MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END
		Amount	Amount
10000000	**TOTAL ASSETS**	**19,882,652**	**20,500,331**
11000000	**TOTAL CURRENT ASSETS**	**4,879,496**	**3,953,722**
11010000	CASH AND CASH EQUIVALENTS	1,292,263	597,201
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	2,981,732	2,406,764
11030010	TRADE RECEIVABLES	5,388,862	4,614,301
11030020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	-2,407,130	-2,207,537
11040000	OTHER RECEIVABLES, NET	291,410	243,217
11040010	OTHER RECEIVABLES	291,410	243,217
11040020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	0	0
11050000	INVENTORIES	106,313	105,471
11051000	BIOLOGICAL CURRENT ASSETS	0	0
11060000	OTHER CURRENT ASSETS	207,778	601,069
11060010	PREPAYMENTS	65,578	52,188
11060020	DERIVATIVE FINANCIAL INSTRUMENTS	0	0
11060030	ASSETS AVAILABLE FOR SALE	0	460,462
11060040	DISCONTINUED OPERATIONS	0	0
11060050	RIGHTS AND LICENSES	0	0
11060060	OTHER	142,200	88,419
12000000	**TOTAL NON-CURRENT ASSETS**	**15,003,156**	**16,546,609**
12010000	ACCOUNTS RECEIVABLE, NET	333,751	15,470
12020000	INVESTMENTS	11,640	9,647
12020010	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	11,640	9,647
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	13,187,187	13,997,994
12030010	LAND AND BUILDINGS	430,990	430,990
12030020	MACHINERY AND INDUSTRIAL EQUIPMENT	32,406,301	29,602,272
12030030	OTHER EQUIPMENT	4,452,086	4,329,151
12030040	ACCUMULATED DEPRECIATION	-24,960,886	-21,654,810
12030050	CONSTRUCTION IN PROGRESS	858,696	1,290,391
12040000	INVESTMENT PROPERTY	0	0
12050000	BIOLOGICAL NON- CURRENT ASSETS	0	0
12060000	INTANGIBLE ASSETS,NET	223,792	288,622
12060010	GOODWILL	0	0
12060020	TRADEMARKS	0	0
12060030	RIGHTS AND LICENSES	0	0
12060031	CONCESSIONS	184,350	224,676
12060040	OTHER INTANGIBLE ASSETS	39,442	63,946
12070000	DEFERRED TAX ASSETS	1,101,937	2,081,718
12080000	OTHER NON-CURRENT ASSETS	144,849	153,158
12080001	PREPAYMENTS	84,619	85,291
12080010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0
12080020	EMPLOYEE BENEFITS	0	0
12080021	AVAILABLE FOR SALE ASSETS	0	0
12080030	DISCONTINUED OPERATIONS	0	0
12080040	DEFERRED CHARGES	0	0
12080050	OTHER	60,230	67,867
20000000	**TOTAL LIABILITIES**	**12,354,994**	**15,412,057**
21000000	**TOTAL CURRENT LIABILITIES**	**4,299,435**	**4,294,526**
21010000	BANK LOANS	0	117,547
21020000	STOCK MARKET LOANS	0	0
21030000	OTHER LIABILITIES WITH COST	308,945	294,422
21040000	TRADE PAYABLES	2,741,308	2,404,471
21050000	TAXES PAYABLE	285,987	135,703
21050010	INCOME TAX PAYABLE	285,987	135,703

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END
		Amount	Amount
21050020	OTHER TAXES PAYABLE	0	0
21060000	OTHER CURRENT LIABILITIES	963,195	1,342,383
21060010	INTEREST PAYABLE	278,807	276,043
21060020	DERIVATIVE FINANCIAL INSTRUMENTS	0	46,532
21060030	DEFERRED REVENUE	583,915	631,298
21060050	EMPLOYEE BENEFITS	0	0
21060060	PROVISIONS	0	281,808
21060061	CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0
21060070	DISCONTINUED OPERATIONS	0	0
21060080	OTHER	100,473	106,702
22000000	**TOTAL NON-CURRENT LIABILITIES**	**8,055,559**	**11,117,531**
22010000	BANK LOANS	0	940,378
22020000	STOCK MARKET LOANS	7,327,462	9,952,727
22030000	OTHER LIABILITIES WITH COST	227,912	161,540
22040000	DEFERRED TAX LIABILITIES	0	0
22050000	OTHER NON-CURRENT LIABILITIES	500,185	62,886
22050010	DERIVATIVE FINANCIAL INSTRUMENTS	116,658	0
22050020	DEFERRED REVENUE	33,900	33,900
22050040	EMPLOYEE BENEFITS	21,330	19,452
22050050	PROVISIONS	0	0
22050051	NON-CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0
22050060	DISCONTINUED OPERATIONS	0	0
22050070	OTHER	328,297	9,534
30000000	**TOTAL EQUITY**	**7,527,658**	**5,088,274**
30010000	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	7,527,658	5,088,274
30030000	CAPITAL STOCK	6,627,890	6,625,536
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)	255,058	-2,152,621
30080010	LEGAL RESERVE	0	0
30080020	OTHER RESERVES	162,334	162,334
30080030	RETAINED EARNINGS	-2,314,955	-1,606,086
30080040	NET INCOME FOR THE PERIOD	2,407,679	-708,869
30080050	OTHERS	0	0
30090000	ACCUMULATED OTHER COMPREHENSIVE INCOME (NET OF TAX)	0	-29,351
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	-29,351
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

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENT OF FINANCIAL POSITION
INFORMATIONAL DATA

AT 31 DECEMBER 2013 AND 31 DECEMBER 2012

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	CONCEPTS	ENDING CURRENT	PREVIOUS YEAR END
		Amount	Amount
91000010	SHORT-TERM FOREIGN CURRENCY LIABILITIES	1,394,155	1,624,996
91000020	LONG TERM FOREIGN CURRENCY LIABILITIES	7,512,194	10,639,204
91000030	CAPITAL STOCK (NOMINAL)	6,627,890	6,625,536
91000040	RESTATEMENT OF CAPITAL STOCK	0	0
91000050	PLAN ASSETS FOR PENSIONS AND SENIORITY PREMIUMS	0	0
91000060	NUMBER OF EXECUTIVES (*)	176	185
91000070	NUMBER OF EMPLOYEES (*)	5,355	5,257
91000080	NUMBER OF WORKERS (*)	1,260	1,081
91000090	OUTSTANDING SHARES (*)	8,776,192,202	8,769,353,223
91000100	REPURCHASED SHARES (*)	0	0
91000110	RESTRICTED CASH (1)	0	10,709
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: **04** YEAR: **2013**

