axtel

INTEGRATED ANNUAL REPORT 2016

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER G4-1, G4-2, G4-13

In 2016, the merger between Alestra and Axtel gave rise a new entity with greater capabilities, strengthening our competitive position in the market of services of Information and Communications Technology (ICT) in Mexico.

Since the announcement of the merger agreement unveiled by the end of 2015, we initiated specific projects oriented to identify and maximize the benefits from this transaction.

One of the first actions carried out was the design and formalization of the new organizational structure, which has been key to the process of integration.

We have significantly strengthened our position in the market by having the most advanced fiber optic of Latin America, the best operational centers to meet the needs of customers from all segments and the most comprehensive portfolio of solutions, all together maintained by a highly qualified network of 7,584 employees.

In Axtel we have a fiber optic network of almost 40,000 kilometers, including 23,000 kilometers of long distance network, more than 11,300 kilometers of metropolitan beltways, and nearly 6,000 kilometers of the network is Fiber To The Home or Business (FTTx).

We also have approximately 7,000 square meters of white floor in our six Data Centers, plus 600 square meters that will be available in April, 2017.

The integration of the operation and the assets of both companies generate annual savings of 20 million dollars in investments and a billion pesos in operative cash flows synergies.

It is important to remember that, when the merger took place, we formalized a syndicated bank loan for 750 million dollars oriented to cover different obligations of international bond with higher financial cost.

Thanks to the positive reception of the credit institutions, it was possible to increase the amount of such funding to 85 million dollars, which were used to pay off short-term loans.

During 2016, our strategy was focused on providing ICT solutions to enterprises and government customers, as well as triple-play offers based on fiber optic for the mass segment, made up by small businesses and homes.

Among the important events of the year, we highlight the acquisition of 49 percent of Estratel, a subsidiary specialized in the integration of information technology solutions for businesses and government, and whose 51 percent was acquired in 2015.

Likewise, in 2016 we continued with the construction of the second Data Center in Querétaro, which will have in its initial phase a capacity of 800 square meters of white floor. It is important to mention that the Data Center in Querétaro was recognized in September by the International Computer Room Experts Association (ICREA) as "The best of the world", thanks to its robust and redundant infrastructure, as well as for having the best practices in operational efficiency and environmental commitment.

For Axtel innovation is key to design and develop solutions that generate greater value to customers. In that sense, in 2016 major projects were sealed thanks to innovative technological proposals, such as the Ventanilla Única solution for the Federal Government and the agreements signed with Open Exchange and Compusoluciones to use the services of the Axtel cloud in different applications.

On the other hand, we launched NAVE, the first business accelerator created by an ICT corporation in Mexico, through which it seeks to identify and develop entrepreneurial projects with potential for success in the market of ICTs.

As another important event, the Department of Communications and Transports *(Secretaría de Comunicaciones y Transportes, SCT)* awarded Altan Consortium the *Red Compartida* project, which consists of installing and operating a new mobile network generation with a 700 MHz band to provide resale services to operators.

The *Red Compartida* project is strategic for our company, as it will allow complementing the solutions portfolio with mobility services. It is important to note that, in addition of participating with a minority position in the consortium capital and without management intervention, we seek to become a major user and supplier of infrastructure and services for such network.

In 2016, we invested 170 million dollars in fixed assets, including the expansion of Data Centers, the last mile fiber optic network for the mass market, the transportation network, the metropolitan beltway, and in Information Technology infrastructure (IT).

The integration of Alestra and Axtel created important growth in revenue and in EBITDA. During 2016, revenues increased 37 percent, totaling 13,937 million pesos, of which 63 percent came from enterprise customers, followed by those from the mass segment and government, which accounted for 22 percent and 15 percent respectively. The EBITDA was of 3,673 million pesos, 14 percent more than in 2015 and resulting from the consolidation of Alestra and the synergies generated by the merger.

The results allow observing a favorable trend based on the performance of the business, particularly in the segment of IT and the mass market with fiber optic technology.

We have also devoted considerable efforts to maintain our position as a company that integrates and promotes sustainability in its operations, implementing initiatives to mitigate our environmental impacts, generating dialogue and social contributions through various community projects, and addressing global trends throughout our supply chain.

For the sixth consecutive year, we've reaffirmed our commitment to the United Nations

Global Compact to promote and comply with its 10 principles. Likewise, for the fourth consecutive year, we are part of a group of 30 companies that conform the CPI Sustainability Index of the Mexican Stock Exchange, and we are added up to the environmental reports on national and international initiatives such as the Carbon Disclosure Project (CDP), Greenhouse Gas Report (Mexico's GHG Program) and Clean Transportation, promoted by the Department of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales, SEMARNAT*).

2017 is a year of challenges. The economic situation of the country, the exchange rate and the political environment anticipate a scenario of uncertainty.

Nevertheless, we reiterate our commitment to increase our efforts for the benefit of our stakeholders, through a new organizational culture, with innovation and customer orientation, as well as with a competitive range of solutions based in a modern and robust technological infrastructure.

On behalf of the Board of Directors and the Corporate Office, we express our appreciation for the trust and support that you have given us. We also thank our customers and suppliers, as well as the financial community for their collaboration.

In addition, we would like to recognize all of our collaborators for their congruency, flexibility, and attitude for service displayed in the integration process, whose contribution and talent will serve to overcome the challenges and capitalize opportunities presented to generate value.

San Pedro Garza García, N.L., Mexico, February 21, 2017.

Rolando Zubirán Shetler,
Chief Executive Officer

2016 AT A GLANCE

3,186 MILLION PESOS INVESTED IN INFRASTRUCTURE

18 % CUSTOMER BASE INCREASE

NEARLY 7,000 M² OF WHITE FLOOR

3 SPERTO EXPERIENCE CENTERS

1 INNOVATION HUB

50+ CITIES WITH CONNECTIVITY

22% of energy used to operate comes from clean energy sources

40,388 KILOMETERS WITH NETWORK

233,400 customers with FTTx technology

1,033,000 REVENUE GENERATING UNITS (RGUs)

401,000 BROADBAND SUBSCRIBERS

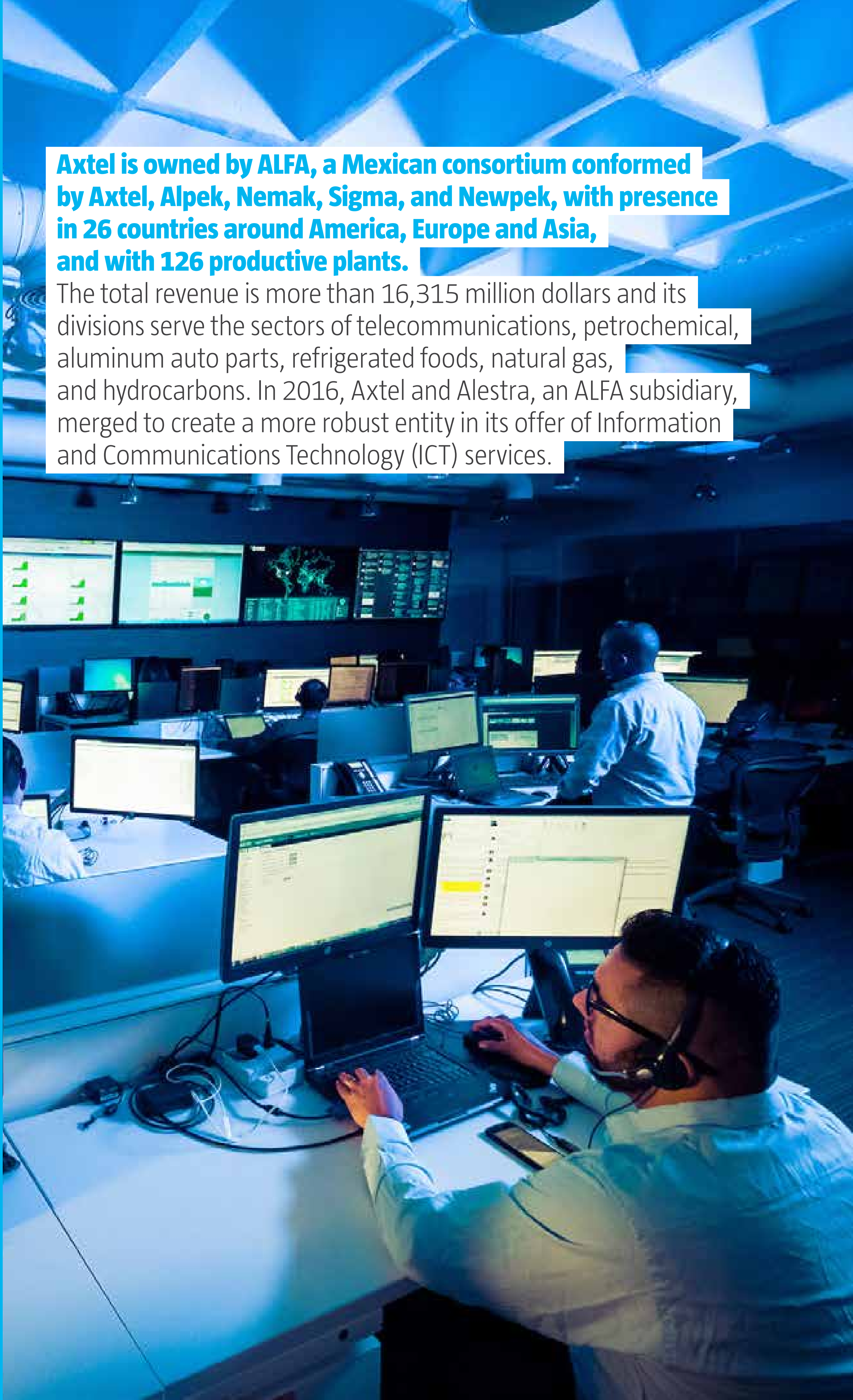
6 WORLD CLASS DATA CENTERS

AXTEL PROFILE

G4-4, G4-5, G4-6, G4-8, G4-13

Axtel is owned by ALFA, a Mexican consortium conformed by Axtel, Alpek, Nemak, Sigma, and Newpek, with presence in 26 countries around America, Europe and Asia, and with 126 productive plants.

