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

Consolidated Financial Statements

December 31, 2012 and 2011 and January 1, 2011

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Blvd. Díaz Ordaz 140 Pte. Piso 8
Col. Santa María
64650 Monterrey, N.L.

Teléfono: + 01 (81) 81 22 18 18
Fax: + 01 (81) 83 33 05 32
kpmg.com.mx

Independent Auditors' Report

(Translation from Spanish Language Original)

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

(Thousands of Pesos)

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, 2012, 2011, and January 1, 2011 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2012 and 2011 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, 2012, 2011 and January 1, 2011 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

As described in note 2, in recent quarters, the Company has experienced declines in revenues and cash flows, and liquidity constraints. Company´s plans to address this situation are listed in Note 2.

As mentioned in notes 24 (b) and 24 (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, 2012, 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 $2,073 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.

Leandro Castillo Parada

February 28, 2013
Monterrey, N. L., México

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Consolidated Statements of Financial Position
(Thousands of Mexican pesos)

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

Assets	**Note**		**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Current assets:					
Cash and cash equivalents	8	$	597,201	1,372,896	1,250,143
Restricted cash	8		10,709	52,127	58,121
Accounts receivable	9		2,406,764	2,018,013	2,240,534
Refundable taxes			91,069	108,679	97,884
Prepaid expenses			52,188	79,580	55,032
Inventories	10		105,471	152,756	165,629
Financial instruments	8		88,419	320,123	271,817
Assets classified as held for sale	11		460,462	-	-
Other current assets	14		141,439	235,401	303,798
Total current assets			3,953,722	4,339,575	4,442,958
Long-term accounts receivable			15,470	17,712	27,346
Property, systems and equipment	11		13,997,994	15,423,023	15,769,472
Intangible assets	12		288,622	325,495	370,772
Deferred income taxes	20		2,081,718	1,853,392	1,628, 471
Investments in associates	13		9,647	9,667	44,341
Other assets	14		153,158	123,090	141,658
Total assets		$	20,500,331	22,091,954	22,425,018
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	2,404,471	2,395,837	2,668,135
Accrued interest			276,043	297,107	261,692
Taxes payable			135,703	168,319	153,733
Short-term debt	8		-	-	280,000
Current maturities of long-term debt	15		411,969	380,880	375,996
Current portion of provisions	18		281,808	59,855	100,000
Deferred revenue	19		631,298	567,878	667,665
Derivative financial instruments	8		46,532	16,888	127,549
Other current liabilities	16		106,702	139,994	98,629
Total current liabilities			4,294,526	4,026,758	4,733,399
Long-term debt	15		11,054,645	11,941,813	9,667,867
Provisions	18		-	253,129	223,824
Other liabilities			9,534	12,233	18,535
Employee benefits	17		19,452	21,935	19,972
Deferred revenue	19		33,900	33,900	33,900
Total liabilities			15,412,057	16,289,768	14,697,497
Stockholders' equity					
Common stock	21		6,625,536	6,625,536	6,625,536
Additional paid-in capital	21		644,710	644,710	644,710
Reserve for repurchase of own shares	21		162,334	162,334	162,334
Retained earnings			(2,314,955)	(1,606,086)	464,040
Accumulated other comprehensive income	21		(29,351)	(24,308)	(169,099)
Total stockholders' equity			5,088,274	5,802,186	7,727,521
Commitments and contingencies	24				
Subsequent events	24 y 27				
Total liabilities and stockholders' equity		$	20,500,331	22,091,954	22,425,018

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, 2012 and 2011
(Thousands of Mexican pesos)

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

	Note	2012	2011
Telephone services and related revenues	22	$ 10,189,732	10,829,405
Operating costs and expenses:			
Cost of revenues and services		(2,854,785)	(2,799,269)
Selling and administrative expenses		(4,596,598)	(4,461,366)
Depreciation and amortization		(3,073,240)	(3,102,824)
Other expenses	23	(199,987)	(419,450)
Operating (loss) income		(534,878)	46,496
Interest expense	11	(1,057,513)	(1,002,580)
Interest income		21,967	22,340
Foreign exchange gain (loss), net		797,630	(1,276,332)
Change in the fair value of financial instruments, net	8	(109,197)	(73,886)
Net finance costs		(347,113)	(2,330,458)
Equity in earnings of associated company	13	(20)	(141)
Loss before income taxes		(882,011)	(2,284,103)
Income taxes:			
Current	20	(53,022)	(73,105)
Deferred	20	226,164	287,082
Total income tax benefit		173,142	213,977
Net loss		$ (708,869)	(2,070,126)
Other comprehensive income items:			
Valuation effects of cash flow hedges, net of income tax	21	(5,043)	144,791
Comprehensive loss		$ (713,912)	(1,925,335)
Weighted average number of common shares outstanding		8,769,353,223	8,769,353,223
Basic loss per share		$ (0.08)	(0.22)

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, 2012 and 2011
(Thousands of Mexican pesos)

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

		2012	2011
Cash flows from operating activities:			
Net loss for the period	$	(708,869)	(2,070,126)
Adjustments for:			
Income tax benefit		(173,142)	(213,977)
Foreign exchange (gain) loss, net		(797,630)	1,276,332
Depreciation		3,021,210	3,028,501
Amortization		52,030	74,323
Impairment loss recognized on trade receivables		201,473	186,695
(Gain) loss on sale of property, system and equipment		(429)	71,493
Allowance for obsolete and slow-moving inventories		21,408	324,409
Share of losses of equity-accounted investees		20	141
Impairment of other permanent investments		-	36,938
Interest expense		1,057,513	1,002,580
Amortization of premium on bond issuance		(6,236)	(6,236)
Fair value gain on financial instruments		109,197	73,886
		2,776,545	3,784,959
Movements in working capital:			
(Increase) decrease in accounts receivable		(482,751)	81,795
Decrease in inventories		47,284	12,873
Decrease in accounts payable		(132,263)	(206,804)
(Increase) decrease in deferred revenue		63,420	(99,787)
Cash generated from operating activities		2,272,235	3,573,036
Taxes paid		(68,028)	(25,245)
Net cash from operating activities		2,204,207	3,547,791
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,016,223)	(2,532,772)
Other investment		-	(2,405)
Other assets		(15,075)	895
Net cash used in investing activities		(2,031,298)	(2,534,282)
Cash flows from financing activities:			
Interest paid		(1,038,846)	(969,724)
Proceeds of bank loans		261,862	964,092
Payments of bank loans		-	(352,000)
Other long terms loans, net		(333,027)	(416,254)
Income (payments) of derivative financial instruments		107,044	(54,738)
Net cash flow from financing activities		(1,002,967)	(828,624)
Net (decrease) increase in cash and cash equivalents		(830,058)	184,885
Cash and cash equivalents at beginning of the year		1,372,896	1,250,143
Effects of exchange rate fluctuations on cash and cash equivalents held		54,363	(62,132)
Cash and cash equivalents at the end of the year	$	597,201	1,372,896

