciation and amortization	3,102.8	3,073.2	3,218.5
Adjusted EBITDA (1).....	3,568.8	2,738.3	2,872.1
Adjusted EBITDA Margin.....	33.0%	26.9%	27.9%
Total Number of Lines in Service at the end of the period (thousands)			
Business	328.5	336.4	357.2
Residential	710.5	660.7	579.3
Total.....	1,039.0	997.1	936.4
Cities.....	39	39	39
Monthly Average of disconnections	1.8%	1.8%	1.9%

1) Means EBITDA less non-cash and other non-recurring items.

	As of December 31		
	2011	2012	2013
	(Pesos in Millions)		
Balance Sheet:			
Cash and equivalents	1,372.9	597.2	1,292.3
Net Working Capital (1)	202.7	427.8	459.5
Total Assets	22,092.0	20,500.3	19,882.7
Total Debt.....	12,322.9	11,466.6	7,864.3
Total Liabilities.....	16,289.8	15,412.1	12,355.0
Total Stockholders' equity.....	5,802.2	5,088.3	7,527.7
Net Assets (2)	15,625.7	14,425.8	13,646.7
Capital common stock	6,625.5	6,625.5	6,627.9
Shares outstanding (in millions).....	8,769.4	8,769.4	8,776.2

- (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 as of December 31		
	2011	2012	2013
	(Pesos in Millions)		
Net income (loss)	(2,070.1)	(708.9)	2,407.7
Depreciation and amortization	3,102.8	3,073.2	3,218.5
Interest expense, net	980.2	1,035.5	866.2
Income taxes	(214.0)	(173.1)	1,018.1
EBITDA	1,799.0	3,226.8	7,510.6
Foreign exchange (gain) loss, net	1,276.3	(797.6)	(39.7)
Result of exchange of debt, net	—	—	(1,569.0)
Change in the fair value of financial instruments	73.9	109.2	5.3
Gain on sale of communications towers	—	—	(3,111.9)
Other (income) expense, net	419.5	200.0	78.8
Equity in results of associated company	0.1	-	(2.0)
Adjusted EBITDA (1)	3,568.8	2,738.4	2,872.1

(1) Means EBITDA less non-monetary items and other non-recurrent items.

3.2) Financial Information per Line of Business

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

	2011				2012				2013			
	1 Trim	2 Trim	3 Trim	4 Trim	1 Trim	2 Trim	3 Trim	4 Trim	1 Trim	2 Trim	3 Trim	4 Trim
Revenues (1)	2,654.5	2,693.3	2,713.2	2,768.4	2,502.5	2,688.0	2,581.4	2,417.7	2,289.0	2,379.6	2,630.2	2,987.7
Local services	1,094.6	1,088.7	1,024.3	952.6	916.9	918.7	903.8	879.6	833.8	825.6	786.9	761.9
Long distance services ...	292.6	303.3	305.6	322.5	302.9	311.3	316.1	306.1	283.1	288.3	292.4	275.7
Internet & video	116.1	127.9	140.3	160.2	177.7	192.6	205.0	223.4	228.6	251.7	273.9	289.2
Data & network.....	540.0	500.4	501.6	508.1	507.6	494.5	500.9	494.9	485.1	480.9	450.3	443.8
Integrated services & equipment sales	239.6	284.1	305.4	387.0	292.7	503.4	413.8	283.8	229.5	266.9	565.0	822.7
International traffic	269.8	285.9	355.4	335.2	200.8	167.5	141.4	145.6	124.4	171.0	155.8	312.8
Other services	101.8	103.2	80.6	102.8	103.8	100.1	100.3	84.4	104.4	95.2	105.9	81.7
Cost of revenues and operating expenses(1)(8)	(1,833.1)	(1,756.2)	(1,793.6)	(1,877.7)	(1,743.7)	(1,985.2)	(1,876.8)	(1,845.7)	(1,616.7)	(1,678.8)	(1,880.0)	(2,238.9)
Access lines (2)(3)(5).....	1,041.7	1,039.9	1,09.6	1,039.1	1,040.2	1,036.1	1,019.7	997.1	956.6	938.9	934.6	936.4
Average lines (2)(5)(6).....	1,042.4	1,040.8	1,039.8	1,039.5	1,39.6	1,038.2	1,027.90	1,008.4	976.8	947.7	936.7	935.5
Average income per line (4)(5)(7)....	443.8	445.8	425.6	408.9	391.1	395.1	399.2	397.5	387.9	398.3	389.5	375.0
Customers (2)(3)(5).....	761.1	758.2	757.2	757.4	759.3	755.4	736.9	709.4	672.6	653.2	644.7	640.2
PresubscriptionUsers (LD) (2)(3)(5).....	61.0	57.5	53.3	50.6	46.7	44.4	42.5	40.6	39.6	38.2	38.1	38.0

(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 categories in terms of revenues:

Local services. We generate revenue by enabling our customers to originate and receive calls within a defined local service area and by providing offers with local calls, calls completed on a cellular line (“calling party pays,” or CPP calls) and long distance minutes included in the monthly rent. Customers are charged a flat monthly fee for a variety of commercial offers and in certain offers, a per call fee for local calls (“measured service”), a per minute usage fee for CPP calls and value added services.

Long distance services. We generate revenues by providing long distance services (domestic and international completed calls).

Internet & video. We generate revenues by providing “on demand” Internet access and video (Pay-TV) services.

Data & network. We generate revenues by providing data, dedicated Internet and network services, like virtual private networks and private lines, to the enterprise segment.

Integrated Services & equipment sale. We generate revenues from managed telecommunications services provided to corporate customers, financial institutions and government entities and the sale of customer premises equipment (“CPE”) necessary to provide these services.

International traffic. We generate revenues terminating international traffic from foreign carriers.

Other services. Include, among others, memberships, late payment charges, spectrum, interconnection, activation and wiring and presubscription.

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

Revenue Source	Revenues (1)			% de Revenues		
	Years ended December 31,					
	2011	2012	2013	2011	2012	2013
Local services.....	4,160.1	3,619.0	3,208.2	38.4%	35.5%	31.2%
Long distance services	1,224.0	1,236.4	1,139.6	11.3%	12.1%	11.1%
Internet & video	544.5	798.7	1,043.4	5.0%	7.8%	10.1%
Data & Network	2,050.0	1,997.9	1,860.1	18.9%	19.6%	18.1%
Integrated services & equipment sales	1,216.1	1,493.8	1,884.1	11.2%	14.7%	18.3%
International traffic.....	1,246.4	655.3	764.0	11.5%	6.4%	7.4%
Other services.....	388.3	388.6	387.1	3.7%	3.9%	3.8%
Total.....	<u>10,829.4</u>	<u>10,189.7</u>	<u>10,286.5</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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 and towers 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 the 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

As of December 31, 2012 and 2013, the balance of the most significant credits of Axtel was of \$11,466.6 million and \$7,864.3 million, respectively. The following table shows the integration of the same in million pesos:

Description of Credits	As of December 31, 2012.	As of December 31, 2013.
US\$275 million in aggregate principal amount of 7 ⁵ / ₈ % Senior Unsecured Notes due 2017. Interest is payable semiannually on February 1 and August 1.	\$3,577.8	\$659.0
US\$490 million in aggregate principal amount of 9% Senior Unsecured Notes due 2019. Interest is payable semiannually on March 22 and September 22.	6,374.9	1,330.3
Senior Secured Notes in a principal amount of US\$394.6 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.	—	5,160.7
Senior Secured Convertible Notes U.S. in a principal amount of US\$22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.	—	177.5
Discount on note caused by Senior Secured Notes payable in the amount of US\$36 million at an initial interest rate of 7% will increase to 9% due 2020.	—	(29.0)
Syndicated loan totaling US\$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, 2012 US\$53.3 million and Ps. 364.7 million have been utilized.	1,057.9	—
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 for approximately Ps. 484,000 payable monthly.	319.0	168.6
Other long-term financing with several credit institutions with interest rates fluctuating between 3.6% and 7.2% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5% and 3% for those denominated in pesos.	251.2	408.0
Premium on Senior Unsecured Notes with an aggregate principal of US\$490 million with an interest rate of 9%, due in 2019.	42.1	7.4
Debt issuance and deferred financing costs	(156.3)	(18.1)
TOTAL	\$11,466.6	\$7,864.3

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 December 31, 2013, The Company is in compliance with the total number of covenants and obligation. (See note 14 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, 2013, 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	-
	Concession	239,280
	Performance	164,724,024
	Others	1,571,270
Avantel S. de R.L. de C.V.	Leasing	-
	Concession	3,387,280
	Performance	53,531,443
	Others	36,555,507
Avantel, S de R.L. de C.V. (antes Avantel S.A.)	Others	267,848
Axtel, S.A.B. de C.V.	Leasing	51,106,833
	Concession	1,813,280
	Performance	407,472,728
	Others	405,742,562
Conectividad Inalámbrica 7 GHZ, S. de R.L.	Concession	259,040
Servicios Axtel S.A. de C.V.	Others	595,881
Instalaciones y Contrataciones S.A. de C.V.	Others	179,846
TOTAL		1,127,446,823

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

3.4.1) Results of Operation for years ended December 31, 2013 and 2012

Revenues.

For the twelve month period ended December 31, 2013, total revenues reached Ps. 10,286 million, compared with Ps.10,190 million for the year ended 2012, an increase of Ps. 97 million, or 1%.

Axtel's revenues derive from the following services:

Local Services. Revenue from local services for the twelve month period concluded on December 31, 2013 added up Ps. 3,208 million, compared with Ps. 3,619 million pesos recorded for the same period of the previous year, a reduction of Ps. 411 million or 11% explained by Ps. 250, Ps. 60 and Ps. 100 million reductions in monthly rents, measured services and fixed-to-mobile revenues, respectively.

Long Distance Services. For the twelve month period concluded on December 31, 2013, revenue for long distance totaled Ps. 1,140 million compared to Ps. 1,236 million recorded for the same period of 2012, a decrease of Ps. 97 million or 8%, due to decreases of 6% and 23% in national and international long distance respectively.

Internet & Video. For year 2013, revenues for Internet and video services amounted Ps. 1,043 million, a 31% increase compared with year 2012, mainly due to a 19% increase in internet to the mass market and the new pay-tv service which started in January 2013.

Data and Networks. For the period of twelve months concluded on December 31, 2013, revenue for networks and data services reached Ps. 1,860 million, from Ps. 1,998 million in 2012, a decrease of Ps. 138 million, or 7%, explained by 6% and 8% reductions in dedicated Internet and virtual private networks respectively.

Integrated Services and Equipment Sales. Revenues totals Ps. 1,884 million for year 2013, compared with Ps. 1,494 million during 2012, representing a Ps. 390 million or 26% increase. This is mainly explained by a 40% increase in integrated services to the enterprise and government segments.

International Traffic. The revenue for completion of international traffic added up Ps. 764 million in the twelve month period ended on December 31 2013, a 17% increase compared to the same period for 2012, explained by a 32% increases in prices, due to a change in volume mix towards more mobile minutes traffic. Despite an increase in revenues, contribution margin for this business decreased in 2013 compared with 2012 due to lower margins.

Other Services. For the twelve month period ended December 31, 2013 revenue from other services added up Ps. 387 million compared to a very similar Ps. 388 million recorded on the same period in 2012.

Operating Metrics

RGUs and Customers. As of December 31, 2013, RGUs (Revenue Generating Units) added up one million 504 thousand, which represents an increment of 1% with respect to December 31, 2012. During 2013, RGUs net additions totaled 13 thousand compared to 16 thousand during the previous year, attributable to a greater number of wireless Internet disconnections during the first months of 2013. As of December 31, 2013, customers totaled 640 thousand, a decrease of 69 thousand or 10% compared to the same date in 2012.

Voice RGUs (Lines in Service). As of December 31, 2013, the lines in service added up 936 thousand, which represents a decrease of 61 thousand lines compared to December 31, 2012. During 2013, gross additional lines reached 207 thousand compared to 242 thousand during 2012. Disconnections during 2013 and 2012 reached 269 thousand and 284 thousand respectively. As of December 31, 2013, residential lines represented 62% of total lines in service.

Broadband RGUs (Broadband Subscribers). Broadband subscribers reached 506 thousand as of December 31, 2013. During this year, broadband subscribers increased 13 thousand compared to 57 thousand the previous year. As of December 31, 2013, WiMAX subscribers reached 347 thousand, compared to 377 thousand a year ago, while Axtel X-tremo, or FTTH, subscribers reached 148 thousand compared to 100 thousand a year ago. The slower pace in broadband additions is mainly due to the acceleration in WiMAX disconnections during the first half of 2013 that could not be totally compensated with additions of FTTH subscribers. Broadband penetration reached 54% at the end of 2013, compared to 49% a year ago.

Video RGUs (Video Subscribers). As of December 31, 2013, video subscribers reached 61 thousand, compared to 1 thousand a year ago; this demonstrates the acceptance of the new pay-tv service, Axtel TV, offered through our fiber or FTTH network.

Cost of Revenues and Expenses

Cost of Revenues. During the twelve month period ended December 31, 2013, the cost of revenues reached Ps. 2,985 million, an increase of Ps. 130 million with respect to 2012, explained by increases in costs related to international traffic service.

Gross Profit. Gross profit is defined as revenues minus cost of sales. For the twelve month period ended December 31, 2013, the gross profit reached Ps. 7,302 million, from Ps. 7,335 million recorded in 2012, a decrease of Ps. 33 million. This was mainly due to decreases in the gross profit of local, long distance and data services due to lower revenues, partially compensated with increases in revenues and contribution margin of internet and video and integrated services.

Operating Expenses. For the twelve month period ended December 31, 2013, the operating expenses totaled Ps. 4,430 million from Ps. 4,597 million for the same period in 2012, a 4% decrease due to reductions in personnel and maintenance expenses, partially mitigated by increase in rents due to the lease expense of the towers sold in January 2013. Personnel expenses represented 40% of the total expenses for the twelve month period ended December 31, 2013.

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 reached Ps. 2,872 million, compared to Ps. 2,738 million for the same period in 2012. As a percentage of revenues, the margin was of 27.9% for 2013, 105 basis points more than the margin for 2012.

Depreciation and Amortization. The depreciation and amortization for the twelve month period ended on December 31, 2013 was of Ps. 3,219 million, compared to Ps. 3,073 million for the same period in 2012, an increase of Ps. 145 million.