The total revenue is more than 16,315 million dollars and its divisions serve the sectors of telecommunications, petrochemical, aluminum auto parts, refrigerated foods, natural gas, and hydrocarbons. In 2016, Axtel and Alestra, an ALFA subsidiary, merged to create a more robust entity in its offer of Information and Communications Technology (ICT) services.



40,388 TOTAL NETWORK KILOMETERS

23,092	11,317	5,979
TRANSPORTATION KILOMETERS (LD)	METROPOLITAN BELTWAY KILOMETERS	FTTX NETWORK KILOMETERS

8
OPERATIONAL CENTERS

MORE THAN
7,000m²
OF WHITE FLOOR IN SIX DATA CENTERS

MICROWAVES FOR CONNECTIVITY OF THE LAST MILE AND METROPOLITAN COVERAGE

7, 10.5, 15 and 23 GHz	3.5 GHz
ENTERPRISE SEGMENT	MASS SEGMENT

Today we are a company with a more solid infrastructure and a competitive position in the market of Information and Communications Technology (ICT) services in Mexico, consequently from the merger between Alestra and Axtel. From the new entity called Axtel, ALFA possesses 51 percent of the capital.

We offer solutions to the most important markets in Mexico in the sectors of corporations, government, small and medium businesses, and residential.

Headquartered in Monterrey, Nuevo Leon, Mexico, we provide local services in 45 cities, data services in 53 localities and 10 cities with FTTx (Fiber To The Home or Business).

Mission

To enable organizations to be more productive and bring people to improve their quality of life.

Vision

To be the best option for your digital experience through innovation to create value.

Values[1]

TEAMWORK... OUR STRENGTH.
RESPECT... OUR COMMITMENT.
CUSTOMER FOCUS... OUR DIFFERENTIATOR.
INNOVATION... OUR PASSION.
QUALITY... OUR STANDARD.
INTEGRITY... OUR PILLAR.

PHILOSOPHY G4-56

[1] To acknowledge Axtel Values visit: www.axtelcorp.mx/sustentabilidad

MERGER RESULTS

The merger between Axtel and Alestra became effective on February 15, 2016, leaving Alestra as subsidiary of Axtel and the latter as subsidiary of ALFA, paving the way to a company with better capabilities that enhance its offering to the market, generating benefits not just for the company, but for our interest groups.

As in any process of change, the first commitment derived from this merger was the integration of both companies, in its operations and in its organizational structure, which were addressed during 2016.

In addition, it was decided to give greater focus to the Mass Market businesses in order to offer better value propositions and increase the number of customers; hence different synergies were created, such as the incorporation of Alestra's customer base, who were offered Axtel TV services, fiber optic links, and higher speed internet, among other services.

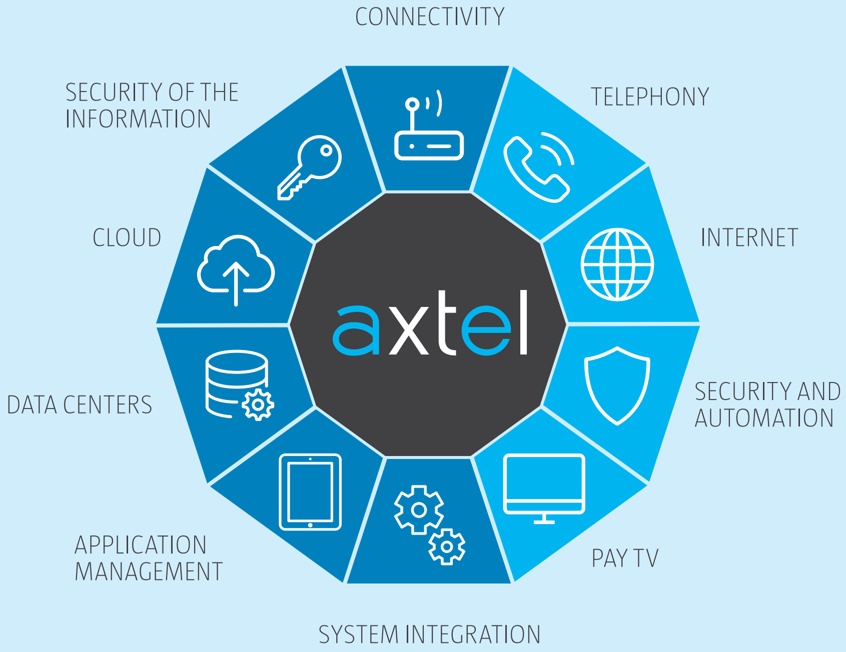
"We are a dynamic company, willing to implement new things, to take risks, to be attentive to invest in a good bet in the technology market. In 2017, we aspire to be a more integrated company with a completely stable operation that can reach high performance levels, considering that the merger is completely overcome",
Bernardo García Reynoso,
Executive Director for Planning and Development.

To provide personalized services to all markets, organizational changes were made; therefore, a commercial area for Information Technology (IT) was made and became separated from Government and Corporate Markets.

AXTEL OPERATIONAL STRUCTURE G4-17

SUBSIDIARY	ACTIVITY	PARTICIPATION PERCENTAGE
Alesre Insurance, PTE LTD	Managed Services	100%
Alestra Comunicación, S. de R.L. de C.V. ("Alestra Comunicación")	Telecommunication Service	100%
Alestra USA, INC.	Telecommunication Services	100%
Alestra, S. de R.L. de C.V. ("Alestra")	Telecommunication Services	100%
Avantel, S. de R.L. de C.V. ("Avantel")	Telecommunication Services	100%
Axes Data, S.A. de C.V. ("Axes Data")	Managed Services	100%
Axtel, S.A.B. de C.V. ("Axtel")	Telecommunication Services	100%
Cogeneración de Querétaro, S.A. de C.V. ("Cogeneración")	Managed Services	100%
Contacto IP, S.A. de C.V. ("Contacto IP")	Managed Services	100%
Estrategias en Tecnología Corporativa, S.A. de C.V. ("Estratel")	Telecommunication Services	100%
Ingeniería de Soluciones Alestra, S.A. de C.V. ("ISA")	Managed Services	100%
Instalaciones y Contrataciones, S.A. de C.V. ("ICOSA")	Managed Services	100%
S&C Constructores de Sistemas, S.A. de C.V. ("S&C")	Telecommunication Services	100%
Servicios Alestra TI, S.A. de C.V. ("Servicios Alestra TI")	Managed Services	100%
Servicios Alestra, S.A. de C.V. ("Servicios Alestra")	Managed Services	100%
Servicios Axtel, S.A. de C.V. ("Servicios Axtel")	Managed Services	100%

OUR SOLUTIONS



PRODUCTS AND SERVICES

Alestra is the commercial brand through which we offer solutions to enterprises and government entities to which we provide ICT services to enable them to be more productive. While **Axtel** is the commercial brand for the residential and business market; it provides voice, data, security, and entertainment solutions to bring people together and improve their quality of life.

We develop solutions grouped by families of services to meet the needs of different markets we serve: Industry, Cloud and Data Center, Collaboration, Security, and Connectivity[2].

At the end of 2016, the Department of Communications and Transports *(Secretaría de Comunicaciones y Transportes, SCT)* awarded the Red Compartida (Shared Network) wholesaler project to the Altan consortium, of which our company is a member together with companies like Morgan Stanley Infrastructure, International Finance Corporation, *Grupo Multitel* and *Megacable*.

Winning this tender makes us partakers of the biggest telecommunication project in the history of Mexico. The *Red Compartid*a, which will be offered to telecommunication operators, allows an increase in availability and access to mobile broadband services in the country, facilitating these services to remote populations that currently do not have access to Internet or mobile phones. We expect the Network to initiate operations in March 2018.

As part of our strategy, in addition of providing technology and know-how, we also plan to incorporate mobility to our ICT portfolio of solutions for the enterprise and mass segment customers, and explore business opportunities in new markets or services in Mexico.

[2] For more information see the Operational Efficiency section.

TECHNOLOGICAL INFRASTRUCTURE

In Axtel we work tactically and strategically with our technological infrastructure. Tactically because we plan on how to deploy and operate the network to accomplish the company's yearly income plan. And strategically because we grow, build and evolve the network in five-year periods in order to supply efficiently and with adequate services according to the demands of the market, as well as with the necessary capacity so that our sales plans can be achievable.