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, 2012 and 2011
(Thousands of Mexican 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	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
Balances as of January 1, 2011	$	6,625,536	644,710	162,334	464,040	(169,099)	7,727,521
Net loss		-	-	-	(2,070,126)	-	(2,070,126)
Other comprehensive income items, net of income tax		-	-	-	-	144,791	144,791
Balances as of December 31, 2011		6,625,536	644,710	162,334	(1,606,086)	(24,308)	5,802,186
Net loss		-	-	-	(708,869)	-	(708,869)
Other comprehensive income items, net of income tax		-	-	-	-	(5,043)	(5,043)
Balances as of December 31, 2012	$	6,625,536	644,710	162,334	(2,314,955)	(29,351)	5,088,274

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

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

(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. A concession is required to provide these services and carry out the related activities, (see notes 6 (j) and 12). 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

On December 4, 2012, the Extraordinary General Meeting of Shareholders authorized to negotiate, incur or execute financing operations and debt restructuring on terms and conditions that management deems appropriate and in according with current market conditions, and is authorized to grant part or all of the tangible and intangible assets, present and / or future of the Company to ensure the financing and restructuring operations.

In recent quarters of 2012, the Company has experienced declines in revenues and cash flows, affecting its liquidity. This situation is negatively impacting the Company´s investment program, thus slowing the Company´s growth. The Company plans to address this situation is as follow:

- reduce operating expenses, through the implementation of different programs such as restructuring corporate structure and reducing workforce, and the not renewal of certain offices space under operating leases,
- pursuing a liability management plan targeting to reduce current long term debt to achieve a more affordable debt level,
- selling of non-strategic assets, through sale and lease back transactions,
- launching different commercial offers and new products that were in developing stages and are ready to begin its commercial launch in the coming quarters.

In order to implement the strategic plans, the Company is restructuring certain operations (see note 18).

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 in order to strengthen liquidity, provide cash flows for future capital investments, debt repayment and other corporate general purposes (see note 15).

(Thousands of Mexican pesos)

(3) International Financial Reporting Standards

Beginning January 1, 2012, the Company adopted the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") as the regulatory base to prepare and present consolidated financial statements.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the Company's first annual consolidated financial statements under these standards. The Company applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, the Company's financial statements have been prepared on the basis of Mexican Financial Reporting Standards ("FRS"). The effects of transition to IFRS are disclosed in note 25.

(4) 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.

(5) Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These are the first annual financial statements prepared in accordance with IFRS and has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The effects of transition to IFRS are disclosed in note 25, and an explanation of how it affected the financial position, financial performance and cash flows reported by the Company are disclosed in note 25.

On February 28, 2013, the Director of Administration and Human Resources of the Company authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except 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.

(6) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2011 for the purposes of the transition to IFRSs, unless otherwise indicated.

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 and 2011 and January 1, 2011, presented in the consolidated statements of financial position, amounted to $ 10,709, $52,127 and $58,121, respectively, derived from various financial instrument contracts mentioned in note 8 and the syndicated loan mentioned in note 15.

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 represent investments with a quoted price in an active market and can therefore be reliably valued at their fair value. 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 and all of the risks and benefits have been transferred to the buyer, 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.

Property, plant and equipment are presented using the cost method foreseen in IAS 16, "Property, Plant and Equipment." 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 to 28 years
Leasehold improvements	5 to 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 12).

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

Deferred income tax is calculated based on management's financial projections according to whether it expects the Company to incur ISR or IETU in the future. 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.

(7) 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.

The critical accounting judgments and key uncertainty sources when applying the estimates performed as of the date of the consolidated financial statements, and that have a significant risk of resulting in an adjustment to the book values of the assets and liabilities during the following financial period are as follows:

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 Mexican 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 income taxes - The Company prepares future cash flows projections to determine whether it will pay ISR or IETU in future periods, in order to estimate the reversal dates for the temporary differences that result in deferred tax assets and liabilities.

g) 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.

h) 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.

i) 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.

(8) Financial instruments

Categories of financial instruments

		December 31, 2012	December 31, 2011	January 1, 2011
Financial assets				
Cash and cash equivalents	Ps	597,201	1,372,896	1,250,143
Restricted cash		10,709	52,127	58,121
Accounts receivables		2,406,764	2,018,013	2,240,534
Fair value through profit or loss		88,419	135,212	216,035
Derivative financial instruments		-	184,911	55,782
Financial liabilities				
Derivative financial instruments		46,532	16,888	127,549
Amortized cost		13,871,085	14,718,530	12,991,998

(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, 2012 and 2011, and January 1, 2011 are as follows:

		(Thousands of US dollars)		
		December 31, 2011	**December 31, 2011**	**January 1, 2011**
Current assets	US$	62,082	117,550	131,409
Current liabilities		(124,903)	(125,882)	(177,566)
Non-current liabilities		(817,765)	(820,471)	(780,642)
Foreign currency liabilities, net	US$	(880,586)	(828,803)	(826,799)

The U.S. dollar exchange rates as of December 31, 2012 and 2011 and January 1, 2011 were Ps. 13.01, Ps. 13.99 and Ps. 12.35, respectively. As of February 28, 2013, the exchange rate was Ps. 12.86.

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 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 $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 as of December 31, 2012. 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 Mexican pesos)

Counterparty	Notional Amount	Terms	December 31, 2012	Fair Value Asset (Liability) December 31, 2011	January 1, 2011
Credit Suisse	Ps.614 US$44.4	Pays fixed rate in pesos of 5.06% and receives LIBOR + 400	-	(1,630)	-
Credit Suisse	Ps.464 US$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	(40,299)	-	-
Ixe	Ps.128 US$10	Pays fixed rate in pesos of 11.11% and receives LIBOR + 400	(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.

