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)

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	Note		2013	2012
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)

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		2013	2012
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
		3,030,999	2,776,545
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		(47,383)	63,420
Cash generated from operating activities		2,634,859	2,272,235
Taxes paid		(75,380)	(68,028)
Net cash from operating activities		2,559,479	2,204,207
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		4,205	(15,075)
Net cash generated from (used in) investing activities		1,050,041	(2,031,298)
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		(77,982)	107,044
Net cash flow used in financing activities		(2,934,097)	(1,002,967)
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		19,639	54,363
Cash and cash equivalents at the end of the year	Ps	1,292,263	597,201

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

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained earnings (Deficit)	Accumulated other comprehensive income	Total stockholders' equity
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)		-	-	-	(708,869)	(5,043)	(713,912)
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)		-	-	-	2,407,679	29,351	2,437,030
Balances as of December 31, 2013	Ps	6,627,890	644,710	162,334	92,724	-	7,527,658

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

(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.

(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.

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.

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.

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 instruments

Hedging 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:

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 assignation 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.

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:

	Useful lives
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.

Borrowing costs

Borrowing costs directly related to the acquisition, construction of 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.

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 is 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 liabilities

Initial 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.

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.

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 benefits

Short-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.

r) Income taxes

Current 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.

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.

(Thousands of pesos)

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 - Lases 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

		2013	2012
Financial assets			
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
Financial liabilities			
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)	
	2013	**2012**
Current assets	68,719	62,082
Current liabilities	(106,615)	(124,903)
Non-current liabilities	(574,480)	(817,765)
Foreign currency liabilities, net	(612,376)	(880,586)

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.

(Thousands of pesos)

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.

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

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)
		22,035
Fair value of conversion option recognized as a derivative financial instrument		(9,738)
Accreted interest		1,275
Carrying amount of convertible notes at December 31, 2013	U.S.$	13,572

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.$	8,921

(Thousands of pesos)

(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:

			Fair value Asset (Liability)			
Counterparty	**Notional amount**	**Terms**		**2013**		**2012**
Bank of America Merrill Lynch	30,384,700 CPOs	La Compañía recibe en efectivo el valor de Mercado del nocional	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.

(Thousands of pesos)

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.

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
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	921,836	765,942	773,482	1,346,515	611,927	7,634,415

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
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	1,311,019	1,478,206	1,246,947	855,697	4,424,386	7,522,440

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
Financial liabilities				
Financial liabilities held at amortized cost:				
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

(Thousands of pesos)

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**

(Thousands of pesos)

(8) Accounts receivable

Accounts receivable consist of the following:

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

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.

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

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:

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

Aging of past due but not impaired

		2013	2012
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		518,901	419,299
Total	Ps	2,142,812	1,833,265

(Thousands of pesos)

(9) Inventories

Inventories consist of the following:

		2013	2012
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	106,313	105,471

(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

(Thousands of pesos)

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:

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

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.

(Thousands of pesos)

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 infrastructure 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

Depreciation and impairment		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
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

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

(Thousands of pesos)

(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.

	Ownership		Investment amount	
	2013	2012	2013	2012
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			11,640	9,647

Conectividad Inalámbrica 7GHZ, S. de R.L

		2013	2012
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		3,984	(40)
Share of loss of associates accounting by the equity method	Ps	1,992	(20)

(Thousands of pesos)

(13) Other assets

Other assets consist of the following:

		2013	2012
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		11,086	18,519
Other assets		275,341	294,597
Current portion of other assets		130,492	141,439
Other long-term assets	Ps	144,849	153,158

(14) Long-term debt

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

		2013	2012
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)	-

(Thousands of pesos)

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		(18,112)	(156,297)
Total long-term debt		7,864,319	11,466,614
Less current maturities		308,945	411,969
Long-term debt, excluding current maturities	Ps	7,555,374	11,054,645

Annual installments of long-term debt are as follows:

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

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.

(Thousands of pesos)

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 TIIE+3.0% to TIIE+4.5% in pesos, according to the leverage of the Company. Interest payments are on a quarterly basis and the purpose of the loan is to strengthen liquidity, capital investments, debt repayment and other corporate general purposes.

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:

		2013	2012
Guarantee deposit	Ps	10,314	10,261
Payroll and other liabilities [1]		90,159	96,441
	Ps	100,473	106,702

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

(Thousands of pesos)

(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:

		2013	2012
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)
Net period cost (benefit)	Ps	4,085	(3,116)

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

		2013	2012
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)
Net projected liability	Ps	21,330	19,452

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:

		2013	2012
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	21,330	19,452

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

	2013	2012
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	7.2 years	7.1 years

(Thousands of pesos)

(17) Provisions

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

		2013	2012
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

		2013	2012
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 whit the retirement of the sites.

Restructuring provision		2013	2012
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.

(Thousands of pesos)

(18) Transactions and balances with related parties

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

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

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

		2013	2012
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]		-	991
Total	Ps	58	1,064

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

		2013	2012
Deferred revenues short-term:			
Banco Nacional de México, S.A. [1]	Ps	457,478	434,693
Deferred revenues long-term:			
Banco Nacional de México, S.A. [1]	Ps	33,900	33,900

(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:

		2013	2012
Short-term employee benefits paid	Ps	94,584	108,185

(Thousands of pesos)

(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:

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

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.

	2013	2012
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	1%	-
Effective tax rate	30%	20%

(Thousands of pesos)

The deferred income taxes are as follows:

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

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

		2013	2012
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		-	661,615
Total deferred tax assets		1,895,880	1,984,979
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		80,479	38,353
Total deferred tax liabilities		793,943	93,981
Deferred tax assets, net	Ps	1,101,937	1,890,998

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:

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

(Thousands of pesos)

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	2,081,718	(967,321)	(12,460)	1,101,937

		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	1,853,392	226,164	2,162	2,081,718

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	-
	$	3,586,215	63,678

(Thousands of pesos)

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.

(Thousands of pesos)

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:

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

(21) Telephone services and related revenues

Revenues consist of the following:

		2013	2012
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		387,147	388,614
	Ps	10,286,494	10,189,732

(Thousands of pesos)

(22) Other expenses, net

Other expenses consists of the following:

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

(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.

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 that go from $0.02780 to $0.00968, depending if it is a regional or national node; and for year 2014, tariffs that 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.

(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.

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

		Leases contracts in:	
		Pesos (thousands)	**Dollars (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	265,909	281,970

(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.