MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR: **2014**

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

STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014 AND 31 DECEMBER 2013

CONSOLIDATED

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT Amount	PREVIOUS YEAR END Amount
10000000	**TOTAL ASSETS**	**19,955,401**	**19,882,652**
11000000	**TOTAL CURRENT ASSETS**	**5,108,149**	**4,879,496**
11010000	CASH AND CASH EQUIVALENTS	827,990	1,292,263
11020000	SHORT-TERM INVESMENTS	0	0
11020010	AVAILABLE-FOR-SALE INVESTMENTS	0	0
11020020	TRADING INVESTMENTS	0	0
11020030	HELD-TO-MATURITY INVESTMENTS	0	0
11030000	TRADE RECEIVABLES, NET	3,530,173	2,981,732
11030010	TRADE RECEIVABLES	5,977,208	5,388,862
11030020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	-2,447,035	-2,407,130
11040000	OTHER RECEIVABLES, NET	302,321	291,410
11040010	OTHER RECEIVABLES	302,321	291,410
11040020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	0	0
11050000	INVENTORIES	111,280	106,313
11051000	BIOLOGICAL CURRENT ASSETS	0	0
11060000	OTHER CURRENT ASSETS	336,385	207,778
11060010	PREPAYMENTS	200,869	65,578
11060020	DERIVATIVE FINANCIAL INSTRUMENTS	0	0
11060030	ASSETS AVAILABLE FOR SALE	0	0
11060050	RIGHTS AND LICENSES	0	0
11060060	OTHER	135,516	142,200
12000000	**TOTAL NON-CURRENT ASSETS**	**14,847,252**	**15,003,156**
12010000	ACCOUNTS RECEIVABLE, NET	307,544	333,751
12020000	INVESTMENTS	11,690	11,640
12020010	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	11,690	11,640
12020020	HELD-TO-MATURITY INVESTMENTS	0	0
12020030	AVAILABLE-FOR-SALE INVESTMENTS	0	0
12020040	OTHER INVESTMENTS	0	0
12030000	PROPERTY, PLANT AND EQUIPMENT, NET	12,989,256	13,187,187
12030010	LAND AND BUILDINGS	430,990	430,990
12030020	MACHINERY AND INDUSTRIAL EQUIPMENT	32,820,346	32,406,301
12030030	OTHER EQUIPMENT	4,504,907	4,452,086
12030040	ACCUMULATED DEPRECIATION	-25,797,459	-24,960,886
12030050	CONSTRUCTION IN PROGRESS	1,030,472	858,696
12040000	INVESTMENT PROPERTY	0	0
12050000	BIOLOGICAL NON- CURRENT ASSETS	0	0
12060000	INTANGIBLE ASSETS,NET	211,178	223,792
12060010	GOODWILL	0	0
12060020	TRADEMARKS	0	0
12060030	RIGHTS AND LICENSES	0	0
12060031	CONCESSIONS	174,269	184,350
12060040	OTHER INTANGIBLE ASSETS	36,909	39,442
12070000	DEFERRED TAX ASSETS	1,185,784	1,101,937
12080000	OTHER NON-CURRENT ASSETS	141,800	144,849
12080001	PREPAYMENTS	80,888	84,619
12080010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0
12080020	EMPLOYEE BENEFITS	0	0
12080021	AVAILABLE FOR SALE ASSETS	0	0
12080040	DEFERRED CHARGES	0	0
12080050	OTHER	60,912	60,230
20000000	**TOTAL LIABILITIES**	**12,670,120**	**12,354,994**
21000000	**TOTAL CURRENT LIABILITIES**	**4,648,206**	**4,299,435**
21010000	BANK LOANS	130,000	0
21020000	STOCK MARKET LOANS	0	0
21030000	OTHER LIABILITIES WITH COST	266,816	308,945
21040000	TRADE PAYABLES	3,237,517	2,741,308
21050000	TAXES PAYABLE	202,188	285,987
21050010	INCOME TAX PAYABLE	202,188	285,987
21050020	OTHER TAXES PAYABLE	0	0
21060000	OTHER CURRENT LIABILITIES	811,685	963,195

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR: **2014**

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

STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014 AND 31 DECEMBER 2013

CONSOLIDATED

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END
		Amount	Amount
21060010	INTEREST PAYABLE	163,509	278,807
21060020	DERIVATIVE FINANCIAL INSTRUMENTS	0	0
21060030	DEFERRED REVENUE	512,109	583,915
21060050	EMPLOYEE BENEFITS	0	0
21060060	PROVISIONS	0	0
21060061	CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0
21060080	OTHER	136,067	100,473
22000000	**TOTAL NON-CURRENT LIABILITIES**	**8,021,914**	**8,055,559**
22010000	BANK LOANS	0	0
22020000	STOCK MARKET LOANS	7,319,086	7,327,462
22030000	OTHER LIABILITIES WITH COST	237,626	227,912
22040000	DEFERRED TAX LIABILITIES	0	0
22050000	OTHER NON-CURRENT LIABILITIES	465,202	500,185
22050010	DERIVATIVE FINANCIAL INSTRUMENTS	107,934	116,658
22050020	DEFERRED REVENUE	33,900	33,900
22050040	EMPLOYEE BENEFITS	21,530	21,330
22050050	PROVISIONS	0	0
22050051	NON-CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0
22050070	OTHER	301,838	328,297
30000000	**TOTAL EQUITY**	**7,285,281**	**7,527,658**
30010000	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	7,285,281	7,527,658
30030000	CAPITAL STOCK	6,645,418	6,627,890
30040000	SHARES REPURCHASED	0	0
30050000	PREMIUM ON ISSUANCE OF SHARES	644,710	644,710
30060000	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0
30070000	OTHER CONTRIBUTED CAPITAL	0	0
30080000	RETAINED EARNINGS (ACCUMULATED LOSSES)	-4,847	255,058
30080010	LEGAL RESERVE	0	0
30080020	OTHER RESERVES	162,334	162,334
30080030	RETAINED EARNINGS	92,724	-2,314,955
30080040	NET INCOME FOR THE PERIOD	-259,905	2,407,679
30080050	OTHERS	0	0
30090000	ACCUMULATED OTHER COMPREHENSIVE INCOME (NET OF TAX)	0	0
30090010	GAIN ON REVALUATION OF PROPERTIES	0	0
30090020	ACTUARIAL GAINS (LOSSES) FROM LABOR OBLIGATIONS	0	0
30090030	FOREING CURRENCY TRANSLATION	0	0
30090040	CHANGES IN THE VALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0
30090050	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	0	0
30090060	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0
30090070	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0
30090080	OTHER COMPREHENSIVE INCOME	0	0
30020000	NON-CONTROLLING INTERESTS	0	0

STATEMENT OF FINANCIAL POSITION
INFORMATIONAL DATA

AT 31 MARCH 2014 AND 31 DECEMBER 2013

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	CONCEPTS	ENDING CURRENT	PREVIOUS YEAR END
		Amount	Amount
91000010	SHORT-TERM FOREIGN CURRENCY LIABILITIES	1,333,605	1,394,155
91000020	LONG TERM FOREIGN CURRENCY LIABILITIES	7,519,685	7,512,194
91000030	CAPITAL STOCK (NOMINAL)	6,645,418	6,627,890
91000040	RESTATEMENT OF CAPITAL STOCK	0	0
91000050	PLAN ASSETS FOR PENSIONS AND SENIORITY PREMIUMS	0	0
91000060	NUMBER OF EXECUTIVES (*)	177	176
91000070	NUMBER OF EMPLOYEES (*)	5,705	5,355
91000080	NUMBER OF WORKERS (*)	1,232	1,260
91000090	OUTSTANDING SHARES (*)	8,827,101,263	8,776,192,202
91000100	REPURCHASED SHARES (*)	0	0
91000110	RESTRICTED CASH (1)	0	0
91000120	GUARANTEED DEBT OF ASSOCIATED COMPANIES	0	0