U.S. $275 Million Senior Notes Currency Swaps

In August 2007, the Company issued senior unsecured notes for U.S. $275 million at a fixed rate. The Company decided to enter into a CS derivative contract to hedge exchange rate risk (devaluation of the peso versus the U.S. dollar) derived from the senior notes. Under this agreement, the Company will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 3,038 million (notional value) at a fixed annual rate of 8.43%.

The Currency Swap information is as follows:

				Fair Value Asset (Liability)	
Counterparty	Notional Amount	Terms	December 31, 2012	December 31, 2011	January 1, 2011
Credit Suisse	Ps.3,039 US$275	Pays fixed annual rate of 8.43% and receives fixed annual rate in USD of 7.625%	-	18,640	12,688

During October 2010, the Company decided to enter into a CS derivative to hedge the exchange rate derived from the issuance mentioned in the preceding paragraph, for the period between February 2012 and August 2014, under these agreements, the Company will receive and will make the payments listed in the following table:

				Fair Value Asset (Liability)	
Counterparty	Notional Amount	Terms	December 31, 2012	December 31, 2011	January 1, 2011
Credit Suisse	Ps.2,480 US$200	Pays fixed annual rate of 8.16% and receives fixed annual rate in USD of 7.625%	-	50,650	12,623
Citibank	Ps.929 US$75	Pays fixed annual rate of 8.57% and receives fixed annual rate in USD of 7.625%	-	7,638	(5,325)

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.

(Thousands of Mexican pesos)

U.S. $300 and U.S. $190 Million Senior Notes Currency Swaps

In September 2009 and March 2010, the Company issued senior unsecured notes for U.S.$ 300 million and U.S. $190 million, respectively, at a fixed rate. The Company decided to hedge the exchange rate risk derived from these issuances with CS derivative financial instruments as follows (during the last quarter of 2011, the Company cancelled the hedge of U.S. $65 million entered into with Deutsche Bank A.G. and replaced it with Citibank):

				Fair Value Asset (Liability)	
Counterparty	**Notional Amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Credit Suisse	Ps.2,885 US$ 225	Pays fixed rate in pesos of 9.059% and receives fixed rate in USD of 9.00%	-	98,431	30,471
Deutsche Bank	Ps.1,320 US$100	Pays fixed rate in pesos of 10.107% and receives fixed rate in USD of 9.00%	-	(9,754)	(57,880)
Citibank	Ps. 861 US$65	Pays fixed rate in pesos of 9.62% and receives fixed rate in USD of 9.00%	-	7,013	-
Deutsche Bank	Ps.819 US$65	Pays fixed rate in pesos of 9.99% and receives fixed rate in USD of 9.00%	-	-	(19,284)
Merrill Lynch	Ps.658 US$50	Pays fixed rate in pesos of 10.0825% and receives fixed rate in USD of 9.00%	-	(4,154)	(25,143)
Merrill Lynch	Ps.315 US$25	Pays fixed rate in pesos of 9.98% and receives fixed rate in USD of 9.00%	-	2,539	(6,910)
Morgan Stanley	Ps.327 US$25	Pays fixed rate in pesos of 10.080% and receives fixed rate in USD of 9.00%	-	(1,350)	(13,007)

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.

Margins calls and required collateral associated with the Company’s derivative financial instruments are established with the counterparties to the agreement depending on their authorized credit lines. The Company does not operate with counterparties that do not offer reasonable lines of credit. As of, December 31, 2012 and 2011 and January 1, 2010 the Company had Ps.$0, Ps. 28 million (U.S.$2.0) and Ps. 58 million (U.S. $4.7), respectively, held as collateral.

(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.

(Thousands of Mexican pesos)

Peso strengthens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase by Ps.1,041,501.
- equity would increase by Ps.969,032.

Peso weakens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase decrease by Ps.1,145,651.
- equity would decrease by Ps.1,095,470.

Interest rate sensitivity analysis

The Company has completely hedged the interest rate risk associated with its variable rate borrowings through its derivative instrument hedging strategy as described above.

(d) 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**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	Ps 88,419	Ps 135,212	Ps 216,035

For the year ended December 31, 2012 and 2011 the change in the fair value of the Zero Strike Calls resulted in an unrealized loss of Ps.46,793 and Ps.80,823, respectively, recognized in the fair value loss on financial instruments, net, line item.

(e) 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, 2012 and 2011 would increase by Ps. 8,842 and Ps.13,521, respectively.

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

- profit and equity for the year ended December 31, 2012 and 2011 would decrease by Ps.8,038 and Ps.12,292, respectively.

(f) 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 and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management 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 and B, 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 and B 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 15%, 0.2% and 0.1% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2012 and 2011 were 3% and 0%, respectively.

Company B represented 7%, 8% and 6% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2012 and 2011 were 1.9% and 2.7%, 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.

(g) 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, and by matching the maturity profiles of financial assets and liabilities.

(Thousands of Mexican pesos)

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities 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, 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.

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

		Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	Total
December 31, 2012						
Cross currency swaps	Ps	51,555	320,919	290,256	67,783	730,513
	Ps	51,555	320,919	290,256	67,783	730,513

(h) Financing facilities

Short-term debt of Ps. 280,000 associated with the Company's financing facilities as of January 1, 2011 consisted of a revolving unsecured credit agreement with Banamex in Mexican pesos, renewable on a quarterly basis. The interest rate is TIIE + 375 basis points and is due monthly. During November 2011 this loan was paid in full.

(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:

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(Thousands of Mexican pesos)

	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Financial liabilities held at amortized cost:						
U.S. $275 million Senior Unsecured Notes	3,577,778	1,842,555	3,847,360	2,770,099	3,398,203	3,397,863
U.S. $300 million Senior Unsecured Notes	3,903,030	2,068,606	4,197,120	3,189,811	3,707,130	3,561,811
U.S. $190 million Senior Unsecured Notes	2,514,015	1,310,117	2,706,508	2,020,214	2,402,418	2,255,813
Syndicated loan	1,057,925	964,663	838,904	626,645	-	-
Other long-term financing	251,182	225,166	468,245	454,626	549,472	468,375
Capacity lease	318,984	327,442	453,237	467,619	127,642	130,173

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 (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- 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.

