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

Consolidated Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

KPMG Cárdenas Dosal
Oficinas en el Parque Torre II
Blvd. Díaz Ordaz 140 Pte.
Piso 8 Col. Santa María
64650 Monterrey, N.L.

Teléfono: + 01 (81) 81 22 18 18
www.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.:

(Mexican Pesos [Ps.] except where indicated
U.S. which refers to US dollar)

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, 2014 and 2013 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2014 and 2013 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, 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, 2014 and 2013 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

(a) As mentioned in notes 2 and 13, on September 17, 2014, the Company completed an offering of secured bonds due in 2020 by U.S.$ 150 million, the bonds were issued at a price of 100.25% of their principal value with the same conditions and interest rates of current bonds.

(b) As mentioned in notes 19 (b) and 19 (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, 2014, 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 $2,251 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.

R. Sergio López Lara

February 27, 2015
Monterrey, N. L., México

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Financial Position
Years ended December 31, 2014 and 2013
(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**		**2014**	**2013**
Current assets:				
Cash and cash equivalents	8	Ps	2,697,835	1,292,263
Accounts receivable, net	9		2,426,167	2,981,732
Refundable taxes			48,629	57,219
Advance to suppliers			112,763	65,578
Inventories			67,097	106,313
Financial instruments	8e		121,999	142,200
Other accounts receivable			104,562	103,699
Other current assets	12		225,331	130,492
Total current assets			5,804,383	4,879,496
Long-term accounts receivable			230,752	333,751
Property, systems and equipment	10		12,961,543	13,187,187
Intangible assets	11		173,962	223,792
Deferred income taxes	15		1,675,202	1,101,937
Investments in associate			8,217	11,640
Other assets	12		131,039	144,849
Total assets		Ps	20,985,098	19,882,652
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities		Ps	2,347,302	2,741,308
Accrued interest			458,822	278,807
Taxes payable			363,351	285,987
Short-term debt	8 and 13b		130,000	-
Current maturities of long-term debt	13a		220,554	308,945
Deferred revenue	14		695,868	583,915
Other current liabilities and payroll accruals			96,018	100,473
Total current liabilities			4,311,915	4,299,435
Long-term debt	13a		10,645,447	7,555,374
Derivative financial instruments	8d		46,952	116,658
Other long term liabilities			216,039	328,297
Employee benefits			25,127	21,330
Deferred revenue	14		33,900	33,900
Total liabilities			15,279,380	12,354,994
Stockholders' equity:				
Common stock	16		6,728,342	6,627,890
Additional paid-in capital	16		644,710	644,710
Reserve for repurchase of own shares	16		90,000	162,334
Retained comprehensive (deficit) earnings	16		(1,757,334)	92,724
Total stockholders' equity			5,705,718	7,527,658
Commitments and contingencies	19			
Total liabilities and stockholders' equity		Ps	20,985,098	19,882,652

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, 2014 and 2013

(Thousands of Mexican pesos except for the basic (loss) income per share)

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

	Note		2014	2013
Telephone services and related revenues	17	Ps	10,597,003	10,286,494
Operating costs and expenses:				
Cost of sales and services			(3,097,105)	(2,984,573)
Selling and administrative expenses			(4,476,849)	(4,429,798)
Depreciation and amortization	10 and 11		(3,435,082)	(3,218,539)
Gain on sale of communications towers	2 and 10		-	3,111,948
Other operating expenses			(87,670)	(78,844)
Operating (loss) income			(499,703)	2,686,688
Interest expense	10 and 13		(875,745)	(882,454)
Interest income			16,615	16,229
Foreign exchange (loss) gain, net			(1,073,210)	39,682
Result from the exchange of debt, net	2		-	1,568,983
Change in the fair value and settlements of financial instruments, net	8		(21,272)	(5,303)
Net finance costs			(1,953,612)	737,137
Equity (loss) in earnings of associated company			(3,423)	1,992
(Loss) income before income taxes			(2,456,738)	3,425,817
Income taxes:				
Current	15		(34,459)	(50,817)
Deferred	15		572,596	(967,321)
Total income tax benefit (expense)			538,137	(1,018,138)
Net (loss) income		Ps	(1,918,601)	2,407,679
Other comprehensive income items:				
Actuarial result	16c		(3,791)	-
Valuation effects of cash flow hedges, net of income taxes	16c		-	29,351
Comprehensive (loss) income		Ps	(1,922,392)	2,437,030
Weighted average number of common shares outstanding			8,871,168,855	8,770,179,989
Basic (loss) income per share		Ps	(0.22)	0.27

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, 2014 and 2013
(Thousands of Mexican pesos)

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

		2014	2013
Cash flows from operating activities:			
Net (loss) income	Ps	(1,918,601)	2,407,679
Adjustments for:			
Income taxes		(538,137)	1,018,138
Foreign exchange loss (gain), net		1,073,210	(39,682)
Depreciation		3,380,966	3,167,254
Amortization		54,116	51,285
Impairment loss recognized on trade receivables		173,941	199,524
Gain on sale of property, system and equipment		(1,312)	(1,716)
Allowance for obsolete and slow-moving of inventories		1,967	25,773
Gain on sale of communications towers		-	(3,111,948)
Equity (loss) in earnings of associated company		3,423	(1,992)
Interest expense		875,745	882,454
Amortization of premium on bond issuance		(1,601)	(2,090)
Result from the exchange of debt, net		-	(1,568,983)
Fair value gain and settlement of financial instruments		21,272	5,303
		3,124,989	3,030,999
Movements in working capital:			
Increase (decrease) in accounts receivable and other accounts receivable		393,665	(645,708)
Increase (decrease) in inventories		39,215	(842)
(Decrease) increase in accounts payable and other accounts payable		(491,729)	337,071
Increase (decrease) in deferred revenue		111,953	(47,383)
Cash generated from operating activities		3,178,093	2,674,137
Taxes paid		(52,205)	(75,380)
Net cash from operating activities		3,125,888	2,598,757
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,837,222)	(2,118,210)
Sale of property, systems and equipment		5,176	3,164,046
Payments of in financial instruments		(19,924)	-
Other assets		4,752	4,205
Net cash (used in) generated by investing activities		(2,847,218)	1,050,041
Cash flows from financing activities:			
Interest paid		(720,303)	(756,135)
Exchange of debt		-	(1,326,887)
Proceeds of notes		1,887,747	442,014
Proceeds of bank loans		460,000	-
Payments of bank loans		(330,000)	(1,042,116)
Other loans, net		(327,401)	(173,375)
Proceeds from issuance of capital stock		-	384
Payments of derivative financial instruments		-	(77,982)
Net cash flow generated by (used in) financing activities		970,043	(2,934,097)
Net increase in cash and cash equivalents		1,248,713	714,701
Cash and cash equivalents at the beginning of the year		1,292,263	597,201
Effects of exchange rate fluctuations on cash and cash equivalents held		156,859	(19,639)
Cash and cash equivalents at the end of the year	Ps	2,697,835	1,292,263