Operating income (loss). For the twelve month period ended December 31, 2013, the operating income reached Ps. 2,687 million, compared to an operating loss of Ps. 535 million in 2012, a Ps. 3,222 million variation mainly due to the gain related to the telecommunication towers sale in January 2013.

Comprehensive Financial Result

The comprehensive financing gain was of Ps. 737 million in 2013, compared to a cost of Ps. 347 million in 2012 mainly due to the gain resulting from the debt exchange concluded on January 2013 and a 16% reduction in interest expense in 2013.

Taxes

In 2013 the income tax was of Ps. 1,018 million, compared with a benefit of Ps. 173 million last year. This tax was mainly due to gains from the telecommunication towers sale in January 2013.

Net Income (Loss)

The Company reported a net income of Ps. 2,408 million in the twelve months ended December 31, 2013, compared with a net loss of Ps. 709 million in 2012. This income is explained by the changes outlined above, including gains from the tower sale and debt exchange.

Capital Investments. For the twelve month period ended December 31, 2013, capital investments totaled Ps. 2,118 million, compared to Ps. 2,016 million in the year 2012. This variation reflects the Company's corporate strategy to focus exclusively on projects of greater value for customers, principally the deployment of fiber and cloud-based ICT products.

3.4.2) Financial Position, Liquidity and Capital Resources as of December 31, 2013, compared to the financial position as of December 31, 2012.

Historically the Company has relied primarily on vendor financing, the proceeds of the sale of securities, internal cash from operations, funds obtained from the issuance of debt in international markets, and the proceeds from bank debt to fund our operations, capital expenditures and working capital requirements. Additionally, and subject to (i) market conditions, (ii) our liquidity position and (iii) contractual obligations, from time to time, the Company might acquire senior secured and unsecured notes in the open market or in privately negotiated transactions. Although we believe that we would be able to meet our debt service obligations and fund our operating requirements in the future with cash flow from operations, the Company may seek additional financing with commercial banks or in the capital markets from time to time depending on market conditions and the Company's financial requirements. The Company will continue to focus on investments in fixed assets and working capital management, including the collection of accounts receivable and management of accounts payable.

Assets

As of December 31, 2013, total assets amount Ps. 19,883 million compared to Ps. 20,500 million as of December 31, 2012, a decrease of Ps. 618 million.

Cash and Equivalents. As of December 31, 2013, we had cash and equivalents of Ps. 1,292 million compared to Ps. 608 million as of December 31, 2012, an increase of Ps. 684 million or 113% due to, among other things, the issuance of US\$36 million of new 2020 Secured Notes and an improvement in working capital.

Accounts Receivable. As of December 31, 2013, the accounts receivable were Ps. 2,982 million compared with Ps. 2,407 million as of December 31, 2012, an increase of Ps. 575 million or 24%.

Property, Systems and Equipment, net. As of December 31, 2013, property, systems and equipment, net, reached Ps. 13,187 million compared with Ps. 13,998 million as of December 31, 2012, a decrease of Ps. 811 million. The property, systems and equipment, without discounting the accumulated depreciation, was Ps. 38,148 million and Ps. 35,653 million as of December 31, 2013 and 2012, respectively.

Liabilities

As of December 31, 2013, total liabilities reached Ps. 12,355 million compared to Ps. 15,412 million as of December 31, 2012, a decrease of Ps. 3,057 million, mainly due to the debt exchanges concluded in January 2013 and December 2013.

Accounts Payable and Accrued Expenses. As of December 31, 2013, the accounts payable and accrued expenses were Ps. 2,741 million compared with Ps. 2,404 million as of December 31, 2012, an increase of Ps. 337 million, or 14%.

Debt. As of December 31, 2013, total debt, total debt reached Ps. 7,864 million, a decrease of Ps. 3,602 million in comparison with the same date in 2012, explained by (i) a Ps. 2,663 million net reduction related to the January and December 2013 exchanges of the senior notes due 2017 and 2019, (ii) a Ps. 1,058 million decrease in bank debt related to the prepayment of the syndicated bank facility, (iii) an increase of Ps. 5 million in leases and financial obligations, (iv) a Ps. 138 million decrease in notes issuance and deferred financing costs, and (v) a Ps. 39 million non-cash increase caused by the 0.5% depreciation of the Mexican peso.

As of December 31, 2013, the net debt to adjusted EBITDA ratio and the interest coverage ratio of the Company were 2.3x and 3.3x, respectively. Likewise, as of December 31, 2012, the net debt to adjusted EBITDA ratio and interest coverage ratio were 4.0x and 2.6x respectively.

Stockholders' Equity

As of December 31, 2013, the stockholders' equity of the Company totaled Ps. 7,528 million compared with Ps. 5,088 million as of December 31, 2012, an increase of Ps. 2,439 million or 48%. The capital stock was Ps. 6,628 million as of December 31, 2013 compared to Ps. 6,626 as of December 31, 2012, a slight increase mainly due to the conversion of some of the Company's Senior Secured Convertible Notes due 2020.

Cash flow

As of December 31, 2013 and 2012, net cash flows derived from operating activities were Ps. 2,559 million and Ps. 2,204 million respectively.

As of December 31, 2013 and 2012 net cash flows (used in) generated by the company in investing activities were Ps. 1,050 million and Ps. (2,031) million respectively. These amounts reflect investments in property, systems and equipment of Ps. (2,118) million and Ps. (2,016) million pesos for 2013 and 2012 respectively.

As of December 31, 2013 and 2012 net cash flows used in financing activities were Ps. 2,934 million and Ps. 1,003 million respectively.

Financial Instruments

Categories of financial instruments

		2013	2012
<i>Financial assets</i>			
Cash and cash equivalents	Ps	1,292,263	597,201
Restricted cash		-	10,709
Accounts receivables		2,981,732	2,406,764
Fair value through profit or loss		142,200	88,419
<i>Financial liabilities</i>			
Derivative financial instruments		116,658	46,532
Long-term debt		7,864,319	11,466,614
Accounts payable and accrued liabilities		2,741,308	2,404,471

(a) Financial risk management objectives

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

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Compliance with policies and exposure limits is reviewed by the Company's management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(b) Market and interest rate risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2013 and 2012, are as follows:

	(Thousands of US dollars)	
	<u>2013</u>	<u>2012</u>
Current assets	68,719	62,082
Current liabilities	(106,615)	(124,903)
Non-current liabilities	<u>(574,480)</u>	<u>(817,765)</u>
Foreign currency liabilities, net	<u>(612,376)</u>	<u>(880,586)</u>

The U.S. dollar exchange rates as of December 31, 2013 and 2012 were Ps. 13.07 and Ps. 13.01, respectively.

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates, because it borrows funds at both fixed and floating interest rates and has contracted principal and interest payments in US dollars. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of cross currency interest rate swap contracts (CCS) and currency swap contracts (CS). Hedging activities are evaluated regularly to align with exchange rate and interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

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

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

US\$ 100 Million Syndicated loan Cross Currency Swaps (CCS)

During November 2011, the Company closed a syndicated loan of up to the equivalent of US \$ 100 million. This loan is divided in two tranches, one in pesos amounting to Ps. 512,373,031 and the other in US dollar amounting to US \$62,117,156. As of December 31, 2012 US\$ 53.3 million (equivalent to Ps. 693 million) and Ps. 365 million have been utilized, of which approximately Ps. 246 million remains unutilized. The Company decided to hedge an increase in interest rates and exchange rate risks (devaluation of the peso versus the U.S. dollar) associated with the entire portion of principal and interest of the syndicated loan by entering into Cross Currency Swaps (CCS) with Credit Suisse and Banorte – IXE. The CCSs has been designated as a cash flow hedge for accounting purposes.

At January 31, 2013 the Company paid in full the remaining balance of the syndicated loan, interest and related derivative transactions.

				Fair Value Liability	
<u>Counterparty</u>	<u>Notional Amount</u>	<u>Terms</u>		<u>2013</u>	<u>2012</u>
	Ps464				
Credit Suisse	US\$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	Ps	-	(40,299)
	Ps128				
Ixe	US\$10	Pays fixed rate in pesos of 11.11% and receives LIBOR + 400	Ps	-	(6,233)

For the year ended December 31, 2012, the change in the fair value of the CCSs amounted to an unrealized loss of Ps. 41,165. This loss was recognized within other comprehensive income in the stockholders equity, net of deferred taxes of Ps. 12,350.

In February 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US\$100 million of the US\$275 million senior notes, for the period between February and August 2015. In May of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.16,802 as a gain within the statement of comprehensive income.

During January and March of 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US\$200 million of the US\$300 million senior notes, for the period between March and September of 2015. In June of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.79,206 as a loss within the statement of comprehensive income.

(c) Market and interest rate sensitivity analysis

Exchange rate sensitivity analysis

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

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

If the Peso strengthens 10% against the US dollar, the profit for the year ended December 31, 2013 and equity would increase by Ps. 738,036.

If the Peso weakens 10% against the US dollar, profit for the year ended December 31, 2013 and equity would decrease by Ps. 811,840.

(d) Embedded derivatives

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

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

The following summarize the accounting for the convertible notes and the embedded derivative arising from the conversion option (thousands of US \$):

<u>Convertible notes - liability</u>		<u>2013</u>
Face value	U.S.\$	22,189
Options converted		(154)
		<u>22,035</u>
Fair value of conversion option recognized as a derivative financial instrument		(9,738)
Accreted interest		<u>1,275</u>
Carrying amount of convertible notes at December 31, 2013	U.S.\$	<u>13,572</u>
<u>Convertible notes - derivative financial instrument</u>		<u>2013</u>
Fair value of conversion option at issuance date	U.S.\$	9,738
Gain in change of fair value for the period		(817)
Fair value of conversion option at December 31, 2013	U.S.\$	<u>8,921</u>

(e) Other price risks (equity price risk)

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

<u>Counterparty</u>	<u>Notional amount</u>	<u>Terms</u>	<u>Fair value Asset (Liability)</u>	
			<u>2013</u>	<u>2012</u>
Bank of America Merrill Lynch	30,384,700 CPOs	La Compañía recibe en efectivo el valor de Mercado del nacional	Ps 142,200	Ps 88,419

For the year ended December 31, 2013 and 2012 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.53,781 and (Ps.46,793), respectively, recognized in the financial cost, net.

(f) Equity price risk sensitivity analysis

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

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

- profit and equity for the year ended December 31, 2013 and 2012 would increase by Ps. 14,220 and Ps. 8,842, respectively.

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

- profit and equity for the year ended December 31, 2013 and 2012 would decrease by Ps.12,927 and Ps. 8,038, respectively.

(g) Credit risk management

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

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

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

Company A represented 10%, and 15% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2013 and 2012 were 0% and 3%, respectively.

Company B represented 9%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2013 and 2012 were 3% and 0%, respectively.

Company C represented 8%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company C for the year ended December 31, 2013 and 2012 were 2% and 0%, respectively.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

(h) Liquidity risk management

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

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

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

		<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>5+ years</u>
December 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		<u>179,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Ps	<u>921,836</u>	<u>765,942</u>	<u>773,482</u>	<u>1,346,515</u>	<u>611,927</u>	<u>7,634,415</u>
		<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>5+ years</u>
December 31, 2012							
Variable interest rate instruments	Ps	181,921	408,763	373,370	6,466	15	-
Fixed interest rate instruments		949,927	890,272	873,577	849,231	4,424,371	7,522,440
Capacity lease		<u>179,171</u>	<u>179,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Ps	1,311,019	1,478,206	1,246,947	855,697	4,424,386	7,522,440
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The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(i) Fair value of financial instruments

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

	December 31, 2013		December 31, 2012	
	Carrying amount	Fair value	Carrying amount	Fair value
<i>Financial liabilities</i>				
<i>Financial liabilities held at amortized cost:</i>				
U.S. \$275 million Senior Unsecured Notes	659,029	598,069	3,577,778	1,842,555
U.S. \$490 million Senior Unsecured Notes	1,330,272	1,063,819	6,374,949	3,378,723
U.S. \$394.6 million Senior Secured Notes	5,160,680	4,889,744	-	-
U.S. \$22.2 million Senior Secured Convertible Notes	177,481	177,481	-	-
Syndicated loan	-	-	1,057,925	964,663
Other long-term financing	407,965	400,139	251,179	225,166
Capacity lease	168,554	172,397	318,984	327,442

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Financial assets				
Zero strike calls	142,200	-	-	142,200
Financial liabilities				
Derivative financial liabilities	-	116,658	-	116,658
	December 31, 2012			
	Level 1	Level 2	Level 3	Total
Financial assets				
Zero strike calls	88,419	-	-	88,419
Financial liabilities				
Derivative financial liabilities	-	46,532	-	46,532

3.4.3) 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, which have a maturity of no more than 365 days after their 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 their acquisition.
- Certified deposit checking accounts and peso-denominated banker acceptances 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 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 by Standard and Poor's or its equivalent by Moody's or Fitch Ratings Investment.
- Transactions above mentioned are only executed with financial institutions with which we have a business relationship and/ or with 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 Bloomberg screen, or similar, 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 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.

c) Responsible:

- Investments in pesos or dollars may be made by any of the following individuals subject to the following restrictions:
 - a) Chief Financial Officer - investments with maturity of maximum three hundred and sixty-five days.
 - b) Head of Department - investments with a maturity of maximum 180 days.
 - c) Treasury Manager - investments with a maturity of maximum thirty days.
 - d) Flow Management Specialist - investments with a maturity of maximum 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 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.

	<i>Report Type</i>	<i>Frequency Audiencia</i>	<i>Responsible</i>
i)	Cash position	Daily - send to Chief Financial Officer, Director of area and Treasury internal	Treasury Manager
ii)	Actual Cash Flow	Daily - send to Chief Financial Officer, Director of area and Treasury internal	Treasury Manager
iii)	Projected cash flow	Weekly- send to Chief Financial Officer, Director of area and Treasury internal	Treasury Manager

The cash position and the cash flow are daily sent to the Finance 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 USB.
- 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, in the absence of any, the payments could be released by the Corporate Finance Manager.

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.

a) Procedures:

- 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),
- With 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) Responsible:

- Treasury Manager's responsibility and in his absence, it will be the Cash Management Analyst's duty.

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 |
|------------------------------|----------------------------------|
| • Head of Department | • 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

- Head of Department
- Treasury Manager

Signature 2

- Director of Administration
- Director of Financial Planning
- Revenue Assurance Manager

c) Checks for maintenance payment of civil judgments

Signature 1

- Head of Department
- Treasury Manager
- Flow Management Specialist

Signature 2

- Director of Administration
- Director of Financial Planning
- Revenue Assurance Manager

d) Checks for severance payments.