(Thousands of Mexican pesos)

- 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, 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**

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	184,911	-	184,911
Zero strike calls	135,212	-	-	135,212
Total	**135,212**	**184,911**	**-**	**320,123**
Financial liabilities				
Derivative financial liabilities	**-**	**16,888**	**-**	**16,888**

	January 1, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	55,782	-	55,782
Zero strike calls	216,035	-	-	216,035
Total	**216,035**	**55,782**	**-**	**271,817**
Financial liabilities				
Derivative financial liabilities	**-**	**127,549**	**-**	**127,549**

(9) Accounts receivable

Accounts receivable consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Trade accounts receivable	Ps	4,614,301	4,025,091	4,059,229
Less allowance for doubtful accounts		2,207,537	2,007,078	1,818,695
Trade accounts receivable, net	Ps	2,406,764	2,018,013	2,240,534

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2012 and 2011 and as of January 1, 2011.

Movement in the allowance for doubtful accounts:

		December 31, 2012	December 31, 2011	January 1, 2011
Opening balance	Ps	2,007,078	1,818,695	1,658,055
Allowance for the year		201,473	186,695	161,860
Effect of exchange rate		(1,014)	1,688	(1,220)
Balances at period end	Ps	2,207,537	2,007,078	1,818,695

(Thousands of Mexican pesos)

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:

		December 31, 2012	December 31, 2011	January 1, 2011
30 - 60 days	Ps	35,418	28,978	30,105
60 - 90 days		31,282	24,871	27,284
90 - 120 days		42,719	27,203	29,642
120 + days		2,098,118	1,926,026	1,731,664
Total	Ps	2,207,537	2,007,078	1,818,695

(10) Inventories

Inventories consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Routers	Ps	17,209	38,552	41,022
Installation material		19,836	24,276	33,723
Network spare parts		13,622	20,796	26,510
Tools		10,864	13,332	15,261
Telephones and call identification devices		13,734	9,122	11,024
Other		30,206	46,678	38,089
Total inventories	Ps	105,471	152,756	165,629

(11) Property, systems and equipment

Property, systems and equipment are as follows:

Cost	Land and Building	Computer and electronic equipment	Transport-ation equipment	Furnitur e and fixtures	Network equipment	Leasehold improvements	Constructio n in progress	Total
Balance as of January 1, 2011	430,990	2,717,392	355,631	207,057	26,312,273	391,134	2,088,815	32,503,292
Additions	-	163	7,635	797	536,424	179	2,440,896	2,986,094
Transfer of completed projects in progress	-	322,723	24,792	8,065	1,381,776	26,644	(1,764,000)	-
Disposals	-	-	(9,987)	-	(806,363)	-	(229,000)	(1,045,350)
Balance as of December 31, 2011	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

(Thousands of Mexican pesos)

Depreciation and impairment	Land and Building	Computer and electronic equipment	Transp-ortation equipme nt	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2011	93,226	1,064,654	151,854	134,996	15,069,521	219,569	-	16,733,820
Depreciation for the year	14,286	64,371	75,072	14,458	2,820,714	39,600	-	3,028,501
Disposals	-	-	(4,971)	-	(736,337)	-	-	(741,308)
Balance as of December 31, 2011	107,512	1,129,025	221,955	149,454	17,153,898	259,169	-	19,021,013
Depreciation for the year	14,286	101,517	76,790	14,063	2,776,095	38,459	-	3,021,210
Disposals	-	-	(9,588)	-	(21,208)	-	-	(30,796)
Transfer to assets held for sale	-	-	-	-	(356,615)	-	-	(356,615)
Balance as of December 31, 2012	121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Property, systems and equipment, net	309,192	2,045,359	106,254	57,582	10,018,007	127,519	1,334,081	13,997,994

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

During the year ended December 31, 2012 and 2011 the Company capitalized Ps.61,399 and Ps. 57,157, respectively of borrowing costs in relation to Ps.716,915 and Ps. 611,387 in qualifying assets. Amounts were capitalized based on a capitalization rate of 8.57% and 9.42%, respectively.

For the year ended December 31, 2012 and 2011 interest expenses are comprised as follows:

		December 31, 2012	December 31, 2011
Interest expense	Ps	(1,118,912)	(1,059,737)
Amount capitalized		61,399	57,157
Net amount in consolidated statements of comprehensive income	Ps	(1,057,513)	(1,002,580)

As of December 31, 2012, certain financial leases amounting to approximately Ps.10 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2012 and 2011, amounts to Ps. 3,021,210 and Ps. 3,028,501, respectively.

Non-current assets held for sale

Certain of the Company´s communications towers are presented as held for sale due to a formal plan to sell these assets. The sale took place on January 31, 2013, see note 26. As of December 31, 2012 assets held for sale amounted to $460,462 less liabilities (decommissioning and remediation obligations) of $281,808.

(Thousands of Mexican pesos)

(12) Intangible assets

Intangible assets with defined useful lives consist of the following:

	Telephone concession rights Axtel	Telephone concession rights Avantel	Customers relationships	Trade name “Avantel”	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	67,871	1,351,411
Additions	-	-	-	-	-	-	-	5,298	5,298
Balances as of December 31, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	73,169	1,356,709
Additions	-	-	-	-	-	-	-	14,161	14,161
Balances as of December 31, 2012	571,520	110,193	312,438	179,332	58,982	21,045	30,030	87,330	1,370,870

Amortization and impairment	Telephone concession rights Axtel	Telephone concession rights Avantel	Customers relationships	Trade name “Avantel”	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	336,317	40,070	312,438	179,332	26,337	7,665	11,565	66,915	980,639
Amortization expense	30,307	10,018	-	-	4,081	1,673	2,886	1,610	50,575
Balances as of December 31, 2011	366,624	50,088	312,438	179,332	30,418	9,338	14,451	68,525	1,031,214
Amortization expense	30,307	10,018	-	-	4,080	1,672	2,886	2,071	51,034
Balances as of December 31, 2012	396,931	60,106	312,438	179,332	34,498	11,010	17,337	70,596	1,082,248
Intangible assets, net	174,589	50,087	-	-	24,484	10,035	12,693	16,734	288,622

Concessions rights of the Company

The main concessions of the Company are as follows:

- On June, 1996 Axtel 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;

- 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, 2012 the values of the trade name “Avantel” and of customer relationships were totally amortized

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

As of December 31, 2012, 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 $9,647. 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.