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, 2014 and 2013
(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	Retained comprehensive earnings (Deficit)	Total stockholders' equity
Balances as of December 31, 2012	Ps	6,625,536	644,710	162,334	(2,344,306)	5,088,274
Increase of capital stock (note 16a)		2,354	-	-	-	2,354
Comprehensive income (note 16c)		-	-	-	2,437,030	2,437,030
Balances as of December 31, 2013	Ps	6,627,890	644,710	162,334	92,724	7,527,658
Increase of capital stock (note 16a)		100,452	-	-	-	100,452
Change on reserves for repurchase of own shares		-	-	(72,334)	72,334	-
Comprehensive loss (note 16c)		-	-	-	(1,922,392)	(1,922,392)
Balances as of December 31, 2014	Ps	6,728,342	644,710	90,000	(1,757,334)	5,705,718

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

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

(1) Reporting entity

Axtel, S.A.B. de C.V. and Subsidiaries (AXTEL and/or The Company) was incorporated in México as a corporation. The corporate address of the Company is Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

The Company's consolidated financial statements for the years ended December 31, 2014 and 2013, include The Company and subsidiaries (collectively referred as "the Company" and individually as "entities of the Company")

The Company is engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls and pay-tv services. A concession is required to provide these services and carry out the related activities, (see notes 5 (k) and 11). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years.

(2) Significant events

On September 17, 2014, The Company completed the reopening of the secured bonds issuance due in 2020 for $150 million United States dollars (U.S.) priced at 100.25% of the principal amount with the same terms and interest rates of the secured notes due in 2020 referred-to in the following paragraphs.

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

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

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

(Thousands of Mexican pesos)

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

Additionally, the Company paid the remaining balance of the syndicated loan, interest and related derivative transactions in full, amounting to approximately U.S.$ 88 million.

(3) Consolidation of financial statements

Based on IFRS 10, *"Consolidated 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%
Axes Data, S.A. de C.V. ("Axes Data")	Administrative services	100%
Contacto IP, S.A. de C.V. ("Contacto IP")	Administrative services	100%
Axtel Capital, S. de R.L. de C.V. (Axtel Capital)	Administrative services	100%

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

(4) Basis of preparation

a) Statement of compliance

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

These consolidated financial statements were authorized for issue by the Company's Director of Administration on February 27, 2015.

Under the Mexican General Corporation Law (*"Ley General de Sociedades Mercantiles"*) and bylaws of the Company, shareholders are empowered to amend the financial statements after issuance. The accompanying financial statements will be submitted for approval at the next Shareholders' Meeting.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except for certain financial instruments which were recorder at fair value and the liability recognized for employee benefit since this is recognized at the present value of the obligation.

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of Mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps.", are thousands of Mexican pesos; likewise, references to dollars or U.S. $, or USD refer to thousands of dollars of the United States of America and has been rounded to the nearest unit (M$), unless indicated otherwise.

d) Presentation of the consolidated statement of comprehensive income

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

The Company presents the result from operating activities since considers it as a significant performance measurement for users of financial information. Revenues and costs that are of an operational nature are presented in this item.

e) Presentation of the consolidated statement of cash flows

The consolidated statements of cash flows of the Company are presented using the indirect method.

(5) Significant accounting policies

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

a) Transactions eliminated on consolidation

The balances and transactions between the entities of the Company, as well as unrealized income and expenses, have been eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Based on IAS 21, *"Effects of changes in foreign currency"* ("IAS 21"), transactions in foreign currencies are converted to the respective functional currencies of the entities of the Company at exchange rates prevailing at the dates of operations. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted back to the functional currency at the exchange rate at that date. The gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency converted at the exchange rate at end of period being reported.

c) 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. At December 31, 2014 and 2013, include cash equivalents consisting of money market for Ps. 1,560,804 and Ps. 633,916, respectively.

d) 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” and “accounts receivable and other accounts receivable”. 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.

Accounts receivable and other accounts receivable

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as "Accounts receivable". According to IAS 39, *"Financial Instruments: Recognition and valuation"* ("IAS 39"), concepts within this category have no explicit cost and are recognized at amortized cost, it means, the net present value of accounts receivable at the date of transaction. Due to their short maturity, the Company recognizes initially these accounts at original value less allowance for doubtful accounts. Allowance for doubtful accounts and impairment of other accounts receivable are recognized in the selling and administrative expenses in Statement of Comprehensive Income. 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.

e) 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.

f) Derivative financial instruments

Hedging instruments

The Company recognizes all derivative financial instruments as financial assets and/or liabilities that are assessed 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. At December 31, 2014 and 2013, the Company has no open positions of cash flow hedges.

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.

g) 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.

h) 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.

i) Investments in associates 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.

j) 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 amortization and associated impairment losses.

Depreciation

Depreciation is calculated on the amount susceptible to depreciate, corresponding to cost of an asset, or other amount that replaces cost, less the salvage value.

The salvage value of an asset is the estimated amount that an entity would currently obtain from disposal of an item, after deducting the estimated costs of disposal, if the asset were already in the expected condition at the end of its useful life. The Company's practice is to use its assets until they are no longer useful since in the industry in which the Company operates, it is not common to perform equipment sales to competitors.