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

STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2013 AND 2012

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40010000	**REVENUE**	**10,286,494**	**2,987,711**	**10,189,732**	**2,417,722**
40010010	SERVICES	10,286,494	2,987,711	10,189,732	2,417,722
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**	**2,984,573**	**1,048,711**	**2,854,785**	**669,287**
40021000	GROSS PROFIT	7,301,921	1,939,000	7,334,947	1,748,435
40030000	**GENERAL EXPENSES**	**7,648,337**	**2,004,726**	**7,669,838**	**1,972,439**
40040000	**PROFIT (LOSS) BEFORE OTHER INCOME (EXPENSE), NET**	**-346,416**	**-65,726**	**-334,891**	**-224,004**
40050000	**OTHER INCOME (EXPENSE), NET**	**3,033,104**	**-33,921**	**-199,987**	**-190,812**
40060000	**OPERATING PROFIT (LOSS) (*)**	**2,686,688**	**-99,647**	**-534,878**	**-414,816**
40070000	FINANCE INCOME	1,624,894	64,469	819,597	4,805
40070010	INTEREST INCOME	16,229	4,016	21,967	4,805
40070020	GAIN ON FOREIGN EXCHANGE, NET	39,682	0	797,630	0
40070030	GAIN ON DERIVATIVES, NET	0	0	0	0
40070040	GAIN ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	0	31,653	0	0
40070050	OTHER FINANCE INCOME	1,568,983	28,800	0	0
40080000	FINANCE COSTS	887,757	254,434	1,166,710	363,714
40080010	INTEREST EXPENSE	882,454	213,429	1,057,513	274,731
40080020	LOSS ON FOREIGN EXCHANGE, NET	0	41,005	0	80,475
40080030	LOSS ON DERIVATIVES, NET	0	0	0	0
40080050	LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	5,303	0	109,197	8,508
40080060	OTHER FINANCE COSTS	0	0	0	0
40090000	**FINANCE INCOME (COSTS), NET**	**737,137**	**-189,965**	**-347,113**	**-358,909**
40100000	SHARE OF PROFIT (LOSS) OF ASSOCIATES AND JOINT VENTURES	1,992	2,055	-20	-4
40110000	**PROFIT (LOSS) BEFORE INCOME TAX**	**3,425,817**	**-287,557**	**-882,011**	**-773,729**
40120000	INCOME TAX EXPENSE	1,018,138	-17,839	-173,142	-183,882
40120010	CURRENT TAX	50,817	17,966	53,022	8,477
40120020	DEFERRED TAX	967,321	-35,805	-226,164	-192,359
40130000	**PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**2,407,679**	**-269,718**	**-708,869**	**-589,847**
40140000	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	0	0	0	0
40150000	**NET PROFIT (LOSS)**	**2,407,679**	**-269,718**	**-708,869**	**-589,847**
40160000	PROFIT (LOSS), ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40170000	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT	2,407,679	-269,718	-708,869	-589,847

40180000	BASIC EARNINGS (LOSS) PER SHARE	0.27	-.03	-0.08	-0.07
40190000	DILUTED EARNINGS (LOSS) PER SHARE	0	0	0.00	0.00

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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

STATEMENTS OF COMPREHENSIVE INCOME

OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2013 AND 2012

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40200000	**NET PROFIT (LOSS)**	**2,407,679**	**-269,718**	**-708,869**	**-589,847**
	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	29,351	0	-5,043	3,869
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**	**29,351**	**0**	**-5,043**	**3,869**

40300000	**TOTAL COMPREHENSIVE INCOME**	**2,437,030**	**-269,718**	**-713,912**	**-585,978**
40320000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40310000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO OWNERS OF PARENT	2,437,030	-269,718	-713,912	-585,978

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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

STATEMENTS OF COMPREHENSIVE INCOME

INFORMATIONAL DATA

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2013 AND 2012

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
92000010	OPERATING DEPRECIATION AND AMORTIZATION	3,218,539	815,519	3,073,240	796,072
92000020	EMPLOYEES PROFIT SHARING EXPENSES	8,505	5,144	4,955	1,537

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENTS OF COMPREHENSIVE INCOME

INFORMATIONAL DATA (12 MONTHS)

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2013 AND 2012

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	YEAR	
		CURRENT	PREVIOUS
92000030	REVENUE NET (**)	10,286,494	10,189,732
92000040	OPERATING PROFIT (LOSS) (**)	2,686,688	-534,878
92000050	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT(**)	2,407,679	-708,869
92000060	NET PROFIT (LOSS) (**)	2,407,679	-708,869
92000070	OPERATING DEPRECIATION AND AMORTIZATION (**)	3,218,539	3,073,240

(*) TO BE DEFINED BY EACH COMPANY

(**) INFORMATION LAST 12 MONTHS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENT OF CASH FLOWS