(1) THIS CONCEPT MUST BE FILLED WHEN THERE ARE GUARANTEES OR RESTRICTIONS THAT AFECCT CASH AND CASH EQUIVALENTS

(*) DATA IN UNITS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED

FOR THE THREE MONTHS ENDED 31 MARCH, 2014 AND 2013

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40010000	**REVENUE**	**2,970,756**	**2,970,756**	**2,288,977**	**2,288,977**
40010010	SERVICES	2,970,756	2,970,756	2,288,977	2,288,977
40010020	SALE OF GOODS	0	0	0	0
40010030	INTERESTS	0	0	0	0
40010040	ROYALTIES	0	0	0	0
40010050	DIVIDENDS	0	0	0	0
40010060	LEASES	0	0	0	0
40010061	CONSTRUCTIONS	0	0	0	0
40010070	OTHER REVENUE	0	0	0	0
40020000	**COST OF SALES**	**1,119,189**	**1,119,189**	**553,702**	**553,702**
40021000	GROSS PROFIT	1,851,567	1,851,567	1,735,275	1,735,275
40030000	**GENERAL EXPENSES**	**1,976,745**	**1,976,745**	**1,869,305**	**1,869,305**
40040000	**PROFIT (LOSS) BEFORE OTHER INCOME (EXPENSE), NET**	**-125,178**	**-125,178**	**-134,030**	**-134,030**
40050000	**OTHER INCOME (EXPENSE), NET**	**-22,411**	**-22,411**	**3,102,496**	**3,102,496**
40060000	**OPERATING PROFIT (LOSS) (*)**	**-147,589**	**-147,589**	**2,968,466**	**2,968,466**
40070000	FINANCE INCOME	6,520	6,520	1,985,510	1,985,510
40070010	INTEREST INCOME	4,313	4,313	3,552	3,552
40070020	GAIN ON FOREIGN EXCHANGE, NET	2,207	2,207	435,537	435,537
40070030	GAIN ON DERIVATIVES, NET	0	0	0	0
40070040	GAIN ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	0	0	0	0
40070050	OTHER FINANCE INCOME	0	0	1,546,421	1,546,421
40080000	FINANCE COSTS	200,671	200,671	372,591	372,591
40080010	INTEREST EXPENSE	197,173	197,173	328,342	328,342
40080020	LOSS ON FOREIGN EXCHANGE, NET	0	0	0	0
40080030	LOSS ON DERIVATIVES, NET	0	0	0	0
40080050	LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	3,498	3,498	44,249	44,249
40080060	OTHER FINANCE COSTS	0	0	0	0
40090000	**FINANCE INCOME (COSTS), NET**	**-194,151**	**-194,151**	**1,612,919**	**1,612,919**
40100000	SHARE OF PROFIT (LOSS) OF ASSOCIATES AND JOINT VENTURES	0	0	1	1
40110000	**PROFIT (LOSS) BEFORE INCOME TAX**	**-341,740**	**-341,740**	**4,581,386**	**4,581,386**
40120000	INCOME TAX EXPENSE	-81,835	-81,835	1,389,838	1,389,838
40120010	CURRENT TAX	2,012	2,012	45,583	45,583
40120020	DEFERRED TAX	-83,847	-83,847	1,344,255	1,344,255
40130000	**PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**-259,905**	**-259,905**	**3,191,548**	**3,191,548**
40140000	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	0	0	0	0
40150000	**NET PROFIT (LOSS)**	**-259,905**	**-259,905**	**3,191,548**	**3,191,548**
40160000	PROFIT (LOSS), ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40170000	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT	-259,905	-259,905	3,191,548	3,191,548

40180000	BASIC EARNINGS (LOSS) PER SHARE	-.03	-.03	0.36	0.36
40190000	DILUTED EARNINGS (LOSS) PER SHARE	0	0	0.00	0.00

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

STATEMENTS OF COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)

CONSOLIDATED

FOR THE THREE MONTHS ENDED 31 MARCH, 2014 AND 2013

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40200000	**NET PROFIT (LOSS)**	**-259,905**	**-259,905**	**3,191,548**	**3,191,548**
	DISCLOSURES NOT BE RECLASSIFIED ON INCOME				
40210000	PROPERTY REVALUATION GAINS	0	0	0	0
40220000	ACTUARIAL EARNINGS (LOSS) FROM LABOR OBLIGATIONS	0	0	0	0
40220100	SHARE OF INCOME ON REVALUATION ON PROPERTIES OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
	DISCLOSURES MAY BE RECLASSIFIED SUBSEQUENTLY TO INCOME				
40230000	FOREING CURRENCY TRANSLATION	0	0	0	0
40240000	CHANGES IN THE VALUATION OF FINANCIAL ASSETS HELD-FOR-SALE	0	0	0	0
40250000	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	0	0	29,351	29,351
40260000	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0	0	0
40270000	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
40280000	**OTHER COMPREHENSIVE INCOME**	**0**	**0**	**0**	**0**
40290000	**TOTAL OTHER COMPREHENSIVE INCOME**	**0**	**0**	**29,351**	**29,351**

40300000	**TOTAL COMPREHENSIVE INCOME**	**-259,905**	**-259,905**	**3,220,899**	**3,220,899**
40320000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40310000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO OWNERS OF PARENT	-259,905	-259,905	3,220,899	3,220,899

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

STATEMENTS OF COMPREHENSIVE INCOME

INFORMATIONAL DATA

CONSOLIDATED

FOR THE THREE MONTHS ENDED 31 MARCH, 2014 AND 2013

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
92000010	OPERATING DEPRECIATION AND AMORTIZATION	853,641	853,641	806,337	806,337

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

STATEMENTS OF COMPREHENSIVE INCOME
INFORMATIONAL DATA (12 MONTHS)

CONSOLIDATED

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	YEAR	
		CURRENT	PREVIOUS
92000030	REVENUE NET (**)	10,968,273	9,976,165
92000040	OPERATING PROFIT (LOSS) (**)	-429,367	2,425,004
92000060	NET PROFIT (LOSS) (**)	-1,043,774	1,987,050
92000050	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT(**)	-1,043,774	1,987,050
92000070	OPERATING DEPRECIATION AND AMORTIZATION (**)	3,265,843	3,127,972

(*) TO BE DEFINED BY EACH COMPANY
(**) INFORMATION LAST 12 MONTHS

STATEMENT OF CHANGES IN EQUITY

(THOUSAND PESOS)

CONSOLIDATED

Final Printing

CONCEPTS	CAPITAL STOCK	SHARES REPURCHASED	PREMIUM ON ISSUANCE OF SHARES	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	OTHER CAPITAL CONTRIBUTED	RETAINED EARNINGS (ACCUMULATED LOSSES)		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	NON-CONTROLLING INTERESTS	TOTAL EQUITY
						RESERVES	UNAPPROPRIATED EARNINGS (ACCUMULATED LOSSES)				
BALANCE AT JANUARY 1, 2013	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-2,314,955**	**-29,351**	**5,088,274**	**0**	**5,088,274**
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	0	0	0	0	0	0	0	0	0	0	0
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	3,191,548	29,351	3,220,899	0	3,220,899
BALANCE AT MARCH 31, 2013	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**876,593**	**0**	**8,309,173**	**0**	**8,309,173**
BALANCE AT JANUARY 1, 2014	**6,627,890**	**0**	**644,710**	**0**	**0**	**162,334**	**92,724**	**0**	**7,527,658**	**0**	**7,527,658**
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	17,528	0	0	0	0	0	0	0	17,528	0	17,528
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	-259,905	0	-259,905	0	-259,905
BALANCE AT MARCH 31, 2014	**6,645,418**	**0**	**644,710**	**0**	**0**	**162,334**	**-167,181**	**0**	**7,285,281**	**0**	**7,285,281**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR: **2014**