Consequently, from the merger, in 2016 we faced a series of technical challenges on where and how to integrate the networks, the management systems and the processes of both companies, coupled with the importance of forming a new workgroup and to avoid affecting productivity and efficiency in our operation.

Today we have a modern infrastructure with a more robust and advanced fiber optic network and with world-class Data Centers. We are working on reducing the digital gap by providing first world solutions to our customers, as well as by facilitating the latest technology to the communities with which we have relationship.

"We evolve our network for technologies that, combined with our marketing and product design strategies, allow us to carry out new solutions to the different market segments. Standardize the network of both companies has given rise to synergy. Today, Axtel has more fiber optic kilometers and can deploy them to the enterprise sector faster and at a lesser cost than before",

Andrés Cordovez Ferretto,
Infrastructure and Operations Executive Director.

The highest governance body in Axtel is the Board of Directors, whose priority is generating long-term value through the adoption of policies, procedures and guidelines based on transparency, accountability, integrity, responsibility, and adherence to corporate ethics.

The Board is comprised of businessmen with expertise and experience in various industries, as well as a high level of knowledge in the field of business, and who were appointed and approved by the Extraordinary Shareholders Meeting on January 15, 2016.

According to the Stock Market Law, as well as to our bylaws, 15 members integrate the Board, two of them Co-Chairmen, seven are Board members, six are Independent, and four are Alternate. Three of the independent board members integrate the Audit and Corporate Practices Committee.

Among the **functions** of the Board of Directors and Chief Executive Officer are defining Axtel objectives and strategies in the economic, social and environmental fields, as well as manage, conduct and execute the businesses of the company, review the accounting principles, financial statements and present reports to the General Shareholders Meetings.

Monitor compliance of existing laws, including the Stock Market Law (LMV); identify, manage and mitigate potential risks, internal and external that Axtel is exposed to; appoint the Chief Executive Officer, as well as indicate its faculties, obligations, working conditions and remuneration; appoint and remove external auditors of the company, establish an Audit and Corporate Practices Committee, and define the control and internal guidelines are some of its functions.

The Board of Directors met five times during 2016: January 11, March 9, April 25, July 28, and October 24.

Their actions are based on the LMV, on the guidelines of the Organization for Economic Cooperation and Development (OECD), the Code of Best Corporate Practices of the Business Coordinating Council, the United Nations Global Compact, and on the bylaws of the company.

To ensure the appropriate management strategy in our company, we have an Audit and Corporate Practices Committee that monitors, manages and conducts the way the company is to be managed, recommending the Internal and External Audit department actions to follow. Likewise, the Committee is in charge of maintaining managers communication with the Board of Directors, as well as to avoid any conflict of interest.

Within the business organization, the Sustainability Department, which depends from the Human Capital Executive Office, reports to the Board of Directors of all progress in economic, social and environmental matters regarding the objectives established throughout the year. In addition, it also participates in the Sustainability and Environmental Committees formed by all companies of ALFA, integrating and standardizing efforts on this issue, and in the environmental committee of the Sustainability Working Team formed by companies that are part of the IPC Sustainability Index of the Mexican Stock Exchange.

CO-CHAIRMEN

ÁLVARO FERNÁNDEZ GARZA

March 27, 1968

Board Member and Co-Chairman of the Board of Directors of Axtel since February 2016.

He is the Chief Executive Officer of ALFA since 2010 and Board Member of the same since April 2005. He is a Board Member of ALFA, Alpek, Nemak, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, Universidad de Monterrey (UDEM), Georgetown University (Latin American Board), and the Museum of Contemporary Art of Monterrey. He is also President of the Advisory Board of Roberto Garza Sada Center of UDEM, and was President of the Nuevo Leon State Manufacturing Industry Chamber (CAINTRA).

Degree in Economics by the University of Notre Dame, with a Master in Business Administration from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and from Georgetown University.

TOMÁS MILMO SANTOS

November 3, 1964

Board Member and Co-Chairman of the Board of Directors of Axtel since February 2016.

He was Chief Executive Officer of the company from 1994 to February 2016, has been a Board Member since 1994 and was the President of the Board of Directors from 2003 to February 2016. He is a Board Member of CEMEX, ITESM and Promotora Ambiental. He is also President of the Board of Tec Salud and Alianza Educativa Ciudadana por Nuevo León.

Degree in Business Economics by Stanford University.

BOARD MEMBERS

ALEJANDRO MIGUEL ELIZONDO BARRAGÁN

October 14, 1953

Board Member of Axtel since February 2016. ALFA Business Development Manager. Board Member of Arca Continental, Banregio Grupo Financiero, Indelpro, and Polioles.

FERNANDO ÁNGEL GONZÁLEZ OLIVIERI

October 2, 1954

Board Member of Axtel since February 2016. Chief Executive Officer of CEMEX.

PAULINO JOSÉ RODRÍGUEZ MENDIVIL

April 21, 1951

Board Member of Axtel since February 2016. ALFA Human Capital and Services Director. Board Member of Campofrío Food Group. Member of the National Council of COPARMEX and the Business Coordinating Council.

THOMAS LORENZO MILMO ZAMBRANO

July 9, 1935

Board Member of Axtel since February 2016. Co-Founder and President of the Board of Directors of Grupo Javer and Incasa. President of the Board of Directors and Chief Executive Officer of Carbonífera San Patricio and Carbón Industrial.

CONSEJEROS INDEPENDIENTES

ARMANDO GARZA SADA

June 29, 1957

Board Member of Axtel since February 2016. President of the Board of Directors of ALFA, Alpek and Nemak. Board Member of CEMEX, FEMSA, Frisa Industrias, Grupo Financiero Banorte, Grupo Lamosa, Liverpool, Proeza, and ITESM.

RAMÓN ALBERTO LEAL CHAPA

June 4, 1969

Board Member of Axtel since February 2016. Finance Director of ALFA. Member of the Executive Council of UDEM.

ALBERTO SANTOS BOESCH

August 26, 1971

Board Member of Axtel since February 2016. Chief Executive Officer of Empresas Santos. Board Member of Grupo Tres Vidas Acapulco, Grupo Maseca, Interpuerto de Monterrey, Santos y de la Garza Evia Foundation, Instituto Nuevo Amanecer, UDIA A.C., and En Nuestras Manos.

SALVADOR ALVA GÓMEZ (A)

June 4, 1951

Board Member of Axtel since February 2016. President of Sistema ITESM. Member of the Board of Directors of Endeavor and Proeza.

FRANCISCO GARZA EGLOFF

September 5, 1954

Board Member of Axtel since February 2016. Chief Executive Officer of Arca Continental. Board Member of Grupo Industrial Saltillo, Grupo Alen, Banregio, Banco Holandés Rabobank, Engineering Division and Architecture of ITESM, and UANL Foundation.

RICARDO SALDÍVAR ESCAJADILLO

November 21, 1953

Board Member of Axtel since February 2016. President and Chief Executive Officer of The Home Depot. Board Member of FEMSA, Cluster de Vivienda Monterrey, Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD), American Chamber of Commerce (Monterrey Division), and ITESM Talent and Culture Committee.

BERNARDO GUERRA TREVIÑO (A)

February 24, 1965

Board Member of Axtel since February 2016. Founding partner of Morales y Guerra Asesores (MG Capital). Board Member of Promotora Ambiental and Banco Ahorro Famsa.

ENRIQUE MEYER GUZMÁN (A)

January 7, 1960

Board Member of Axtel since February 2016. Chief Executive Officer of Cemix and Ovniver. Board Member of UDEM, Bancomer, Banamex, ITESM, EGADE, Farmacias Benavides and CAINTRA.

JUAN IGNACIO GARZA HERRERA

November 26, 1966

Board Member of Axtel since February 2016. Chief Executive Officer of Xignux. Board Member of BBVA Bancomer (Northeastern Regional), Consejo Mexicano de Hombres de Negocios (CMHN), UDEM, ICONN, Cleber, and Instituto Nuevo Amanecer.

(A) Member of the Audit and Corporate Practices Committee.

ALTERNATE BOARD MEMBERS

JOSÉ ANTONIO GONZÁLEZ FLORES

May 5, 1970

Alternate Board Member of Axtel since February 2016. Finance Executive Vice-president of CEMEX.

MAURICIO MORALES SADA

September 6, 1961

Alternate Board Member of Axtel since February 2016. President and founder of MG Capital. Member of the Executive Committee of ITESM Business Development Program.

PATRICIO JIMÉNEZ BARRERA

October 29, 1965

Alternate Board Member of Axtel since February 2016. Member of the Board of Directors of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega.

MARIO HUMBERTO PÁEZ GONZÁLEZ

October 28, 1950

Alternate Board Member of Axtel since February 2016. Chief Executive Officer of Sigma Alimentos. Board Member of Campofrío Food Group.