TO DECEMBER 31 OF 2013 AND 2012

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURRENT YEAR Amount	PREVIOUS YEAR Amount
OPERATING ACTIVITIES			
50010000	**PROFIT (LOSS) BEFORE INCOME TAX**	**3,425,817**	**-882,011**
50020000	+(-) ITEMS NOT REQUIRING CASH	159,842	-596,157
50020010	+ ESTIMATE FOR THE PERIOD	199,524	201,473
50020020	+ PROVISION FOR THE PERIOD	0	0
50020030	+(-) OTHER UNREALISED ITEMS	-39,682	-797,630
50030000	+(-) ITEMS RELATED TO INVESTING ACTIVITIES	128,656	3,094,239
50030010	DEPRECIATION AND AMORTISATION FOR THE PERIOD	3,218,539	3,073,240
50030020	(-)+ GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	-3,113,664	-429
50030030	+(-) LOSS (REVERSAL) IMPAIRMENT	0	0
50030040	(-)+ EQUITY IN RESULTS OF ASSOCIATES AND JOINT VENTURES	-1,992	20
50030050	(-) DIVIDENDS RECEIVED	0	0
50030060	(-) INTEREST RECEIVED	0	0
50030070	(-) EXCHANGE FLUCTUATION	0	0
50030080	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	25,773	21,408
50040000	+(-) ITEMS RELATED TO FINANCING ACTIVITIES	-683,316	1,160,474
50040010	(+) ACCRUED INTEREST	882,454	1,057,513
50040020	(+) EXCHANGE FLUCTUATION	0	0
50040030	(+) DERIVATIVE TRANSACTIONS	5,303	109,197
50040040	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-1,571,073	-6,236
50050000	**CASH FLOWS BEFORE INCOME TAX**	**3,030,999**	**2,776,545**
50060000	CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	-471,520	-572,338
50060010	+(-) DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	-669,492	-590,225
50060020	+(-) DECREASE (INCREASE) IN INVENTORIES	-842	47,284
50060030	+(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE	23,784	107,474
50060040	+(-) INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	302,264	-36,632
50060050	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	-51,854	-32,211
50060060	+(-) INCOME TAXES PAID OR RETURNED	-75,380	-68,028
50070000	**NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**	**2,559,479**	**2,204,207**
INVESTING ACTIVITIES			
50080000	NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	1,050,041	-2,031,298
50080010	(-) PERMANENT INVESTMENTS	0	0
50080020	+ DISPOSITION OF PERMANENT INVESTMENTS	0	0
50080030	(-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	-2,118,210	-2,016,223
50080040	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	3,164,046	0
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	4,205	-15,075
FINANCING ACTIVITIES			
50090000	NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	-2,934,097	-1,002,967
50090010	+ BANK FINANCING	0	261,862
50090020	+ STOCK MARKET FINANCING	442,014	0
50090030	+ OTHER FINANCING	75,000	0
50090040	(-) BANK FINANCING AMORTISATION	-1,042,116	0
50090050	(-) STOCK MARKET FINANCING AMORTISATION	-1,326,887	0
50090060	(-) OTHER FINANCING AMORTISATION	-248,375	-333,027
50090070	+(-) INCREASE (DECREASE) IN CAPITAL STOCK	384	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	-756,135	-1,038,846
50090120	(-) REPURCHASE OF SHARES	0	0
50090130	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-77,982	107,044

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2013**

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

STATEMENT OF CASH FLOWS

TO DECEMBER 31 OF 2013 AND 2012

(Thousand Pesos)

CONSOLIDATED

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURREENT YEAR	PREVIOUS YEAR
		Amount	Amount
50100000	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**	**675,423**	**-830,058**
50110000	**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**	**19,639**	**54,363**
50120000	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	597,201	1,372,896
50130000	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**1,292,263**	**597,201**

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, 2012	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-1,606,086**	**-24,308**	**5,802,186**	**0**	**5,802,186**
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	-708,869	-5,043	-713,912	0	-713,912
BALANCE AT DECEMBER 31, 2012	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-2,314,955**	**-29,351**	**5,088,274**	**0**	**5,088,274**
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)	2,354	0	0	0	0	0	0	0	2,354	0	2,354
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	2,407,679	29,351	2,437,030	0	2,437,030
BALANCE AT DECEMBER 31, 2013	**6,627,890**	**0**	**644,710**	**0**	**0**	**162,334**	**92,724**	**0**	**7,527,658**	**0**	**7,527,658**

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	11,640
TOTAL INVESTMENT IN ASSOCIATES				24,497	11,640

NOTES

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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

BREAKDOWN OF CREDITS

CONSOLIDATED

(THOUSAND PESOS)

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																
OTHER																
TOTAL BANKS					0	0	0	0	0	0	0	0	0	0	0	0

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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

BREAKDOWN OF CREDITS

CONSOLIDATED

(THOUSAND PESOS)

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							N/A	0	0	0	659,029	0
SENIOR NOTES 2019	YES	22/09/2009	22/09/2019	9							N/A	0	0	0	0	1,330,272
SENIOR SECURED NOTES 2020	YES	31/01/2013	31/01/2020	7, 8 y 9							N/A	0	0	0	0	5,160,680
CONVERTIBLE NOTES 2020	YES	31/01/2013	31/01/2020	7, 8 Y 9							N/A	0	0	0	0	177,481
SECURED																
TOTAL STOCK MARKET LISTED IN STOCK EXCHANGE AND PRIVATE PLACEMENT					**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**659,029**	**6,668,433**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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

BREAKDOWN OF CREDITS

CONSOLIDATED

(THOUSAND PESOS)

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				N/A	217,610	14,606	15,571	17,139	0						
OTROS PASIVOS CON COSTO	NOT										N/A	91,335	77,742	69,253	31,820	1,781
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST					0	217,610	14,606	15,571	17,139	0	0	91,335	77,742	69,253	31,820	1,781
SUPPLIERS																
PROVEEDORES	NOT				N/A	1,744,347										
PROVEEDORES	NOT										N/A	879,881				
PROVEEDORES	YES										N/A	117,080				
TOTAL SUPPLIERS					0	1,744,347					0	996,961				
OTHER CURRENT AND NON-CURRENT LIABILITIES																
OTROS PASIVOS	NOT				N/A	657,336	496,049	0	0	0						
OTROS PASIVOS	NOT										N/A	305,859	4,136	0	0	0
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES					0	657,336	496,049	0	0	0	0	305,859	4,136	0	0	0
GENERAL TOTAL					**0**	**2,619,293**	**510,655**	**15,571**	**17,139**	**0**	**0**	**1,394,155**	**81,878**	**69,253**	**690,849**	**6,670,214**

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	68,044	889,772	0	0	889,772
CURRENT	68,044	889,772	0	0	889,772
NON CURRENT	0	0	0	0	0
LIABILITIES POSITION	681,095	8,906,349	0	0	8,906,349
CURRENT	106,615	1,394,155	0	0	1,394,155
NON CURRENT	574,480	7,512,194	0	0	7,512,194
NET BALANCE	-613,051	-8,016,577	0	0	-8,016,577

NOTES

FINANCIAL LIMITATIONS IN CONTRACT, ISSUED DEED AND / OR TITLE

• AS OF DECEMBER 31, 2013 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:

• 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

• TOTAL GUARANTEED DEBT EQUAL TO TOTAL DEBT ISSUED BY US$ 270,842,689.85 MILLION

• 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

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	3,208,170	0.00		
SERVICIOS DE L.D.	0	1,139,591	0		
INTERNET Y VIDEO	0	1,043,393	0		
DATOS Y REDES	0	1,860,070	0		
SERV INT Y VTA EQ	0	1,884,132	0		
TRAFICO INTL.	0	763,991	0		
OTROS SERVICIOS	0	387,147	0		
EXPORT INCOME					
INCOME OF SUBSIDIARIES ABROAD					
TOTAL	**0**	**10,286,494**			

NOTES

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2013**

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	8,678,441,546	0	0	8,678,441,546	6,554,494	0
TOTAL			8,776,192,202	0	97,750,656	8,678,441,546	6,627,890	0

TOTAL NUMBER OF SHARES REPRESENTING THE PAID IN CAPITALSTOCK ON THE DATE OF SENDING THE INFORMATION 8,776,192,202

NOTES

DERIVATIVE FINANCIAL INSTRUMENTS

SEE THE ATTACHED FILE

San Pedro Garza Garcia, Mexico, February 27, 2014 - Axtel, S.A.B. de C.V. ("AXTEL" or "the Company"), a leading Mexican fixed-line integrated telecommunications company, announced today its unaudited fourth quarter results ended December 31, 2013[1].

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

Highlights:

- Adjusted EBITDA for the quarter was Ps. 749 million, 31% higher than the same quarter of last year and similar to the third quarter of this year. This growth was driven by integrated services and equipment sales to the enterprise and government segments, as well as high speed broadband and video services to the mass market customers.

- Broadband subscribers' growth pace continued improving. Net additions reached 14 thousand in this quarter, compared to 12 thousand in the third quarter. This was mainly explained by an increase in FTTH subscribers, but also from the turnaround in WiMAX subscribers, which showed positive net additions of 2 thousand, compared to net disconnections in previous quarters.

- This quarter, AXTEL further improved its capital structure and liquidity position by successfully executing a debt exchange and add-on transaction. An amount of US$115 million of its existing 2017 and 2019 Senior Notes was exchanged for US$110 million of new 2020 Secured Notes improving AXTEL's debt maturity profile. Additionally, US$36 million of new 2020 Secured Notes were issued for cash which, combined with an improvement in working capital, placed the Company's year-end cash balance close to US$100 million— excluding the undrawn US$35 million in committed bank facilities.

Revenues from operations

Revenues from operations totaled Ps. 2,988 million in the fourth quarter of year 2013 from Ps. 2,418 million for the same period in 2012, an increase of Ps. 570 million or 24%.

Revenues from operations totaled Ps. 10,286 million in the twelve month period ended December 31, 2013, compared to Ps. 10,190 million in the same period in 2012, an increase of Ps. 97 million, or 1%.

Sources of Revenues

IMPORTANT DISCLOSURE. Unless otherwise stated, comments in this section exclude revenues generated by our major wholesale customer (see note 9 for further information).

Local services. Local service revenues totaled Ps. 760 million in the fourth quarter of 2013, compared to Ps. 876 million for same period in 2012, representing a decrease of Ps. 117 million, explained by Ps. 76 million, Ps. 16 million and Ps. 24 million decreases in monthly rents, measured service and cellular revenues, respectively. Average customers declined 11%, contributing to a decline in monthly rents of 11%. The 30% decrease in measured services is explained by 21% decreases in billed-traffic volume and 12% decrease in prices. The 17% decrease in cellular revenue is explained by a 10% decrease in prices resulting from a market trend linked to lower interconnection tariffs, and an 8% decline in cellular billed-traffic. Revenues coming from monthly rents represented 79% of local revenues during the three month period ended December 31, 2013. For the twelve month period ended December 31, 2013, local revenues totaled Ps. 3,198 million, compared to Ps. 3,604 million registered in the same period in 2012, a decrease of Ps. 406 million or 11% mostly explained by Ps. 250, Ps. 58 and Ps. 97 million declines in monthly rents, measured service and cellular revenues respectively.

Long distance services. Revenues amounted to Ps. 254 million in the fourth quarter of 2013, compared to Ps. 276 million for same period in 2012, an 8% decrease. Billed-traffic volume remained unchanged, however revenues decreased due to an 8% decline in billed-traffic prices. For the twelve month period ended December 31, 2013, long distance revenues totaled Ps. 1,054 million compared to Ps. 1,099 million registered in 2012, a Ps. 46 million, or 4%, decline.

Internet & Video. Quarterly revenues totaled Ps. 289 million, compared to Ps. 224 million in the same period in 2012, a 29% or Ps. 66 million increase driven by the new video or pay-TV service and the increase in mass-market, or, “on-demand” internet services revenues, which increased 11% year-over-year. During the twelve month period ended on December 31, 2013, internet and video services revenues totaled Ps. 1,043 million from Ps. 799 million registered in 2012, an increase of Ps. 244 million, or 31%.

Data & Network. Data and network revenues amounted to Ps. 438 million in the fourth quarter of 2013, compared to Ps. 493 million in the same period in 2012, an 11% or Ps. 55 million decrease driven by 12% and 10% declines in private lines and dedicated internet revenues respectively. Competitive pressures on prices and migration to all-included integrated services explain the decline in revenues. During the twelve month period ended on December 31, 2013, data and network services revenues totaled Ps. 1,847 million from Ps. 1,990 million registered in 2012, a decrease of Ps. 143 million, or 7%.

Integrated Services & Equipment Sales. Quarterly revenues totaled Ps. 823 million in the fourth quarter of 2013, from Ps. 284 million in the same quarter of previous year, a 190% increase mainly explained by integrated service and equipment sales transactions with state and federal government entities. For the twelve month period ended December 31, 2013, revenues totaled Ps. 1,884 million from Ps. 1,494 million registered in 2012, an increase of Ps. 390 million, or 26%.

International traffic. In the fourth quarter of 2013, international traffic revenues totaled Ps. 313 million, an increase of Ps. 167 million or 115% versus the same quarter of previous year, explained by an 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 1% depreciation of the Mexican peso vis-à-vis the US dollar. For the twelve month period ended December 31, 2013, revenues from international traffic totaled Ps. 764 million from Ps. 655 million in the same period in 2012, an increase of 17% mainly explained by a 32% increase in price.