Signature 1

- Head of Department
- Director of Administration.
- Director of Financial Planning
- Treasury Manager

Signature 2

- Director of Administration.
- Director of Financial Planning
- Revenue Assurance Manager

Derivative Instruments Management Policies

(a) Basic Principles:

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

(b) Transactions Profile:

- 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.

(c) Risks Committee:

- 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, Jose Antonio Velasco 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.

3.4.4) 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 IFRS regulations and their criteria. The Company considers that its 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 IFRS.
- ***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 cancellation 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.

In applying accounting policies, the Company's management use judgments, estimates and assumptions on certain amounts of assets and liabilities in the consolidated financial statements. Actual results may differ from such estimates.

Underlying estimates and assumptions are reviewed regularly.

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

- a) Useful lives of property, systems, and equipment - The Company reviews the estimated useful life of property, systems and equipment at the end of each annual period. The degree of uncertainty related to the estimated useful lives is related to the changes in market and the use of assets for production volumes and technological development.
- b) Impairment of non-financial assets - When testing assets for impairment, the Company requires estimating the value in use assigned to property, systems and equipment, and cash generating units. The calculation of value in use requires the Company to determine future cash flows generated by cash generating units and an appropriate discount rate to calculate the present value thereof. The Company uses cash inflow projections using estimated market conditions, determination of future prices of products and volumes of production and sale. Similarly, for discount rate and perpetuity growth purposes, the Company uses market risk premium indicators and long-term growth expectations of markets where the Company operates.
- c) Allowance for doubtful accounts - The Company uses estimates to determine the allowance for doubtful accounts. The factors that the Company considers to estimate doubtful accounts are mainly the customer's financial situation risk, unsecured accounts, and considerable delays in collection according to the credit limits established.
- d) Contingencies - The Company is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of occurrence probability. The factors considered in these estimates are the current legal situation as of the date of the estimate, and the external legal advisors' opinion.
- e) Decommission and remediation provision - The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalizes the associated cost as a component of the related asset.
- f) Deferred tax assets - Deferred tax assets are recognized for the tax loss carry forwards to the extent management believes it is recoverable through the generation of future taxable income to which it can be applied.
- g) Financial instruments recognized at fair value - In cases where fair value of financial assets and liabilities recorded in the consolidated financial statement do not arise from active markets, their fair values are determined using assessment techniques, including the discounted cash flows model. Where possible, the data these models are supplied with are taken from observable markets, otherwise a degree of discretionary judgment is required to determine fair values. These judgments include data such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors may affect the amounts of fair values advised for financial instruments.
- h) Leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

4) MANAGEMENT

4.1) External Auditors

The independent auditors of the Company are KPMG Cárdenas Dosal, S.C., which their offices are located in Oficinas en el 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.

Historically, the certified public accounts from our external auditors, KPMG Cárdenas Dosal, S.C., that have signed the opinion on our financial statements have been:

Years	Certified Public Accountant
2000 - 2006	Rafael Gómez Eng
2007 - 2013	Leandro Castillo Parada

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 2013, KPMG Cardenas Dosal S.C. provided the Company the following services with their respective compensation:

Financial and Fiscal Auditing Compensation	\$4.6 million
Compensation for debt documents	\$1.7 million
<u>Compensation for Internal Review as of September 30, 2013</u>	<u>\$0.5 million</u>
TOTAL	\$6.7 million

4.2) Certain Relationships and Related Transactions

Banamex and/or Citigroup Inc. Agreements

- *Security Trust Agreement*

On October 8th, 2013, the Company entered into an Amended and Restated Security Trust Agreement with Deutsche Bank Mexico, S.A. as trustee and Banco Nacional de Mexico, S.A. as beneficiary (but acting for the benefit of the parties referred to below) to initially secure the following transactions: 1) a bilateral revolving short-term credit facility with BANCO MONEX, S.A., Institución de Banca Múltiple, Monex Grupo Financiero, for the amount of US\$10.0 million, with amortization starting in March 31, 2015 and due in March 31, 2017 and 2) an operating lease with CHG-MERIDIAN MEXICO, S.A.P.I. de C.V. for the amount of US\$15.0 million, payable on a quarterly basis. As of December 31, 2013, no amount has been drawn from either facility.

- *Banamex Master Services Agreements*

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.

- *Banamex Managed Services Agreement*

On April 30, 2013, Axtel entered into an agreement with Banamex to become their provider of voice cloud-based managed services and collaboration applications based on Cisco's technology known as Hosted Collaboration Solution (HCS). The project involves the deployment of voice IP ports for Banamex's corporate offices and branches throughout the country. The initial term of this agreement is for five years, with possible renewals for one year periods subject to compliance of service level agreements.

Other Transactions:

- In March and May 2000, Axtel and Gemini, S.A. de C.V. (a company controlled by Alberto Garza Santos, one of our shareholders) 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. (formerly Inversiones DD, S.A. de C.V.). For the years ended December 31, 2013 and 2012, the Company paid Delta Inmobiliaria y Valores approximately US\$3.0 and US\$2.9 million, respectively, in rental payments under these leases.
- In April 2002, Axtel and Instalaciones y Desconexiones Especializadas, S.A. de C.V., a company controlled by Alberto Santos Boesch, a shareholder and member of our board of directors, entered into a services agreement for the provision of installation services with regard to customer premise equipment. For the years ended December 31, 2013 and 2012, the Company paid them approximately US\$3.6 and US\$2.4 million, respectively, in fees for services.
- Fundación Axtel A.C., a non-profit charity, was founded in 2005 to promote provide assistance in the communities where the Company operate. Among others, Tomas Milmo Santos and Patricio Jimenez serve as Directors in Fundación Axtel. For the years ended December 31, 2013 and 2012, the Company contributed approximately US\$0.3 million each year, 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 Imprá Café, S.A. de C.V., entered into an shareholders agreement 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% and 10% of our outstanding shares.

We believe the contracts mentioned above reflect arm's length terms.

4.3) Senior Management and Share Holders

Pursuant to the Company's 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 nine 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 Carlos Canales Tijerina.....	Chief Financial Officer
Andrés Velázquez Romero ⁽¹⁾	Executive Director - Business and Government Markets and Alternate Director.
Alberto M. De Villasante Herbert ⁽¹⁾	Executive Director - Strategic Relations and Alternate Director
José Eloy Valerio Treviño	Executive Director - Administration and Human Resources
Antonio de Nigris Sada.....	Executive Director - Mass Market
Andrés E. Cordovez Ferretto	Executive Director - Technology and Operations
Gerardo González Villarreal.....	Audit Director
Thomas Lorenzo Milmo Zambrano	Director
Patricio Jiménez Barrera.....	Director
Alberto Santos Boesch.....	Director
Lorenzo H. Zambrano Treviño	Director
Alberto Garza Santos	Director
Héctor Medina Aguiar ⁽¹⁾⁽²⁾	Director
Bernardo Guerra Treviño ⁽¹⁾⁽²⁾	Director
Fernando A. González Olivieri	Director
Lawrence H. Guffey ⁽¹⁾⁽²⁾	Director
Balbina Milmo Santos	Alternate Director
Francisco Javier Garza Zambrano	Alternate Director
Alicia Santos Boesch	Alternate Director
David Garza Santos	Alternate Director
Ramiro Villarreal Morales	Alternate Director
Mauricio Morales Sada ⁽³⁾⁽⁴⁾	Alternate Director
Thomas Westermann ⁽³⁾⁽⁴⁾	Alternate Director

(1) Independent Director.

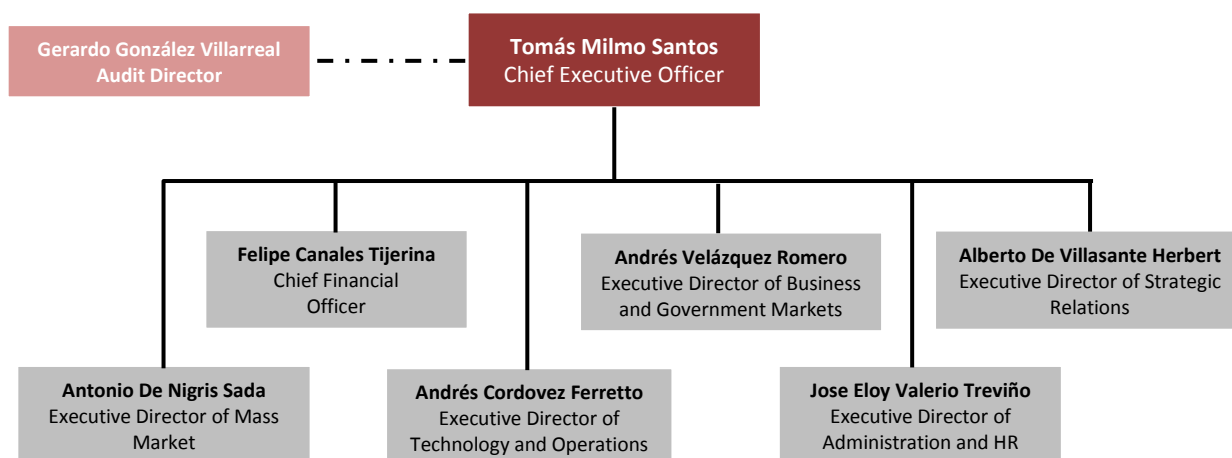
(2) Member of audit and corporate practices committee.

(3) Alternate Independent Director.

(4) Alternate member of audit and corporate practices committee

The aforementioned directors were appointed as members of the Board of Directors at the Annual General Meeting of Shareholders held on April 25, 2014.

The top officials of the Company are:



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 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215.

Tomás Milmo Santos has held the position of Chief Executive Officer of Axtel since 1994 and Director since July 22, 1994. Mr. Milmo was also appointed Chairman of the Board of Directors in October 2003. Prior to joining Axtel, Mr. Milmo worked at Carbonífera de San Patricio, S.A. de C.V., a mining company in México. 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 which developed and sold over 10 thousand houses from 1990 to 1993. He is a member of the Board of Directors of Cemex, Instituto Tecnológico y de Estudios Superiores de Monterrey, and Promotora Ambiental S.A. de C.V. He is Chairman of both Tec Salud and Alianza Educativa Ciudadana por Nuevo León. Mr. Milmo holds a degree in Business Economics from Stanford University.

Felipe Canales Tijerina is Chief Financial Officer of Axtel since February 2009, prior to joining Axtel, Mr. Canales was Director of Finance and Administration in Sigma, a food processing company subsidiary of Alfa. During his 30-year career in Alfa, he held several executive positions. He was member of the Board 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 Tecnológico y de Estudios Superiores de Monterrey and an MBA from The Wharton School at the University of Pennsylvania.

Andrés Velázquez Romero is the Executive Director of the Enterprise and Government Segments. Mr. Velázquez is Alternate Director of Axtel since March 2007. Mr. Velázquez has served as Executive Director since 2004 in the areas of Process Transformation and Information Technology, Mass Market Segment and Enterprise Segment at different times. Prior to joining Axtel, Mr. Velázquez had several positions in the financial sector executing activities related to risk management, credit, financing, international treasury and currency exchange. He was the COO in Banca Serfin New York Agency in New York. Mr. Velázquez holds a degree in Economics from the Instituto Tecnológico Autónomo de México in México City.

Antonio De Nigris Sada is the Mass Market Executive Director since 2011. Before its current position, Mr. De Nigris worked in various positions within Axtel as Northern Regional Director for the Mass 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 Anáhuac in México City.

Andrés Eduardo Cordovez Ferretto is the Executive Director of Technology and Operations of Axtel since October, 2013. Prior to his current position, he was IT and Process Management Director. Mr. Cordovez has held different executive positions in national and multinational companies in telecommunications, financial and service industries, responsible of different functions such as technology, innovation, operations, customer service and sales. He holds a degree in Computer Systems Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey and also a Senior Management from the IPADE.

Alberto De Villasante Herbert is the Executive Director of Strategic Relations accounts and alternate director of Axtel since April 27, 2007. Previously, he 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 Directors of Concreta S.A. de C.V. and Productora de Terrasos S.A. de C.V. He holds a degree in Marketing from the Instituto Tecnológico y de Estudios Superiores de Monterrey and a Masters in public accountant, administration and total quality.

José Eloy Valerio Treviño is the Executive Director of Administration, Communication, Logistics and Human Resources of Axtel since December 2012. Prior to his present position, Mr. Valerio was Executive Director of Human Resources, Communication and Processes at Axtel. Mr. Valerio has 30 years of work experience, 20 as Director in related areas. He has also been a consultant in the Telecommunications, Paper and Cellulose, Tourism,

Steel-Mechanical, Automotive and Pharmaceutical Industry. He was President of the Human Resources Executives Association (ERAC), 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 Management from Universidad Autónoma de Nuevo León and MBA from Instituto Tecnológico y de Estudios Superiores de Monterrey.

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. He has over 25 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.

Thomas Lorenzo Milmo Zambrano has been a Director of AXTEL since July 22, 1994 and held the position of Chairman of the Board of Directors from 1997 until 2003. He was founder and Chairman of Grupo Javier S.A. de C.V., one of the largest housing development companies in México, and of Incasa, S.A. de C.V., one of the largest aggregate producers in México. He was also Chairman and CEO of both Carbonífera de San Patricio S.A. de C.V., and Carbón Industrial, S.A. de C.V., medium-sized mining companies in México. He was a Director of CEMEX, S.A. de C.V. until 1996.

Patricio Jiménez Barrera held the position of Chief Financial Officer of Axtel from 1998 to 2009 and has been Director of Axtel since November 11, 2005. Prior to joining Axtel, Mr. Jiménez held a variety of finance-related positions, including investment banker while at Invermexico Casa de Bolsa, corporate treasurer while at Grupo Cydsa and an investment banker, international treasurer, financing and correspondent banker while at Banca Serfín, S.A. Mr. Jiménez is Director of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega. Mr. Jiménez is a CPA and holds a degree from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Alberto Santos Boesch has been a Director since April 17, 2013. He was Alternate Director of Axtel for Mr. Alberto Santos de Hoyos (†) since June 17, 2005. Mr. Santos held the position of Chief Executive Officer of Empresas Santos S.A. de C.V. since 2000. He is Vice President of Grupo Tres Vidas Acapulco, S.A. He is also Director of Grupo Maseca, Interpuerto de Monterrey, Fundación Santos y de la Garza Evia, Instituto Nuevo Amanecer, UDIA A.C., and En Nuestras Manos. Mr. Santos holds a degree in International Studies from Universidad de Monterrey as well as a degree in International Studies from Cushing Academy.