Depreciation is recognized in profit or loss using the straight-line method according to estimated useful life of each type of asset, since it shows in a better way the expected usage pattern of the future economic benefits included in the assets.

Leased assets are depreciated over the term of the lease agreement or the useful life of the assets, the smaller, unless there is reasonably certain that the Company will acquire ownership of the leased assets at the end of the lease agreement

The estimated average useful lives for the current periods are as follows:

- Building 25 years
- Computer equipment 3 years
- Transportation equipment 4 years
- Furniture and fixtures 10 years
- Network equipment 6 to 28 years

Useful lives and salvage values are reviewed at each year end and adjusted, if necessary.

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 inflow to the Company, and the 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 through consolidated profit or loss statement into selling and administrative expenses.

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.

k) 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. As of December 31, 2014 and 2013, respectively, the Company had no intangible assets with an indefinite life registered in accounting. 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.

l) Impairment of non-financial assets

The Company reviews the carrying amounts of 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).

The recoverable amount is the higher of fair value less its disposal cost and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects market conditions and specific risks to each asset or the CGU.

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.

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 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) 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).

o) 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 insofar 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 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 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.

p) Statutory employee profit sharing

According to Mexican labor law, the Company must distribute the equivalent of 10% of the annual taxable income as employee statutory profit sharing in those legal entities with employees. This amount is recognized in the consolidated statement of comprehensive income within the selling and administrative expenses.

q) Income taxes

The income tax includes current and deferred tax. The current and deferred tax are recognized in profit or loss, except that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or loss.

The current tax comprises the expected tax payable or receivable. The income tax for the year is determined according to legal and taxation requirements for companies in Mexico, using tax rates enacted at the reporting date, and any adjustment to tax payable regarding of previous years for each of the legal entities of the Company.

The deferred tax is registered under the asset and liability method, which compares book and tax values of assets and liabilities of the Company, and deferred taxes (assets or liabilities) derived from the differences between those values are recognized. Taxes are not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business combination and does not affect the accounting or tax result, and differences relating to investments in subsidiaries and joint ventures to the extent that is probably not reverse in the foreseeable future. Additionally, no deferred taxes are recognized for taxable temporary differences arising from the initial recognition of goodwill. Deferred taxes are calculated using rates that are expected to apply to temporary differences when they are reverted, based on enacted laws at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets and liabilities, and correspond to income taxes imposed by the same tax authority and for the same tax entity, or on different tax entities, but they intend to settle tax assets and liabilities on a net basis, or their tax assets and liabilities are realized simultaneously.

A deferred tax asset for tax loss carryforwards, tax credits and deductible temporary differences are recognized to the extent that it becomes probable that taxable future profits will be available to be applied against. Deferred tax assets are reviewed at the reporting date and are reduced to the extent that realization of the related tax benefit is no longer probable.

r) 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, according to the individual offer of each client.
- *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.
- *Income from interconnection* – Based on the traffic of minutes and generated by approved rates by Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones* or "IFETEL") or private agreements.

s) 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.

t) Segments

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

(6) Recently Issued Accounting Standards

There are several IFRS issued at the date of these consolidated financial statements, that have not yet been adopted, which are listed below. Except as otherwise indicated, the Company expects to adopt these IFRS when they become effective.

- IFRS 9, *Financial instruments*: classification and measurement ("IFRS 9"). Phase 1: during 2009 and 2010, the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets and liabilities, and incorporated limited amendments in July 2014 for the classification and measurement of financial assets. Phase 2: in July 2014, the IASB added the impairment requirements related to the accounting for expected credit losses on an entity's financial assets and commitments to extend credits to IFRS 9. Phase 3: in November 2013, the IASB added the requirements related to hedge accounting to IFRS 9. As intended by the IASB, IFRS 9 will replace IAS 39 in its entirety. IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and includes a category of financial assets at fair value through other comprehensive income for simple debt instruments. In respect to impairment requirements, IFRS 9 eliminates the threshold set forth in IAS 39 for the recognition of credit losses.

Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized, instead, an entity always accounts for expected credit losses, and changes in those expected losses through profit or loss. With respect to hedging activities, the requirements of IFRS 9 align hedge accounting more closely with an entity's risk management through a principles-based approach. Nonetheless, the IASB provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 until the IASB completes its project on the accounting for macro hedging. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in this standard at the same time. The Company is currently evaluating the impact that IFRS 9 will have on the classification and measurement of its financial assets and financial liabilities, impairment of financial assets and hedging activities. Currently, the Company is in the process of evaluating this IFRS.

- In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers ("IFRS 15"). The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1) Identify the contracts(s) with a customer, which is an agreement between two or more parties that creates enforceable rights and obligations; Step 2): Identify the performance obligations in the contract, considering that if a contract includes promises to transfer distinct goods or services to a customer, the promises are performance obligations and are accounted for separately; Step 3) Determine the transaction price, which is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer; Step 4): Allocate the transaction price to the performance obligations in the contract, on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and Step 5) Recognize revenue when (or as) the entity satisfies a performance obligation, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). IFRS 15 also includes disclosure requirements that would provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 will supersede all existing guidance on revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted considering certain additional disclosure requirements. The Company is currently evaluating the impact that IFRS 15 will have on the recognition of revenue from its contracts with customers.

New IFRS adopted on reporting period

Beginning in 2014, the Company adopted the following IFRS and several rules that are effective in future periods, but chose to adopt them in advance:

- Amendments to IFRS 10 and IFRS 28, Consolidated Financial Statements and Investment in associates.
- Amendments to IFRS 32, Offsetting of financial assets and financial liabilities.
- Amendments to IFRS 36, Impairment of Assets.
- Amendments to IFRS 19, Employee Benefits.
- Amendments to IFRS 16, Property, Plant and Equipment, and to IFRS 38 Intangible Assets.

The adoption of the new standards, improvements and modifications did not represent a significant impact in the financial statements of the Company.

(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. Accounting estimates changes are prospectively recognized.