RISK MANAGEMENT

G4-14, G4-45, G4-46, G4-47

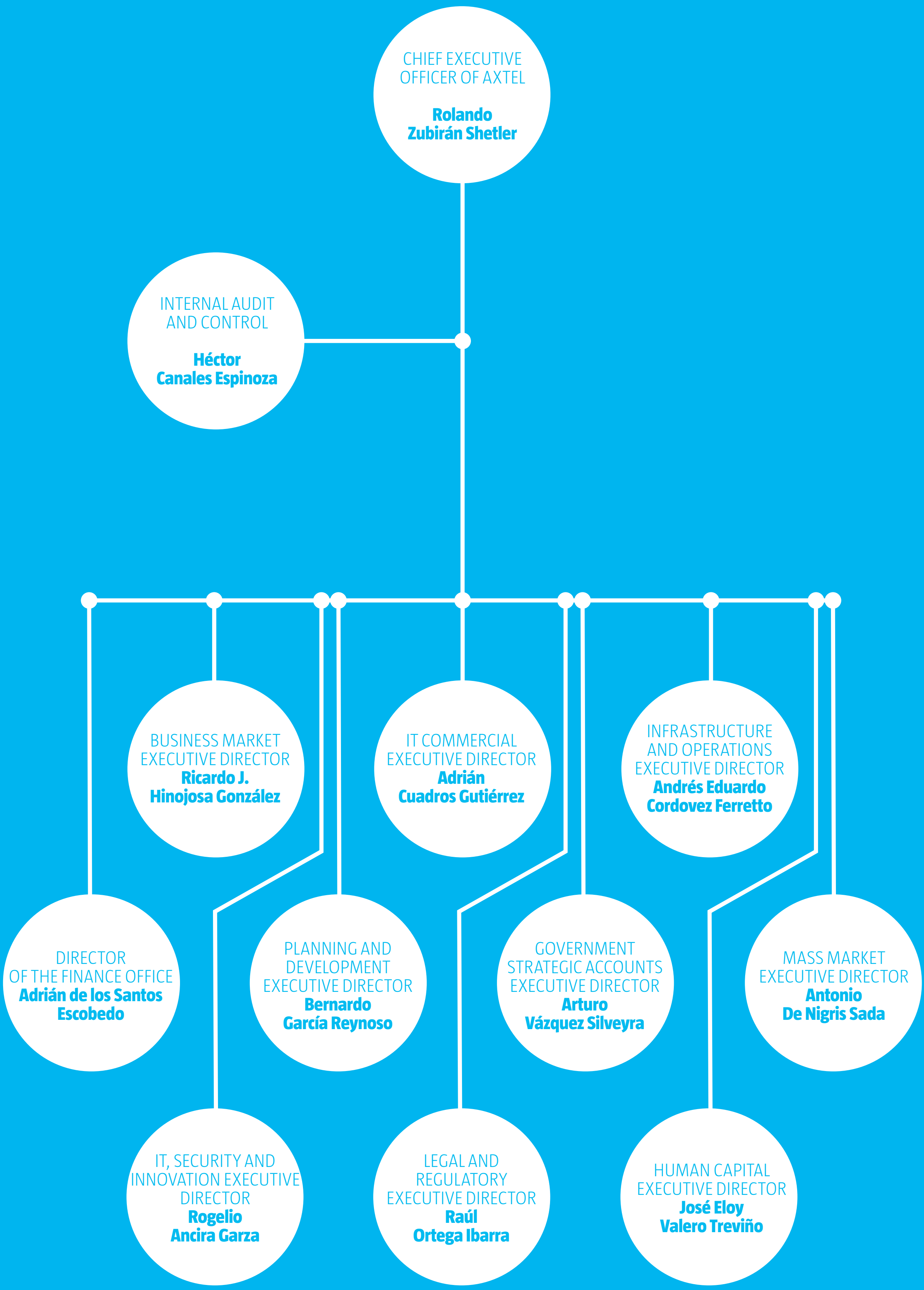
For Axtel it is very important to identify, analyze and address the risks that may take place inside or outside the company, in order to avoid a negative impact in its performance. The General Management supports itself with different areas to identify the most relevant risks that may impact from an economic, environmental and social point of view. These areas are assigned according to the perception and involvement over the issues to analyze.

Within the annual plan, the areas involved incorporate the most relevant risks and action plans in order to validate the effectiveness of the processes and implemented actions to mitigate and manage identified risks.

In addition, to analyze the impacts, risks and business opportunities, the Board of Directors met on five occasions during 2016.

MANAGEMENT TEAM

G4-37, G4-49



ROLANDO ZUBIRÁN SHETLER

64 years

CHIEF EXECUTIVE OFFICER OF AXTEL

Former Chief Executive Officer of Alestra from 1999 to February 2016. Has more than 30 years of experience in the telecommunications Latin American market where he has held various management positions in Mexico, Brazil and Argentina.

Industrial Engineer by the Universidad Nacional Autónoma de Mexico, with a Master of Science in Operations Research by University of Southern California and a Doctorate degree in Philosophy specialized in Management by the Universidad Autónoma de Nuevo León.

ROGELIO ANCIRA GARZA

47 years

IT, SECURITY AND INNOVATION EXECUTIVE DIRECTOR

He served as Innovation and Technology Director in Alestra before joining Axtel, as well as former Director of the Small Businesses and Consumption Unit, and Systems Director.

Bachelor in Administrative Computing Systems by the Instituto de Estudios Tecnológicos y Superiores de Monterrey, with a Master in Business Administration by the University of Texas at Austin.

ADRIÁN CUADROS GUTIÉRREZ

46 years

IT COMMERCIAL EXECUTIVE DIRECTOR

He is part of Alestra since 1996 performing as IT Sales Director and Institutional Accounts Sales Director.

Electronic and Communications Engineer by the Instituto Tecnológico y de Estudios Superiores de Monterrey, with a Master in Business Administration by ITESM and an Executive Program from IPADE.

ADRIÁN DE LOS SANTOS ESCOBEDO

48 years

DIRECTOR OF THE FINANCE OFFICE

He served as Corporate Finance and investors Relations Director of Axtel until February 15, 2017 when he was appointed interim Director of the Finance Office. Before he entered Axtel in April 2006, he worked at Operadora de Bolsa y Banca Serfin (today Santander Mexico) and Standard Chartered Bank, where he held positions in Corporate Banking at Monterrey, London and New York.

Bachelor in Business Administration by the Instituto Tecnológico y de Estudios Superiores de Monterrey, with a Master in Finance by Carroll School of Management from Boston College.

ANDRÉS EDUARDO CORDOVEZ FERRETTO

48 years

INFRASTRUCTURE AND OPERATIONS EXECUTIVE DIRECTOR

He was the Technology and Operations Executive Director of Axtel from 2013 to January 2016 and before that he was the Director for Information Technology and Processes. In his 25 years of professional experience he has served several executive positions in different national and international telecommunication, finance and services companies.

Computer Systems Engineer by Instituto Tecnológico y de Estudios Superiores de Monterrey and a Diploma in Top Management by IPADE.

ANTONIO DE NIGRIS SADA

51 years

MASS MARKET EXECUTIVE DIRECTOR

Former Consumption Market Executive Director, North Regional Mass Market Director, Operations Director, and National Level Service Delivery Director in Axtel since 1999. Previously, he was the Director of Banking Business and Entrepreneurs in BITAL (today HSBC) and worked in Prime International in the Financial Lease Institution.

Industrial Engineer by Anáhuac University.

BERNARDO GARCÍA REYNOSO

58 years

PLANNING AND DEVELOPMENT EXECUTIVE DIRECTOR

He joined ALFA in 1985, then joined Alestra in 1996 and has participated as Business Sales Director, Residential Business Unit Director, Big and Affiliated Companies Sales Director, Sales Management and Commercial Strategy Director, Strategic Alliances Director, Human Resources Planning Sub-director, and Human Resources Management Director.

Systems Industrial Engineer by Instituto Tecnológico y de Estudios Superiores de Monterrey, with a Master in Business Administration by the International Institute for Management Development, Lausanne, Switzerland.

RICARDO J. HINOJOSA GONZÁLEZ

50 years

BUSINESS MARKET EXECUTIVE DIRECTOR

He joined ALFA in 1988, then joined Alestra in 1997 and has participated as Commercial and Marketing Director, as well as performed in several executive Marketing, Corporate Sales, and Planning and Control positions.

Bachelor in Administrative Computing Systems by Instituto Tecnológico y de Estudios Superiores de Monterrey, with a Master in Business Administration specialized in Marketing by the University of California.

RAÚL ORTEGA IBARRA

60 years

LEGAL AND REGULATORY EXECUTIVE DIRECTOR

Responsible for several areas ever since he formed part of Alestra in 1996, such as the International Business Unit and Communications; previously he served as AT&T Regulatory Affairs Director for Mexico.

Public Accountant by the Universidad Iberoamericana, with studies in Political Economy and Management by Stanford University.

JOSÉ ELOY VALERIO TREVIÑO

56 years

HUMAN CAPITAL EXECUTIVE DIRECTOR

Former Human Resources Director, Management and Human Resources Executive Director, Talent and Organizational Culture Executive Director in Axtel. He performed as President of Asociación de Ejecutivos de Recursos Humanos (ERIAC), Secretary of the Board of the North American Resources Managers Association (NARHMA) and Advisor for academic, government and private organizations.

Bachelor in Business Administration by the Universidad Autónoma de Nuevo León, with a Master in Business Administration by the Instituto Tecnológico y de Estudios Superiores de Monterrey.

ARTURO VÁZQUEZ SILVEYRA

47 years

GOVERNMENT STRATEGIC ACCOUNTS EXECUTIVE DIRECTOR

Worked as Monterrey Sales and Service Director, Business Sales, Service and Government North Region, and Sales and Service Federal Government; in his 16-year career, he has occupied executive positions in Corporate and Service Sales to the North West Region and Business Sales Manager for Axtel. He is an Advisor for COPARMEX, the American Chamber of Commerce of Nuevo León, CANIETI, CIAPEN, and CUDI.