Lorenzo Zambrano Treviño has been a Member of the Board of Directors of AXTEL since October 1997. He is Chairman and CEO of CEMEX, one of the leading global companies in the construction materials industry. Mr. Zambrano is a member of the Board of IBM, and of the Monterrey Museum of Contemporary Art (MARCO). He also held the position of Chairman of the Board of Instituto Tecnológico y de Estudios Superiores de Monterrey, from 1997 to 2012. Mr. Zambrano holds a B.S. degree in Mechanical Engineering from the Instituto Tecnológico y de Estudios Superiores de Monterrey, and an MBA from Stanford University.

Alberto Garza Santos has been a Director of AXTEL since October 9, 2003. He is founder, Chairman of the Board and Chief Executive Officer of Promotora Ambiental, S.A de C.V. Mr. Garza is member of the Board of Directors of Maquinaria Diesel S.A de C.V. (MADISA), Desarrollos Delta and SUPERA. He is President of Fundación Mundo Sustentable, A.C. and served as Chairman of Parque Ecologico Chipinque. He holds a degree in 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 9, 2003 and member of the Audit and Corporate Practices Committee. He held the position of Executive Vice-President of Finance and Legal of CEMEX until February 2010 when he retired. Previously he worked for Alfa. He was Chairman of the Board of Universidad Regiomontana until April 2012 and was a member of the Audit Committee of the Instituto Tecnológico de Monterrey until 2011. He is currently a member of the Board of several public and private companies. 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 MBA from the University of Bradford Management Center in England and an MS Diploma from the Escuela de Organización Industrial in Spain.

Bernardo Guerra Treviño has been a Board Member for Axtel since April 28, 2006 and Chairman of the Audit and Corporate Practices Committee. He is founding partner of Morales y Guerra Capital Asesores (MG Capital), and member of the Board of Directors of Promotora Ambiental S.A. de C.V. and Banco Ahorro FAMSA. He earned a degree in Industrial and System Engineering from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Lawrence H. Guffey Member of the Board since March 27, 2001. He is member of the Board of directors of Axtel since May 2000 and member of the Audit and Corporate Practices committee. He is also Senior Managing Director of Blackstone Group International. Before joining 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 graduated from Rice University.

Fernando A. González Olivieri is a Board Member for Axtel since April 26, 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, Executive Vice President for Planning and Development and Executive Vice President of Planning and Finance. He currently serves as Vice President of Finance and Administration. He completed his professional and graduate studies at Instituto Tecnológico y de Estudios Superiores de Monterrey.

Thomas Westermann is Alternate Director of Mr. Lawrence H. Guffey since April 17, 2013. Mr. Westermann is an Analyst in the Davidson Kempner Capital Management. He has worked in Blackstone, J.P. Morgan, The Boston Consulting Group and Booz & Co. Mr. Westermann received a Master of Science in Management Science and Engineering from Stanford University and a Bachelor of Science in Engineering and Applied Mathematics from Technical University of Denmark.

Francisco Javier Garza Zambrano has been an Alternate Director of AXTEL for Lorenzo Zambrano Treviño since June 17, 2005. Has held the position of President of CEMEX America region; he has been Chairman of CEMEX México, CEMEX Panama and Venezolana de Cementos (Vencemos, S.A.). He has also been Vice President of CEMEX Trading and Chairman in charge of CEMEX's operations in the United States. He is an advisor of Grupo Xignux, ASUR, Grupo CYDSA, GP Construcciones, Universidad de Monterrey, among others. He holds a degree in Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey and an MBA by Cornell University - Johnson Graduate School of Management.

Alicia Santos Boesch has been an Alternate Director of Axtel for Mr. Alberto Santos Boesch since April 17, 2013. She holds a degree in International Relations from UDEM and Graphic Design from the Art and Restoration Institute in Florence, Italy. She has also pursued Marketing studies at the University of California (UCLA). She is member of the Board of Grupo Sonoma and several social organizations.

David Garza Santos has been an Alternate Director of Axtel for Mr. Alberto Garza Santos since November 11, 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 México 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 México. 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 industry. He is also a member of the Board of Directors of Promotora Ambiental, S.A. de C.V., a leading waste management company in México 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 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 28, 2006. Mr. Morales Sada is founding member and President since 1995 of MG Capital, an independent asset management firm in México. 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 since 1987. Mr. Villarreal is also Secretary of the Board of Directors of CEMEX since 1995. Prior to joining CEMEX, he served as Assistant General Director of Grupo Financiero Banpaís (now part of Banco Mercantil del Norte S.A.) from 1985 to 1987. Mr. Villarreal is a graduate of the Universidad Autónoma de Nuevo León with a degree in law and holds a Master of Science in Finance from University of Wisconsin.

Balbina Milmo Santos she is an Alternate Director of Mr. Thomas Milmo Zambrano since April 27, 2007. 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 and brother of Balbina Milmo Santos, nephew of Lorenzo Zambrano Treviño, cousin of Alberto Garza Santos, David Garza Santos, Alicia Santos Boesch and Alberto Santos Boesch, and Patricio Jiménez Barrera's brother-in-law.
- Thomas Lorenzo Milmo Zambrano is cousin of Lorenzo Zambrano Treviño.
- Alberto Santos Boesch, is brother of Alicia Santos Boesch, cousin of Tomás Milmo Santos, Balbina Milmo Santos, Alberto Garza Santos and David Garza Santos and nephew of Thomas Lorenzo Milmo Zambrano.

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 are deemed legally convened when the majority of its members are present and its resolutions are 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 resolve on the following matters, 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. The directors of the Company are required to ask the CEO, managers and external auditors for any 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 disclosure during such sessions, of any important information obtained by them. The directors who fail in their duty of care may 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 waiver 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 may 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 care 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.

Board members will not incur in the responsibilities described above (including criminal liability) if, acting in good faith, they: (i) observe the requirements established by applicable laws for the 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 are not subject to reasonable doubt, and (iii) select the most suitable alternative to the best of their knowledge and belief, or the negative economic effects of the alternative selected were not foreseeable.

Audit and Corporate Practices Committee

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

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 an annual report of its activities to the Governing Board.

In accordance with the LMV 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 this date, the audit and corporate practices committee of the Company consists of Bernardo Guerra Treviño, Héctor Medina Aguiar and Lawrence H. Guffey, as Members and as Alternate Members, Mauricio Morales Sada and Thomas Westermann. In the ordinary general meeting of shareholders of April 25, 2014, Mr. Bernardo Guerra Treviño was ratified as committee chairman and Mr. Héctor Medina Aguiar and Lawrence H. Guffey as members of the said committee.

Compensation

During the fiscal year concluded on December 31, 2013, the compensation that the Company paid its board members and executives totals approximately \$95 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 at 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.

Foreign Investors Vote CPO holders

Holders of CPOs that are considered foreign investors for purposes of the Foreign Investment Act, may instruct the Trustee to exercise voting rights with respect to the shares underlying the CPOs held only for the discussion and voting on the following matters: (i) transformation of the Issuer, excluding capital transformation fixed to floating or vice versa, (ii) merger with another company, where the Issuer is the merged, and (iii) the cancellation of the registration of the Shares or other instruments issued based on in Section Shares Securities and / or Special Section of the National Registry of Securities of the CNBV. In all other cases of voting, or in assumption that foreign investors do not emit the respective instruction up to 3 days prior to the respective Shareholders, the Trustee will vote in the same direction as that in which most the holders of Series A or Series B Shares are considered Mexican investors.

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; or **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 be subject under the provisions stated in 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 who votes 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 activities. 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 shares, 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 Company has knowledge that Mr. Tomás Milmo Santos is the only person with more than 10% ownership of the capital of the Company.

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.

	Max	Mín
	(Pesos per CPO)	
Annual Maximum and Minimum:		
2009	12.58	4.43
2010	13.38	6.51
2011	7.27	4.22
2012	5.45	1.91
2013	4.79	2.69
Quarterly Maximum and Minimum 2012:		
First Quarter.....	5.45	4.25
Second Quarter	4.23	2.71
Third Quarter	3.38	1.91
Fourth trimestre.....	4.00	2.26
Quarterly Maximum and Minimum 2013:		
First Quarter.....	3.80	2.69
Second Quarter	4.77	3.48
Third Quarter	4.67	3.73
Fourth trimestre.....	4.79	3.71
Monthly Maximum and Minimum 2013:		
January	3.62	2.69
February.....	3.55	2.94
March.....	3.80	3.00
April.....	3.93	3.48
May.....	4.77	3.93
June.....	4.52	4.01
July	4.67	4.29
August.....	4.55	3.73
September	4.50	3.99
October	4.15	3.98
November	4.07	3.71
December.....	4.79	3.75

5.3) Market Maker

On December 31, 2013, 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. The contract was extended on December 15, 2012 and it does not contain an expiration date.

In consideration for services rendered under this contract, the Market Maker shall receive from the Issuer the amount of \$ 20,000.00 (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 \$ 20,000.00 (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 200 base points 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 give 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
Chief Executive Officer

Felipe Canales Tijerina
Chief Financial Officer

Federico Gil Chaveznava
Legal Counsel

External Auditor Certification

Exclusively for purposes of the consolidated financial statements of Axtel, SAB de CV and Subsidiaries as of December 31, 2013 and 2012 and for the years ended at December 31, 2013 and 2012, which are included as exhibits to this Annual Report, and any other financial information included in this Annual Report, the source comes from the audited consolidated financial statements, the following legend is issued:

"The undersigned declare under penalty of perjury, that the consolidated financial statements of Axtel, SAB de CV and Subsidiaries at December 31, 2013 and 2012 and for the years ended at December 31, 2013 and 2012 contained in this annual report were audited dated February 28, 2014, in accordance with Auditing International Standards.

It also states that you have read this annual report based on their assessment and within the scope of the audit work performed, not aware of relevant errors or inconsistencies in the information included and whose source comes from the audited financial statements referred to in previous paragraph, or information that has been omitted or misrepresented in this annual report or that it contains information that could mislead investors.

However, the undersigned was not hired, and performed additional procedures in order to express their opinion regarding the other information contained in the annual report that is not derived from the audited financial statements. "

KPMG CÁRDENAS DOSAL, S.C.

C.P.C. Leandro Castillo Parada
Partner

EXHIBIT A

AUDITED FINANCIAL STATEMENTS

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

Consolidated Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)



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Independent Auditors' Report

(Translation from Spanish Language Original)

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

We have audited the accompanying consolidated financial statements of Axtel, S. A. B. de C. V. and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2013 and 2012 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

(Continued)

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S. A. B. de C. V, and subsidiaries, as of December 31, 2013 and 2012 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

As mentioned in notes 23 (b) and 23 (c), the Company has contingencies related to interconnection rates with mobile operators and with long distance terminating calls with one of its main suppliers. As of December 31, 2013, the difference between the amounts paid by the Company and the amounts billed by the mobile operators and one of its main suppliers amounted to approximately \$2,169 and \$1,240 million of pesos, respectively, before value added tax. As of the date of this report, Company Management and legal counsel consider that they have sufficient elements for a favorable outcome in the trials related to these contingencies.

KPMG Cardenas Dosal, S. C.



C.P.C. Leandro Castillo Parada

February 28, 2014
Monterrey, N. L., México

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

Consolidated Statements of Financial Position

Years ended December 31, 2013 and 2012

(Thousands of pesos)

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

Assets	Note	2013	2012
Current assets:			
Cash and cash equivalents	7	Ps 1,292,263	597,201
Restricted cash	7	-	10,709
Accounts receivable	8	2,981,732	2,406,764
Refundable taxes		57,219	91,069
Prepaid expenses		65,578	52,188
Inventories	9	106,313	105,471
Financial instruments	7	142,200	88,419
Assets classified as held for sale	10	-	460,462
Other accounts receivable		103,699	-
Other current assets	13	130,492	141,439
Total current assets		4,879,496	3,953,722
Long-term accounts receivable		333,751	15,470
Property, systems and equipment	10	13,187,187	13,997,994
Intangible assets	11	223,792	288,622
Deferred income taxes	19	1,101,937	2,081,718
Investments in associates	12	11,640	9,647
Other assets	13	144,849	153,158
Total assets		Ps 19,882,652	20,500,331
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		Ps 2,741,308	2,404,471
Accrued interest		278,807	276,043
Taxes payable		285,987	135,703
Current maturities of long-term debt	14	308,945	411,969
Current portion of provisions	17	-	281,808
Deferred revenue	18	583,915	631,298
Derivative financial instruments	7	-	46,532
Other current liabilities	15	100,473	106,702
Total current liabilities		4,299,435	4,294,526
Long-term debt	14	7,555,374	11,054,645
Derivative financial instruments	7	116,658	-
Other liabilities		328,297	9,534
Employee benefits	16	21,330	19,452
Deferred revenue	18	33,900	33,900
Total liabilities		12,354,994	15,412,057
Stockholders' equity:			
Common stock	20	6,627,890	6,625,536
Additional paid-in capital	20	644,710	644,710
Reserve for repurchase of own shares	20	162,334	162,334
Retained earnings (deficit)		92,724	(2,314,955)
Accumulated other comprehensive income	20	-	(29,351)
Total stockholders' equity		7,527,658	5,088,274
Commitments and contingencies	23		
Total liabilities and stockholders' equity		Ps 19,882,652	20,500,331

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

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended December 31, 2013 and 2012
(Thousands of pesos)

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

	<u>Note</u>	<u>2013</u>	<u>2012</u>
Telephone services and related revenues	21	Ps 10,286,494	10,189,732
Operating costs and expenses:			
Cost of revenues and services		(2,984,573)	(2,854,785)
Selling and administrative expenses		(4,429,798)	(4,596,598)
Depreciation and amortization		(3,218,539)	(3,073,240)
Gain on sale of communications towers	10	3,111,948	-
Other expenses	22	(78,844)	(199,987)
Operating income (loss)		2,686,688	(534,878)
Interest expense	10	(882,454)	(1,057,513)
Interest income		16,229	21,967
Foreign exchange gain, net		39,682	797,630
Result from the exchange of debt, net	2	1,568,983	-
Change in the fair value of financial instruments, net	7	(5,303)	(109,197)
Net finance costs		737,137	(347,113)
Equity in earnings of associated company	12	1,992	(20)
Income (loss) before income taxes		3,425,817	(882,011)
Income taxes:			
Current	19	(50,817)	(53,022)
Deferred	19	(967,321)	226,164
Total income tax (expense) benefit		(1,018,138)	173,142
Net income (loss)		Ps 2,407,679	(708,869)
Other comprehensive income items:			
Valuation effects of cash flow hedges, net of income tax	20	29,351	(5,043)
Comprehensive income (loss)		Ps 2,437,030	(713,912)
Weighted average number of common shares outstanding		8,770,179,989	8,769,353,223
Basic income (loss) per share		Ps 0.27	(0.08)