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

a) Useful lives of property, systems, and equipment - The Company reviews the estimated useful life of property, systems and equipment at the end of each annual period. The degree of uncertainty related to the estimated useful lives is related to the changes in market and the use of assets for production volumes and technological development.

b) Impairment of non-financial assets - When testing assets for impairment, the Company requires estimating the value in use assigned to property, systems and equipment, and cash generating units. The calculation of value in use requires the Company to determine future cash flows generated by cash generating units and an appropriate discount rate to calculate the present value thereof. The Company uses cash inflow projections using estimated market conditions, determination of future prices of products and volumes of production and sale. Similarly, for discount rate and perpetuity growth purposes, the Company uses market risk premium indicators and long-term growth expectations of markets where the Company operates.

c) Allowance for doubtful accounts - The Company uses estimates to determine the allowance for doubtful accounts. The factors that the Company considers to estimate doubtful accounts are mainly the customer's financial situation risk, unsecured accounts, and considerable delays in collection according to the credit limits established.

d) Contingencies - The Company is subject to contingent transactions or events on which it uses professional judgment in the development of estimates of occurrence probability. The factors considered in these estimates are the current legal situation as of the date of the estimate, and the external legal advisors' opinion.

e) Deferred tax assets - Deferred tax assets are recognized for the tax loss carryforwards to the extent management believes it is recoverable through the generation of future taxable income to which it can be applied.

(Thousands of Mexican pesos)

f) 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 for these models are supplied 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.

g) Leases - Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

(8) Financial instruments

Categories of financial instruments

		2014	2013
Financial assets			
Cash and cash equivalents	Ps.	2,697,835	1,292,263
Accounts receivable		2,426,167	2,981,732
Financial instruments		121,999	142,200
Advance to suppliers		112,763	65,578
Other current assets		225,331	130,492
Financial liabilities			
Derivative financial instruments	Ps.	46,952	116,658
Accrued interest		458,822	278,807
Short-term debt		130,000	-
Long-term debt		10,866,001	7,864,319
Accounts payable and accrued liabilities		2,347,302	2,741,308

(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.

(b) Market and interest rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, sill affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

For interest rate risk, management has a risk management committee which discusses, among other things, whether each of the loans contracted either for working capital or to finance investment projects should be (according to market conditions and the functional currency of the Company) contracted with fixed or variable rate.

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, 2014 and 2013 are as follows:

		(Thousands of US dollars)	
		2014	**2013**
Current assets	U.S.$	130,803	68,719
Current liabilities		(102,231)	(106,615)
Noncurrent liabilities		(726,992)	(574,480)
Foreign currency liabilities, net	U.S.$	(698,420)	(612,376)

The U.S. dollar exchange rates as of December 31, 2014 and 2013 were Ps. 14.71 and Ps. 13.07, respectively. As of February 27, 2015, the exchange rate was Ps. 14.92.

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

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

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

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

As mentioned in note 2, as of January 31, 2013 the Company paid the remaining balance of the syndicated loan in full, interest and related derivative transactions by 77,982 related to that credit.

At December 31, 2014 and 2013, respectively, the Company had no current open positions.

(c) Market sensitivity analysis

Exchange rate sensitivity analysis

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

The following table details the Company's sensitivity analysis to a 10% increase and decrease in the peso against the U.S. 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 U.S. dollar.

If the peso strengthens 10% against the U.S. dollar, the profit for the year ended December 31, 2014 and equity would increase by Ps. 934,486.

If the peso weakens 10% against the U.S. dollar, profit for the year ended December 31, 2014 and equity would decrease by Ps. 1,027,935.

(d) Embedded derivatives

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

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

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

	(Thousands of U.S. dollars)	
Convertible Notes – liability	**December 31, 2014**	**December 31, 2013**
Face value	22,189	22,189
Options converted (note 16a)	(8,016)	(154)
	14,173	22,035
Fair value of conversion option recognized as a derivative financial instrument	(9,738)	(9,738)
Accrued interest	5,015	1,275
Carrying amount of convertible notes	9,450	13,572

	(Thousands of U.S. dollars)	
Convertible Notes – Derivative financial instrument	**December 31, 2014**	**December 31, 2013**
Fair value of conversion option at initial balance	8,921	9,738
Gain in change of fair value for the period	(5,731)	(817)
Fair value of conversion option at year end	3,190	8,921

For the year ended December 31, 2014 the change in fair value of derivative financial instruments resulted in an unrealized gain of $ 61,473, recognized in the comprehensive financing within the change in the fair value and settlements of financial instruments, net.

(e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated “Zero Strike Calls” that have a notional of 26,096,700 CPOs of Axtel’s shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. During the months of October, November and December of 2014, the Company acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. 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**	**2014**	**2013**
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	Ps. 102,700	Ps. 142,200
Corporativo GBM, S.A.B. de C.V.	5,639,336	Receives in cash the market value of the notional amount	Ps. 19,2 99	-

For the years ended December 31, 2014 and 2013 the change in the fair value of the Zero Strike Calls resulted in an unrealized (loss) gain of (Ps. 40,201) and Ps. 53,781, respectively, recognized in the net finance cost within the change in the fair value and settlements of financial instruments, net.

(f) Equity price risk sensitivity analysis

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

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

- Profit and equity for the year ended December 31, 2014 would increase by Ps. 12,176.

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

- Profit and equity for the year ended December 31, 2014 would decrease by Ps. 11,069.

(g) Credit risk management

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

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

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

- Company A represented 5%, and 9% of the Company's accounts receivable as of December 31, 2014 and 2013, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2014 and 2013 were 0% and 3%, respectively.

- Company B represented 5%, and 10% of the Company's accounts receivable as of December 31, 2014 and 2013, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2014 and 2013 were 1% and 0%, respectively.

(Thousands of Mexican pesos)

- Company C represented 5% of the Company's accounts receivable as of December 31, 2014 and 2013. Additionally, revenues associated with Company C for the year ended December 31, 2014 and 2013 were 1% and 0%, respectively.

- The Credit risk in investments on demand and in derivative financial instruments is minimal, since the counterparties are banks with high credit ratings assigned by international qualified agencies.

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

(h) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with the 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 liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Company's reputation.