Computer Systems Engineer by Universidad Regiomontana with a Master in Business Administration by ITESM.

MANAGEMENT TEAM BENEFIT PLAN

COMPONENT	STRATEGY ALIGNMENT AND OBJECTIVES	DESCRIPTION
Alignment with the Business Strategy	Meet social, environmental and economic objectives.	Remuneration granted based on compliance with goals by area.
Base salary	Attract and retain talent.	Salaries are reviewed annually based on the results of business, the macroeconomic environment, salary surveys and performance.
Fixed remuneration (benefits)	Comply with the law and ensure competitiveness with respect to competition.	Annual bonus, vacation bonus, grocery and automobile vouchers.
	Reward the fulfillment of individual and group goals; strengthen the alignment of the management team with the interest of shareholders and ensure competitiveness with respect to competition.	Quarterly bonus plan, yearly bonus according to accomplishment of operational and strategic goals.
Variable remuneration	Provide financial stability to the officer and cope with contingencies, retain talent.	Major medical insurance, life insurance, medical emergency insurance, and regular medical check-ups.

BUSINESS ETHICS G4-56

Attached to our business philosophy, all those who are part of this company act based on the highest standards of personal and professional integrity, complying with the policies, procedures, guidelines, and laws that sustain our operation, participating actively in the promotion of an ethical culture in everything we do and complying at all times with the applicable legislation in the places where we have operations.

The current Code of Ethics[3] is governed under 16 principles that include the behavior expected by Axtel of our employees, suppliers and allies.

In 2016, we worked in the update of this document, coupled to the change process in which we are with the recent merger and always with the objective of being a company that builds its future with solid fundamentals. The new **Code of Ethics** will begin to take effect during the first quarter of 2017, which employees, directors, managers, leaders, area managers, coordinators, consultants, outsourcing staff, contractors, and all that provide professional services to Axtel shall comply.

The Code of Ethics establishes the principles that should guide the actions and behaviors of the employees of the new entity, ensuring a work environment of productivity, respect to the human rights, equity, diversity, and harmony, where conflict of interest, bribery, corruption, discrimination, and harassment situations are avoided, defining at the same time the conduct guidelines regarding our investors, clients, creditors, suppliers, competitors, government, and authorities.

The application and adherence to the principles set out in this document represent a right and an obligation for Axtel employees; therefore, each year they must sign an acceptance and commitment letter, as well as take a course to strengthen the knowledge of its content.

To ensure that our external contractors perform their work pursuant to law, we developed a permanent inspection program to ensure that they comply with the requirements of age (to avoid child labor) and to ensure they carry their personal protective equipment whether inside and outside the facilities.

[3] Axtel Code of Ethics: http://axtelcorp.mx/inversionistas/gobierno-corporativo/codigo-de-etica

ALFA TRANSPARENCY MAILBOX G4-41, G4-50, G4-56, G4-57, G5-58, G4-LA16, G4-SO5, G4-HR3, G4-HR12, G4-PR8

ALFA Transparency Mailbox is the complaint tool that is permanently available to employees, customers, suppliers, shareholders, investors, community, and other stakeholders to guarantee the correct application of the Code of Ethics.

Through the transparency mailbox it is possible to file complaints over issues related with accounting, finance, internal control, conflict of interest, corruption or bribery, as well as noncompliance to policies, with what we seek to promote a climate of transparency, integrity and ethics inside and outside the company.

Complaints can be made anonymously if the complainant desires, and they will always be treated as confidential. The means to express them are as follows:

EMAIL
buzon@alfa.com.mx

FREE TELEPHONE NUMBERS
01 800 265 2532
1 866 482 1957 (United States)
1 866 238 2860 (Canada)

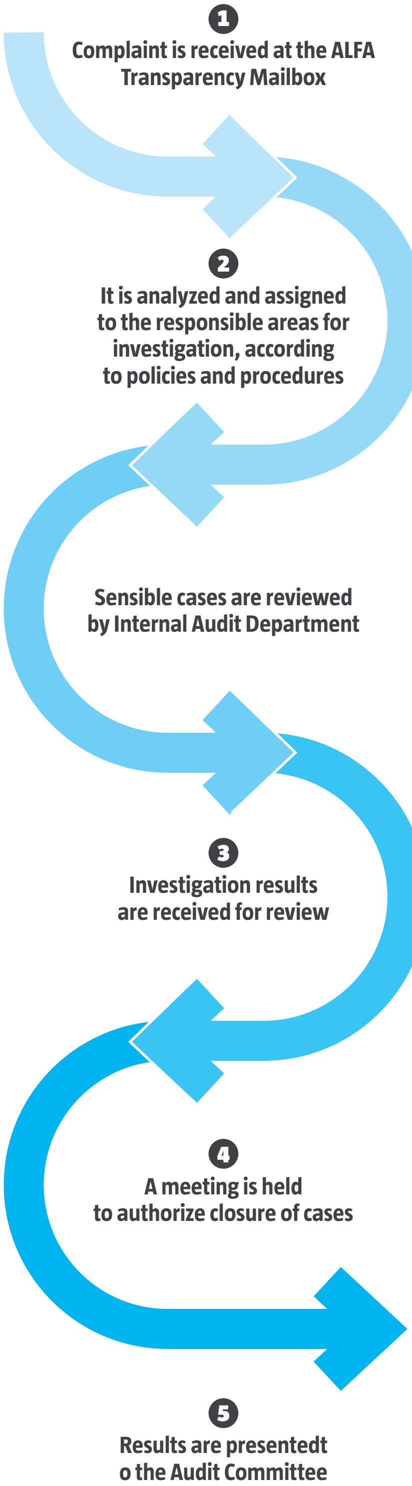
WHATSAPP/SMS
+52 1 81 2353 9583

WEBSITE
www.alfa.com.mx/buzon.html

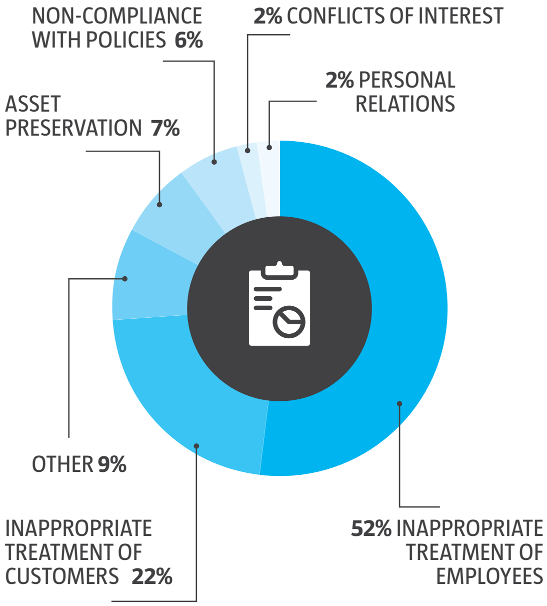
The area responsible to follow-up and solve delivered complaints is ALFA's Internal Audit Department.

In 2016 we received 204 complaints, two of which were not processed, 118 were handled and closed during 2016, and 84 are in the follow-up process. There were no complaints for corruption, violation of human rights, discrimination or violation of privacy and customer data leaks. In regard to employment practices, in 2016 was given solution to a labor related complaint received in 2015, and of the 106 complaints received for inappropriate treatment of employees, 48 were given solution.

RECEPTION AND ATTENTION OF COMPLAINTS PROCESS



COMPLAINTS RECEIVED 2016



HUMAN RIGHTS

G4-HR4, G4-HR5, G4-HR6, G4-HR7, G4-HR9, G4-SO4, G4-SO5

In Axtel we reject any act of discrimination, child labor and forced labor, and we make sure to protect all persons with whom we interact from any abuse, coercion or threat. The tools that reinforce this position are the Code of Ethics of Axtel, the Transparency Mailbox and our Human Rights, Diversity, Inclusion, Recruitment, and Staff Selection policies.

Since 2011 we are signatories of the United Nations Global Compact and committed to comply with its 10 principles related to Human Rights, Environmental, Labor, and Anticorruption practices.

SUSTAINABILITY G4-15

We promote projects and initiatives to address global trends in issues relevant to our stakeholders, while at the same time care for Axtel's permanence in the business.

For Axtel, sustainability are all environmental, social, economic, financial, and corporate governance practices that enable us to guarantee the permanence of the company in the market, in harmony with nature and the Mexican communities in where we have presence.

During 2016, we performed several initiatives in favor of sustainability and, in particular, of the conservation of the environment. We share with our employees the **ALFA Sustainability Week**, in which topics related to the environment, safety, hygiene, health, and ethics were presented. Each company of the group organizes in its facilities the event during the second week of October, and this year, Axtel participated for the first time.

This edition was focused on raising awareness of biodiversity care through documentaries about unknown ecosystems in Mexico, our oceans and endangered species, as well as the construction of a more honest world through the projection of short films on the fight against corruption.

Among the activities held in the year there are two communication campaigns; one focused on the promotion and commitment towards the Sustainable Development Goals proposed by the United Nations, and the other to celebrate and inform about international days related to health, environment, human rights, and community.