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, 2013 and 2012
(Thousands of pesos)

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

		<u>2013</u>	<u>2012</u>
Cash flows from operating activities:			
Net income (loss) for the period	Ps	2,407,679	(708,869)
Adjustments for:			
Income tax		1,018,138	(173,142)
Foreign exchange gain, net		(39,682)	(797,630)
Depreciation		3,167,254	3,021,210
Amortization		51,285	52,030
Impairment loss recognized on trade receivables		199,524	201,473
Gain on sale of property, system and equipment		(1,716)	(429)
Allowance for obsolete and slow-moving inventories		25,773	21,408
Gain on sale of communications towers		(3,111,948)	-
Share of losses of equity-accounted investees		(1,992)	20
Interest expense		882,454	1,057,513
Amortization of premium on bond issuance		(2,090)	(6,236)
Result from the exchange of debt, net		(1,568,983)	-
Fair value gain on financial instruments		5,303	109,197
		<u>3,030,999</u>	<u>2,776,545</u>
Movements in working capital:			
Increase in accounts receivable		(645,708)	(482,751)
(Increase) decrease in inventories		(842)	47,284
Increase (decrease) in accounts payable		297,793	(132,263)
(Decrease) increase in deferred revenue		<u>(47,383)</u>	<u>63,420</u>
Cash generated from operating activities		<u>2,634,859</u>	<u>2,272,235</u>
Taxes paid		<u>(75,380)</u>	<u>(68,028)</u>
Net cash from operating activities		<u>2,559,479</u>	<u>2,204,207</u>
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,118,210)	(2,016,223)
Sale of property, systems and equipment		3,164,046	-
Other assets		<u>4,205</u>	<u>(15,075)</u>
Net cash generated from (used in) investing activities		<u>1,050,041</u>	<u>(2,031,298)</u>
Cash flows from financing activities:			
Interest paid		(756,135)	(1,038,846)
Exchange of debt		(1,326,887)	-
Proceeds of notes		442,014	-
Proceeds of bank loans		-	261,862
Payments of bank loans		(1,042,116)	-
Other long terms loans, net		(173,375)	(333,027)
Proceeds from issuance of capital stock		384	-
(Payments) proceeds of derivative financial instruments		<u>(77,982)</u>	<u>107,044</u>
Net cash flow used in financing activities		<u>(2,934,097)</u>	<u>(1,002,967)</u>
Net increase (decrease) in cash and cash equivalents		675,423	(830,058)
Cash and cash equivalents at beginning of the year		597,201	1,372,896
Effects of exchange rate fluctuations on cash and cash equivalents held		<u>19,639</u>	<u>54,363</u>
Cash and cash equivalents at the end of the year	Ps	<u>1,292,263</u>	<u>597,201</u>

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

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2013 and 2012
(Thousands pesos)

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

		<u>Capital stock</u>	<u>Additional paid-in capital</u>	<u>Reserves for repurchase of own shares</u>	<u>Retained earnings (Deficit)</u>	<u>Accumulated other comprehensive income</u>	<u>Total stockholders' equity</u>
Balances as of January 1, 2012	Ps	6,625,536	644,710	162,334	(1,606,086)	(24,308)	5,802,186
Comprehensive loss (note 20c)		<u>-</u>	<u>-</u>	<u>-</u>	<u>(708,869)</u>	<u>(5,043)</u>	<u>(713,912)</u>
Balances as of December 31, 2012		6,625,536	644,710	162,334	(2,314,955)	(29,351)	5,088,274
Increase of capital stock (note 20a)		2,354	-	-	-	-	2,354
Comprehensive income (note 20c)		<u>-</u>	<u>-</u>	<u>-</u>	<u>2,407,679</u>	<u>29,351</u>	<u>2,437,030</u>
Balances as of December 31, 2013	Ps	<u><u>6,627,890</u></u>	<u><u>644,710</u></u>	<u><u>162,334</u></u>	<u><u>92,724</u></u>	<u><u>-</u></u>	<u><u>7,527,658</u></u>

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

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
At December 31, 2013 and 2012
(Thousands of pesos)

(1) Reporting entity

Axtel, S.A.B. de C.V. ("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 and pay-tv services. A concession is required to provide these services and carry out the related activities, (see notes 5 (j) and 11). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years. The corporate domicile of the Company located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Axtel's primary activities are carried out through different operating entities which are its direct or indirect subsidiaries (collectively with Axtel referred to herein as the "Company").

(2) Significant events

During December 31, 2013, the Company completed the exchange of U.S.\$ 82.5 million and U.S.\$ 32.8 million of unsecured notes due in 2017 and 2019, respectively, for U.S.\$ 110 million of secured bonds due in 2020 with the same conditions and interest rates described in the January 2013 exchange mentioned in the following paragraphs. This transaction resulted in a gain of Ps. 30,658 which is presented in the accompanying consolidated statements of comprehensive income. In addition, on December 13 and 26, 2013, the Company closed an offering of additional 2020 Notes for Ps. 26 million and Ps.10 million, additional bonds were issued at a price of 93.75% of their principal value.

According to the unanimous resolutions adopted by the shareholders of Axtel Capital, S. de R.L. de C.V. (Axtel Capital) and Avantel, S. de RL de C.V. (Avantel), on February 15, 2013 the merger of Axtel Capital (as the merger company), with Avantel (as the merging company), the merger became effective as of February 27, 2013 and has no impact on operations at the consolidated level.

On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.\$ 249 million. This transaction resulted in a gain of Ps.3,111,948 which is presented as operating income in the accompanying condensed consolidated statement of comprehensive income. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net yearly cost of approximately U.S.\$ 20 million.

Simultaneously, the Company completed the exchange of U.S.\$ 142 and U.S.\$ 355 million of unsecured notes due in 2017 and 2019, respectively, for U.S.\$ 249 and U.S.\$ 22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate of 7% which will be increase to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S. \$83 million to participating holders. Holders of the convertible notes may elect to convert their Convertible Dollar-Indexed Notes Into ADSs of CPOs at any time after 120th calendar day following the issue date and prior to the close of business on the fourth business day immediately preceding the maturity date for the convertible notes, or at the election of the Company such conversion may be settled in cash. This transaction resulted in a gain of Ps.1,538,325 which is presented in other income in the accompanying condensed consolidated statements of comprehensive income.

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

Additionally, the Company performed the full payment of the remaining balance of the syndicated loan, interest and related derivative transactions, amounting approximately U.S.\$ 88 million.

(3) Consolidation of financial statements

The consolidated financial statements include those of Axtel, and those of the entities over which it exercises control on the financial and operating policies. The subsidiaries included in the consolidated interim financial statements are presented as follows:

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

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

(4) Basis of preparation**a) Statement of compliance**

This consolidated financial statements has been prepared in accordance with the International Financial Reporting Standards (IFRS).

This consolidated financial statements was authorized for issue by the Company's Director of Administration and Human Resources on February 28, 2014.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except for certain financial instruments. The historical cost is generally based on the fair value of the consideration granted in exchange of the related assets.

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

c) Functional and presentation currency

These consolidated financial statements are presented in Mexican pesos, which is the Company's functional currency. All financial information presented in 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.

d) Presentation of the consolidated statement of comprehensive income

The Company has elected to analyze expenses recognized in profit and loss based on functions, as the Company believes that in this way the information presented is reliable and more relevant.

(5) Significant accounting policies

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

a) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months.

b) Restricted cash

The Company restricted cash as of December 31, 2012, presented in the consolidated statements of financial position, amounted to Ps.10,709, derived from various financial instrument contracts mentioned in note 7 and the syndicated loan mentioned in note 14.

c) Financial assets

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

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

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

Financial assets are classified within the following specific categories: "financial assets at fair value with changes through profit or loss," "investments held to maturity", "assets available for sale" "loans and accounts payable." The classification depends on the nature and purpose thereof and is determined upon initial recognition.

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

Financial assets valued at fair value through profit or loss

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or that are not classified in any of the previously mentioned categories and do qualify as held-to-maturity investments. Available-for-sale financial assets are recognized initially at their fair value plus any costs directly attributable to the transaction. After initial measurement, available-for sale financial assets are valued at their fair value and the unrealized gains or losses are recognized as a separate item in the other comprehensive income in the stockholders' equity within other comprehensive income. When the available-for-sale financial assets are sold, all previous fair value adjustments recognized directly in the other comprehensive income in the stockholders' equity are reclassified to the consolidated statements of comprehensive income.

Receivables

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as "Receivables". Receivables are valued at amortized cost using the effective interest rate method, less any impairment losses. Interest income is recognized applying the effective interest rate method.

Effective interest method

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

Write-off of financial assets

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

d) Impairment of financial instruments

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

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

Financial assets carried at amortized cost

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

Available-for-sale financial instruments

If an available-for-sale asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated interim statement of comprehensive income, is reclassified from comprehensive income or loss in stockholders' equity to the consolidated statement of comprehensive income. For equity instruments classified as available-for-sale, if there is a significant or prolonged decline in their fair value to below acquisition cost, impairment is recognized directly in the consolidated statement of comprehensive income but subsequent reversals of impairment are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of comprehensive income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

e) Derivative financial instrumentsHedging instruments

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

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Cash flow hedges

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

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

Embedded derivatives

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

f) Fair value of financial instruments

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

g) Inventories and cost of sales

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

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

h) Investments in associates and joint ventures and other equity investments

Investments in associates are those in which significant influence is exercised on their administrative, financial and operating policies.

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Such investments are initially valued at acquisition cost, and subsequently, using the equity method, the result thereof is recognized on profit and loss.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost as their fair value is not reliably determinable.

i) Property, systems and equipment

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

Depreciation is calculated using the straight line method based on the value of the assets and their estimated useful life, which is periodically reviewed by the Company's management.

Depreciation

The estimated useful lives of the Company's assets property, systems and equipment are as follows:

	<u>Useful lives</u>
Building	25 years
Computer and electronic equipment	3 years
Transportation equipment	4 years
Furniture and fixtures	10 years
Network equipment	6 a 28 years
Leasehold improvements	5 a 14 years

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Subsequent costs

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

Decommissioning and remediation obligations

The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalized the associated cost as a component of the related asset. Adjustments to such obligations resulting from changes in the expected cash flows are added to, or deducted from, the cost of the related asset in the current period, except to the extent that the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

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Borrowing costs

Borrowing costs directly related to the acquisition, construction or production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. Yields obtained from the temporary investment of funds from specific loans to be used in qualifying assets are deducted from costs for loans subject to capitalization. All other borrowing costs are recognized in profits and losses during the period in which they were incurred.

j) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight line method during the period in which the economic benefits are expected to be obtained. Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

As a consequence of the acquisition of Avantel, the Company identified and recognized the following intangible assets: trade name, customer relationships and concession rights (see note 11). At December 31, 2013 and 2012, the values of the trade name and of customer relationships were totally amortized.

k) Impairment of non-financial assets

The Company reviews carrying amounts of its tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU). Intangible assets with indefinite useful lives are subject to impairment tests at least every year, and when there is an indicator of impairment.

The recoverable amount is the higher of fair value less its disposal cost and value in use. In assessing value in use, estimated future prices of different products are used to determine estimated cash flows, discount rates and perpetuity growth. Estimated future cash flows are discounted to their fair value using a pre-tax discount rate that reflects market conditions and the risks specific to each asset for which estimated future cash flows have not been adjusted.

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

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

l) Non-current assets held for sale

Non-recurrent assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This means that the asset is available for immediate sale and its sale is highly probable. A non-current asset classified as held for sale is measured at the lower of its fair value less cost to sell and its carrying amount. Any impairment loss for write-down of the asset to fair value less costs to sell is recognized in the statement of comprehensive income.

m) Financial liabilitiesInitial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Leases

Leases are classified as financial leases when under the terms of the lease, the risks and benefits of the property are substantially transferred to the lessee. All other leases are classified as operating leases.

The Company as a lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

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o) Provisions

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

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

p) Employee benefitsShort-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

q) Statutory employee profit sharing

In conformity with Mexican labor law, the Company must distribute the equivalent of 10% of its annual taxable income as employee statutory profit sharing. This amount is recognized in the consolidated statement of comprehensive income.

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r) Income taxesCurrent income taxes

The tax currently payable is based on taxable profit for the year, which for companies in Mexico is comprised of the regular income tax (ISR) and the business flat tax (IETU). Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

The recognition of deferred tax assets and liabilities reflects the tax consequences that the Company expects at the end of the period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax is recognized on temporary differences between the book and tax values of assets and liabilities, including tax loss benefits. Deferred tax assets or liabilities are not recognized if temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences related to with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax for the year are recognized in profit or loss, except where they are related to items recognized in the "Other comprehensive income" line item in the stockholders' equity, in which case the current and deferred taxes are recognized in the stockholders' equity.

s) 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 over the average contract life.
- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* – At the moment when the client receives the service.

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t) Earnings per share

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

u) Segments

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

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

In applying accounting policies, the Company's management use judgments, estimates and assumptions on certain amounts of assets and liabilities in the consolidated financial statements. Actual results may differ from such estimates.

Underlying estimates and assumptions are reviewed regularly.

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

- a) Useful lives of property, systems, and equipment - The Company reviews the estimated useful life of property, systems and equipment at the end of each annual period. The degree of uncertainty related to the estimated useful lives is related to the changes in market and the use of assets for production volumes and technological development.
- b) Impairment of non-financial assets - When testing assets for impairment, the Company requires estimating the value in use assigned to property, systems and equipment, and cash generating units. The calculation of value in use requires the Company to determine future cash flows generated by cash generating units and an appropriate discount rate to calculate the present value thereof. The Company uses cash inflow projections using estimated market conditions, determination of future prices of products and volumes of production and sale. Similarly, for discount rate and perpetuity growth purposes, the Company uses market risk premium indicators and long-term growth expectations of markets where the Company operates.
- c) Allowance for doubtful accounts - The Company uses estimates to determine the allowance for doubtful accounts. The factors that the Company considers to estimate doubtful accounts are mainly the customer's financial situation risk, unsecured accounts, and considerable delays in collection according to the credit limits established.
- d) Contingencies - The Company is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of occurrence probability. The factors considered in these estimates are the current legal situation as of the date of the estimate, and the external legal advisors' opinion.