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

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

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2014							
Variable interest rate instruments	Ps	158,499	21,934	13,979	7,702	-	-
Fixed interest rate instruments		1,130,525	1,049,144	1,777,453	898,450	2,372,833	8,594,932
	Ps	1,289,024	1,071,078	1,791,432	906,152	2,372,833	8,594,932
December 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		179,171	-	-	-	-	-
	Ps	921,836	765,942	773,482	1,346,515	611,927	7,634,415

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.

(Thousands of Mexican pesos)

(i) Fair value of financial instruments

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

	December 31, 2014		**December 31, 2013**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Financial liabilities held at amortized cost:				
Senior Unsecured Notes with maturity in 2017	741,758	741,684	659,029	598,069
Senior Unsecured Notes with maturity in 2019	1,497,262	1,497,112	1,330,272	1,063,819
Senior Secured Notes with maturity in 2020	8,016,203	7,775,717	5,160,680	4,889,744
Senior Secured Convertible Notes with maturity in 2020	139,097	139,097	177,481	177,481
Other long-term financing	602,582	664,440	407,965	400,139
Capacity lease	-	-	168,554	172,397
Accrued interest	458,822	458,822	278,807	278,807

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The Company applies the guidance in IFRS 13, Fair Value Measurement ("IFRS 13") to determine the fair value of financial assets and financial liabilities recognized or disclosed at fair value. IFRS 13 requires fair values in addition to those already required or permitted by other IFRS, and is not intended to establish valuation standards or affect valuation practices outside financial reporting. Under IFRS 13, the fair value represents a "Selling Price", which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date, considering the credit risk the counterparty valuation.

(Thousands of Mexican pesos)

The concept of Selling Price is based on the assumption that there is a market and participants in this for the specific asset or liability. When there are no market and / or market participants, IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority pricing calculations that deal with data entry but significant unobservable (Level 3 measurement).

The three levels of hierarchy are as follows:

- The level 1 data are quoted prices in active markets (unadjusted) for identical assets or liabilities that the Company has the ability to negotiate at the date of measurement. A quoted price in an active market provides the most reliable evidence of fair value and is used without adjustment for determining fair value whenever it is available.

- Level 2 data are data other than quoted prices in active markets that are directly or indirectly observable for the asset or liability that are mainly used to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data include stock prices, interest rates and certain yield curves, implied volatility, credit spreads, and other data, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair value by interacting applicable Level 2 data, the number of instruments and / or other relevant terms of the contracts, as applicable.

- Level 3 data are those that are not observable for the asset or liability. The Company uses this data to determine fair value when there is no Level 1 or Level 2 data, in valuation models such as discounted cash flows.

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	121,999	-	-	121,999
Financial liabilities				
Derivative financial liabilities	-	46,952	-	46,952

	December 31, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	142,200	-	-	142,200
Financial liabilities				
Derivative financial liabilities	-	116,658	-	116,658

(Thousands of Mexican pesos)

(9) Accounts receivable, net

Accounts receivable, net consist of the following:

		2014	2013
Accounts receivable	Ps	5,008,936	5,388,862
Less allowance for doubtful accounts		2,582,769	2,407,130
Accounts receivable, net	Ps	2,426,167	2,981,732

Given their short-term nature the carrying value of trade accounts receivable approximates the fair value as of December 31, 2014 and 2013.

Movement in the allowance for doubtful accounts.

		2014	2013
Opening balance	Ps	2,407,130	2,207,537
Allowance for the year		173,941	199,524
Effect of exchange rate		1,698	69
Balances at period end	Ps	2,582,769	2,407,130

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:

		2014	2013
60 - 90 days	Ps	17,786	22,130
90 - 120 days		28,591	26,054
120 + days		2,536,392	2,358,946
Total	Ps	2,582,769	2,407,130

Aging of past due but not impaired

		2014	2013
Current	Ps	949,172	1,260,468
1 - 30 days		139,937	139,769
30 - 60 days		183,037	201,352
60 - 90 days		37,523	22,322
90 + days		417,467	518,901
Total	Ps	1,727,136	2,142,812

(Thousands of Mexican pesos)

(10) Property, systems and equipment

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806
Additions		-	579	24,301	143	682,033	-	1,659,608	2,366,664
Transfer of completed projects in progress		-	105,617	988	19,903	2,004,020	4,465	(2,134,993)	-
Transfer to assets held for sale		-	-	-	-	240,451	-	-	240,451
Disposals		-	-	(32,987)	(76)	(78,787)	-	-	(111,850)
Balance as of December31, 2013	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071
Additions		-	152,125	4,465	6	458,514	-	2,548,101	3,163,211
Transfer of completed projects in progress		-	161,252	4,723	16,632	2,212,733	583	(2,395,923)	-
Disposals		-	(2,131)	(20,900)	(55)	(18,231)	-	-	(41,317)
Balance as of December31, 2014	Ps	430,990	3,693,343	376,001	257,652	35,070,910	430,195	1,010,874	41,269,965

Depreciation and impairment		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Depreciation of the year		14,286	128,810	64,089	14,752	2,914,961	30,356	-	3,167,254
Disposals		-	-	(31,752)	-	(14,385)	-	-	(46,137)
Assets held for sale		-	-	-	-	184,955	-	-	184,955
Balance as of December 31, 2013	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Depreciation of the year		14,284	126,316	45,036	17,577	3,152,790	24,963	-	3,380,966
Disposals		-	(2,053)	(20,115)	(30)	(11,230)	-	-	(33,428)
Balance as of December 31, 2014	Ps	150,368	1,483,615	346,415	195,816	25,779,261	352,947	-	28,308,422
Property, systems and equipment, net at December 31, 2013	Ps	294,906	2,022,745	66,219	62,800	9,780,193	101,628	858,696	13,187,187
Property, systems and equipment, net at December 31, 2014	Ps	280,622	2,209,728	29,586	61,836	9,291,649	77,248	1,010,874	12,961,543

(Thousands of Mexican pesos)

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

During the year ended December 31, 2014 and 2013 the Company capitalized Ps. 36,847 and Ps. 34,461, respectively of borrowing costs in relation to Ps. 709,293 and Ps. 492,996 in qualifying assets. Amounts were capitalized based on a capitalization rate of 9.85% and 9.28%, respectively.