We actively participate in ALFA's Environmental Committee and Sustainability Committee, which are comprised of representatives from each company of the Group, and who are responsible for proposing, manage and boost projects that contribute to the construction of a balanced environment and communities, without losing sight of the objectives of the business.

In addition, we are part of the Sustainability Working Group, in the field of the Environment, integrated by five of the 30 companies that conform the CPI Sustainability Index.

Sustainability Model and Strategies

Is the graphic, visual, and synergic tool that help us coordinate the ethical, innovative, social, labor, and environmental performance of Axtel.

Due to the merger, we modified the foundations that conform **Axtel's Sustainability Model**, having as central axis the values that sustain it: Ethics, Quality and Integrity, in order to reflect our current commitment with the sustainability of the business and our stakeholders.

STRATEGY

Axtel's Sustainability Strategy is comprised of a general statement complemented with economic, social and environmental matters.

We seek contributing to a more sustainable future with our labor and environmental practices, and by proposing, in an honest, ethical and responsible way, innovative solutions that put information and communications technology within the reach of society.

ECONOMIC STRATEGY

Our commitment is to manage, in an honest way, our technological, economic and financial resources to operate efficiently under a strict risk control and pursuant to the legislation, allowing a successful and sustainable growth of the company.

SOCIAL STRATEGY

We promote the sustainable development of our society by performing actions for the benefit of our employees and external communities, providing the tools that allow them access to better opportunities in education and health, as well as a dignified life.

ENVIRONMENTAL STRATEGY

We seek to reduce the negative impacts of our operational practices on the environment by reviewing our procedures, developing new technologies and improving our methods to conserve resources and establish a harmonious relationship with nature.

GLOBAL COMPACT AND SUSTAINABLE DEVELOPMENT GOALS

With the intention to contribute in all areas of our concern, in Axtel we are committed to the **Global Compact** and the **Sustainable Development Goals,** both international initiatives promoted by the United Nations.

We promote the 10 Principles of the Global Compact to ensure that inside all Axtel's facilities we respect human rights, labor rights, environmental rights, and no corruption.

AREA	GLOBAL COMPACT PRINCIPLE
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights; and 2. Make sure that they are not complicit in human right abuses.
Labor	3. Businesses should uphold the freedom association and the effective recognition of the right to collective bargaining; 4. The elimination of all forms of forced and compulsory labor; 5. The effective abolition of child labor; and 6. The elimination of discrimination in respect of employment and occupation.
Environment	7. Businesses should support a precautionary approach to environmental challenges; 8. Undertake initiatives to promote greater environmental responsibility; and 9. Encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.

Committed to international initiatives that promote sustainability, we adhered ourselves to the promotion and awareness of the Sustainable Development Goals proposed by the United Nations Organization to establish plans of actions in favor of people, the Planet and prosperity, and that through the 17 objectives that include 169 goals, invite signatory countries to strengthen peace, eradicate poverty and ensure the protection of natural resources.

As part of our responsibility as corporate citizens, in Axtel we have joined with an agenda to inform our employees in a monthly basis about the 17 objectives and how they can contribute to comply from the company and with their families. During the year, we send more than 25 emails, newsletters and social network communications.

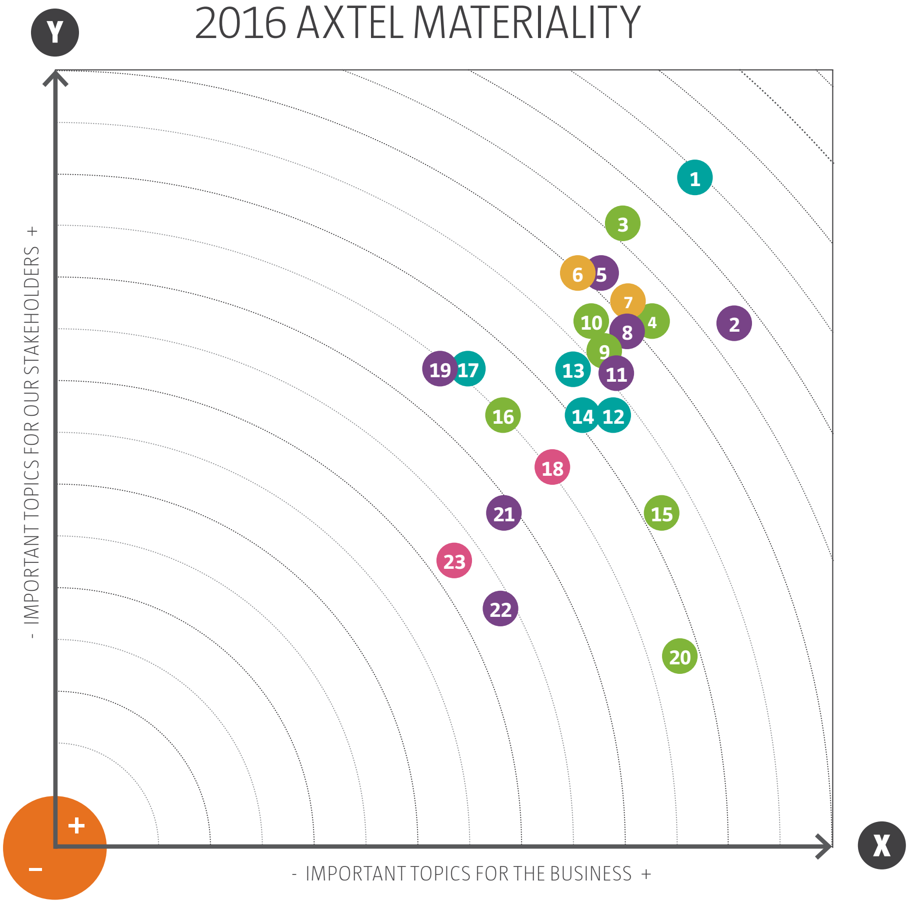
MATERIALITY G4-18, G4-19, G4-20, G4-21

For Axtel has always been essential to know what are the issues that matter most to our stakeholders in terms of ethics, society, environment, labor welfare, and relationship with the community, and which are crucial for the business, so we can strategically plan the direction of the company and establish specific objectives for each area.

In 2016, we updated the materiality exercise performed in 2015 to include questions about structural changes in Axtel due to the merger and thus be able to present the most important issues for this report.

For this exercise, an online survey was applied to more than 500 people who are part of our stakeholders, among mass and business customers, employees, and academia members. The results highlighted 23 topics relevant to them, which were analyzed by the Sustainability Department and taken in consideration for the sustainable management of the company.

The previous activities were made considering the principles to determine the content of the report, such as inclusion of the stakeholders, determination of the context of sustainability and the concept of materiality understood as a guide for reporting relevant issues.



In Axtel we seek that sustainability goes beyond our operations, therefore we take care of the most important issues to make sure that they do not generate negative impacts in society, the economy and the environment. In addition, to evaluate our performance and contribute to global sustainability, we participate in national and international initiatives on issues of climate change, clean transportation, human rights, and technological innovation, among others.

Below are the topics of greatest relevance that emerged from the materiality consultation prioritized by the importance of its economic, environmental and social impacts, and classified by their scope inside and outside the company.

	MATERIAL TOPIC	TO AXTEL THIS REPRESENTS...	SCOPE X (internal) Y (external)
1	**Technological Innovation**	Offer products and services that put within the reach of our customers, community and society the tools that allow them to contribute and meet their environmental, social and economic goals.	X Y
2	**Customer satisfaction**	Offer customers the best experience in the use of our products and services, serve them in their needs offering always the best solutions that will help us build an excellent reputation.	Y
3	**Sustainability**	Promote sustainable actions inside and outside Axtel allowing us the continuity of our business and our environment.	X Y
4	**Energy consumption**	Reduce our energy consumption to decrease operating costs, emissions and risks related to its use.	X
5	**Management and financial situation analysis**	Search sustainable growth for the benefit of our customers, employees, suppliers, and communities where we live, work and serve.	X
6	**Labor environment**	Foster an environment of respect, balance, development, and teamwork, enabling us to a favorable performance and meet our objectives.	X
7	**Occupational safety and health**	Offer clean and safe facilities to maintain the health and welfare of our employees, improve productivity and lead the success of the company.	X
8	**Business ethics**	Maintain at all times a conduct based on ethics, transparency and in compliance with the legislation, supporting an anti-corruption and anti-bribery culture.	X Y
9	**Environmental management**	Comply with environmental legal requirements, prevent and minimize risks, waste management, decrease negative impacts in the operation, and promote a culture of environmental preservation.	X Y
10	**GHG emissions**	Reduce Greenhouse Gas Emissions (GHG) resulting from our operations.	X
11	**Risk analysis**	Ensure compliance of customers' requirements before any environmental, economic, communitarian contingency or any other disruptive event, focusing on the maintenance and operation of our network infrastructure, systems, products, services, and security of our employees.	X

	MATERIAL TOPIC	TO AXTEL THIS REPRESENTS...	SCOPE X (internal) Y (external)
12	**Digital responsibility**	Offer tools and products that allow our customers ensure the privacy and security of their data, as well as prevent cyber-attacks.	Y
13	**Customer privacy**	Ensure security of our customers' data to prevent disclosure and misuse of information.	X Y
14	**Internet security**	Prevent the use of internet for cyber-bullying and facilitate controls and standard of content for children.	X Y
15	**Waste integral management**	Management and proper disposal of waste according its classification and volume.	X
16	**Supply chain**	Create added value through a more sustainable supply chain, working closely with our suppliers to reduce inefficiencies and waste.	X Y
17	**Digital gap reduction**	Connect our services to all social sectors to be able to promote sustainable development.	X Y
18	**Social connection**	Get involved and help communities with volunteer activities to demonstrate our commitment to the development of society.	Y
19	**Corporate governance**	Define the structure, the responsibilities and the functioning of our governance bodies, as well as the principles and rules governing us.	X
20	**Water consumption**	Promote the responsible use of water.	X
21	**Stakeholders relationship**	Establish and maintain a good and reliable relationship through a constant and efficient communication with all our stakeholders.	X Y
22	**Responsible marketing**	Offer our products and services with real and reliable advertising arguments.	X
23	**Civil organizations and associations**	Dialogue and collaborate together to create strategies and actions that benefit society, the economy and the environment.	X Y

STAKEHOLDERS G4-24, G4-25, G4-26, G4-27

We maintain a close relationship with the people, organizations and institutions that influence or to whom we influence through the activities of our company. The relationship is based on periodic communication, with clear expectations of recognition, development, quality, service, and wellbeing, under the mechanism that best suits for each group.