Other services. Quarterly revenues from other services totaled Ps. 67 million in the fourth quarter of 2013, from Ps. 74 million in the same quarter of previous year, a decrease of 10%. For the twelve month period ended December 31, 2013, revenues totaled Ps. 330 million from Ps. 354 million registered in 2012, a decrease of Ps. 25 million, or 7%.

Revenues by segment **(Excludes International Traffic and Major Wholesale Customer)*

Mass Market. Revenues totaled Ps. 872 million in the fourth quarter of 2013, compared to Ps. 921 million for the same quarter in 2012, a decrease of 5%, mainly due to a 13% decrease in both local and long distance revenues, partially compensated by a 32% increase in internet and video services. For the twelve month period ended December 31, 2013, revenues totaled Ps. 3,523 million, a decrease of 4% compared to the same period in 2012, mostly explained by a 12% decrease in both local and long distance revenues and partially offset by a 29% increase in internet and video services.

Enterprise (including Government). Revenues for this segment amounted to Ps. 1,598 million in the three month period ended December 31, 2013, an increase of 45% versus the same period in 2012. This is mostly explained by a 195% increase in integrated services and equipment sales. For the twelve month period ended December 31, 2013, revenues increased 8%, from Ps. 4,768 million registered in the twelve month period ended December 31, 2012, to Ps. 5,136 million in 2013. This is due to increases of 27% and 46% in integrated services and internet and video services respectively.

Interconnection, Public Telephony and Carriers. Revenues for this segment declined 23%, from Ps. 208 million in the fourth quarter 2012 to Ps. 160 million in 2013, mainly due to a 44% decrease in dedicated internet revenues. For the twelve month period ended December 31, 2013, revenues reached Ps. 696 million, a decline of 22% compared to the same period in 2012, primarily explained by 24%, 15% and 26% decreases in local, long distance and data revenues respectively.

Consumption

Local Calls. Local calls excluding our largest wholesale customer totaled 419 million calls in the fourth quarter of 2013, compared to 461 million calls for same period in 2012, representing a decrease of 9%. Billed local calls decreased 19 million or 21%, while local calls included in commercial offers decreased by 23 million or 6%. Residential and business customers contributed with 2 million and 17 million calls, respectively, to the decline in billed local calls. Local calls included in commercial offers represented 83% of total calls in the fourth quarter of 2013, compared to 80% in the year-earlier quarter. For the twelve month period ended December 31, 2013, local calls totaled 1,736 million excluding our largest wholesale customer, compared to 1,818 million registered in the same period in 2012, a decrease of 82 million calls or 5%.

Cellular ("Calling Party Pays"). Minutes of use of calls completed to a cellular line excluding our largest wholesale customer amounted to 169 million in the three month period ended December 31, 2013, compared to 170 million in the same period in 2012, a decrease of 1%. Billed cellular minutes decreased 9 million or 8%, while minutes in modules included in a monthly rent increased 8 million minutes or 17%. Billed cellular minutes represented 67% of cellular minutes in the fourth quarter of

2013, compared to 72% in the year-earlier quarter. For the twelve month period ended December 31, 2013 and excluding our largest wholesale customer, cellular minutes reached 671 million, a 3 million increase compared to the same period in 2012.

Long distance. Excluding our largest wholesale customer, which represents 12% of total volume, outgoing long distance minutes amounted to 550 million for the three month period ended December 31, 2013, from 547 million in the same period in 2012, a 3 million increase. This, resulting from a 12% decrease and 3% increase in traffic from residential and business customers, respectively. Billed long distance minutes during the fourth quarter of 2013 remained unchanged compared to the same period in 2012. Domestic long distance minutes represented 96% of total traffic during the quarter. For the twelve month period ended December 31, 2013 and excluding our largest wholesale customer, outgoing long distance minutes amounted 2,223 million, compared to 2,022 million registered in 2012, an increase of 10%, explained by increased traffic from business customers, particularly in billed long distance minutes.

Operating Data

RGUs[(8)] and Customers. As of December 31, 2013, RGUs (Revenue Generating Units) totaled 1,504 thousand. During the fourth quarter of 2013, there were 30 thousand net-additions, compared to 19 thousand net-disconnections in the fourth quarter of 2012, attributable to the addition of video RGUs and a decrease in wireless disconnections. As of December 31, 2013, customers totaled 640 thousand, a decline of 69 thousand from the same date in 2012. Total customers declined 4 thousand on a sequential basis.

Voice RGUs (lines in service). As of December 31, 2013, lines in service totaled 936 thousand. During the fourth quarter of 2013 and fourth quarter 2012, gross additional lines totaled 56 and 50 thousand respectively. Disconnections in the fourth quarter of 2013 totaled 56 thousand compared to 74 thousand in the year-earlier quarter. Lines in service in the fourth quarter of 2013 increased 2 thousand, compared to a decrease of 23 thousand in the same period of 2012. As of December 31, 2013, residential lines represented 62% of total lines in service.

Broadband RGUs (broadband subscribers). Broadband subscribers increased 3% year-over-year totaling 506 thousand as of December 31, 2013. During the fourth quarter of 2013, broadband subscribers net-additions totaled 14 thousand compared to 3 thousand in the same period of 2012. As of December 31, 2013, WiMAX broadband subs reached 347 thousand, compared to 377 thousand a year ago, while AXTEL X-tremo, or FTTH customers, totaled 148 thousand compared to 100 thousand a year ago. Broadband penetration reached 54% at the end of the fourth quarter of 2013, compared to 49% a year ago.

Video subscribers. Axtel launched its pay-television service, AXTEL TV, on January 30th, 2013, and as of December 31, 2013, video subscribers reached 61 thousand. Video subscribers totaled 47 thousand at the beginning of the quarter.

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 December 31, 2013, line equivalents totaled 816 thousand, 29% increase.

Cost of Revenues and Operating Expenses

Cost of Revenues. For the three month period ended December 31, 2013, the cost of revenues represented Ps. 1,049 million, an increase of 57% or Ps. 379 million, compared with the same period of year 2012, mainly explained by increases of 187% in integrated services and equipment sales costs and 123% in international traffic costs. For the twelve month period ended December 31, 2013, cost of revenues reached Ps. 2,985 million, an increase of Ps. 130 million in comparison with year 2012, mainly due to increases in international traffic costs.