Summarized financial information in respect of the Company's associates accounted for under the equity method is set out below.

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(Thousands of Mexican pesos)

	Ownership			Investment amount		
	December 31, 2012	**December 31, 2011**	**January 1, 2011**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Conectividad Inalámbrica 7GHZ, S. de R.L.	50%	50%	50%	9,647	9,667	9,808
Opanga Networks	19.8%	19.8%	20%	17,798	17,798	17,798
Eden Rock Communications	10.5%	10.5%	11.7%	16,735	16,735	16,735
				44,180	44,200	44,341
Less impairment				(34,533)	(34,533)	-
Total investments				9,647	9,667	44,341

Conectividad Inalámbrica 7GHZ, S. de R.L

		December 31, 2012	December 31, 2011	January 1, 2011
Total assets	Ps	20,791	20,830	20,864
Total liabilities		1,497	1,497	1,249
Net assets		19,294	19,333	19,615
Share of net assets of associates		9,647	9,667	9,808
Net (loss) income for the period		(40)	(282)	12
Share of loss of associates accounting by the equity method	Ps	(20)	(141)	6

(14) Other assets

Other assets consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Long-term prepaid expenses	Ps	170,633	144,785	146,697
Account receivable Telmex (see note 24 (b))		47,395	139,790	225,654
Guarantee deposits		47,631	48,357	41,983
Advances to suppliers		10,419	11,204	13,427
Other		18,519	14,355	17,695
Other assets		294,597	358,491	445,456
Current portion of other assets		141,439	235,401	303,798
Other long-term assets	Ps	153,158	123,090	141,658

(Thousands of Mexican pesos)

(15) Long-term debt

Long-term debt as of December 31, 2012 and 2011 and January 1, 2011 consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
U.S. $275,000,000 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.	Ps	3,577,778	3,847,360	3,398,203
U.S. $300,000,000 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		3,903,030	4,197,120	3,707,130
U.S. $190,000,000 in aggregate principal amount of 9 % Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		2,471,919	2,658,176	2,347,849
Premium on Senior Unsecured Notes with an aggregate principal of U.S. $190,000,000 with an interest rate of 9%, due in 2019.		42,096	48,332	54,569
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, 2011 U.S. $ 53.3 million and Ps. 364.7 million have been utilized.		1,057,925	838,904	-
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.		318,984	453,237	127,642
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.		251,179	468,245	549,472
Note issuance and deferred financing costs		(156,297)	(188,681)	(141,002)
Total long-term debt		11,466,614	12,322,693	10,043,863
Less current maturities		411,969	380,880	375,996
Long-term debt, excluding current maturities	Ps	11,054,645	11,941,813	9,667,867

(Thousands of Mexican pesos)

Annual installments of long-term debt are as follows:

Year		Amount
2014	Ps	708,958
2015		503,899
2016		3,178
2017		3,577,863
2018 and thereafter		6,260,747
	Ps	11,054,645

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. The Company incurred Ps. 66,849 related to the issuance of its syndicated loan in 2011.

For the year ended December 31, 2012 and 2011, the interest expense was Ps. 1,118,912 and Ps. 1,059,737 respectively.

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, 2012 and February 28, 2013, the Company was in compliance with all covenants contained in its debt agreements.

(16) Other current liabilities

As of December 31, 2012 and 2011 and January 1, 2011 other accounts payable consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Guarantee deposit	Ps	10,261	11,034	9,746
Payroll and other liabilities (1)		96,441	128,960	88,883
	Ps	106,702	139,994	98,629

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

(Thousands of Mexican pesos)

(17) 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, 2012 and 2011 and January 1, 2011. The components of the net periodic cost for the years ended December 31, 2012 and 2011 are as follows:

		December 31, 2012	December 31, 2011
Net period cost:			
Current service cost	Ps	3,527	3,564
Interest cost		1,403	1,270
Actuarial gain		(7,593)	-
Amortization of net actuarial loss		(453)	(453)
Net period (benefit) cost	Ps	(3,116)	4,381

The actuarial present value of benefit obligations of the plans at December 31, 2012 and 2011, and January 1, 2011 are follows:

		December 31, 2012	December 31, 2011
Initial balance	Ps	21,935	19,972
Benefits paid		(343)	(1,375)
Current service cost and interest cost		4,930	4,834
Actuarial gain		(7,070)	(1,496)
Net projected liability	Ps	19,452	21,935

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:

	December 31, 2012	December 31, 2011	January 1, 2011
Total present value of obligations	18,131	20,635	18,686
Amendments to plan	267	866	1,319
Actuarial losses (gains)	1,054	434	(33)
Liability recognized for defined benefit obligation	19,452	21,935	19,972

(Thousands of Mexican pesos)

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

	December 31, 2012	**December 31, 2011**
Discount rate used to reflect the present value of obligations	6.5%	7.5%
Rate of increase in the minimum wage	3.5%	4%
Real rate of increase in future salary levels	4%	4%
Average remaining labor life of employees	19 years	21 years

(18) Provisions

The Company's provisions as of December 31, 2012 and 2011and January 1, 2011 are as follows:

		December 31, 2012	**December 31, 2011**	**January 1, 2011**
Decommissioning and remediation obligations	Ps	281,808	253,129	223,824
Restructuring provision		-	59,855	100,000
Total		281,808	312,984	323,824
Current portion of provisions		281,808	59,855	100,000
Long-term portion of provisions	Ps	-	253,129	223,824

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

Decommissioning and remediation obligations

		December 31, 2012	**December 31, 2011**
Initial balance	Ps	253,129	223,824
Additional provisions recognized		-	3,543
Unwinding of discount and effect of changes in the discount rate		28,679	25,762
Ending balance	Ps	281,808	253,129

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.

(Thousands of Mexican pesos)

Restructuring provision		**December 31, 2012**	**December 31, 2011**
Initial balance	Ps	59,855	100,000
Additional provisions recognized		-	63,500
Payments		(59,855)	(103,645)
Ending balance	Ps	-	59,855

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 (loss) income.