STAKEHOLDER	ADDRESSED KEY ISSUES
Employees	We conducted an organizational Pulse Survey to find areas of improvement and best practices, we recognize the seniority of our employees, provide benefits through commercial agreements, promote volunteering programs, health, education, and recreation, personal safety campaigns and celebrate Family Day.
Shareholders and Investors	We organize strategic plan meetings, perform external audits, as well as exercises to identify Axtel potential risks. We have a solid corporate governance structure and a new Code of Ethics.
Customers	We train staff who attends our customers directly, based on a satisfaction model designed by Axtel. We have an array of communications, services and sales through social networks, post-sale specialized services and electronic invoice services.
Suppliers	We have a portal for suppliers to inform our policies and Code of Ethics. In addition, we involve them annually in an environmental and social assessment, and in a Transparency Statement.
Government and regulatory institutions	We collaborate with authorities in their requirements, participate in intermediate bodies and put our information transparently to any stakeholder.
Civil society organizations and groups	We promote volunteer activities, some in collaboration with the civil society and others in social programs of mixed representation with government, private sector and communities.
Competitors	We participate in sectorial forums and industry chambers, constantly communicate and facilitate dialogue with our competitors.
Media	We encourage constant dialogue and have a media relations program.
Community	We have a volunteering program inside the company and participate in the initiatives of the Axtel Foundation.
Unions	We are part of joint safety and hygiene committees and sectorial meetings. We have an open and permanent communications channel, we train periodically our unionized employees and ensure they have proper health and safety conditions.

Some communication mechanisms used are the company's intranet, meetings and employee sessions, surveys, social network, advertisement, portal for suppliers, internet website, and press releases, among others.

CUSTOMER SATISFACTION

G4-PR5

We cannot imagine our business without providing an excellent customer service, therefore, in addition to the training received by our operating and customer service staff, we have lines for users to communicate with us regarding any doubt, necessity or service failure. In 2016, we maintained 3,521,973 interactions with our consumers.

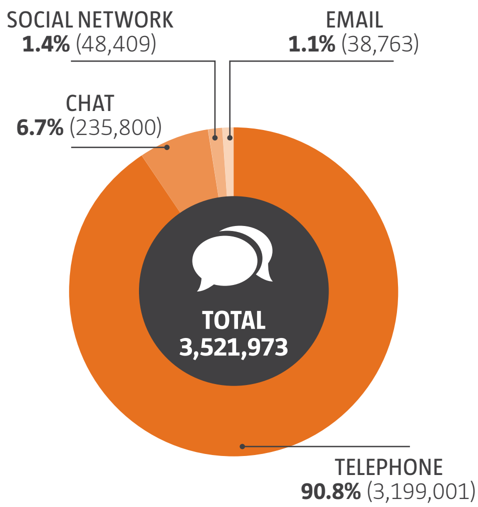
We seek to **develop customer experience as a key differentiator for the business**, thereby in 2016 we integrated an innovative tool to our operating model: Right Now.

Right Now, from Oracle, unifies the experience across all communication channels (website, social network and contact centers), allowing stronger relations, make more efficient the interaction with customers and improve resolution rates. This tool has three objectives: have a knowledge base for Axtel's customer service and internal use; accelerate and establish a life cycle of information that allows it to be consistent, effective and precise; and achieve addressing incidents from the different channels provided.

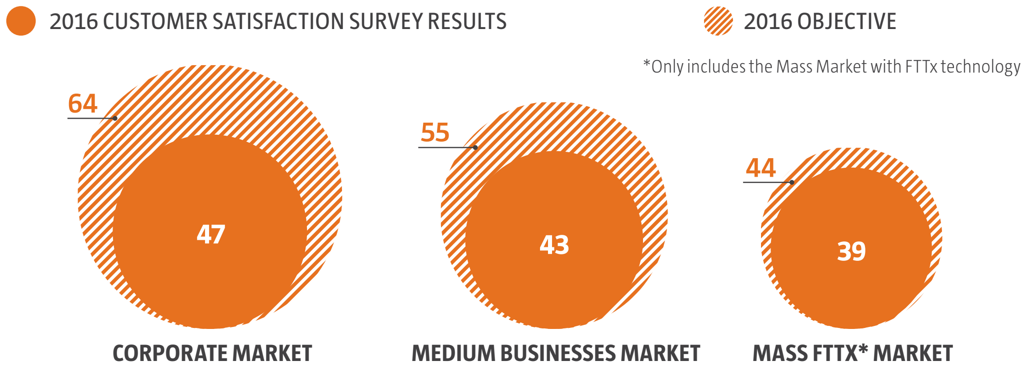
The use of this tool has allowed us to improve efficiency in service, facilitating all who maintain communication with customers to follow-up, obtain updated information and offer homologated and focused answers to the customer needs.

Another way to stay in touch with customers in all the markets we serve is the application of **satisfaction surveys** to acknowledge our customers' opinions and needs to improve our services. The aspects we evaluate are related with situations involving presale, sale, service delivery, customer service, failure service, use, functionality, invoicing, payments, and collections.

INTERACTION WITH CUSTOMERS DURING 2016



CUSTOMER SATISFACTION INDEX OBJECTIVES



Among the changes resulting from the merger between Alestra and Axtel, adjustments were made and contributed to improve customers' experience. One of them was the modification of the indicator to present the results of the surveys that are applied during the year to our customers; therefore, the scale differs in relation to the information presented in previous years.

To make this measurement, we use the tool Net Promote Score (NPS), with which we measure and follow-up the satisfaction level of our customers to establish improvement actions. In 2016, we saw reflected a decrease in this indicator and it is attributable mainly to the merger of both companies, situation in which we are working with concrete actions to improve the results.

SUPPLIERS

G4-12, G4-EC9, G4-EN32, G4-EN33, G4-LA15, G4-HR4, G4-HR5, G4-HR6, G4-HR10, G4-HR11, G4-SO9, G4-SO10

In Axtel we recognize that having a supply chain in line with sustainability ensures that products and services arrive on time and with quality to the diversity of clients that prefer us, seeking to generate value in fair circumstances for each of our suppliers.

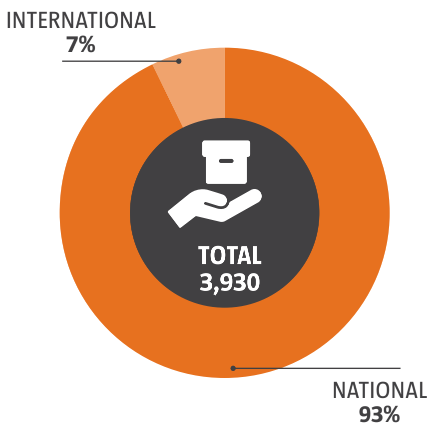
Our relationship with suppliers is based on the **Supplier Selection Policy**, as well as in the different evaluations made in warehouses and in the field regarding the materials acquired. During 2016, we worked in the review and homologation of Alestra and Axtel's supplier base to avoid duplicities, as well as repetition of processes.

In 2016, the budget for suppliers was 35,466 million pesos[4] in transactions with 3,930 suppliers, of which 3,668 were national and 292 international.

In addition, during October of this year, we promoted with our suppliers the signature of the **Transparency Statement**, document that establishes the behavior of who provide us any product or service should be abide to the regulations with honesty, avoid conflicts of interest and corruption acts. The statement emphasizes that, to report situations or inappropriate conducts of any party, the ALFA Transparency Mailbox shall be used.

[4] For payments in dollars to suppliers, the applicable exchange rate taken was $18.50 Mexican pesos per $1.00 USD.

AXTEL SUPPLIERS



"In the Supply Chain, we work constantly with our suppliers to have an optimal commercial relationship, and we invite them to participate in our sustainability initiatives for a mutual commitment to improve the environment and the community conditions where we interact",

Gabriela Pérez Campos,
Supply Chain.

We seek to create a digital culture through constant innovation of products and services that create a knowledgeable society that, at the same time, contributes to reduce the digital gap and connects with society.