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

STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 31 MARCH, 2014 AND 2013

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURRENT YEAR Amount	PREVIOUS YEAR Amount
OPERATING ACTIVITIES			
50010000	**PROFIT (LOSS) BEFORE INCOME TAX**	**-341,740**	**4,581,386**
50020000	+(-) ITEMS NOT REQUIRING CASH	37,691	-376,176
50020010	+ ESTIMATE FOR THE PERIOD	39,898	59,361
50020020	+ PROVISION FOR THE PERIOD	0	0
50020030	+(-) OTHER UNREALISED ITEMS	-2,207	-435,537
50030000	+(-) ITEMS RELATED TO INVESTING ACTIVITIES	851,339	-2,293,063
50030010	DEPRECIATION AND AMORTISATION FOR THE PERIOD	853,641	806,337
50030020	(-)+ GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	-126	-3,113,288
50030030	+(-) LOSS (REVERSAL) IMPAIRMENT	0	0
50030040	(-)+ EQUITY IN RESULTS OF ASSOCIATES AND JOINT VENTURES	0	-1
50030050	(-) DIVIDENDS RECEIVED	0	0
50030060	(-) INTEREST RECEIVED	0	0
50030070	(-) EXCHANGE FLUCTUATION	0	0
50030080	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-2,176	13,889
50040000	+(-) ITEMS RELATED TO FINANCING ACTIVITIES	200,348	-1,174,635
50040010	(+) ACCRUED INTEREST	197,173	328,342
50040020	(+) EXCHANGE FLUCTUATION	0	0
50040030	(+) DERIVATIVE TRANSACTIONS	3,498	44,249
50040040	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-323	-1,547,226
50050000	**CASH FLOWS BEFORE INCOME TAX**	**747,638**	**737,512**
50060000	CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	-350,828	-500,063
50060010	+(-) DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	-588,338	-197,934
50060020	+(-) DECREASE (INCREASE) IN INVENTORIES	-4,967	9,626
50060030	+(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE	18,045	47,686
50060040	+(-) INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	371,199	-320,721
50060050	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	-36,012	-65,455
50060060	+(-) INCOME TAXES PAID OR RETURNED	-110,755	26,735
50070000	**NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**	**396,810**	**237,449**
INVESTING ACTIVITIES			
50080000	NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	-634,190	2,835,223
50080010	(-) PERMANENT INVESTMENTS	-50	0
50080020	+ DISPOSITION OF PERMANENT INVESTMENTS	0	0
50080030	(-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	-633,601	-328,819
50080040	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	569	3,160,578
50080050	(-) TEMPORARY INVESTMENTS	0	0
50080060	+ DISPOSITION OF TEMPORARY INVESTMENTS	0	0
50080070	(-) INVESTMENT IN INTANGIBLE ASSETS	0	0
50080080	+ DISPOSITION OF INTANGIBLE ASSETS	0	0
50080090	(-) ACQUISITIONS OF VENTURES	0	0
50080100	+ DISPOSITIONS OF VENTURES	0	0
50080110	+ DIVIDEND RECEIVED	0	0
50080120	+ INTEREST RECEIVED	0	0
50080130	+(-) DECREASE (INCREASE) ADVANCES AND LOANS TO THIRD PARTS	0	0
50080140	-(+) OTHER INFLOWS (OUTFLOWS) OF CASH	-1,108	3,464
FINANCING ACTIVITIES			
50090000	NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	-222,546	-2,875,935
50090010	+ BANK FINANCING	130,000	0
50090020	+ STOCK MARKET FINANCING	0	0
50090030	+ OTHER FINANCING	0	0
50090040	(-) BANK FINANCING AMORTISATION	0	-1,042,116
50090050	(-) STOCK MARKET FINANCING AMORTISATION	0	-1,049,682
50090060	(-) OTHER FINANCING AMORTISATION	-34,836	-352,467
50090070	+(-) INCREASE (DECREASE) IN CAPITAL STOCK	0	0
50090080	(-) DIVIDENDS PAID	0	0
50090090	+ PREMIUM ON ISSUANCE OF SHARES	0	0
50090100	+ CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0
50090110	(-) INTEREST EXPENSE	-317,710	-353,688
50090120	(-) REPURCHASE OF SHARES	0	0
50090130	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	0	-77,982

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **01** YEAR: **2014**

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

STATEMENT OF CASH FLOWS

FOR THE THREE MONTHS ENDED 31 MARCH, 2014 AND 2013

CONSOLIDATED

(Thousand Pesos)

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURREENT YEAR	PREVIOUS YEAR
		Amount	Amount
50100000	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**	**-459,926**	**196,737**
50110000	**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**	**-4,347**	**30,152**
50120000	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,292,263	597,201
50130000	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**827,990**	**824,090**

SEE THE ATTACHED FILE

SEE THE ATTACHED FILE

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES
(THOUSAND PESOS)

CONSOLIDATED

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COMPANY NAME	PRICIPAL ACTIVITY	NUMBER OF SHARES	% OWNER SHIP	TOTAL AMOUNT	
				ACQUISITION COST	CURRENT VALUE
CONECTIVIDAD INALAMBRICA 7GHZ S. DE R.L.	SERVICIOS DE TELECOMUNICACIONES	2	50.00	24,497	11,690
TOTAL INVESTMENT IN ASSOCIATES				24,497	11,690

NOTES

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

CONSOLIDATED

Final Printing

CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	CONTRACT SIGNING DATE	EXPIRATION DATE	INTEREST RATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
BANKS																
FOREIGN TRADE																
SECURED																
COMMERCIAL BANKS																
Banamex	NOT	28/03/2014	18/12/2014	7.30310	130,000	0	0	0	0	0						
OTHER																
TOTAL BANKS					**130,000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

CONSOLIDATED

Final Printing

CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	CONTRACT SIGNING DATE	EXPIRATION DATE	INTEREST RATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
STOCK MARKET																
LISTED STOCK EXCHANGE																
UNSECURED																
SECURED																
PRIVATE PLACEMENTS																
UNSECURED																
SENIOR NOTES 2017	YES	02/02/2007	01/02/2017	7.63							0	0	0	0	659,392	0
SENIOR NOTES 2019	YES	22/09/2009	22/09/2019	9							0	0	0	0	0	1,331,005
SENIOR SECURED NOTES 2020	YES	31/01/2013	31/01/2020	7, 8 y 9							0	0	0	0	0	5,163,521
CONVERTIBLE NOTES 2020	YES	31/01/2013	31/01/2020	7, 8 Y 9							0	0	0	0	0	165,168
SECURED																
TOTAL STOCK MARKET LISTED IN STOCK EXCHANGE AND PRIVATE PLACEMENT					**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**659,392**	**6,659,694**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

CONSOLIDATED

Final Printing

CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	DATE OF AGREEMENT	EXPIRATION DATE		MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST																
OTROS PASIVOS CON COSTO	NOT				167,695	5,056	18,655	12,829	9,659	0						
OTROS PASIVOS CON COSTO	NOT										76,761	17,304	92,369	77,128	26,986	0
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST					167,695	5,056	18,655	12,829	9,659	0	76,761	17,304	92,369	77,128	26,986	0
SUPPLIERS																
PROVEEDORES	NOT				0	2,182,649										
PROVEEDORES	NOT										0	917,667				
PROVEEDORES	YES										0	137,201				
TOTAL SUPPLIERS					0	2,182,649					0	1,054,868				
OTHER CURRENT AND NON-CURRENT LIABILITIES																
OTROS PASIVOS	NOT				1,064	625,949	461,086	0	0	0						
OTROS PASIVOS	NOT										162,445	22,227	4,116	0	0	0
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES					1,064	625,949	461,086	0	0	0	162,445	22,227	4,116	0	0	0
GENERAL TOTAL					**298,759**	**2,813,654**	**479,741**	**12,829**	**9,659**	**0**	**239,206**	**1,094,399**	**96,485**	**77,128**	**686,378**	**6,659,694**

NOTES

MONETARY FOREIGN CURRENCY POSITION

CONSOLIDATED

(THOUSAND PESOS)

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FOREIGN CURRENCY POSITION (THOUSANDS OF PESOS)	DOLLARS		OTHER CURRENCIES		THOUSAND PESOS TOTAL
	THOUSANDS OF DOLLARS	THOUSAND PESOS	THOUSANDS OF DOLLARS	THOUSAND PESOS	
MONETARY ASSETS	50,989	667,130	0	0	667,130
CURRENT	50,989	667,130	0	0	667,130
NON CURRENT	0	0	0	0	0
LIABILITIES POSITION	676,666	8,853,290	0	0	8,853,290
CURRENT	101,929	1,333,605	0	0	1,333,605
NON CURRENT	574,737	7,519,685	0	0	7,519,685
NET BALANCE	-625,677	-8,186,160	0	0	-8,186,160