(19) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2012 and 2011 are as follows:

		2012	**2011**
Banamex:			
Telecommunication service revenues	Ps	514,287	596,517
Commission and administrative services		14,176	14,811
Interest expense		28,795	22,883
Other related parties:			
Rent expense		39,914	37,061
Installation service expense		32,027	26,693
Other		5,950	21,691

The balances with related parties as of December 31, 2012 and 2011 and January 1, 2011, included in accounts payable are as follows:

		December 31, 2012	**December 31, 2011**	**January 1, 2011**
Accounts payable short-term:				
Banco Nacional de México, S.A. [1]	Ps	434,693	385,289	445,532
Instalaciones y Desconexiones Especializadas, S.A. de C.V. [2]		991	843	949
GEN Industrial, S.A. de C.V. [2]		73	54	162
Total	Ps	435,757	386,186	446,643
Accounts payable long-term:				
Banco Nacional de México, S.A. [1]	Ps	33,900	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.

(Thousands of Mexican pesos)

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2012 and 2011 were as follows:

		2012	2011
Short-term employee benefits paid	Ps	108,185	67,645

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

Under the current tax legislation, companies must pay the greater of their Income Tax or Business Flat Tax (IETU). If IETU is payable, the payment will be considered final and not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, 30% for 2013, 29% for 2014 and 28% for 2015 and thereafter. The IETU rate is 17.5 % for 2010 and thereafter.

The deferred income taxes are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Income Tax	Ps	1,890,998	1,731,332	1,482,021
Business Flat Tax		190,720	122,060	146,450
Deferred income taxes	Ps	2,081,718	1,853,392	1,628,471

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., will pay IETU. The main differences that generated the deferred IETU asset as of December 31, 2012 and 2011 and January 1 2011 in these subsidiaries is as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Accounts payable	Ps	345,534	286,473	183,830
Deferred revenues		87,308	81,192	98,818
Provisions		30,278	21,948	21,843
Other		17,917	37,815	8,405
Total deferred tax assets		481,037	427,428	312,896
Deferred tax liability				
Accounts receivable		271,628	281,139	141,129
Telephone concession rights		9,854	11,291	12,728
Property, systems and equipment		7,219	11,186	10,614
Other		1,616	1,752	1,975
Total deferred tax liability		290,317	305,368	166,446
Net deferred tax assets	Ps	190,720	122,060	146,450

(Thousands of Mexican pesos)

The main differences that gave rise to the deferred income tax assets as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Net operating loss carry forwards	Ps	599,839	700,066	448,762
Allowance for doubtful accounts		438,602	345,348	281,586
Fair value of derivative financial instruments		26,073	-	93,736
Accrued liabilities and other provisions		246,221	166,688	315,633
Premium on bond issuance		12,629	14,500	16,371
Property, systems and equipment		661,615	637,900	450,494
Total deferred tax assets		1,984,979	1,864,502	1,606,582
Deferred tax liabilities:				
Telephone concession rights		55,628	63,215	78,065
Fair value of derivative financial instruments		-	37,459	-
Intangible and other assets		38,353	32,496	46,496
Total deferred tax liabilities		93,981	133,170	124,561
Deferred tax assets, net	Ps	1,890,998	1,731,332	1,482,021

A reconciliation between tax expense and income before income taxes multiplied by the statutory income tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Statutory income tax rate	30%	30%
Difference between book and tax inflationary effects	9%	4%
Change in valuation allowance	(4%)	(7%)
Non-deductible expenses	(8%)	(6%)
Effect of IETU tax rate	4%	-
IETU effect	(11%)	(7%)
ISR cancellation of subsidiary	-	(2%)
Other	-	(3%)
Effective tax rate	20%	9%

AXTEL, S. A. B. DE C. V. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
(Thousands of Mexican pesos)

The roll forward for the net deferred tax asset as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 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

		January 1, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 2011
Net operating loss carry forwards	Ps	448,762	251,304	-	700,066
Allowance for doubtful accounts		281,586	63,762	-	345,348
Fair value of derivative financial instruments		93,736	(69,034)	(62,161)	(37,459)
Accrued liabilities and other provisions		315,633	(148,945)	-	166,688
Premium on bond issuance		16,371	(1,871)	-	14,500
Deferred IETU		146,450	(24,390)	-	122,060
Property, systems and equipment		450,494	187,406	-	637,900
Telephone concession rights		(78,065)	14,850	-	(63,215)
Intangible and other assets		(46,496)	14,000	-	(32,496)
	Ps	1,628,471	287,082	(62,161)	1,853,392

As of December 31, 2012, the tax loss carry forwards and the refundable tax on assets expire as follows:

Year		Tax loss carry forwards	Tax on assets
2013	Ps	558,544	88,002
2014		111,123	84,424
2015		-	30,885
2016		24,210	27,901
2017		-	56,291
2018		434,013	-
2020		178,932	-
2021		1,783,597	-
2022		571,266	-
	Ps	3,661,685	287,503

(Thousands of Mexican pesos)

At December 31, 2012, the valuation allowance of deferred tax assets is Ps 607,378, of which Ps178,321 relate to tax loss carry forwards, Ps 141,554 to estimating doubtful accounts and Ps287,503 to tax recoverable asset.

The recoverable tax loss carry - forwards includes Ps 1,007,001 from companies in which deferred IETU was calculated.

(21) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2012, the common stock of the Company is Ps 6,625,536. The Company has 8,769,353,223 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, 96,636,627 are series A and 8,672,716,596 series B. At December 31, 2012 the Company has issued only Class "I".

	Shares			**Amount**		
	December 31, 2012	**December 31, 2011**	**January 1, 2011**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Authorized and issued capital:						
Series A	96,636,627	96,636,627	96,636,627	73,012	73,012	73,012
Series B	8,672,716,596	8,672,716,596	8,672,716,596	6,552,524	6,552,524	6,552,524

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.

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.

(Thousands of Mexican pesos)

(b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps 8,644,068 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 15 establish limitations on dividend payments.