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- e) Decommission and remediation provision - The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalizes the associated cost as a component of the related asset.
- f) Deferred tax assets - Deferred tax assets are recognized for the tax loss carry forwards to the extent management believes it is recoverable through the generation of future taxable income to which it can be applied.
- g) Financial instruments recognized at fair value - In cases where fair value of financial assets and liabilities recorded in the consolidated financial statement do not arise from active markets, their fair values are determined using assessment techniques, including the discounted cash flows model. Where possible, the data these models are supplied with are taken from observable markets, otherwise a degree of discretionary judgment is required to determine fair values. These judgments include data such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors may affect the amounts of fair values advised for financial instruments.
- h) Leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(7) Financial instruments*Categories of financial instruments*

	<u>2013</u>	<u>2012</u>
<i>Financial assets</i>		
Cash and cash equivalents	Ps 1,292,263	597,201
Restricted cash	-	10,709
Accounts receivables	2,981,732	2,406,764
Fair value through profit or loss	142,200	88,419
<i>Financial liabilities</i>		
Derivative financial instruments	116,658	46,532
Long-term debt	7,864,319	11,466,614
Accounts payable and accrued liabilities	2,741,308	2,404,471

(a) Financial risk management objectives

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

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The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Compliance with policies and exposure limits is reviewed by the Company's management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(b) Market and interest rate risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2013 and 2012, are as follows:

	(Thousands of US dollars)	
	<u>2013</u>	<u>2012</u>
Current assets	68,719	62,082
Current liabilities	(106,615)	(124,903)
Non-current liabilities	<u>(574,480)</u>	<u>(817,765)</u>
Foreign currency liabilities, net	<u><u>(612,376)</u></u>	<u><u>(880,586)</u></u>

The U.S. dollar exchange rates as of December 31, 2013 and 2012 were Ps. 13.07 and Ps. 13.01, respectively. As of February 28, 2014, the exchange rate was Ps. 13.29.

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates, because it borrows funds at both fixed and floating interest rates and has contracted principal and interest payments in US dollars. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of cross currency interest rate swap contracts (CCS) and currency swap contracts (CS). Hedging activities are evaluated regularly to align with exchange rate and interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

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

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

US\$ 100 Million Syndicated loan Cross Currency Swaps (CCS)

During November 2011, the Company closed a syndicated loan of up to the equivalent of US \$ 100 million. This loan is divided in two tranches, one in pesos amounting to Ps. 512,373,031 and the other in US dollar amounting to US \$62,117,156. As of December 31, 2012 US\$ 53.3 million (equivalent to Ps. 693 million) and Ps. 365 million have been utilized, of which approximately Ps. 246 million remains unutilized. The Company decided to hedge an increase in interest rates and exchange rate risks (devaluation of the peso versus the U.S. dollar) associated with the entire portion of principal and interest of the syndicated loan by entering into Cross Currency Swaps (CCS) with Credit Suisse and Banorte – IXE. The CCSs has been designated as a cash flow hedge for accounting purposes.

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As mentioned in note 2, at January 31, 2013 the Company paid in full the remaining balance of the syndicated loan, interest and related derivative transactions.

				Fair Value Liability	
<u>Counterparty</u>	<u>Notional Amount</u>	<u>Terms</u>	<u>2013</u>	<u>2012</u>	
	Ps464				
Credit Suisse	US\$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	Ps -	(40,299)	
	Ps128				
Ixe	US\$10	Pays fixed rate in pesos of 11.11% and receives LIBOR + 400	Ps -	(6,233)	

For the year ended December 31, 2012, the change in the fair value of the CCSs amounted to an unrealized loss of Ps. 41,165. This loss was recognized within other comprehensive income in the stockholders equity, net of deferred taxes of Ps. 12,350.

In February 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US\$100 million of the US\$275 million senior notes, for the period between February and August 2015. In May of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.16,802 as a gain within the statement of comprehensive income.

During January and March of 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US\$200 million of the US\$300 million senior notes, for the period between March and September of 2015. In June of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.79,206 as a loss within the statement of comprehensive income.

(c) Market and interest rate sensitivity analysis**Exchange rate sensitivity analysis**

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

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

If the Peso strengthens 10% against the US dollar, the profit for the year ended December 31, 2013 and equity would increase by Ps. 738,036.

If the Peso weakens 10% against the US dollar, profit for the year ended December 31, 2013 and equity would decrease by Ps. 811,840.

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(d) Embedded derivatives

As mentioned in note 2, on January 31, 2013, the Company completed the exchange of U.S.\$142 and U.S.\$335 million of unsecured notes due in 2017 and 2019, respectively, for U.S.\$249 and U.S.\$22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate initial of 7% which will be increased to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S.\$ 83 million to participating holders.

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

The following summarize the accounting for the convertible notes and the embedded derivative arising from the conversion option (thousands of US \$):

Convertible notes - liability**2013**

Face value	U.S.\$	22,189
Options converted		(154)
		<u>22,035</u>
Fair value of conversion option recognized as a derivative financial instrument		(9,738)
Accreted interest		<u>1,275</u>
Carrying amount of convertible notes at December 31, 2013	U.S.\$	<u>13,572</u>

Convertible notes - derivative financial instrument**2013**

Fair value of conversion option at issuance date	U.S.\$	9,738
Gain in change of fair value for the period		(817)
Fair value of conversion option at December 31, 2013	U.S.\$	<u>8,921</u>

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(e) Other price risks (equity price risk)

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

<u>Counterparty</u>	<u>Notional amount</u>	<u>Terms</u>	<u>Fair value</u> <u>Asset (Liability)</u>	
			<u>2013</u>	<u>2012</u>
Bank of America Merrill Lynch	30,384,700 CPOs	La Compañía recibe en efectivo el valor de Mercado del notional	Ps 142,200	Ps 88,419

For the year ended December 31, 2013 and 2012 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.53,781 and (Ps.46,793), respectively, recognized in the financial cost, net.

(f) Equity price risk sensitivity analysis

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

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

- profit and equity for the year ended December 31, 2013 and 2012 would increase by Ps. 14,220 and Ps. 8,842, respectively.

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

- profit and equity for the year ended December 31, 2013 and 2012 would decrease by Ps.12,927 and Ps. 8,038, respectively.

(g) Credit risk management

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

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

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

Company A represented 10%, and 15% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2013 and 2012 were 0% and 3%, respectively.

Company B represented 9%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2013 and 2012 were 3% and 0%, respectively.

Company C represented 8%, and 0% of the Company's accounts receivable as of December 31, 2013 and 2012, respectively. Additionally, revenues associated with Company C for the year ended December 31, 2013 and 2012 were 2% and 0%, respectively.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

(h) Liquidity risk management

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

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

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

		<u>Less than 1 year</u>	<u>1-2 years</u>	<u>2-3 years</u>	<u>3-4 years</u>	<u>4-5 years</u>	<u>5+ years</u>
December 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		179,171	-	-	-	-	-
	Ps	<u>921,836</u>	<u>765,942</u>	<u>773,482</u>	<u>1,346,515</u>	<u>611,927</u>	<u>7,634,415</u>
December 31, 2012							
Variable interest rate instruments	Ps	181,921	408,763	373,370	6,466	15	-
Fixed interest rate instruments		949,927	890,272	873,577	849,231	4,424,371	7,522,440
Capacity lease		179,171	179,171	-	-	-	-
	Ps	<u>1,311,019</u>	<u>1,478,206</u>	<u>1,246,947</u>	<u>855,697</u>	<u>4,424,386</u>	<u>7,522,440</u>

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

(i) Fair value of financial instruments

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

	<u>December 31, 2013</u>		<u>December 31, 2012</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial liabilities				
<i>Financial liabilities held at amortized cost:</i>				
U.S. \$275 million Senior Unsecured Notes	659,029	598,069	3,577,778	1,842,555
U.S. \$490 million Senior Unsecured Notes	1,330,272	1,063,819	6,374,949	3,378,723
U.S. \$394.6 million Senior Secured Notes	5,160,680	4,889,744	-	-
U.S. \$22.2 million Senior Secured Convertible Notes	177,481	177,481	-	-
Syndicated loan	-	-	1,057,925	964,663
Other long-term financing	407,965	400,139	251,179	225,166
Capacity lease	168,554	172,397	318,984	327,442

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

December 31, 2013			
Level 1	Level 2	Level 3	Total
<i>Financial assets</i>			
Zero strike calls	142,200	-	142,200
<i>Financial liabilities</i>			
Derivative financial liabilities	-	116,658	116,658
December 31, 2012			
Level 1	Level 2	Level 3	Total
<i>Financial assets</i>			
Zero strike calls	88,419	-	88,419
<i>Financial liabilities</i>			
Derivative financial liabilities	-	46,532	46,532

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(8) Accounts receivable

Accounts receivable consist of the following:

		<u>2013</u>	<u>2012</u>
Trade accounts receivable	Ps	5,388,862	4,614,301
Less allowance for doubtful accounts		<u>2,407,130</u>	<u>2,207,537</u>
Trade accounts receivable, net	Ps	<u><u>2,981,732</u></u>	<u><u>2,406,764</u></u>

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2013 and 2012.

Movement in the allowance for doubtful accounts.

		<u>2013</u>	<u>2012</u>
Opening balance	Ps	2,207,537	2,007,078
Allowance for the year		199,524	201,473
Effect of exchange rate		<u>69</u>	<u>(1,014)</u>
Balances at period end	Ps	<u><u>2,407,130</u></u>	<u><u>2,207,537</u></u>

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

Aging of impaired trade receivables:

		<u>2013</u>	<u>2012</u>
30 - 60 days	Ps	-	35,418
60 - 90 days		22,130	31,282
90 - 120 days		26,054	42,719
120 + days		<u>2,358,946</u>	<u>2,098,118</u>
Total	Ps	<u><u>2,407,130</u></u>	<u><u>2,207,537</u></u>

Aging of past due but not impaired

		<u>2013</u>	<u>2012</u>
Current	Ps	1,260,468	1,112,877
1 - 30 days		139,769	203,513
30 - 60 days		201,352	65,596
60 - 90 days		22,322	31,980
90 + days		<u>518,901</u>	<u>419,299</u>
Total	Ps	<u><u>2,142,812</u></u>	<u><u>1,833,265</u></u>

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(9) Inventories

Inventories consist of the following:

		<u>2013</u>	<u>2012</u>
Routers	Ps	10,322	17,209
Installation material		19,043	19,836
Network spare parts		10,835	13,622
Tools		8,890	10,864
Telephones and call identification devices		6,417	13,734
Other		50,806	30,206
Total inventories	Ps	<u>106,313</u>	<u>105,471</u>

(10) Property, systems and equipment

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	430,990	3,040,278	378,071	215,919	27,424,110	417,957	2,536,711	34,444,036
Additions		-	247	2,814	2	572,753	-	1,481,933	2,057,749
Transfer of completed projects in progress		-	235,402	25,095	5,178	2,411,698	7,190	(2,684,563)	-
Transfer to assets held for sale		-	-	-	-	(817,077)	-	-	(817,077)
Disposals		-	(26)	(10,569)	-	(21,307)	-	-	(31,902)
Balance as of December 31, 2012		430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806
Additions		-	579	24,301	143	682,033	-	1,659,608	2,366,664
Transfer of completed projects in progress		-	105,617	988	19,903	2,004,020	4,465	(2,134,993)	-
Reclassification of transfer to assets held for sale		-	-	-	-	240,451	-	-	240,451
Disposals		-	-	(32,987)	(76)	(78,787)	-	-	(111,850)
Balance as of December 31, 2013	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071

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Depreciation and impairment		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	107,512	1,129,025	221,955	149,454	17,153,898	259,169	-	19,021,013
Depreciation of the year		14,286	101,517	76,790	14,063	2,776,095	38,459	-	3,021,210
Assets held for sale		-	-	-	-	(356,615)	-	-	(356,615)
Disposals		-	-	(9,588)	-	(21,208)	-	-	(30,796)
Balance as of December 31, 2012		121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Depreciation of the year		14,286	128,810	64,089	14,752	2,914,961	30,356	-	3,167,254
Disposals		-	-	(31,752)	-	(14,385)	-	-	(46,137)
Reclassification of transfer to assets held for sale		-	-	-	-	184,955	-	-	184,955
Balance as of December 31, 2013	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Property, systems and equipment, net at December 31, 2012	Ps	309,192	2,045,359	106,254	57,582	10,018,007	127,519	1,334,081	13,997,994
Property, systems and equipment, net at December 31, 2013	Ps	294,906	2,022,745	66,219	62,800	9,780,193	101,628	858,696	13,187,187

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

During the year ended December 31, 2013 and 2012 the Company capitalized Ps. 34,461 and Ps. 61,399, respectively of borrowing costs in relation to Ps. 492,996 and Ps. 716,915 in qualifying assets. Amounts were capitalized based on a capitalization rate of 9.28% and 8.57%, respectively.

For the year ended December 31, 2013 and 2012 interest expenses are comprised as follows:

		<u>2013</u>	<u>2012</u>
Interest expense	Ps	(916,915)	(1,118,912)
Amount capitalized		34,461	61,399
Net amount in consolidated statements of comprehensive income	Ps	<u>(882,454)</u>	<u>(1,057,513)</u>

As of December 31, 2013, certain financial leases amounting to approximately Ps. 23 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2013 and 2012, amounts to Ps. 3,167,254 and Ps. 3,021,210, respectively.

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Non-current assets held for sale

At December 31, 2012, some of the communication towers of the Company were presented as assets held for sale due to a formal plan to sell these assets. Assets held for sale amounted to Ps. 460,462 less liabilities (decommissioning and remediation obligations) of Ps. 281,808.

On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.\$ 249 million. This transaction resulted in a gain of Ps. 3,111,948 which is presented as operating income in the accompanying condensed consolidated statement of comprehensive income. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net yearly cost of approximately U.S.\$ 20 million.