NOTES

FINANCIAL LIMITATIONS IN CONTRACT, ISSUED DEED AND / OR TITLE

• AS OF MARCH 31, 2014 INDEBTEDNESS DUE IN FEBRUARY 2017 AND SEPTEMBER 2019 (SENIOR NOTES) DOES NOT CONTEMPLATE ANY MATERIAL COVENANTS FOR THE COMPANY

• IN TERMS OF THE INDEBTEDNESS ISSUED JANUARY AND DECEMBER, 2013 DUE JANUARY 2020 (SENIOR SECURED NOTES AND SENIOR SECURED CONVERTIBLE NOTES) REFERRED THE FOLLOWING COVENANTS:

O INDEBTEDNESS INCURRANCE, WHICH STATES NO ADDITIONAL DEBT IS ALLOWED IF THE COMPANY DOES NOT MAINTAIN TOTAL DEBT RATIO TO ADJUSTED EBITDA LESS THAN 4 TIMES

O TOTAL GUARANTEED DEBT EQUAL TO TOTAL DEBT ISSUED BY US$ 415.3 MILLION

O SECURITY OVER ISSUED DEBT, IN THE FORM OF A LIEN OVER STOCK OF SUBSIDIARIES OF THE COMPANY, A PLEDGE OVER SHARES IN SUBSIDIARIES OF THE COMPANY, A MORTGAGE ON THE ENTIRE PROPERTY OWNED BY THE COMPANY, A MORTGAGE ON ALL TELECOM CONCESSIONS (AND RELATED EQUIPMENT TO THE SUPPLYING OF TELECOMMUNICATION SERVICES) AND A PLEDGE, WITHOUT THE TRANSMISSION OF OWNERSHIP ON THE ENTIRE TANGIBLE AND INTANGIBLE COMPANY PROPERTY OVER THOSE ASSETS NOT COVERED BY THE ABOVE LIENS (WITH A FEW EXCEPTIONS).

CURRENT SITUATION OF FINANCIAL COVENANTS:

• THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

ACTUAL SITUATION OF FINANCIAL LIMITED

THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

DISTRIBUTION OF REVENUE BY PRODUCT

CONSOLIDATED

TOTAL INCOME
(THOUSAND PESOS)

Final Printing

MAIN PRODUCTS OR PRODUCT LINE	NET SALES		MARKET SHARE (%)	MAIN	
	VOLUME	AMOUNT		TRADEMARKS	CUSTOMERS
NATIONAL INCOME					
SERVICIOS LOCALES	0	746,201	0.00		
SERVICIOS DE L.D.	0	259,729	0		
INTERNET Y VIDEO	0	315,146	0		
DATOS Y REDES	0	464,490	0		
SERV INT Y VTA EQ	0	760,141	0		
TRAFICO INTL.	0	344,156	0		
OTROS SERVICIOS	0	80,893	0		
EXPORT INCOME					
INCOME OF SUBSIDIARIES ABROAD					
TOTAL	**0**	**2,970,756**			

NOTES

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **01** YEAR: **2014**

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

ANALYSIS OF PAID CAPITAL STOCK

CONSOLIDATED

CHARACTERISTICS OF THE SHARES

Final Printing

SERIES	NOMINAL VALUE	VALID COUPON	NUMBER OF SHARES				CAPITAL STOCK	
			FIXED PORTION	VARIABLE PORTION	MEXICAN	FREE SUBSCRIPTION	FIXED	VARIABLE
A	0.00000	0	97,750,656	0	97,750,656	0	73,396	0
B	0.00000	0	8,729,350,607	0	0	8,729,350,607	6,572,022	0
TOTAL			8,827,101,263	0	97,750,656	8,729,350,607	6,645,418	0

TOTAL NUMBER OF SHARES REPRESENTING THE PAID IN CAPITALSTOCK ON THE DATE OF SENDING THE INFORMATION 8,827,101,263

NOTES

DERIVATIVE FINANCIAL INSTRUMENTS

SEE THE ATTACHED FILE

San Pedro Garza Garcia, Mexico, April 29, 2014 - Axtel, S.A.B. de C.V. ("AXTEL" or "the Company"), a leading Mexican fixed-line integrated telecommunications company, announced today its unaudited first quarter results ended March 31, 2014[(1)].

For additional information, please contact Adrian de los Santos, Investor Relations Officer and Corporate Finance Director at ir@axtel.com.mx

Highlights:

- This quarter, AXTEL's core business revenues continued increasing at attractive rates, maintaining the trend towards a higher value revenue mix. Core business revenues increased a strong 24%, composed by increases of 43% in the enterprise and government segment and 54% in FTTH, which compensated the erosion in revenues from the wireless segment.

- Adjusted EBITDA for this quarter recorded an 8% increase compared to the first quarter 2013. This figure was in line with the Company's expectations.

- First quarter results reaffirm the gradual recovery trend that AXTEL has experienced in recent quarters, mainly resulting from a positive shift in the revenue mix. These prospects are further being improved by the healthier industry structure promoted by the Telecom Reform.

Revenues from operations

Revenues from operations totaled Ps. 2,971 million in the first quarter of year 2014 from Ps. 2,289 million for the same period in 2013, an increase of Ps. 682 million or 30%.

Revenues from operations totaled Ps. 10,968 million in the twelve month period ended March 31, 2014, compared to Ps. 9,976 million in the same period in 2013, an increase of Ps. 992 million, or 10%.

Sources of Revenues

Local services. Local service revenues totaled Ps. 746 million in the first quarter of 2014, compared to Ps. 834 million for same period in 2013, representing a decrease of Ps. 88 million, explained by Ps. 56 million, Ps. 9 million and Ps. 23 million decreases in monthly rents, measured service and cellular revenues, respectively. Average customers declined 8%, contributing to a decline in monthly rents of 9%. The 20% decrease in measured services is explained by 22% decreases in billed-traffic volume. The 17% decrease in cellular revenue is explained by an 11% decrease in prices resulting from a market trend linked to lower interconnection tariffs, and a 7% decline in cellular billed-traffic. Revenues coming from monthly rents represented 80% of local revenues during the three month period ended March 31, 2014. For the twelve month period ended March 31, 2014, local revenues totaled Ps. 3,121 million, compared to Ps. 3,536 million registered in the same period in 2013, a decrease of Ps. 415 million or 12% mostly explained by Ps. 268, Ps. 55 and Ps. 93 million declines in monthly rents, measured service and cellular revenues, respectively.

Long distance services. Revenues amounted to Ps. 261 million in the first quarter of 2014, compared to Ps. 283 million for same period in 2013, an 8% decrease. Billed-traffic volume declined 5% and billed-traffic prices declined 2%. For the twelve month period ended March 31, 2014, long distance revenues totaled Ps. 1,118 million compared to Ps. 1,217 million registered in 2013, a Ps. 99 million, or 8%, decline.

Internet & Video. Quarterly revenues totaled Ps. 315 million, compared to Ps. 229 million in the same period in 2013, a 38% or Ps. 87 million increase driven by the pay-tv service and the increase in mass-market, or, “on-demand” internet services revenues, which increased 17% year-over-year. During the twelve month period ended on March 31, 2014, internet and video services revenues totaled Ps. 1,130 million from Ps. 850 million registered in 2013, an increase of Ps. 280 million, or 33%.

Data & Network. Data and network revenues amounted to Ps. 464 million in the first quarter of 2014, compared to Ps. 485 million in the same period in 2013, a 4% or Ps. 21 million decrease driven by 3% and 5% declines in private lines and dedicated internet revenues respectively. Competitive pressures on prices and migration to all-included value-added integrated services solutions explain the decline in revenues. During the twelve month period ended on March 31, 2014, data and network services revenues totaled Ps. 1,839 million from Ps. 1,975 million registered in 2013, a decrease of Ps. 136 million, or 7%.