Gross Profit. Gross profit is defined as revenues minus cost of revenues. For the fourth quarter of 2013, the gross profit accounted for Ps. 1,939 million, an increase of 11% or Ps. 191 million compared with the same period in year 2012. The gross profit margin decreased from 72.3% to 64.9% year-over-year, significantly influenced by the international traffic margin, which declined from 6% to less than 3% year-over-year. For the twelve month period ended December 31, 2013, our gross profit totaled Ps. 7,302 million, compared to Ps. 7,335 million recorded in year 2012, a decrease of Ps. 33 million.

Operating expenses. In the fourth quarter of year 2013, operating expenses totaled Ps. 1,190 million, Ps. 14 million or 1% higher than the Ps. 1,176 million recorded in the same period in year 2012, explained mainly by Ps. 49 million increase in rents due to the towers lease expense, partially offset by Ps. 24 million decrease in maintenance related to buildings vacated during fourth quarter 2012 and first quarter 2013. For the twelve month period ended December 31, 2013, operating expenses totaled Ps. 4,430 million, coming from Ps. 4,597 million in the same period in 2012. Personnel represented 40% of total operating expenses in the twelve month period ended December 31, 2013.

Adjusted EBITDA, D&A and Operating Income

Adjusted EBITDA[(5)]. The Adjusted EBITDA totaled Ps. 749 million for the three month period ended December 31, 2013, compared to Ps. 572 million for the same period in 2012. As a percentage of total revenues, Adjusted EBITDA margin represented 25.1% in the fourth quarter of 2013, 140 bps higher than the margin recorded in the year-earlier quarter. For the twelve month period ended December 31, 2013, Adjusted EBITDA amounted to Ps. 2,872 million, compared to Ps. 2,738 million in year 2012, a 5% increase.

Depreciation and Amortization[(10)]. Depreciation and amortization totaled Ps. 815 million in the three month period ending on December 31, 2013 compared to Ps. 796 million for the same period in year 2012. Depreciation and amortization for the twelve month period ended December 31, 2013 reached Ps. 3,219 million, from Ps. 3,073 million in the same period in year 2012, an increase of Ps. 145 million.

Operating Income (loss). In the three month period ended December 31, 2013, the Company recorded an operating loss of Ps. 100 million compared to an operating loss of Ps. 415 million registered in the same period in year 2012. For the twelve month period ended December 31, 2013 our operating income reached Ps. 2,687 million when compared to the operating loss of Ps. 535 million in the same period of year 2012, a variation of Ps. 3,222 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 fourth quarter 2013 decreased Ps. 61 million vis-à-vis the fourth quarter 2012, due to the debt reduction implemented in the first quarter of 2013. During the fourth quarter 2013, a 0.5% peso depreciation against the U.S. dollar generated a Ps. 41 million FX loss. In the fourth quarter of 2012, an FX loss of Ps. 80 million was generated by a 0.7% peso depreciation. Concerning variations in the fair value of financial instruments, these are explained by 17% increase and 9% decrease in the price of AXTELCPO during the fourth quarters of 2013 and 2012, respectively, which affected the valuation of AXTEL's position held in its own stock through the zero-strike-calls instruments. The Ps. 737 million comprehensive financial gain for year ended in December 2013, compared to a Ps. 347 million comprehensive financial loss for year ended in December 2012, is mainly explained by the gain resulting from the debt exchange in the first quarter of 2013 and a 16% decrease in interest expenses in 2013.

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

Cash. As of the end of the fourth quarter of 2013, the cash and equivalents balance totaled Ps. 1,292 million, compared to Ps. 608 million a year ago, and Ps. 633 million at the beginning of the quarter. As of the end of the quarter, 49 percent of the cash balance was maintained in dollars, the rest in pesos.

Capital Investments. In the fourth quarter of 2013, capital investments totaled Ps. 884 million, or $68 million, compared to Ps. 545 million, or $42 million, in the year-earlier quarter. For 2013, capital investments totaled Ps. 2,118 million, or $166 million, compared to Ps. 2,016 million, or $153 million, for 2012.

Other Investments. As of December 31, 2013, 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 December 31, 2013.

	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			January 2014
Valuation			Ps. 142.3 million

At the end of the quarter, the Company's balance sheet recorded a liability of Ps. 117 million to reflect an implicit derivative instrument embedded in its Senior Secured Convertible Notes, per applicable accounting standards.

Financial Statements

Information as of December 31, 2013 compared with information as of December 31, 2012

Assets

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

Cash and equivalents. As of December 31, 2013, we had cash and cash equivalents of Ps. 1,292 million compared to Ps. 608 million in the same date of year 2012, an increase of Ps. 684 million or 113%.

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

Property, plant and equipment, net. As of December 31, 2013, the net of depreciation value of property, plant and equipment was Ps. 13,187 million compared with Ps. 13,998 million as of December 31, 2012, a decrease of Ps. 811 million. The property, plant and equipment without adjusting for the accumulated depreciation, was Ps. 38,148 million and Ps. 35,653 million as of December 31, 2013 and December 31, 2012, respectively.

Liabilities

Total liabilities were Ps. 12,355 million as of December 31, 2013 compared to Ps. 15,412 million as of December 31, 2012, a decrease of Ps. 3,057 million or 20%.

Accounts payable & accrued expenses. On December 31, 2013, the accounts payable and accrued expenses were Ps. 2,741 million compared with Ps. 2,404 million on December 31, 2012, an increase of Ps. 337 million.

Stockholders' Equity

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

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 December 31, 2013 compared with the three month period ended December 31, 2012

Net resources provided by operating activities were Ps. 1,250 million for the three month period ended on December 31, 2013 compared to Ps. 383 million recorded in the same period of year 2012.

Net resources (used in) provided by investing activities were Ps. (879) million for the three month period ended on December 31, 2013 compared to Ps. (562) million recorded in the same period of year 2012. These flows primarily reflect investments in fixed assets of Ps. (884) million and Ps. (545) million, respectively.

Net resources (used in) provided by financing activities were Ps. 289 million and Ps. 112 million for the three month periods ended on December 31, 2013 and 2012, respectively.

For the twelve months ended December 31, 2013 compared with twelve months ended December 31, 2012

Net resources provided by operating activities were Ps. 2,559 million for the twelve month period ended on December 31, 2013 compared to Ps. 2,204 million recorded in the same period of year 2012.