For the year ended December 31, 2014 and 2013 interest expenses are comprised as follows:

		2014	2013
Interest expense	Ps	(912,592)	(916,915)
Amount capitalized		36,847	34,461
Net amount in consolidated statements of comprehensive income	Ps	(875,745)	(882,454)

As of December 31, 2014, certain financial leases amounting to approximately Ps. 23 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2014 and 2013 amounts to Ps. 3,380,966 and Ps. 3,167,254, respectively.

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

(11) Intangible assets

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2012	$	571,520	110,193	58,982	21,045	30,030	87,330	879,100
Disposals		-	-	-	-	-	(14,161)	(14,161)
Balances as of December 31, 2013 and 2014	$	571,520	110,193	58,982	21,045	30,030	73,169	864,939

(Thousands of Mexican pesos)

Depreciation and impairment		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2012	$	396,931	60,106	34,498	11,010	17,337	70,596	590,478
Amortization		30,307	10,018	4,080	1,672	2,886	1,706	50,669
Balances as of December 31, 2013	$	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Amortization		30,307	10,018	4,080	1,672	2,886	867	49,830
Balances as of December 31, 2014	$	457,545	80,142	42,658	14,354	23,109	73,169	690,977
Intangible assets, net at December 31, 2013	$	144,282	40,069	20,404	8,363	9,807	867	223,792
Intangible assets, net at December 31, 2014	$	113,975	30,051	16,324	6,691	6,921	-	173,962

Concessions rights of the Company

The main concessions of the Company are as follows:

- Concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

- On September 15, 1995 Avantel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

- Concessions of different frequencies of radio spectrum for 20 years and renewable for additional periods of 20 years, as long as Axtel complies with all of its obligations, and with all conditions imposed by the law and with any other condition that Department of Communications and Transportation (Secretaria de Comunicaciones y Transporte) or (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.

(Thousands of Mexican pesos)

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, 2014 the values of the trade name "Avantel" and of customer relationships were fully amortized.

(12) Other assets

Other assets consist of the following:

		2014	2013
Prepaid expenses	Ps	276,738	208,307
Guarantee deposits		48,307	45,634
Others		31,325	21,400
Other assets		356,370	275,341
Current portion of other assets		225,331	130,492
Other long-term assets	Ps	131,039	144,849

(Thousands of Mexican pesos)

(13) Long-term debt

a) Long-term debt as of December 31, 2014 and 2013 consist of the following:

		2014	2013
U.S. $ 275 in aggregate principal amount of 7 5/8 % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$ 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on secured bond and a convertible bond.	Ps.	741,758	659,029
U.S.$ 490 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on secured bond and a convertible bond.		1,497,262	1,330,272
Senior Secured Notes in a principal amount of U.S.$ 544.6 and U.S.$ 394.6 million dollars as of 2014 and 2013, respectively, with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		8,016,203	5,160,680
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S.$ 22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		139,097	177,481
Discount on note caused by Senior Secured Notes payable in the amount of U.S. $ 36 million at an initial interest rate of 7% will increase to 9% due 2020		(24,228)	(28,994)
Premium on Senior Unsecured Notes with an aggregate principal of U.S.$ 490 million with an interest rate of 9%, due in 2019.		10,817	7,444
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.		-	168,554
Other long-term financing with several credit institutions with an average interest rates of 6% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos with maturities between three to four years.		602,582	407,965
Debt issuance and deferred financing costs		(117,490)	(18,112)
Total long-term debt		10,866,001	7,864,319
Less current maturities		220,554	308,945
Long-term debt, excluding current maturities	Ps.	10,645,447	7,555,374

(Thousands of Mexican pesos)

Annual installments of long-term debt are as follows:

Year		Amount
2016	Ps	209,585
2017		883,395
2018		20,231
2018		1,497,837
2020 and thereafter		8,034,399
	Ps	10,645,447

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

For the year ended December 31, 2014 and 2013, the interest expense was Ps. 912,592 and Ps. 916,915 respectively. (See note 10).

On September 17, 2014, The Company completed the reopening of secured bonds issuance due in 2020 for U.S. $ 150 million at a priced at 100.25% of the principal amount, on the same terms and interest rates of the secured notes due in 2020 referred to in the following paragraphs.

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

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

Additionally, the Company paid the remaining balance of the syndicated loan, interest and related derivative transactions in full, amounting to approximately U.S.$ 88 million.

(Thousands of Mexican pesos)

b) Bank loans

On March 28, 2014 the Company entered into a promissory note with Banco Nacional de Mexico, S.A. whereby a loan of Ps. 130,000 was received, with an interest rate of TIIE plus 3.5 percentage points annually. This loan matures in June 2015.

On December 13, 2013 the Company entered into a credit facility with Banco Mercantil del Norte, S.A. whereby a loan of Ps. 130,000 was received in August 2014, with an interest rate of TIIE plus 3.50 percentage points annually. This loan was paid in full in September 2014.

On October 8, 2013 the Company entered into a credit facility with Banco Monex whereby a loan of Ps. 200,000 was received in August 2014, with an interest rate of TIIE plus 3.50 percentage points annually. This loan was paid in full in September 2014.

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, 2014 and February 27, 2015, the Company was in compliance with all covenants contained in its debt agreements.