Integrated Services & Equipment Sales. Quarterly revenues totaled Ps. 759 million in the first quarter of 2014, from Ps. 230 million in the same quarter of previous year, a 230% increase mainly explained by integrated service and equipment sales transactions with state and federal government entities. For the twelve month period ended March 31, 2014, revenues totaled Ps. 2,413 million from Ps. 1,431 million registered in 2013, an increase of Ps. 983 million, or 69%.

International traffic. In the first quarter of 2014, international traffic revenues totaled Ps. 344 million, an increase of Ps. 220 million or 177% versus the same quarter of previous year, explained by an increase in volume and increase in prices attributable to a change in the mix towards higher priced international mobile traffic vs. on-net and off-net traffic. In peso terms, the price increase was slightly strengthened by a 5.5% depreciation of the Mexican peso vis-à-vis the US dollar. For the twelve month period ended March 31, 2014, revenues from international traffic totaled Ps. 984 million from Ps. 579 million in the same period in 2013, an increase of 70% mainly explained by increase in prices.

Other services. Quarterly revenues from other services totaled Ps. 81 million in the first quarter of 2014, from Ps. 104 million in the same quarter of previous year, a decrease of 23%. For the twelve month period ended March 31, 2014, revenues totaled Ps. 364 million from Ps. 389 million registered in 2013, a decrease of Ps. 25 million, or 7%.

Revenues by segment **(Excludes International Traffic)*

Mass Market. Revenues totaled Ps. 883 million in the first quarter of 2014, remaining flat compared to the same quarter in 2013. This was mainly due to an 11% and 8% decrease in both local and long distance revenues, compensated by a 40% increase in internet and video services. For the twelve month period ended March 31, 2014, revenues totaled Ps. 3,522 million, a decrease of 4% compared to the same period in 2013, mostly explained by 13% and 11% decreases in local and long distance revenues and partially offset by a 33% increase in internet and video services.

Enterprise (including Government). Revenues for this segment amounted to Ps. 1,581 million in the three month period ended March 31, 2014, an increase of 43% versus the same period in 2013. This is mostly explained by a 234% increase in integrated services and equipment sales. For the twelve month period ended March 31, 2014, revenues increased 16%, from Ps. 4,980 million registered in the twelve month period ended March 31, 2013, to Ps. 5,790 million in 2014. This is due to increases of 71% and 36% in integrated services and internet and video services respectively.

Interconnection, Public Telephony and Carriers. Revenues for this segment declined 6%, from Ps. 173 million in the first quarter 2013 to Ps. 163 million in 2014, mainly due to a 34% decrease in local revenues. For the twelve month period ended March 31, 2014, revenues reached Ps. 673 million, a decline of 11% compared to the same period in 2013, primarily explained by 28%, 15% and 11% decreases in local, long distance and data revenues, respectively.

Consumption

Local Calls. Local calls totaled 400 million calls in the first quarter of 2014, compared to 431 million calls for same period in 2013, representing a decrease of 7%. Billed local calls decreased 18 million or 22%, while local calls included in commercial offers decreased by 14 million or 4%. Residential and business customers contributed with 2 million and 16 million calls, respectively, to the decline in billed local calls. Local calls included in commercial offers represented 84% of total calls in the first quarter of 2014, compared to 81% in the year-earlier quarter. For the twelve month period ended March 31, 2014, local calls totaled 1,721 million, compared to 1,833 million registered in the same period in 2013, a decrease of 111 million calls or 6%.

Cellular ("Calling Party Pays"). Minutes of use of calls completed to a cellular line amounted to 163 million in the three month period ended March 31, 2014, compared to 157 million in the same period in 2013, an increase of 4%. Billed cellular minutes decreased 7 million or 7%, while minutes in modules included in a monthly rent increased 14 million minutes or 30%. Billed cellular minutes represented 63% of cellular minutes in the first quarter of 2014, compared to 71% in the year-earlier quarter. For the twelve month period ended March 31, 2014, cellular minutes reached 682 million, a 9 million increase compared to the same period in 2013.

Long distance. Outgoing long distance minutes amounted to 611 million for the three month period ended March 31, 2014, from 628 million in the same period in 2013, a 16 million decrease. This, resulting from an 8% and 2% decreases in traffic from residential and business customers, respectively. Billed long distance minutes during the first quarter of 2014 declined 5% compared to the same period in 2013. Domestic long distance minutes represented 96% of total traffic during the quarter. For the twelve month period ended March 31, 2014, outgoing long distance minutes amounted 2,526 million, compared to 2,430 million registered in 2013, an increase of 4%, explained by increased traffic from business customers.

Operating Data

RGUs[8] and Customers. As of March 31, 2014, RGUs (Revenue Generating Units) totaled 1,518 thousand. During the first quarter of 2014, there were 14 thousand net-additions, compared to 41 thousand net-disconnections in the first quarter of 2013, attributable to the addition of video RGUs and a decrease in wireless disconnections. As of March 31, 2014, customers totaled 635 thousand, a decline of 38 thousand from the same date in 2013. Total customers declined 6 thousand on a sequential basis.

Voice RGUs (lines in service). As of March 31, 2014, lines in service totaled 933 thousand. During the first quarter of 2014 and first quarter 2013, gross additional lines totaled 59 and 40 thousand respectively. Disconnections in the first quarter of 2014 totaled 56 thousand compared to 79 thousand in the year-earlier quarter. Lines in service in the first quarter of 2014 decreased 4 thousand, compared to a decrease of 40 thousand in the same period of 2013. As of March 31, 2014, residential lines represented 61% of total lines in service.

Broadband RGUs (broadband subscribers). Broadband subscribers increased 7% year-over-year totaling 514 thousand as of March 31, 2014. During the first quarter of 2014, broadband subscribers net-additions totaled 8 thousand compared to 14 thousand net-disconnections in the same period of 2013. As of March 31, 2014, WiMAX broadband subs reached 347 thousand, compared to 356 thousand a year ago, while AXTEL X-tremo, or FTTH customers, totaled 157 thousand compared to 109 thousand a year ago. Broadband penetration reached 55% at the end of the first quarter of 2014, compared to 50% a year ago.

Video subscribers. Axtel launched its pay-television service, AXTEL TV, on January 30th, 2013, and as of March 31, 2014, video subscribers reached 70 thousand compared to 15 thousand a year ago.

Line equivalents (E0 equivalents). We offer from 64 kilobytes per second ("KBps") up to 200 megabytes per second ("MBps") dedicated data links in all of our thirty-nine existing cities. We account for data links by converting them to E0 equivalents in order to standardize our comparisons versus the industry. As of March 31, 2014, line equivalents totaled 861 thousand, 33% increase.

Cost of Revenues and Operating Expenses

Cost of Revenues. For the three month period ended March 31, 2014, the cost of revenues represented Ps. 1,119 million, an increase of 102% or Ps. 565 million, compared with the same period of year 2013, mainly explained by increases of 660% in integrated services and equipment sales costs and 160% in international traffic costs. For the twelve month period ended March 31, 2014, cost of revenues reached Ps. 3,550 million, an increase of Ps. 766 million in comparison with year 2013, mainly due to increases in international traffic and integrated services costs.

Gross Profit. Gross profit is defined as revenues minus cost of revenues. For the first quarter of 2014, the gross profit accounted for Ps. 1,852 million, an increase of 7% or Ps. 116 million compared with the same period in year 2013. The gross profit margin decreased from 75.8% to 62.3% year-over-year, significantly influenced by the decline of integrated services and equipment sales margin. For the twelve month period ended March 31, 2014, our gross profit totaled Ps. 7,418 million, compared to Ps. 7,192 million recorded in year 2013, an increase of Ps. 226 million or 3%.

Operating expenses. In the first quarter of year 2014, operating expenses totaled Ps. 1,123 million, Ps. 60 million or 6% higher than the Ps. 1,063 million recorded in the same period in year 2013, explained mainly by increases of Ps. 38 million in personnel and Ps. 16 million in rents due to the towers lease expense. For the twelve month period ended March 31, 2014, operating expenses totaled Ps. 4,490 million, coming from Ps. 4,541 million in the same period in 2013. Personnel represented 40% of total operating expenses in the twelve month period ended March 31, 2014.