(11) Intangible assets

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastruct ure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2012	Ps	571,520	110,193	58,982	21,045	30,030	73,169	864,939
Additions		-	-	-	-	-	14,161	14,161
Balances as of December 31, 2012		571,520	110,193	58,982	21,045	30,030	87,330	879,100
Disposals		-	-	-	-	-	(14,161)	(14,161)
Balances as of December 31, 2013	Ps	571,520	110,193	58,982	21,045	30,030	73,169	864,939

		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastruct ure costs	World Trade Center concession rights	Rights of use	Others	Total
Depreciation and impairment								
Balance as of January 1, 2012	Ps	366,624	50,088	30,418	9,338	14,451	68,525	539,444
Amortization		30,307	10,018	4,080	1,672	2,886	2,071	51,034
Balances as of December 31, 2012	Ps	396,931	60,106	34,498	11,010	17,337	70,596	590,478
Amortization		30,307	10,018	4,080	1,672	2,886	1,706	50,669
Balances as of December 31, 2013	Ps	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Intangible assets, net at December 31, 2012	Ps	174,589	50,087	24,484	10,035	12,693	16,734	288,622
Intangible assets, net at December 31, 2013	Ps	144,282	40,069	20,404	8,363	9,807	867	223,792

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Concessions rights of the Company

The main concessions of the Company are as follows:

- Concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- 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 in 2006, the Company recorded certain intangible assets such as: trade name "Avantel", customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2013 the values of the trade name "Avantel" and of customer relationships were totally amortized

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(12) Investments in associates and joint ventures and other equity investments

As of December 31, 2013, the investment in shares of associated company through Avantel, S. de R.L. de C.V. is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to Ps. 11,640. 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.

During 2011 the Company recognized an impairment regarding its investments in Opanga Networks and Eden Rock Communications for Ps. 17,798 and Ps. 16,735, respectively.

	<u>Ownership</u>		<u>Investment amount</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Conectividad Inalámbrica 7GHZ, S. de R.L.	50%	50%	11,640	9,647
Opanga Networks	19.8%	19.8%	17,798	17,798
Eden Rock Communications	10.5%	10.5%	16,735	16,735
			46,173	44,180
Less impairment			(34,533)	(34,533)
Total investments			<u>11,640</u>	<u>9,647</u>

Conectividad Inalámbrica 7GHZ, S. de R.L

	<u>2013</u>	<u>2012</u>
Total assets	Ps 23,279	20,791
Total liabilities	-	1,497
Net assets	23,279	19,294
Share of net assets of associates	11,640	9,647
Net income (loss) for the period	<u>3,984</u>	<u>(40)</u>
Share of loss of associates accounting by the equity method	Ps <u>1,992</u>	<u>(20)</u>

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(13) Other assets

Other assets consist of the following:

		<u>2013</u>	<u>2012</u>
Long-term prepaid expenses	Ps	208,307	170,633
Account receivable Telmex (see note 24(b))		-	47,395
Guarantee deposits		45,634	47,631
Advances to suppliers		10,314	10,419
Other		<u>11,086</u>	<u>18,519</u>
Other assets		275,341	294,597
Current portion of other assets		<u>130,492</u>	<u>141,439</u>
Other long-term assets	Ps	<u><u>144,849</u></u>	<u><u>153,158</u></u>

(14) Long-term debt

Long-term debt as of December 31, 2013 and 2012 consist of the following:

		<u>2013</u>	<u>2012</u>
U.S. \$275 in aggregate principal amount of 7 ⁵ / ₈ % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S.\$ 224.6 and U.S.\$ 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.\$ 358.6 and U.S.\$ 22 million dollars on an insured bond and a convertible bond.	Ps	659,029	3,577,778
U.S.\$ 490 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S.\$ 224.6 and U.S.\$167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.\$ 358.6 and U.S.\$ 22 million dollars on an insured bond and a convertible bond.		1,330,272	6,374,949
Senior Secured Notes in a principal amount of U.S.\$394.6 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		5,160,680	-
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S.\$22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		177,481	-
Discount on note caused by Senior Secured Notes payable in the amount of U.S. \$ 36 million at an initial interest rate of 7% will increase to 9% due 2020		(28,994)	-

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Premium on Senior Unsecured Notes with an aggregate principal of U.S.\$490 million with an interest rate of 9%, due in 2019.	7,444	42,096
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, 2012 U.S.\$53.3 million and Ps. 364.7 million have been utilized.	-	1,057,925
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 of approximately Ps. 484,000 payable monthly.	168,554	318,984
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.	407,965	251,179
Debt issuance and deferred financing costs	<u>(18,112)</u>	<u>(156,297)</u>
Total long-term debt	7,864,319	11,466,614
Less current maturities	<u>308,945</u>	<u>411,969</u>
Long-term debt, excluding current maturities	Ps <u>7,555,374</u>	<u>11,054,645</u>

Annual installments of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
2015	Ps 112,179
2016	104,655
2017	707,988
2018	1,781
2019 and thereafter	<u>6,628,771</u>
	Ps <u>7,555,374</u>

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

For the year ended December 31, 2013 and 2012, the interest expense was Ps. 916,915 and Ps. 1,118,912 respectively. (see note 10).

During December 31, 2013, the Company completed the exchange of U.S.\$ 82.5 million and U.S.\$ 32.8 million of unsecured notes due in 2017 and 2019, respectively, for U.S.\$ 110 million of secured bonds due in 2020 with the same conditions and interest rates described in the January 2013 exchange mentioned in the following paragraphs, this transaction resulted in a gain of Ps. 30,658 which is presented in the accompanying consolidated statements of comprehensive income. In addition, on December 13 and 26, 2013, the Company closed an offering of additional 2020 Notes for U.S.\$ 26 million and U.S.\$ 10 million, additional bonds were issued at a price of 93.75% of their principal value.

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At January 31, 2013, the Company completed the exchange of U.S.\$ 142 and U.S.\$ 355 million of unsecured notes due in 2017 and 2019, respectively, for U.S.\$ 249 and U.S.\$ 22 million dollars secured bond and a convertible bond, respectively, both with initial interest rate of 7% which will be increase to 8% in the first anniversary date and to 9% in the second anniversary date, and due in 2020, plus a cash payment of U.S.\$ 83 million to participating holders. Holders of the convertible notes may elect to convert their Convertible Dollar-Indexed Notes Into ADSs of CPOs at any time after 120th calendar day following the issue date and prior to the close of business on the fourth business day immediately preceding the maturity date for the convertible notes, or at the election of the Company such conversion may be settled in cash. This transaction resulted in a gain of Ps.1,538,325 which is presented in other income in the accompanying condensed consolidated statements of comprehensive income.

Additionally, the Company performed the full payment of the remaining balance of the syndicated loan, interest and related derivative transactions, amounting approximately U.S.\$ 88 million.

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 Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount is U.S. \$ 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, 2012 US\$ 53.3 million and Ps. 365 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 THIE+3.0% to THIE+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.

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of December 31, 2013 and February 28, 2014, the Company was in compliance with all covenants contained in its debt agreements.

(15) Other current liabilities

As of December 31, 2013 and 2012, other accounts payable consist of the following:

	<u>2013</u>	<u>2012</u>
Guarantee deposit	Ps 10,314	10,261
Payroll and other liabilities ⁽¹⁾	<u>90,159</u>	<u>96,441</u>
	<u>Ps 100,473</u>	<u>106,702</u>

⁽¹⁾ Payroll and other liabilities mainly include christmas bonus, vacation premium and other benefits.

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(16) Employee benefits

The cost, obligations and other elements of the Company's seniority premium liability for reasons other than restructuring have been determined based on computations prepared by independent actuaries at, December 31, 2013 and 2012. The components of the net periodic cost for the years ended December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Net period cost:			
Current service cost	Ps	2,906	3,527
Interest cost		1,179	1,403
Actuarial gain		-	(7,593)
Amortization of net actuarial loss		-	(453)
		<u> </u>	<u> </u>
Net period cost (benefit)	Ps	<u>4,085</u>	<u>(3,116)</u>

The actuarial present value of benefit obligations of the plans at December 31, 2013 and 2012 are follows:

		<u>2013</u>	<u>2012</u>
Initial balance	Ps	19,452	21,935
Benefits paid		(2,207)	(343)
Current service cost and interest cost		4,085	4,930
Actuarial gain		-	(7,070)
		<u> </u>	<u> </u>
Net projected liability	Ps	<u>21,330</u>	<u>19,452</u>

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its seniority premium benefits is as follows:

		<u>2013</u>	<u>2012</u>
Total present value of obligations	Ps	20,484	18,131
Amendments to plan		-	267
Actuarial (gains) losses		846	1,054
Liability recognized for defined benefit obligation	Ps	<u>21,330</u>	<u>19,452</u>

The most significant assumptions used in the determination of the net periodic cost are the following:

	<u>2013</u>	<u>2012</u>
Discount rate used to reflect the present value of obligations	6.5%	6.5%
Rate of increase in the minimum wage	3.5%	3.5%
Real rate of increase in future salary levels	4%	4%
Average seniority of employees	<u>7.2 years</u>	<u>7.1 years</u>

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(17) Provisions

The Company's provisions as of December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Decommissioning and remediation obligations	Ps	-	281,808
Total	Ps	-	281,808
Current portion of provisions	Ps	-	281,808

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

Decommissioning and remediation obligations

		<u>2013</u>	<u>2012</u>
Initial balance	Ps	281,808	253,129
Cancellation		(281,808)	-
Unwinding of discount and effect of changes in the discount rate		-	28,679
Ending balance	Ps	-	281,808

The Company conducted an analysis of the obligation 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 mentioned in note 2, the Company completed the sale of 883 sites to MATC Digital Telecommunications, S. de R.L. de C.V. ("MATC"), a subsidiary of American Tower Corporation, in the amount of U.S.\$ 249 million, due the above the Company canceled the provision of the obligation associated with the retirement of the sites.

Restructuring provision

		<u>2013</u>	<u>2012</u>
Initial balance	Ps	-	59,855
Additional provisions recognized		-	-
Payments		-	(59,855)
Ending balance	Ps	-	-

In order to implement its strategic plans, the Company has restructured certain of its operations. The cost of restructuring, which consists of compensation and employee severance payments, is included in the statement of comprehensive income as component of operating income.

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(18) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2013 and 2012 are as follows:

		<u>2013</u>	<u>2012</u>
Banamex:			
Telecommunication service revenues	Ps	584,759	514,287
Commission and administrative services		8,253	14,176
Interest expense		<u>21,202</u>	<u>28,795</u>
Other related parties:			
Rent expense	Ps.	37,281	39,914
Installation service expense		46,177	32,027
Other		<u>5,211</u>	<u>5,950</u>

The balances with related parties as of December 31, 2013 and 2012, included in accounts payable are as follows:

		<u>2013</u>	<u>2012</u>
Accounts payable short-term:			
GEN Industrial, S.A. de C.V. ⁽²⁾	Ps	58	73
Instalaciones y Desconexiones Especializadas, S.A. de C.V. ⁽²⁾		<u>-</u>	<u>991</u>
Total	Ps	<u>58</u>	<u>1,064</u>

The balances with related parties as of December 31, 2013 and 2012, included in deferred revenues are as follows:

		<u>2013</u>	<u>2012</u>
Deferred revenues short-term:			
Banco Nacional de México, S.A. ⁽¹⁾	Ps	<u>457,478</u>	<u>434,693</u>
Deferred revenues long-term:			
Banco Nacional de México, S.A. ⁽¹⁾	Ps	<u>33,900</u>	<u>33,900</u>

⁽¹⁾ Derived from transactions related to master services agreement signed between the Company and Banamex in November 2006. Under this contract, the Company provides telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico.

⁽²⁾ Mainly rents and other administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2013 and 2012 were as follows:

		<u>2013</u>	<u>2012</u>
Short-term employee benefits paid	Ps	<u>94,584</u>	<u>108,185</u>

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(19) Income tax (IT) and Flat Rate Tax (IETU)

On December 11, 2013, a decree was published in the Official Gazette whereby several tax provisions were amended, supplemented, and repealed. This decree became effective as of January 1, 2014. Upon enactment of a new IT Law, the IETU Law and the IT Law in effect as of December 31, 2013 were repealed

The income tax (expense) benefit is as follows:

	<u>2013</u>	<u>2012</u>
Current income tax	Ps (50,817)	(53,022)
Deferred income tax	<u>(967,321)</u>	<u>226,164</u>
Income tax (expense) benefit	Ps <u>(1,018,138)</u>	<u>173,142</u>

Given that the IETU Law was repealed, as of December 31, 2013, the Company wrote off its deferred IETU assets generated by subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. e Instalaciones y Contrataciones, S.A. de C.V. recording a charge to operations in 2013 in the amount of Ps 190,720. Furthermore, the Company determined its deferred income taxes (IT) as of December 31, 2013, recognizing deferred income tax assets in the amount of Ps 38,159, recording a credit to operations in fiscal year 2013.

According to the IT Law in effect as of December 31, 2013, the IT rate for fiscal years 2013 and 2012 was 30%; for 2014, the rate would be 29%, and for 2015 and thereafter, 28%. The new IT law imposes an IT rate of 30% for 2014 and thereafter.

The IETU rate for 2013 and 2012 was 17.5%.