(c) Comprehensive loss income

The balance of other comprehensive income items and its activity as of December 31, 2012 and 2011, is as follows:

		2012	2011
Net loss	Ps	(708,869)	(2,070,126)
Valuation of the effective portion of derivative financial instruments		(7,205)	206,952
Effect of income tax		2,162	(62,161)
Valuation of the effective portion of derivative financial instruments, net		(5,043)	144,791
Net comprehensive income (loss)	Ps	(713,912)	(1,925,335)

(22) Telephone services and related revenues

Revenues consist of the following:

		2012	2011
Local calling services	Ps	3,619,022	4,160,082
Long distance services		1,236,414	1,223,985
Data services		2,796,542	2,594,528
International traffic		655,328	1,246,418
Other services		1,882,426	1,604,392
	Ps	10,189,732	10,829,405

(23) Other expenses, net

Other expenses consists of the following

		2012	2011
Restructuring cost	Ps	(190,984)	(63,500)
Write off of fixed assets inventories		-	(324,409)
Impairment of other permanent investments		-	(36,938)
Other, net		(9,003)	5,397
	Ps	(199,987)	(419,450)

(24) Commitments and contingencies

As of December 31, 2012, 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, when the Cofetel issued the ruling where it determined the interconnection tariffs for the years 2005 to 2007, both Telcel and Axtel challenged such ruling via amparo trial, such trial being attracted by the Supreme Court of Justice (*Suprema Corte de Justicia de la Nación)* ("**SCJN**"). The SCJN decided, in public sessions that took place on February 25, 26 and 28 of the year 2013, to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel. 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, wich was resolved on September 1, 2008 by the Department of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*) ("**SCT**"). The SCT decided to revoke the resolutions issued by the Cofetel, and established cost based tariffs for the years 2006 and 2007.

The above mentioned mobile carriers challenged the resolutions 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 proceedings filed by Axtel, and that the Cofetel is the authority that should rule on these administrative review proceedings.

Therefore, during the following months, the Cofetel will have to decide yet again, the interconnection tariffs applicable between Axtel and the mobile carriers mentioned in the precedent paragraphs, and consequently, the interconnection tariffs that Axtel shall pay to these carriers is not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

(b) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in fist 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

Due to the above mentioned SCJN ruling, the Cofetel 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 first semester of 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, wich is in the process of being solved by the Cofetel. 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, 2012, 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. 2,073 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 2010. 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 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 resolutions mentioned above, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2012, 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. Telmex obtained a suspension for the application of the interconnection rates established by Cofetel, such suspension came into effect on January 26, 2010, but ceased to be in force and effect as of February 11, 2010, since the Company decided to exercise its right to leave without effect the suspension by guaranteeing any damages that could be caused to Telmex. Nonetheless, the above mentioned Court revoked the guarantee given to Telmex, taking into consideration the issuance of resolution P/140410/189, whereby Cofetel ruled the same low rates between Axtel and Telmex for the year 2010.

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 call. 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.

As of December 31st 2012, 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 U.S. $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, 2012, Avantel has been able to recover Ps.395 million of pesos from the amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis. The remaining balance of Ps. 47 million of pesos is recognized in the "other accounts receivable" line item in the balance sheet.

(d) Spectrasite Contingency. On January 24, 2001, an agreement was entered into with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.), with expiration on January 24, 2004, whereby Global Towers was to provide to the Company with services for the location, construction, setting up and selling of sites within the Mexican territory. As part of the operation, the Company agreed to lease from Global Towers 650 sites in a time frame period of three years.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. During 2002, Spectrasite Communications México, S. de R.L. de C.V., filed an Ordinary Mercantile Trial against the Company, claiming the refund of the guarantee deposit. On December 15 2011, the trial was ruled in favor of Axtel, releasing the Company from any and all liability, and therefore finalizing this contingency.

(e) Contingency – Payment of Duties. With respect to the contingency that the Company had for the payment of rights for the years 2001 to 2011 for the installation and use of a cable in the exclusive economic geographic zone in Mexico related to certain landing points in “Playa Niño”, region 86, Benito Juarez, Itancah Tulum, Carrillo Puerto, and Quintana Roo, after several trials and as a consequence of several approaches with the General Management of Ports of the Department of Communications and Transportation, after which, the surface over which the duties for the for the maritime cable were to be calculated was modified and considerably reduced, on the 4th day of September 2012, it was delivered to the Company a new authorization in order to use for a period of ten years, an area of the Mexican territorial seafloor, for which the Company paid, for the period from the year 2001 to the third quarter of the year 2012, the amount of Ps. 2,569 (including adjustments and surcharges).

The above brings this contingency litigation to an end, due to the fact that the Company made the payment for the full period of time and a new authorization title was issued.

(f) 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.

(g) 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 5,236 and to other service providers amounting to Ps 1,243,020.

(h) The concessions granted by the Department of Communications and Transportation (SCT), mentioned in note 2, 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.

(i) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2012 and 2011 amounted to Ps 641,977 and Ps 567,986, respectively.

The annual payments under these leases as of December 31, 2012 are as follows:

		Leases contracts in:	
		Pesos (thousands)	**Dollars (thousands)**
2013	Ps	217,027	10,483
2014		185,584	10,512
2015		149,616	6,702
2016		125,670	4,441
2017		106,716	1,091
2018 and thereafter		206,444	1,250
	Ps	991,057	34,479

(j) As of December 31, 2012, the Company has placed purchase orders which are pending delivery from suppliers for approximately Ps. 965,058.

(25) Impacts of Adopting International Financial Reporting Standards

The Company adopted IFRS on January 1, 2012, as required by the National Banking and Securities Commission ("CNBV"). The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS.

The Company has applied the following applicable mandatory exceptions to the retroactive application of IFRSs as established by IFRS 1 as follows:

Accounting estimates – IFRS estimates are consistent with those of MFRS at the same date.

Hedge accounting - Hedge accounting is applied only if the hedge relationship meets the criteria established by IFRS as of the transition date.

The Company applied the following optional exemptions to the retroactive application of IFRS:

Business combinations - The Company elected not to apply IFRS 3, "Business Combinations," to business combinations as well as to acquisitions of associates prior to its transition date.

Revaluation as deemed cost - The Company has opted for using the cost or depreciated cost basis, adjusted to reflect changes in a general or specific price index for property, systems and equipment, which include inflation adjustments through December 31, 2007 in accordance with MFRS as of the transition date.

Borrowing costs – The Company has applied the borrowing cost exemption as of the transition date.