Adjusted EBITDA, D&A and Operating Income

Adjusted EBITDA[(5)]. The Adjusted EBITDA totaled Ps. 728 million for the three month period ended March 31, 2014, compared to Ps. 672 million for the same period in 2013. As a percentage of total revenues, Adjusted EBITDA margin represented 24.5% in the first quarter of 2014, 485 bps lower than the margin recorded in the year-earlier quarter. For the twelve month period ended March 31, 2014, Adjusted EBITDA amounted to Ps. 2,928 million, compared to Ps. 2,652 million in year 2013, a 10% increase.

Depreciation and Amortization[(10)]. Depreciation and amortization totaled Ps. 854 million in the three month period ending on March 31, 2014 compared to Ps. 806 million for the same period in year 2013. Depreciation and amortization for the twelve month period ended March 31, 2014 reached Ps. 3,266 million, from Ps. 3,128 million in the same period in year 2013, an increase of Ps. 138 million.

Operating Income (loss). In the three month period ended March 31, 2014, the Company recorded an operating loss of Ps. 148 million compared to an operating income of Ps. 2,968 million registered in the same period in year 2013. For the twelve month period ended March 31, 2014 our operating loss reached Ps. 429 million when compared to the operating income of Ps. 2,425 million in the same period of year 2013, a decline of Ps. 2,854 million mainly explained by the gain related to the sale of the telecommunication towers in January 2013.

CFR, Indebtedness, Cash, Investments and Derivative Instruments

Comprehensive financial result. Net interest expense for the first quarter 2014 decreased Ps. 132 million due to the higher level of debt at the end of January 2013 and the extraordinary expenses related to the cancellation of deferred costs due to the prepayment of the syndicated bank facility in January 2013. During the first quarter 2014, the peso remained at similar levels against the U.S. dollar generating a minor FX gain. In the first quarter of 2013, an FX gain of Ps. 436 million was generated by a 5.3% peso appreciation. Concerning variations in the fair value of financial instruments, these are explained by a 5% decrease in the price of AXTELCPO during the first quarter of 2014, which affected the valuation of AXTEL's position held in its own stock through the zero-strike-calls instruments. The variations in the first quarter of 2013 are explained by the cancellation of the derivatives related to the prepayment of the syndicated bank facility. The Ps. 1,070 million comprehensive financial loss for year ended in March 2014, compared to a Ps. 572 million comprehensive financial gain for year ended in March 2013, is mainly explained by the gain resulting from the debt exchange in the first quarter of 2013 and a 33% decrease in interest expenses in 2014.

Debt. At the end of the first quarter 2014, total debt increased Ps. 842 million in comparison with first quarter 2013, explained by (i) a Ps. 359 million net increase related to the December 2013 notes exchange and the issuance of new 2020 notes, (ii) an increase of Ps. 177 million in leases and other financial obligations, (iii) an Ps. 18 million decrease related to the notes' discount, issuance and deferred financing costs, (iv) a Ps. 105 million decrease related to the implicit derivative instrument embedded in the Senior Secured Convertible Notes and (v) a Ps. 428 million non-cash increase caused by the 5.5% depreciation of the Mexican peso.

Cash. As of the end of the first quarter of 2014, the cash and equivalents balance totaled Ps. 828 million, compared to Ps. 824 million a year ago, and Ps. 1,292 million at the beginning of the quarter. As of the end of the quarter, 43 percent of the cash balance was maintained in dollars, the rest in pesos.

Capital Investments. In the first quarter of 2014, capital investments totaled Ps. 634 million, or $48 million, compared to Ps. 329 million, or $26 million, in the year-earlier quarter. For the twelve month period ended March 31, 2014, capital investments totaled Ps. 2,423 million, or $188 million, compared to Ps. 1,843 million, or $141 million, for 2013.

Other Investments. As of March 31, 2014, the Company maintained an economic position equivalent to 30.4 million AXTELCPOs in ZSC.

Derivative Instruments. The following table summarizes the Company's derivatives position as of March 31, 2014.

	AXTEL receives	AXTEL pays	Other
Zero-strike Equity Call Option			
Notional			30.4 million AXTELCPO
Value	30.4 million AXTELCPO	Strike price: ¢1 per CPO	
Settlement			In cash
Expiration Date			July 2014
Valuation			Ps. 135.6 million

At the end of the quarter, the Company's balance sheet recorded a liability of Ps. 105 million to reflect an implicit derivative instrument embedded in its Senior Secured Convertible Notes, per applicable accounting standards.

Financial Statements

Information as of March 31, 2014 compared with information as of March 31, 2013

Assets

As of March 31, 2014, total assets summed Ps. 19,955 million compared to Ps. 19,099 million as of March 31, 2013, an increase of Ps. 857 million, or 4%.

Cash and equivalents. As of March 31, 2014, we had cash and cash equivalents of Ps. 828 million compared to Ps. 824 million in the same date of year 2013, an increase of Ps. 4 million.

Accounts Receivable. As of March 31, 2014, the accounts receivable were Ps. 3,530 million compared with Ps. 2,545 million in the same date of 2013, an increase of Ps. 985 million or 39%, mainly due to a revenue increase and a higher proportion of government segment revenues which has a lower receivables turnover.

Property, plant and equipment, net. As of March 31, 2014, the net of depreciation value of property, plant and equipment was Ps. 12,989 million compared with Ps. 13,565 million as of March 31, 2013, a decrease of Ps. 576 million. The property, plant and equipment without adjusting for the accumulated depreciation, was Ps. 38,787 million and Ps. 36,189 million as of March 31, 2014 and March 31, 2013, respectively.

Liabilities

Total liabilities were Ps. 12,670 million as of March 31, 2014 compared to Ps. 10,790 million as of March 31, 2013, an increase of Ps. 1,881 million or 17%.

Accounts payable & accrued expenses. On March 31, 2014, the accounts payable and accrued expenses were Ps. 3,238 million compared with Ps. 2,168 million on March 31, 2013, an increase of Ps. 1,070 million or 49% due to an increase in capital expenditures during the quarter related to the advance in projects with the enterprise and government segments.

Stockholders' Equity

On March 31, 2014, the stockholders equity of the Company was Ps. 7,285 million compared with Ps. 8,309 million as of March 31, 2013, a decrease of Ps. 1,024 million, or 12%. The capital stock was Ps. 6,645 million as of March 31, 2014 compared to Ps. 6,626 as of March 31, 2013, a slight increase mainly due to the conversion of some of the Company's Senior Secured Convertible Notes due 2020.

Liquidity and Capital Resources

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

Cash Flow Statement

For the three month period ended March 31, 2014 compared with the three month period ended March 31, 2013

Net resources provided by operating activities were Ps. 397 million for the three month period ended on March 31, 2014 compared to Ps. 237 million recorded in the same period of year 2013.

Net resources (used in) provided by investing activities were Ps. (634) million for the three month period ended on March 31, 2014 compared to Ps. 2,835 million recorded in the same period of year 2013 due to the sale of telecommunication towers in January 2013. These flows primarily reflect investments in fixed assets of Ps. (634) million and Ps. (329) million, respectively.

Net resources (used in) provided by financing activities were Ps. (223) million and Ps. (2,876) million for the three month periods ended on March 31, 2014 and 2013, respectively.

For the twelve months ended March 31, 2014 compared with twelve months ended March 31, 2013

Net resources provided by operating activities were Ps. 2,719 million for the twelve month period ended on March 31, 2014 compared to Ps. 2,348 million recorded in the same period of 2013.

Net resources (used in) provided by investing activities were Ps. (2,419) million for the twelve month period ended on March 31, 2014 compared to Ps. 1,305 million recorded in the same period of year 2013. These flows primarily reflect investments in fixed assets of Ps. (2,423) million and Ps. (1,843) million, respectively.

Net resources (used in) provided by financing activities were Ps. (281) million and Ps. (3,324) million for the twelve month periods ended on March 31, 2014 and 2013, respectively.