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

	<u>2013</u>	<u>2012</u>
Statutory income tax rate	30%	30%
Difference between book and tax inflationary effects	3%	9%
Change in valuation allowance	(2%)	(4%)
Non-deductible expenses	(2%)	(8%)
Changes in tax rates	(1%)	4%
IETU effect	-	(11%)
Changes in laws	(7%)	-
Recognition of initial deferred IT on subsidiaries	8%	-
Recognition of the tax effect of tax losses not previously recognized	<u>1%</u>	<u>-</u>
Effective tax rate	<u>30%</u>	<u>20%</u>

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The deferred income taxes are as follows:

		<u>2013</u>	<u>2012</u>
Income tax	Ps	1,101,937	1,890,998
Business flat tax		<u>-</u>	<u>190,720</u>
Deferred income taxes	Ps	<u><u>1,101,937</u></u>	<u><u>2,081,718</u></u>

The main differences that gave rise to the deferred income tax assets as of December 31, 2013 and 2012 are presented below:

		<u>2013</u>	<u>2012</u>
Deferred tax assets:			
Net operating loss carry forwards	Ps	824,229	599,839
Allowance for doubtful accounts		522,188	438,602
Fair value of derivative financial instruments		-	26,073
Accrued liabilities and other provisions		547,230	246,221
Premium on bond issuance		2,233	12,629
Property, systems and equipment		<u>-</u>	<u>661,615</u>
Total deferred tax assets		<u><u>1,895,880</u></u>	<u><u>1,984,979</u></u>
Deferred tax liabilities:			
Telephone concession rights		52,698	55,628
Property, systems and equipment		69,526	-
Long-term debt		549,342	-
Fair value of derivative financial instruments		41,898	-
Intangible and other assets		<u>80,479</u>	<u>38,353</u>
Total deferred tax liabilities		<u><u>793,943</u></u>	<u><u>93,981</u></u>
Deferred tax assets, net	Ps	<u><u>1,101,937</u></u>	<u><u>1,890,998</u></u>

The subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. and Instalaciones y Contrataciones, S.A. de C.V., were IETU payers. The main differences that generated the deferred IETU asset as of December 31, 2012 in these subsidiaries are detailed below:

		<u>2012</u>
Deferred tax assets:		
Accounts payable	Ps	345,534
Deferred revenues		87,308
Provisions		30,278
Other		<u>17,917</u>
Total deferred tax assets		<u><u>481,037</u></u>
Deferred tax liability:		
Accounts receivable		271,628
Telephone concession rights		9,854
Property, systems and equipment		7,219
Other		<u>1,616</u>
Total deferred tax liability		<u><u>290,317</u></u>
Net deferred tax assets	Ps	<u><u>190,720</u></u>

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The roll forward for the net deferred tax asset as of December 31, 2013 and 2012 are presented below:

		2012	Effects on profit and loss	Effects on stockholders' equity	2013
Net operating loss carry forwards	Ps	599,839	224,390	-	824,229
Allowance for doubtful accounts		438,602	83,586	-	522,188
Fair value of derivative financial instruments		26,073	(13,613)	(12,460)	-
Accrued liabilities and other provisions		246,221	301,009	-	547,230
Premium on bond issuance		12,629	(10,396)	-	2,233
Deferred IETU		190,720	(190,720)	-	-
Property, systems and equipment		661,615	(731,141)	-	(69,526)
Telephone concession rights		(55,628)	2,930	-	(52,698)
Long-term debt		-	(549,342)	-	(549,342)
Fair value of derivative financial instruments		-	(41,898)	-	(41,898)
Intangible and other assets		(38,353)	(42,126)	-	(80,479)
	Ps	<u>2,081,718</u>	<u>(967,321)</u>	<u>(12,460)</u>	<u>1,101,937</u>

		2011	Effects on profit and loss	Effects on stockholders' equity	2012
Net operating loss carry forwards	Ps	700,066	(100,227)	-	599,839
Allowance for doubtful accounts		345,348	93,254	-	438,602
Fair value of derivative financial instruments		(37,459)	61,370	2,162	26,073
Accrued liabilities and other provisions		166,688	79,533	-	246,221
Premium on bond issuance		14,500	(1,871)	-	12,629
Deferred IETU		122,060	68,660	-	190,720
Property, systems and equipment		637,900	23,715	-	661,615
Telephone concession rights		(63,215)	7,587	-	(55,628)
Intangible and other assets		(32,496)	(5,857)	-	(38,353)
	Ps	<u>1,853,392</u>	<u>226,164</u>	<u>2,162</u>	<u>2,081,718</u>

As of December 31, 2013, the tax loss carry forwards and the refundable tax on assets expire as follows:

Year	Tax loss carry forwards	Tax on assets
2014	\$ 30,284	9,326
2015	-	7,579
2016	25,168	10,426
2017	-	36,347
2018	383,254	-
2020	182,114	-
2021	1,848,781	-
2022	561,618	-
2023	554,996	-
	<u>\$ 3,586,215</u>	<u>63,678</u>

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At December 31, 2013, the valuation allowance of deferred tax assets is Ps 515,264, of which Ps 251,635 relate to tax loss carry forwards, Ps 199,951 to estimating doubtful accounts and Ps 63,678 to tax recoverable asset.

(20) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2013, the common stock of the Company is Ps 6,627,890. The Company has 8,776,192,202 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. Of the total shares, 97,750,656 are series A and 8,678,441,546 series B. At December 31, 2013 the Company has issued only Class "I".

		Shares		Amount	
		2013	2012	2013	2012
Authorized and issued capital:					
Series A	Ps	97,750,656	96,636,627	73,396	73,012
Series B		8,678,441,546	8,672,716,596	6,554,494	6,552,524

In connection with the issuance of the convertible bond into shares held on January 31, 2013, and in accordance with the resolutions adopted by the Extraordinary General Meeting of Shareholders on January 25, 2013, the Company issued 972,814,143 Series B shares Class "I" that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible bonds. During the last quarter of 2013 the conversion option was exercised for a total of 5,724,950 Series B shares representing an increase of Ps 1,970 in the capital stock of the Company.

During April 2013 a contribution of capital stock for Ps 384, representing 1,114,029 Series "A", was received.

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.

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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.

(b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps 8,989,419 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 14 establish limitations on dividend payments.

(c) Comprehensive income (loss) income

The balance of other comprehensive income items and its activity as of December 31, 2013 and 2012, is as follows:

		<u>2013</u>	<u>2012</u>
Net income (loss)	Ps	<u>2,407,679</u>	<u>(708,869)</u>
Valuation of the effective portion of derivative financial instruments		41,811	(7,205)
Effect of income tax		<u>(12,460)</u>	<u>2,162</u>
Valuation of the effective portion of derivative financial instruments, net		<u>29,351</u>	<u>(5,043)</u>
Net comprehensive income (loss)	Ps	<u><u>2,437,030</u></u>	<u><u>(713,912)</u></u>

(21) Telephone services and related revenues

Revenues consist of the following:

		<u>2013</u>	<u>2012</u>
Local calling services	Ps	3,208,170	3,619,022
Long distance services		1,139,591	1,236,414
Internet and video		1,043,393	798,656
Data and network		1,860,070	1,997,886
Integrated services and equipment sales		1,884,132	1,493,812
International traffic		763,991	655,328
Other services		<u>387,147</u>	<u>388,614</u>
	Ps	<u><u>10,286,494</u></u>	<u><u>10,189,732</u></u>

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(22) Other expenses, net

Other expenses consists of the following:

		<u>2013</u>	<u>2012</u>
Restructuring cost	Ps	(30,552)	(190,984)
Other, net		<u>(48,292)</u>	<u>(9,003)</u>
	Ps	<u>(78,844)</u>	<u>(199,987)</u>

(23) Commitments and contingencies

As of December 31, 2013, the Company has the following commitments and contingencies:

- (a) **Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007.** On the second quarter of the year 2007, and the first quarter of the year 2008, the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*) (“Cofetel”) ruled interconnection disagreements between the Company and the following mobile carriers: 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”).

With respect to Telcel, the Supreme Court of Justice (*Suprema Corte de Justicia de la Nación*) (“**SCJN**”) decided to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel by means of which it determined the interconnection tariffs for the years 2005 to 2007. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

With respect to Grupo Iusacell, Grupo Telefonica and Unefon, the Company filed an administrative review proceeding, which was resolved on June 19, 2013 by the Cofetel and by means of which it revoked its previous rulings and determined tariffs only for years 2005 to 2007, therefore annulling the tariffs set forth for the period 2008 to 2010. Such tariffs are being contested in an amparo trial. In the new resolutions, Cofetel determined a weighted average tariff, as it had initially done so with Telcel, which can be applied to Grupo Iusacell, Grupo Telefónica and Unefon if the interconnection rate were not applied and their services were being sold at a price below such rate.

The result of the above mentioned proceedings do not create an economic contingency to the Company due to the fact that for years 2005, 2006 and 2007, it paid the interconnection tariffs order by Cofetel in the aforementioned resolutions.

- (b) **Interconnection Disagreements – Mobile Carriers – Years 2008 to 2011.** With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in first instance by the SCT, on the first day of September, 2008, which as mentioned before, arose from a proceeding filed by Axtel. In such ruling, the SCT set the cost based interconnection tariffs of \$0.5465 pesos, \$0.5060 pesos, \$0.4705 and \$0.4179 pesos for the years 2008, 2009, 2010 and 2011, respectively.

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Telcel challenged the resolution issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had no standing to decide on the administrative review proceeding filed by Axtel, and that the Cofetel is the authority that should determine such interconnection tariffs, therefore the Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones*) (“IFT”) will have to set forth the interconnection tariffs applicable between Axtel and Telcel, and consequently, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

With respect to Grupo Telefonica, the Cofetel determined on October 20th, 2010, the interconnection tariffs for Axtel and Grupo Telefonica applicable to the period between 2008 and 2011, which consider the same amounts set forth by the SCT in the ruling issued on September 1, 2008, that is, \$0.5465 pesos per real minute for 2008, \$0.5060 pesos for 2009, \$0.4705 pesos for 2010, and \$0.4179 pesos for 2011.

This ruling was challenged via amparo trial by Grupo Telefonica, and its currently on its first stage. Final ruling on this matter is expected on the year 2014.

With respect to Grupo Iusacell and Unefon, the Cofetel determined the interconnection tariffs for the years of 2008 to 2010 on the second quarter of the year 2009, such determination being challenged by the Company via an administrative review proceeding, which is in the process of being solved by the IFT. As a result, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

As a consequence of the rulings issued by the SCT on September 2008, the Company recognized since August 2008, the interconnection tariff of: \$0.5465 pesos, \$0.5060 pesos, \$0.4705 y \$0.4179 per real minute for Telcel, and of \$0.6032 pesos for the other mobile carriers.

The tariffs that the Company was paying prior to the rulings, was of \$1.3216 pesos per real minute to Telcel, and \$1.21 pesos per rounded minute to the other mobile carriers. As of December 31, 2013, the difference between the amounts paid by the Company according to these tariffs, and the amounts billed by the mobile carriers, amounted to approximately Ps. 2,169 million not including value added tax.

After evaluating the actual status of the foregoing proceedings, and taking into consideration the information available and the information provided by the legal advisors, the Company’s Management consider that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal proceedings, the interests of the Company will prevail.

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

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(Thousands of pesos)

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2013, 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 the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*) requesting the annulment of Cofetel's administrative resolution. The Company (Axtel and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel.

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 traffic. Based on this resolution, the Company paid approximately Ps. 20 million in excess. Telmex challenged the resolution before the Federal Court of Tax and Administrative Justice, and such proceeding is in an initial stage.

On May 2011, the Cofetel issued a ruling resolving an interconnection disagreement proceeding between Telmex and the Company, related to the tariff applicable to the termination of long distance calls from the Company to Telmex, for the year 2011. In such administrative resolution, 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.

Finally, in July 2013, Cofetel ruled on an administrative review proceeding between Telmex and the Company in connection with the tariffs applicable to the termination of long distance calls from the Company to Telmex for the years 2012, 2013 and 2014. In such administrative resolution, Cofetel determined for year 2012, tariffs per minute that go from \$0.02831 to \$0.01007, depending if it is a regional or national node; for year 2013, tariffs that go from \$0.02780 to \$0.00968, depending if it is a regional or national node; and for year 2014, tariffs that go from \$0.02838 to \$0.00968, depending if it is a regional or national node. Telmex challenged this resolution in an amparo trial which is currently in the evidence stage.

As of December 31, 2013, the Company believes that the rates determined by the Cofetel in its resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

As of December 31, 2009, there was a letter of credit for US \$ 34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. As of December 31, 2013, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

- (d) **Tecnocom.** The company Tecnocom Telefonía y Redes de Mexico, S.A. De C.V. ("Tecnocom"), and the Company executed on May 30, 2011 a Services Agreement, under which Tecnocom breached the obligations therein assumed, reason for which the Company executed a letter of credit for US\$1,300,898. Due to the aforementioned, Tecnocom commenced a mercantile ordinary trial against the Company before the Fifth Concurrent Court located in Monterrey, N.L., claiming the payment of the amounts agreed to be paid under the Services Agreement, for the provision of the services, as well as interests and judicial costs and expenses. This trial is in the stage of evidence. In addition to the aforementioned, Tecnocom commenced another mercantile ordinary trial before the Thirteenth District Court in Civil Matters located in Mexico City, by means of which Tecnocom claims from the Company, the declaration that the requirements for the withdrawal of the aforementioned Letter of Credit were not met, and from the bank that issued the letter of credit, they claim the payment or reimbursement of the letter. Under those claims, the Company promoted a motion requesting a joinder of the trials, due to the fact that Tecnocom filed two different trials before different courts, both of which arise from the same cause and involve the same parties. After evaluating the arguments presented by the parties involved in the trials, and taking into consideration the arguments presented by our legal advisors, the Company's Management considers that at the end of the legal proceedings, the Company's interests shall prevail.
- (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 5,699 and to other service providers amounting to Ps 1,121,748.
- (g) The concessions granted by the Department of Communications and Transportation (SCT) establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.
- (h) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2013 and 2012 amounted to Ps 866,695 and Ps 641,977, respectively.

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

Notes to the Consolidated Financial Statements

(Thousands of pesos)

The annual payments under these leases as of December 31, 2013 are as follows:

		Leases contracts in:	
		Pesos	Dollars
		(thousands)	(thousands)
2014	Ps	65,242	29,843
2015		50,919	27,854
2016		41,135	23,659
2017		30,126	22,480
2018		19,304	20,521
2019 and thereafter		59,183	157,613
	Ps	<u>265,909</u>	<u>281,970</u>

(24) Recently Issued Accounting Standards

The following standards become effective in subsequent periods and management is in the process of assessing their possible impact on its consolidated financial position and results of operations.

Standards and amendments to be adopted in 2015

IFRS 9, "Financial Instruments," issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

The standard requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

EXHIBIT B

ANNUAL REPORT OF THE ACTIVITIES OF THE AUDIT AND CORPORATE
PRACTICES COMMITTEE



INFORME ANUAL DE ACTIVIDADES COMITÉ DE AUDITORÍA Y PRÁCTICAS SOCIETARIAS

12 de Marzo de 2014.

**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 2013.

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 auditoría 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 Dosai, 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 2012 y se analizó con los auditores externos de la Sociedad el dictamen sobre dichos estados financieros, así como las notas a los mismos. Se revisaron también los estados financieros del ejercicio social que concluyó el 31 de Diciembre de 2013 previo a la emisión del presente informe.
- 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 2013, 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 auditoría 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 2013 no se celebraron operaciones significativas con partes relacionadas.
- e) En el ejercicio social del 2013 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