(14) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2014 and 2013 are as follows:

		2014	2013
Banamex:			
Telecommunication service revenues	Ps	540,652	584,759
Interest expense		6,980	21,202
Other related parties:			
Rent expense	Ps.	29,698	37,281
Installation service expense		30,225	46,177
Other		5,369	5,211

The balances with related parties as of December 31, 2014 and 2013, included in accounts payable are as follows:

		2014	2013
Accounts payable short-term:			
GEN Industrial, S.A. de C.V. (2)	Ps	52	58
Neoris de México, S.A. de C.V.		505	-
Total	Ps	557	58

(Thousands of Mexican pesos)

The balances with related parties as of December 31, 2014 and 2013, included in deferred revenues are as follows:

		2014	2013
Deferred revenues short-term:			
Banco Nacional de México, S.A. (1)	Ps	460,526	457,478
Deferred revenues long-term:			
Banco Nacional de México, S.A. (1)	Ps	33,900	33,900

(1) Derived from transactions related to master services agreement signed between the Company and Banamex, the Company provides telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico.
(2) Mainly administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2014 and 2013 were as follows:

		2014	2013
Short-term employee benefits paid	Ps	72,094	94,584

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

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

According to current tax legislation during 2013, companies were required to pay higher tax between IT and IETU. If the caused tax was IETU, your payment is considered definitive and not subject to recovery in future periods. Under the IT Law in force effective until December 31, 2013, the income tax and flat tax rate was 30% and 17.5%, respectively. The IT Law effective from 1 January 2014 establishes an income tax rate of 30% for 2014 and beyond.

The income tax benefit (expense) is as follows:

		2014	2013
Current income tax	Ps	(34,459)	(50,817)
Deferred income tax		572,596	(967,321)
Income tax benefit (expense)	Ps	538,137	(1,018,138)

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

(Thousands of Mexican pesos)

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

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

	2014	**2013**
Statutory income tax rate	(30%)	30%
Inflationary effects	(2%)	3%
Non-deductible effects from allowance for doubtful accounts	9%	(2%)
Non-deductible expenses	1%	(2%)
Changes in tax rates	-	(1%)
Changes in laws	-	(7%)
Recognition of initial deferred IT on subsidiaries	-	8%
Recognition of the tax effect of tax losses previously not recognized	-	1%
Effective tax rate	(22%)	30%

The main differences that gave rise to the deferred income tax assets as of December 31, 2014 and 2013 are presented below:

		2014	**2013**
Deferred tax assets:			
Net operating loss carry forwards	Ps.	1,257,927	824,229
Allowance for doubtful accounts		367,482	522,188
Accrued liabilities and others		362,947	547,230
Premium on bond issuance		3,245	2,233
Property, systems and equipment		312,239	-
Total deferred tax assets		2,303,840	1,895,880
Deferred tax liabilities:			
Telephone concession rights		40,466	52,698
Property, systems and equipment		-	69,526
Long-term debt		549,342	549,342
Fair value of derivative financial instruments		28,123	41,898
Intangible and other assets		10,707	80,479
Total deferred tax liabilities		628,638	793,943
Deferred tax assets, net	Ps.	1,675,202	1,101,937

(Thousands of Mexican pesos)

The rollforward for the net deferred tax asset as of December 31, 2014 and 2013 are presented below:

		2013	Effects on profit and loss	Effects on stockholders' equity	2014
Net operating loss carry forwards	Ps.	824,229	433,698	-	1,257,927
Allowance for doubtful accounts		522,188	(154,706)	-	367,482
		547,23			
Accrued liabilities and others		-	(184,952)	669	362,947
Premium on bond issuance		2,233	1,012	-	3,245
Property, systems and equipment		(69,526)	381,765	-	312,239
Telephone concession rights		(52,698)	12,232	-	(40,466)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(41,898)	13,775	-	(28,123)
Intangible and other assets		(80,479)	69,772	-	(10,707)
	Ps.	1,101,937	572,596	669	1,675,202

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

(Thousands of Mexican pesos)

As of December 31, 2014, the tax loss carryforwards and the tax on assets expire as follows:

Year		Tax loss carry forwards	Tax on assets
2015	Ps.	-	3,944
2016		-	7,234
2017		-	28,374
2018		361,008	-
2020		161,541	-
2021		1,924,064	-
2022		534,969	-
2023		577,622	-
2024		1,691,853	-
	Ps.	5,251,057	39,552

As of December 31, 2014, the unrecognized deferred tax assets are Ps. 764,290, of which Ps. 317,390 relate to tax loss carryforwards, Ps. 407,348 relate to estimated doubtful accounts and Ps. 39,552 to tax on assets.

(16) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2014, the common stock of the Company is Ps. 6,728,342. The Company has 9,067,959,874 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide the holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a *Sociedad Anónima Bursátil de Capital Variable*). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 8,970,209,218 are Class "I" Series B. As of December 31, 2014 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

		Shares		Amount	
		2014	**2013**	**2014**	**2013**
Authorized and issued capital:					
Series A	$	97,750,656	97,750,656	73,396	73,396
Series B		8,970,209,218	8,678,441,546	6,654,946	6,554,494

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

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

During July 2008 the Company began a program to repurchase own shares which was approved at an ordinary shareholder meeting held on April 23, 2008 for up to Ps. 440 million. As of December 31, 2008 the Company had repurchased 26,096,700 CPO’s (182,676,900 shares). During July, August and September 2009, the CPOs purchased through the repurchase program was resold in the market. At the ordinary shareholder meeting held on April 25, 2014 shareholders approved to allocate a maximum amount of Ps. 90 million to the share repurchase program.

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 the intention to issue and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). The new Series B Shares were subscribed and paid for by Tel Holding through the CPOs Trust on January 4, 2007.

(b) Stockholders’ equity restrictions

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

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company’s debt agreements mentioned in note 13 establish limitations on dividend payments.

(Thousands of Mexican pesos)

(c) Comprehensive income (loss) income

The balance of other comprehensive income items and its activity as of December 31, 2014 and 2013 is as follows:

		2014	2013
Net (loss) income	Ps.	(1,918,601)	2,407,679
Other comprehensive income		-	41,811
Actuarial result		(4,460)	-
Effect of income tax		669	(12,460)
Other comprehensive income net of deferred taxes		(3,791)	29,351
Net comprehensive (loss) income	Ps.	(1,922,392)	2,437,030

(17) Telephone services and related revenues

Revenues consist of the following:

		2014	2013
Local calling services	Ps.	2,969,459	3,208,170
Long distance services		1,015,593	1,139,591
Internet and video		1,337,391	1,043,393
Data and network		1,897,673	1,860,070
Integrated services		1,568,616	1,299,653
Equipment sales		210,314	584,479
International traffic		1,234,024	763,991
Other services		363,933	387,147
	Ps.	10,597,003	10,286,494

(18) Construction contract

During August 2014, the Company entered into a construction contract of a building, as well as the necessary equipment thereof according to the technical features described in the contract, amounting Ps. 540,328 plus value added tax. The delivery period of the project is estimated to be completed in August 2015.