As of March 31, 2014, the ratios of net debt to Adjusted EBITDA and interest coverage of the company were 2.4x and 3.9x, respectively. As March 31, 2013 the ratios of net debt to Adjusted EBITDA and interest coverage, were 2.4x and 2.4x, respectively.

Since the beginning of operations of the Company, AXTEL has invested approximately Ps. 39 billion in infrastructure. The Company expects to do more investments in the future, according to the expansion of the network in other geographical areas of Mexico in order to gain market and to maintain its current infrastructure and network.

Other important information

1) We are presenting financial information based on International Financial Reporting Standards (IFRS) in nominal pesos for the following periods:

   - Consolidated income statement information for the three month periods ending on March 31, 2014 and 2013, and December 31, 2013; and twelve month period ending on March 31, 2014 and 2013, and
   - Balance sheet information as of March 31, 2014 and 2013; and December 31, 2013.

2) Revenues are derived from:

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

3) Cost of revenues include expenses related to the termination of our customers’ cellular and long distance calls in other carriers’ networks, as well as expenses related to billing, payment processing, operator services and our leasing of private circuit links.

4) Operating expenses include costs incurred in connection with general and administrative matters which incorporate compensation and benefits, the costs of leasing land and towers related to our operations and costs associated with sales and marketing and the maintenance of our network.

5) Adjusted EBITDA is defined as net income plus interest, taxes, depreciation and amortization, and further adjusted for unusual or non-recurring items. For additional detail on the Adjusted EBITDA Reconciliation, go to AXTEL’s web site at www.axtel.mx

6) Earnings per CPO are calculated dividing the net income by the average number of Series A and Series B shares outstanding during the period divided by seven. The number of outstanding Series A and Series B shares was 97,750,656 and 8,729,350,607, respectively, as of March 31, 2014.

7) Net Debt to Adjusted EBITDA: The figure comes from dividing the net debt at the end of the period by the respective LTM Adjusted EBITDA.

8) Revenue Generating Unit, or RGU, represents individual service subscriber who generates recurring revenue for the Company. Total RGUs include the sum of all lines in service, broadband service customers and video subscribers.

9) Depreciation and amortization includes depreciation of all communications network and equipment and amortization of pre-operating expenses and cost of spectrum licenses, among others.

10) Subject to market conditions, the Company's liquidity position and its contractual obligations, from time to time, the Company may acquire its senior secured and unsecured notes in the open market or in privately negotiated transactions.

Analyst Coverage: The analysts mentioned below currently cover Axtel S.A.B. de C.V.

- Actinver Casa de Bolsa
- Bank of America-Merrill Lynch
- BBVA Bancomer
- BTG Pactual
- Casa de Bolsa Banorte Ixe, Grupo Financiero Banorte
- Credit Suisse Securities
- GBM Grupo Bursátil Mexicano
- Goldman, Sachs & Co.
- Itaú BBA
- Scotiabank Inverlat

About AXTEL

Axtel is a Mexican telecommunications company with a significant growth in the broadband segment, and one of the leading companies in information and communication technologies solutions in the corporate, financial and government sectors. The Company serves all market segments -corporate, financial, government, wholesale and residential with the most robust offering of integrated communications services in Mexico. Its world-class network consists of different access technologies like fiber optic, fixed wireless access, point to point and point to multipoint links, in order to offer solutions tailored to the needs of its customers.

AXTELCPO trades on the Mexican Stock Exchange since 2005. AXTEL's American Depositary Shares are eligible for trading in The PORTAL Market, a subsidiary of the NASDAQ Stock Market, Inc.

Visit AXTEL's Investor Relations Center on www.axtel.mx

(1) Reporting entity

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

(2) Significant events

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

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

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

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

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

(3) Basis of preparation

a) Statement of compliance

The unaudited consolidated financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The information presented in the unaudited consolidated financial statements of the Company was prepared according to the same accounting policies and methods of calculation as in the annual financial statements for the year ended December 31, 2013.

During the interim period ended March 31, 2014 and the year ended December 31, 2013 there were no corrections of prior period errors and changes in business or economic circumstances that affect the fair value of financial assets and liabilities financial statements of the Company. In addition there were no transactions seasonal or cyclical nature affecting the interim period and comparability.

There were no changes in estimates of amounts reported in prior interim periods of the financial statements.

At the reporting date of these financial statements there are no events after the interim period that have not been reflected in the financial statements for that interim period.

b) Basis of measurement

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

c) Functional and presentation currency

These consolidated financial statements are presented in Mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps.", are to Mexican pesos; likewise, references to dollars or U.S. $, or USD are to dollars of the United States of America.

(4) Significant accounting policies

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

a) Cash and cash equivalents

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

b) Financial assets

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

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

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

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

Financial assets valued at fair value through profit or loss

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

Available-for-sale financial assets

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

Receivables

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

Effective interest method

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

Write-off of financial assets

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

c) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

Available-for-sale financial instruments

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

d) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

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

Embedded derivatives

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

e) 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.

f) 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.

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

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

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

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

h) Property, systems and equipment

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

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

<u>Depreciation</u>

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

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

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

<u>Subsequent costs</u>

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

Decommissioning and remediation obligations

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

Borrowing costs

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

i) Intangibles assets

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

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

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

As a consequence of the acquisition of Avantel, the Company identified and recognized the following intangible assets: trade name, customer relationships and concession rights. At March 31, 2014, the values of the trade name and of customer relationships were totally amortized.

j) Impairment of non-financial assets

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

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

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

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

k) Non-current assets held for sale

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

l) Financial liabilities

<u>Initial recognition and measurement</u>

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

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

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

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

<u>Financial liabilities at fair value with changes to profit or loss</u>

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.

m) Leases

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

The Company as a lessee

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

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

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

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 in so far as the employees render the services that allow them to enjoy such vacations.

Seniority premiums granted to employees

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

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

Termination benefits

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

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

p) Statutory employee profit sharing

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

q) Income taxes

Current income taxes

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

Deferred income taxes

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

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

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

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

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

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.
- *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.

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.

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

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

Underlying estimates and assumptions are reviewed regularly.

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

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

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

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

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

e) Decommission and remediation provision - The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalizes the associated cost as a component of the related asset.

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

g) Financial instruments recognized at fair value - In cases where fair value of financial assets and liabilities recorded in the consolidated financial statement do not arise from active markets, their fair values are determined using assessment techniques, including the discounted cash flows model. Where possible, the data these models are supplied with are taken from observable markets, otherwise a degree of discretionary judgment is required to determine fair values. These judgments include data such as liquidity risk, credit risk and volatility. Changes in the assumptions related to these factors may affect the amounts of fair values advised for financial instruments.

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

(6) 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, 2013	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)	-
Reclassification of transfer to assets held for sale		-	-	-	-	240,451	-	-	240,451
Disposals		-	-	(32,987)	(76)	(78,787)	-	-	(111,850)
Balance as of December 31, 2013		430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071
Additions		-	-	1,038	-	138,202	-	503,935	643,175
Transfer of completed projects in progress		-	47,205	-	6,144	278,580	230	(332,159)	-
Disposals		-	(1,795)	-	-	(2,736)	-	-	(4,531)
Balance as of March 31, 2014	Ps	430,990	3,427,507	388,751	247,213	32,831,940	429,842	1,030,472	38,786,715

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, 2013	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
Reclassification of transfer to assets held for sale		-	-	-	-	184,955	-	-	184,955
Disposals		-	-	(31,752)	-	(14,385)	-	-	(46,137)
Balance as of December 31, 2013		136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Depreciation of the year		3,571	28,792	14,152	4,070	783,362	6,654	-	840,601
Disposals		-	(1,765)	-	-	(2,261)	-	-	(4,026)
Balance as of March 31, 2014	Ps	139,655	1,386,379	335,646	182,339	23,418,802	334,638	-	25,797,459
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 March 31, 2014	Ps	291,335	2,041,128	53,105	64,874	9,413,138	95,204	1,030,472	12,989,256

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

Non-current assets held for sale

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.