Net resources (used in) provided by investing activities were Ps. 1,050 million for the twelve month period ended on December 31, 2013 compared to Ps. (2,031) million recorded in the same period of year 2012. These flows primarily reflect investments in fixed assets of Ps. (2,118) million and Ps. (2,016) million, respectively.

Net resources (used in) provided by financing activities were Ps. (2,934) million and Ps. (1,003) million for the twelve month period ended on December 31, 2013 and 2012, respectively.

As of December 31, 2013, the ratios of net debt to Adjusted EBITDA and interest coverage of the company were 2.3x and 3.3x, respectively. As December 31, 2012 the ratios of net debt to Adjusted EBITDA and interest coverage, were 4.0x and 2.6x, respectively.

Since the beginning of operations of the Company, AXTEL has invested approximately Ps. 38 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 December 31, 2013 and 2012, and September 30, 2013; and twelve month period ending on December 31, 2013 and 2012, and
   – Balance sheet information as of December 31, 2013 and 2012; and September 30, 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 8,678,441,546, respectively, as of December 31, 2013.

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) Breakdown of AXTEL's revenues including its major wholesale customer:

Million Pesos	Q4 2013	Q4 2012	Q3 2013	LTM Dec-13	LTM Dec-12
Local	762	880	787	3,208	3,619
Long Distance	276	306	292	1,140	1,236
Internet & Video	289	224	274	1,043	799
Data & Network	444	495	450	1,860	1,998
Int. Service & Eq. Sale	823	284	565	1,884	1,494
Int'l. Traffic	313	146	156	764	655
Other	82	84	106	387	388
	2,988	2,418	2,630	10,286	10,190

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

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

(2) Significant events

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

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

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

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

(Thousands of pesos)

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

(3) Consolidation of financial statements

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

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

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

(4) Basis of preparation

a) Statement of compliance

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

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of the consolidated statement of comprehensive income

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

(5) Significant accounting policies

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

a) Cash and cash equivalents

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

b) Restricted cash

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

c) Financial assets

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

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

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

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

Financial assets valued at fair value through profit or loss

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

Available-for-sale financial assets

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

Receivables

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

Effective interest method

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

Write-off of financial assets

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

d) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

Available-for-sale financial instruments

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

e) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

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

Embedded derivatives

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

f) Fair value of financial instruments

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

g) Inventories and cost of sales

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

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

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

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

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

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

i) Property, systems and equipment

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

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

Depreciation

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

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

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

Subsequent costs

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

Decommissioning and remediation obligations

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

Borrowing costs

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

j) Intangibles assets

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

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

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

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

k) Impairment of non-financial assets

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

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

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

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

l) Non-current assets held for sale

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

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Leases

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

The Company as a lessee

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

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

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

o) Provisions

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

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

p) Employee benefits

Short-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

q) Statutory employee profit sharing

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

r) Income taxes

Current income taxes

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

Deferred income taxes

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

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

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

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

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

s) Revenue recognition

The Company's revenues are recognized when earned, as follows:

- *Telephony Services* – Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services.
- *Activation* – At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.
- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* – At the moment when the client receives the service.

t) Earnings per share

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

u) Segments

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

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

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

Underlying estimates and assumptions are reviewed regularly.

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

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

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

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

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

(Thousands of pesos)

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

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

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

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

(7) Financial instruments

Categories of financial instruments

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

(a) Financial risk management objectives

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

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

(b) Market and interest rate risk

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

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

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

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

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

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

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

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

(Thousands of pesos)

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

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

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

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

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

(c) Market and interest rate sensitivity analysis

Exchange rate sensitivity analysis

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

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

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

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

(d) Embedded derivatives

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

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

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

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

Convertible notes - derivative financial instrument		**2013**
Fair value of conversion option at issuance date	U.S.$	9,738
Gain in change of fair value for the period		(817)
Fair value of conversion option at December 31, 2013	U.S.$	8,921

(Thousands of pesos)

(e) Other price risks (equity price risk)

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

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

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

(f) Equity price risk sensitivity analysis

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

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

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

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

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

(g) Credit risk management

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

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

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

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

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

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

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

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

(h) Liquidity risk management

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

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

(Thousands of pesos)

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

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		179,171	-	-	-	-	-
	Ps	921,836	765,942	773,482	1,346,515	611,927	7,634,415

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2012							
Variable interest rate instruments	Ps	181,921	408,763	373,370	6,466	15	-
Fixed interest rate instruments		949,927	890,272	873,577	849,231	4,424,371	7,522,440
Capacity lease		179,171	179,171	-	-	-	-
	Ps	1,311,019	1,478,206	1,246,947	855,697	4,424,386	7,522,440

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

(i) Fair value of financial instruments

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

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

(Thousands of pesos)

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

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

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

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

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

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

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

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

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

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

	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	**88,419**	**-**	**-**	**88,419**
Financial liabilities				
Derivative financial liabilities	**-**	**46,532**	**-**	**46,532**

(Thousands of pesos)

(8) Accounts receivable

Accounts receivable consist of the following:

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

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

Movement in the allowance for doubtful accounts.

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

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

Aging of impaired trade receivables:

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

Aging of past due but not impaired

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

(Thousands of pesos)

(9) Inventories

Inventories consist of the following:

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

(10) Property, systems and equipment

Property, systems and equipment are as follows:

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

(Thousands of pesos)

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

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

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

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

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

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

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

(Thousands of pesos)

Non-current assets held for sale

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

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

(11) Intangible assets

Intangible assets with defined useful lives consist of the following:

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

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

Concessions rights of the Company

The main concessions of the Company are as follows:

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

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

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

Concessions allow the Company to provide basic local telephone service, domestic long distance telephony, purchase or lease network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any kind, the purchase and leasing network capacity from other countries, including digital circuits income, value added services, operator services, paging and messaging services, data services, video, audio and video conferencing, except television networks, music or continuous service digital audio services, and credit or debit phone cards.

In November 2006, SCT granted the Company, as part of the concession of Axtel, a new permission to provide SMS (short messaging system) to its customers.

In September 15, 2009, SCT granted the Company a concession to install, operate and exploit a public telecommunications network to provide satellite television and audio services.