(Thousands of Mexican pesos)

A reconciliation of the Company's stockholders' equity as of January 1, 2011 and December 31, 2011 is as follows:

			2011	
			January 1	**December 31**
Stockholders' equity per MFRS	**note**	Ps	**7,633,468**	**5,740,146**
Intangible assets- effects of inflation	a)		(242,292)	(208,018)
Property, systems and equipment	b)		-	(94,765)
Employee benefits	c)		55,816	54,956
Deferred employee statutory profit sharing	d)		(18,581)	(18,082)
Derivative financial instruments	f)		2,536	1,456
Deferred income taxes	g)		296,574	326,493
Stockholders' equity per IFRS		Ps	**7,727,521**	**5,802,186**

A reconciliation of the Company's comprehensive income for the year ended December 31, 2011 is as follows:

	note		December 31, 2011
Net loss per MFRS		Ps	**(1,893,322)**
Effects of inflation in intangibles assets	a)		34,274
Property, systems and equipment – borrowing costs	b)		(94,765)
Employee benefits	c)		(860)
Deferred employee statutory profit sharing	d)		499
Derivative financial instruments	f)		(1,080)
Deferred income taxes	g)		29,919
Comprehensive loss per IFRS		Ps	**(1,925,335)**

The following notes describe the adjustments associated with the transition to IFRS:

a) Elimination of inflation in intangible assets and contributed capital

According to MFRS, the Mexican peso ceased to be a currency of an inflationary economy in December 2007, since cumulative inflation for the previous three years as of such date did not exceed 26%. According to IAS 29, "Financial Reporting in Hyperinflationary Economies," the last hyperinflationary period for the Mexican peso was in 1997. As a result, the Company eliminated the cumulative inflation recognized within intangible assets and contributed capital, for IFRS purposes.

b) Borrowing costs

In accordance with MFRS, the Company had capitalized exchange rate fluctuations, which in accordance with IFRS have been derecognized as they were not considered to be an adjustment to interest costs.

c) Employee benefits

According to MFRS, a severance provision and the corresponding expense, must be recognized based on the entity's experience in terminating the employment relationship before the retirement date. For IFRS purposes, this provision was eliminated as it does not meet the definition of a termination benefit pursuant to IAS 19, "Employee Benefits." Accordingly, at the transition date, the Company derecognized its termination obligation recorded under MFRS.

d) Deferred employee profit sharing

In accordance with MFRS, the Company records deferred employee profit sharing, which for purposes of IFRS has been derecognized given that this provision does not meet its recognition principles.

e) Debt issuance costs

In accordance with IAS 39, debt issuance costs are presented net of the associated debt given that they are considered to be a component of the effective interest cost.

f) Derivative financial instruments

Embedded derivatives

For MFRS purposes, the Company recorded embedded derivatives for lease agreements denominated in US dollars. Pursuant to the principles set forth in IAS 39, "Financial Instruments: Recognition and Measurement", there is an exception for embedded derivatives on those contracts that are denominated in certain foreign currencies, if for example the foreign currency is commonly used in the economic environment in which the transaction takes place. The Company concluded that all of its embedded derivatives fell within the scope of this exception. Therefore, at the transition date, the Company derecognized all embedded derivatives recognized under MFRS.

Credit risk associated with financial instruments

IAS 39, "Financial Instruments: Recognition and Measurement", establishes that both the Company's own and counterparty credit risk be considered in the fair value determinate of financial instruments measured at fair value through profit or loss, which impacted the valuation of its derivative financial instruments.

g) Deferred income taxes

The adjustments to IFRS recognized by the Company had an impact on the deferred income tax calculation, according to the requirements set forth by IAS 12, "Income Taxes." In addition, the Company recognized its deferred income tax liabilities, except to the extent that the deferred tax liability arose from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affected neither accounting profit nor taxable profit.

h) Presentation of comprehensive income items

The Company reclassified certain items within its statement of comprehensive income to conform with the requirements of IAS 1, "Presentation of Financial Statements," such as the reclassification of certain expenses, which for purposes of IFRS are considered to be operating in nature.

(26) Recently Issued Accounting Standards not yet in Effect

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 2013

IAS 27, "Separate Financial Statements," establishes the requirements applicable to the accounting of investments in subsidiaries, associates and joint ventures, when an entity elects or is required by the local regulations, to present individual financial statements. This standard does not dictate which entities produce separate financial statements available for public use; it is applicable when an entity prepares such financial statements in accordance with IFRS. The separate financial statements are those presented by a controlling entity, an investor with joint control or significant influence, in which investments are accounted at cost or in accordance with IFRS 9. The effective date of IAS 27 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 28 (2011), IFRS 10, IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements.

IAS 28, "Investments in Associated Companies and Joint Ventures," prescribes the accounting for Investments in associated companies and establishes the requirements to apply the equity method when those investments and the investments in joint ventures are accounted. The standard is applicable to all the entities that own control or significant influence over another entity. This standard supersedes the previous version of IAS 28, Investments in associated companies. The effective date of IAS 28 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IFRS 10, IFRS 11 and IFRS 12.

IFRS 10, "Consolidated Financial Statements," establishes the principles for the presentation and preparation of the consolidated financial statements when an entity controls one or more entities. The standard requires the controlling company to present its consolidated financial statements; modifies the definition about the principle of control and establishes such definition as the basis for consolidation; establishes how to apply the principle of control to identify if an investment is subject to be consolidated. The standard replaces IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities. The effective date of IFRS 10 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 11, "Joint Arrangements," classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of as to whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. The effective date of IFRS 11 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 12. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 12, "Disclosure of Interests in Other Entities," has the objective to require the disclosure of information to allow the users of financial information to evaluate the nature and risk associated with their interests in other entities, and the effects of such interests in their position, financial performance and cash flows. The effective date of IFRS 12 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 11. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 13, "Fair Value Measurement," establishes a single framework for measuring fair value where that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the standard is adopted. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

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.

(27) Subsequent events

a) On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital telecommunications, S. de RL de CV ("MATC"), a subsidiary of American Tower Corporation, in amount of U.S. 249 million. 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 cost of approximately $ 20 million.

b) On the same date, the Company completed the exchange of 142 and 335 million of unsecured notes due 2017 and 2019, respectively, for 249 and 22 million secured bonds and a convertible bond, respectively, both with due on 2020, plus a cash payment of 83 million to participating holders.

c) On January 30, 2013, the Company launched its pay-TV service "AXTEL TV" in Mexico City, Guadalajara and Monterrey.