(7) Transactions and balances with related parties

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

		2014	2013
Banamex:			
Telecommunication service revenues	Ps	140,324	140,707
Commission and administrative services		2,951	4,546
Interest expense		79	17,204
Other related parties:			
Rent expense	Ps.	8,781	8,240
Installation service expense		7,167	7,731
Other		1,868	183

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

		2014	2013
Accounts payable short-term:			
Instalaciones y Desconexiones Especializadas, S.A. de C.V. (2)	Ps	1,125	-
Neoris de México, S.A. de C.V. (2)		719	-
GEN Industrial, S.A. de C.V. (2)		8	58
Total	Ps	1,852	58

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

		2014	2013
Deferred revenues short-term:			
Banco Nacional de México, S.A. (1)	Ps	449,727	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 in November 2006. Under this contract, the Company provides telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico.

(2) Mainly rents and other administrative services.

(8) Stockholders’ equity

The main characteristics of stockholders’ equity are described below:

(a) Capital stock structure

As of March 31, 2014, the common stock of the Company is Ps 6,645,418. The Company has 8,827,101,263 shares issued and outstanding. Company’s shares are divided in two Series: Series A and B; both Series have two type of classes, Class “I” and Class “II”, with no par value. Of the total shares, 97,750,656 are series A and 8,729,350,607 series B. At March 31, 2014 the Company has issued only Class "I".

In connection with the issuance of the convertible bond into shares held on January 31, 2013, and in accordance with the resolutions adopted by the Extraordinary General Meeting of Shareholders on January 25, 2013, the Company issued 972,814,143 Series B shares Class "I" that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible bonds.

During the first quarter of 2014 the conversion option was exercised for a total of 50,909,061 Series B shares representing an increase of Ps 17,528 in the capital stock of the Company.

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.

(9) Commitments and contingencies

As of March 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 by means of which it determined the interconnection tariffs for the years 2005 to 2007. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

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

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

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

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

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

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

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

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

The tariffs that the Company was paying prior to the rulings, was of $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers. As of March 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. 2,196 million not including value added tax.

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

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of March 31, 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) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel.

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

On May 2011, the Cofetel issued a ruling resolving an interconnection disagreement proceeding between Telmex and the Company, related to the tariff applicable to the termination of long distance calls from the Company to Telmex, for the year 2011. In such administrative resolution, the Cofetel approved a reduction of the tariffs applicable for the termination of long distance calls. The above mentioned tariffs were reduced from US$0.0126, US$0.0105 or US$0.0080 per minute, to Ps.0.04530 and Ps.0.03951 per minute, depending on the place in which the Company is to deliver the long distance traffic. Telmex challenged this ruling before the SCT, but the request was dismissed by such authority. Nowadays, Telmex challenged such dismissal, before the Federal Court of Tax and Administrative Justice, and such proceeding is in an initial stage.

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

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

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

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

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

<u>Axtel, S.A.B. de C.V. reports their operations with financial derivative instruments, complementary to the 1st Quarter 2014 Financial Information Report:</u>

<u>Qualitative and Quantitative Information:</u>

<u>Derivatives Policy</u>

Axtel, S.A.B. de C.V. (" The Company or Axtel ")'s internal policy is to contract derivative instruments to mitigate primarily exchange and interest rate risk exposure with respect to our foreign currency obligations or commitments contracted in currencies different than the Mexican peso.

The strategy of the Company depends on the particular risk to be hedged, in accordance to the established policy. We prefer instruments that comply with IFRS of the International Financial Information Rules as hedge instruments, although other instruments can be considered also as long as such instruments reduce Axtel's risks against its foreign currency exposure. Once defined the type of financial instrument to be used, the Company deals with international counterparties on the Over the Counter market ("OTC"). The Counterparty must have investment grade by the major rating agencies or met Axtel's internal Treasury policies. The Company requests at least two quotes from counterparties. These are compared and analyzed under the parameters of the Financial Information Standard (IFRS), and then the most competitive is selected. All the operations must be authorized by the Finance, Treasury and Investor Relations Director.

The valuation agents are established in the contract of financial derivative instruments or International Swap Derivatives Association, ("ISDA") and their schedules. These documents contain the terms and conditions and the required documentation for each transaction, such as: payment dates, calculation agent, defaults, currency of delivery, margin calls and applicable legislation among others. In order to determine the mark to market on a specific date, the Company realizes their own valuations extracting economic information from specialized sources such as Reuters, Bloomberg, Banxico's web page, and other financial institutions.

During the 1st quarter 2014 no hedge transactions were traded by the company, so at the end of the 1st quarter 2014 the company has no operations of derivative financial instruments outstanding.

Margin calls, collateral and credit lines.

Margins calls and collaterals are established also in the ISDA agreement. These are established by the counterparties depending on the authorized credit lines and determined threshold limits. The Company does not operate with counterparties that do not offer reasonable lines relative to the size of the transaction closed. A transaction is not negotiated with a counterparty that does not offer a sufficient line related to that specific hedge.

Levels of authorization

The authorized officers to close derivative transactions are the Finance, Treasury and Investor Relations Director, with approval of the Chief Financial Officer. Depending on the notional amount of each transaction, the internal Treasury committee is informed and subsequently approves certain transactions, according to Axtel's internal Treasury policies. The procedure of every operation is realized with two or more quotes which are shown by the Finance, Treasury and Investor Relations Director to the Chief Financial Officer who decides to proceed or not with such operation.

Procedures of internal control

Once the transaction is closed the counterparty sends a confirmation which specifies the terms and conditions of the deal to the Company. The Company´s Treasury department ("Treasury") reviews it and sends it to the Accounting department for its proper registration.

In order to keep control over each transaction, on a monthly basis, Treasury executes valuations to determine the mark to market and the effectiveness of the derivative instruments. These valuations are performed with tests established in the IFRS. Once these valuations are made, the information is passed along to the Accounting department for proper registration in the books. On a quarterly basis, our external auditors review the above mentioned records applying their own valuation and calculation methods.

External Review

KPMG Cardenas Dosal, S.C., the Company´s external auditors, reviews periodically the valuation and accounting records of these operations.

Valuation Techniques

The valuation of derivative instruments with hedging purposes is realized using its fair value method.

It should be noted that because such assessments are made above according to international standards IFRS, the market value registered by the company include counterparty risk, for that reason and in case the market value is in favor of Axtel (asset) this includes the CDS (Credit Default Swap)of the counterparty, and if the market value is in favor of the counterparty (liability) the record includes counterparty risk in the record Axtel (Z-spread).

With the purpose of monitoring the effectiveness of derivatives with hedging purposes, prospective (analysis of linear regression) and retrospectives (periodic or accumulated compensation) tests are realized using statistical samples of market variables (interest and exchange rates), in accordance to the IFRS. This technique allows the monitoring of the derivative instruments' performance and the likelihood that a particular derivative instrument could not be treated as a hedge instrument in the future.

Axtel prepares its own valuations, which is compared against the counterparty's valuation. If there is a significant difference, further clarification is requested.

In order to determine the effectiveness of the hedging, the method of periodic compensation is used.

At least once a year, the external auditors of the Company (KPMG Cardenas Dosal, S.C) review the derivative instruments accounting records and validate their effectiveness in accordance with the IFRS.

Sources of Liquidity.

Most of company's revenues are pesos denominated. With the purpose of eliminating the risk associated of having revenues in Pesos and interest payment obligations in Dollars associated with the Senior Notes (see "Debt Profile"), the Company entered into "Interest Only Swaps" and FX Forwards, whereby, the Company effectively locks the above mentioned interest payments into Pesos, met with the cash flow generated by its operation.

The Company does not currently have lines of credit for this type of instruments.

The risks that are identified are the decrease of the exchange rate for all the derivative instruments.

Quantitative Information (figures expressed in thousands except that another reference is indicated).

As of March 31, 2014, the Company had no derivative instruments contracted:

At the date of financial statements, there is registered $107,934 as a passive position, to recognize the effect of terms and clauses of senior secured convertible notes issued in January 2013, that have features of derivatives (embedded derivatives); in accordance with the provisions of IAS 39.

Sensibility analysis:

No sensibility tests were performed due to there are no derivative financial instruments operations at the end of the 1st Quarter of 2014.