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name “Avantel”, customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2013 the values of the trade name “Avantel” and of customer relationships were totally amortized

(Thousands of pesos)

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

As of December 31, 2013, the investment in shares of associated company through Avantel, S. de R.L. de C.V. is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to Ps. 11,640. The operation of this company consists of providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the Company requested the concession.

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

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

Conectividad Inalámbrica 7GHZ, S. de R.L

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

(Thousands of pesos)

(13) Other assets

Other assets consist of the following:

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

(14) Long-term debt

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

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

(Thousands of pesos)

Premium on Senior Unsecured Notes with an aggregate principal of U.S.$490 million with an interest rate of 9%, due in 2019.	7,444	42,096
Syndicated loan totaling U.S. $100 million with variable interest rate from LIBOR + 3.0% to LIBOR + 4.5% and from TIIE + 3.0% to TIIE + 4.5% according to the leverage of the Company. Interest payments are made quarterly. As of December 31, 2012 U.S.$53.3 million and Ps. 364.7 million have been utilized.	-	1,057,925
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.	168,554	318,984
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.	407,965	251,179
Debt issuance and deferred financing costs	(18,112)	(156,297)
Total long-term debt	7,864,319	11,466,614
Less current maturities	308,945	411,969
Long-term debt, excluding current maturities	Ps 7,555,374	11,054,645

Annual installments of long-term debt are as follows:

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

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

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

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

(Thousands of pesos)

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

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

On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount is U.S. $ 100 million with a four year period, two year grace period of principal and made up of a funded amount and a committed short term revolving facility. The loan is secured by the accounts receivable of certain corporate customers of the Company. As of December 31, 2012 US$ 53.3 million and Ps. 365 million have been funded, while the revolving facility has not been disbursed. The operation contemplates a variable rate from LIBOR+3.0% to LIBOR+4.5% in dollars and a TIIE+3.0% to TIIE+4.5% in pesos, according to the leverage of the Company. Interest payments are on a quarterly basis and the purpose of the loan is to strengthen liquidity, capital investments, debt repayment and other corporate general purposes.

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

(15) Other current liabilities

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

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

[1] Payroll and other liabilities mainly include christmas bonus, vacation premium and other benefits.

(Thousands of pesos)

(16) Employee benefits

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

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

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

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

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

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

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

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

(Thousands of pesos)

(17) Provisions

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

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

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

Decommissioning and remediation obligations

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

The Company conducted an analysis of the obligation associated with the retirement of property, systems and equipment, mainly identifying sites built on leased land on which it has a legal obligation or assumed the retirement thereof.

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

Restructuring provision		2013	2012
Initial balance	Ps	-	59,855
Additional provisions recognized		-	-
Payments		-	(59,855)
Ending balance	Ps	-	-

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

(Thousands of pesos)

(18) Transactions and balances with related parties

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

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

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

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

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

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

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

(2) Mainly rents and other administrative services.

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

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

(Thousands of pesos)

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

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

The income tax (expense) benefit is as follows:

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

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

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

The IETU rate for 2013 and 2012 was 17.5%.

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

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

(Thousands of pesos)

The deferred income taxes are as follows:

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

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

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

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

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

(Thousands of pesos)

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

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

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

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

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

(Thousands of pesos)

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

(20) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2013, the common stock of the Company is Ps 6,627,890. The Company has 8,776,192,202 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. Of the total shares, 97,750,656 are series A and 8,678,441,546 series B. At December 31, 2013 the Company has issued only Class "I".

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

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

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

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

The acquisition of Avantel also included a Series B Shares Subscription Agreement (''Subscription Agreement'') with Tel Holding, an indirect subsidiary of Citigroup, Inc., for an amount equivalent to up to 10% of Axtel's common stock. For this to come into effect, the Company obtained stockholder approval (i) to increase capital by issuing Series B Shares in a number that was sufficient for Tel Holding to issue and pay Series B Shares (in the form of CPOs) representing up to a 10% equity share in Axtel; and (ii) for the subscription and payment of the Series B Shares that represented the shares issued by Tel Holding and any shares issued by stockholders that elected to issue and pay for additional Series B Shares in exercise of their preferential right granted by the Mexican General Corporation Law.

(Thousands of pesos)

On December 22, 2006 pursuant to the Subscription Agreement, the Company received notice from Tel Holding confirming that it acquired 533,976,744 Series B Shares (represented by 76,282,392 CPOs) from the Mexican Stock Exchange (Bolsa Mexicana de Valores, or ''BMV'') and confirming its intention to issue and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). The new Series B Shares were subscribed and paid for by Tel Holding through the CPOs Trust on January 4, 2007.

(b) Stockholders' equity restrictions

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

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

(c) Comprehensive income (loss) income

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

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

(21) Telephone services and related revenues

Revenues consist of the following:

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

(Thousands of pesos)

(22) Other expenses, net

Other expenses consists of the following:

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

(23) Commitments and contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2013, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps. 1,240 million, not including value added tax.

Telmex filed for the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*) requesting the annulment of Cofetel's administrative resolution. The Company (Axtel and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel.

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

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

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

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

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

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

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

(f) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps 5,699 and to other service providers amounting to Ps 1,121,748.

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

(h) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2013 and 2012 amounted to Ps 866,695 and Ps 641,977, respectively.

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

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

(24) Recently Issued Accounting Standards

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

Standards and amendments to be adopted in 2015

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

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

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

Axtel, S.A.B. de C.V. reports their operations with financial derivative instruments, complementary to the 4th Quarter Financial Information Report:

Qualitative and Quantitative Information:

Derivatives Policy

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 4th quarter 2013 no hedge transactions were traded by the company, however, the two operations at the end of 2012 were canceled during the 1st quarter 2013; so at the end of the 4th quarter of 2013 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.

Changes in the risk exposure

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 December 31, 2013, the Company had no derivative instruments contracted:

HedgeType	Notional amount		Fair value		Credit line (USD)
			As of December 31, 2013	As of December 31, 2012	
1	SWAP	464,368	0	(40,299)	0
2	SWAP	128,250	0	(6,233)	0

Additionally, at the date of financial statements, there is registered $116,658 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 3rd Quarter of 2013.

Presentation on the Financial statements:

Liability account "Derivative Instruments": $116,658 (see line 22050010 of the Balance Sheet).

Credit to the Comprehensive Financial Result for "Variation of the Fair Value of Derivative Financial Instruments": $59,085 (see line 40080050 of the Income Statements).