Income for the year is recognized following percent of completion which consider recoverable cost plus margin.

As of December 31, 2014, income from the construction contract is comprised as follows:

		Income for the year	Cumulative income	Balances of advances	Percent of completion (%)
Construction contract	Ps.	34,297	34,297	154,818	6.35%

(19) Commitments and contingencies

As of December 31, 2014, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. On the second quarter of the year 2007, and the first quarter of the year 2008, the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*) ("Cofetel") ruled interconnection disagreements between the Company and the following mobile carriers: Radiomovil Dipsa, S.A. de C.V. ("Telcel"), Iusacell PCS, S.A. de C.V. and others ("Grupo Iusacell"), Pegaso PCS, S.A. de C.V. and others ("Grupo Telefonica") and Operadora Unefon, S.A. de C.V. ("Unefon").

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

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

It is important to note that the constitutionality of the weighted average rate for Grupo Iusacel, Grupo Telefónica and Unefón was already validated by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

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

It is important to note that, regarding the decision by the courts on the issue of Weighted Average Rate, the Company presented several amparo trials concerning the Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones*) ("IFT) and it has not resolved the request to determine the Weighted Average Rate as substitute interconnection rate to be applied to the termination of interconnection traffic destined for Telcel, Iusacell, Unefon and Grupo Telefonica networks.

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

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

With respect to Grupo Telefonica, the Cofetel determined on October 20, 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 was resolved, at first stage, to dismiss the amparo trial and denying it to Grupo Telefonica.

Therefore, Grupo Telefonica has challenged the first instance judgment, which is pending resolution by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

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 was challenged by the Company via an administrative review proceeding, which is in the process of being resolved by the IFT. As a result, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

As a consequence of the rulings issued by the SCT on September 2008, the Company recognized since August 2008, the interconnection tariff of: $0.5465 pesos, $0.5060 pesos, $0.4705 and $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, were $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers.

As of December 31, 2014, 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. 2,251 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 considers that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal proceedings, the interests of the Company will prevail.

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resulting amounts, applying the new interconnection rates. As of June 30, 2014, 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) has a contingency in case the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different from those set forth by Cofetel.

In April 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (*Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa*), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed a direct amparo suit against the ruling issued within the annulment trial, which shall be resolved by the First Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Primer Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

In January 2010, the Cofetel resolved an interconnection disagreement proceeding existing between the Company (Avantel) and Telmex related to the rates for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, the Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps. 0.75 per minute to US$0.0126, US$0.0105 or US$0.0080 per minute, depending on the place where the Company delivers the long distance traffic. Based on this resolution, the Company paid approximately Ps. 20 million in excess. Telmex challenged the resolution before the Federal Court of Tax and Administrative Justice, and such proceeding in the evidence 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 pending for resolution.

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

Therefore, Telmex has challenged the first instance judgment, which is pending resolution by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

As of December 31, 2013, the Company believes that the rates determined by the Cofetel in the 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, 2013, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

(d) Interconnection Disagreements – Grupo Iusacell – Years 2012-2013. In October 2014, IFETEL solved an interconnection disagreement between Grupo Iusacell and the Company (Axtel / Avantel), related to interconnection tariffs for termination services switched to mobile users under the modalities "calling party pays" and "nationwide calling party pays" for the period 2012-2013. In that resolution IFETEL determined tariffs per minute of Ps. 0.3214 for 2012 and Ps. 0.3144 for 2013.

This ruling was challenged by Grupo Iusacell and is pending before the First District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (*Juzgado Primero de Distrito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones*).

As of December 31, 2014, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

(e) The Company is involved in a number of lawsuits and claims arising in the normal course of business. It is expected that the final outcome of these matters will not have significant adverse effects on the Company's financial position and results of operations.

(f) On July 14, 2014, the new Federal Telecommunications and Broadcasting Law (the "LFTyR")was published in Mexico's Official Gazzette (*Diario Oficial de la Federación*), which came into effect on August 13, 2014. In terms of the LFTyR, and since being in force, the previous Federal Telecommunications Law and the Federal Radio and Television Law ceased to be effective, and likewise, it was also thereby provided that all regulations and administrative provisions in such matter which were previously issued, will remain in full force and effect except when opposing the new LFTyR. In accordance with the new LFTyR, new legal obligations were established for the Company in the field of telecommunications, including the following obligations with respect to:

(a) New rights applicable to users in general, as well as for users with disabilities.

(b) Collaboration with the Justice.

(c) Registration and reporting activities in connection with active and passive infrastructure, of installation and operation of the public telecommunications network, including the obligation to avoid charges for domestic long distance calls since January 1, 2015, in the field of advertising, and of neutrality of networks in connection with its service of internet access.

Some of these obligations are pending the issuance of the applicable regulations, or that certain deadline is met or that the Company is in the situation prescribed by the applicable law.

The company took the required actions and controls in order to be in compliance with all the obligations that arose when the LFTyR came into force and became effective, and is carrying out the necessary actions in order to comply with the new obligations that are still pending on the issuance of the applicable secondary regulation and/or of the fulfillment of the applicable deadlines.

(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. 2,256 and to other service providers amounting to Ps. 1,093,683.

(h) The concessions granted by the Department of Communications and Transportation (SCT) establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.

(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, 2014 and 2013 amounted to Ps. 846,608 and Ps. 866,695, respectively.

The annual payments under these leases as of December 31, 2014 are as follows:

		Leases contracts in:	
		Mexican Pesos (thousands)	**USD (thousands)**
2015	Ps.	50,919	27,854
2016		41,135	23,659
2017		30,126	22,480
2018		19,309	20,521
2019		12,516	20,014
2020 and thereafter		46,622	137,954
	Ps.	200,627	252,482