OUR 2020 COMMITMENT

PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT WE ARE DOING TO ACHIEVE IT?
Information Technologies	• Generate value through technology and innovation. • Strengthen the capabilities of our customers. • Encourage creativity and collaboration.	• Developing applications that strengthen our customer's' business processes.
Information Security	• Maintain certifications. • Promote and standardize throughout the company the culture of information security. • Increase awareness of cyber risks within the company.	• Protecting activities and information from customers under the risk band.
Innovation	• Develop a culture of innovation in the company. • Seek the creation of value through new business models. • Promote open innovation and intrapreneurship. • Analyze the future megatrends to detect opportunities and develop initiatives. • Foster the relationship with customers through the process of innovation.	• Developing a formal innovation program. • We have the NAVE Accelerator, the Innsight Platform and the Innovation Hub. • Exploring future scenarios and capabilities. • Working on technological prototypes.

In a company like Axtel there are priority and critical issues to address, being Information Technology one of them; an inherent element of our business is to be at the forefront of new market trends to meet the needs of our customers and guarantee the security of the information in all operations.

Due to the relevance of these issues, we incorporated them in one organizational area to make our internal processes more efficient and improve the products and services we offer.

The Information and Communications Technology industry lives in permanent evolution, therefore, ever since we began operations, innovation has been in our DNA, however, it was in 2007 when we formally began with the **Axtel Innovation Program**, a methodological process that has been a success thanks to the participation and learning of all employees. Its objective is to generate value for the company,

AXTEL INNOVATION MODEL

INNOVATION CULTURE

PROCESSES

We have consistently worked on four elements of our Innovation Model:

FORESIGHT

HUB innovación

Innsight

NAVE FUTURE FACTORY

our customers, employees, and all who participate externally.

The processes of the organizations should support and transmit the value of innovation and link it to business strategies. To manage it, we rely on an Innovation Model that is the basis of Axtel Innovation Program, and in which all employees participate.

FORESIGHT

Through **Foresight** we standardize future scenarios identifying the most relevant technological trends to generate opportunities that allow us to innovate. This methodology aims to visualize and anticipate change, prepare the organization and develop the necessary capabilities to create value. Using it, we were able to prioritize different scenarios relating with the technological trends, such as Mobility, Big Data, Internet of Things, Social Networks, and Artificial Intelligence.

It also allows us to define priorities in the different Innovation initiatives, identify development opportunities as part of the business strategy and detect, jointly with customers, initiatives arising from the operation of their businesses.

INNOVATION HUB

We have an enabler called **Innovation Hub** that has an area of more than 900 m2 inside the Innovation and Technology Campus of Monterrey (ITC), where there are two centers in one same place: Business Innovation, which motivates creativity, collaboration and the generation of ideas; and Technology Innovation, where ideas become prototypes and solutions that will be part of the portfolio. During 2016, Innovation Circles were offered to more than 1,000 employees to create a culture, bring the best practices and promote their participation in the proposal of new ideas.

This space received more than 90 visits from customers, foundations and academic institutions, including the participation of Axtel in the ***Semana I*** of Tec Monterrey, during which 100 students from different cities used the innovation processes to develop technological initiatives.

As part of the program to the outside, the Hub gave room for the development of Innovation as a Service offering, giving advice and consulting to strategic customers and providing tools, platforms and knowledge to integrate the innovation processes in their companies.

INNSIGHT

To promote continuous improvement, we launched **Axtel Synergies Challenge**, which seeks to make companies more efficient through voluntary participation of our employees, who are invited to form multidisciplinary teams to propose ideas focused on four areas: expense and cost savings, investment savings, increase income, and processes that impact our customers.

Once the ideas are consolidated, they are published in the **Innsight Platform**, one of the main technological tools for innovation in the world adopted by our company and that is offered to the Mexican market. In this platform, a team of expert evaluators, promoters, the innovation committee, and the continuous improvement subcommittee, review the proposals to determine their implementation.

In 2016, we achieved the participation of 30.8 percent (1,668) of our employees that have access to this platform, who proposed ideas, commented or voted for more than 500 initiatives focused on topics like: relationship and customer experiences, operations, efficiencies, and new services.

NAVE ACCELERATOR

We also encourage **open innovation**, connecting with organizations and institutions different from ours to obtain inputs from abroad or contribute in the generation of ideas for our customers.

Our most important project in this area is the **NAVE Accelerator**, the first and only acceleration

"Innovation has been essential to our organization, starting with the ability to adapt to change and transform, continuing with the creation of a culture where failure and finding a quick solution is an option, but with the feature that the need to iterate and add value is the constant",
Ana Catalina Garza Orezza,
Strategic Innovation.

program for Information and Communications Technology (ICT) businesses, designed and powered by a Mexican Corporation.

This open innovation initiative of Axtel, launched in April 2016, is oriented to identify and develop entrepreneurial projects with great potential, related to megatrends that our company has chosen to promote: Big Data, Mobility, Internet of Things, Social Networks, Virtualization, and Security.

NAVE received more than 400 projects from Mexico, United States and Central America, 17 of which were preselected and evaluated in NAVE Camp, an event held in June at the Axtel Innovation Hub where six winners were selected:

- **Zentli:** Hardware and software development created to detect plagues and other anomalies in the crop fields with drones.
- **Pollstr:** Platform to detect the satisfaction level of users through the monitoring of emotions online or by telephone.
- **Synapbox:** Software development with the capacity to detect emotions through micro facial gestures.
- **PRYSMEX:** Intelligent industrial safety helmet with sensors to measure in real time the location and possible risks of accidents.
- **GoWi:** Platform to increase the access and use of Internet through segmented advertising and with free Wi-Fi access points at places of affluence and public transport.
- **Tok3n:** Platform that provides an additional layer of security to passwords for existing applications, when starting a session, to user actions and for sensible data.

These six projects entered an Acceleration Program during 16 weeks with a budget of 830,000 pesos to work with customers, partners, experts, high level mentors, and members of Axtel management team in different modules: financial, technological, commercial, and operative to strengthen their company.

This NAVE edition concluded with three companies selected to collaborate in a commercial alliance: GoWi, Synapbox and PRYSMEX.

NAVE will continue to promote the development of new generations according its mission based on the following benefits:

- Promote entrepreneurship, innovation and development of startups in Mexico.
- Boost entrepreneurial projects with our experience in Information and Communications Technology, innovation and infrastructure.
- Develop new lines of business, new markets and strengthen our portfolio with new products or services.

All Axtel employees are involved in the Innovation Program, sharing ideas, working with entrepreneurs in NAVE or developing initiatives of change or improvement as part of our values and organizational culture.

The Continuous Improvement Program obtained the following savings in 2016:

QUANTIFIED BENEFIT [5]

60.4

MILLION PESOS
(3.16 million dollars)

ANNUALIZED BENEFIT [6]

110.8

MILLION PESOS
(5.75 million dollars)

[5] The quantified benefit corresponds to the savings reflected in the year's operation.
[6] The annualized benefit considers the savings that the initiatives of the program will generate during a year.

5. WORK WELFARE

We seek labor welfare in our employees, caring for their health and safety, inside and outside of the company, providing training and a good place to work where they can develop and improve their quality of life.

OUR 2020 COMMITMENT

PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT ARE WE DOING TO ACHIEVE IT?
Working environment	• Have a working environment that contributes to the execution of the business strategy and with a comprehensive development of employees.	• Conducting surveys to listen employees. • Preparing action plans that promote an adequate working environment. • Providing mechanisms so that leaders and key employees influence positively the teams in the working environment.
Training and development	• Facilitate intellectual, emotional and professional development of human capital so that it can contribute fully to achieve the objectives of the business. • Improve employees' quality of life.	• Evaluating and promoting the development of skills based on the competencies required by the organization through several development programs. • Facilitating the integration of working teams. • Assessing the competencies of the staff for its development and/or internal promotion.
Health and family balance	• Bring experiences focused to the integral development of employees and their families. • Contribute to family-work balance and quality of life.	• Carrying out agreements with educational, health and business institutions. • Offering low-cost consultations in our facilities, as well as an Education and Health Fair. • Facilitating talks about medical and psychological topics, yoga classes, and football tournaments.
Safety and hygiene	• Safeguard the physical integrity of all employees exposed to working risks, contributing to productivity, efficiency and operative continuity. • Mitigate and eliminate work risks, accidents, administrative sanctions or non-compliance situations.	• Integrating and coordinating Safety and Hygiene Commissions. • Preparing safety diagnostics in working centers. • Issuing recommendations to eliminate and reduce unsafe conditions. • Performing technical specifications and evaluating in the field the use of protective equipment in operative areas. • Promoting preventive awareness campaigns for employees exposed to greater working risks. • Designing civil protection internal programs, immediate response units, and staff training in emergency plans.

In Axtel we provide personal and professional development to our employees, looking for workspaces conducive of performing with excellence, while at the same time encouraging a work-family balance, in order to contribute to improve their quality of life.

Due to the merger, 2016 was a year of transformation for Axtel in which we established a definition process and management change to adopt an organizational culture based on the best for both companies. In this process, we focused on the promotion of the qualities of leaders at all organizational levels, as well, we focused in the construction of an open attitude to new forms of work and continuous improvement, to drive the evolution of the company, increase our efficiency and therefore productivity.

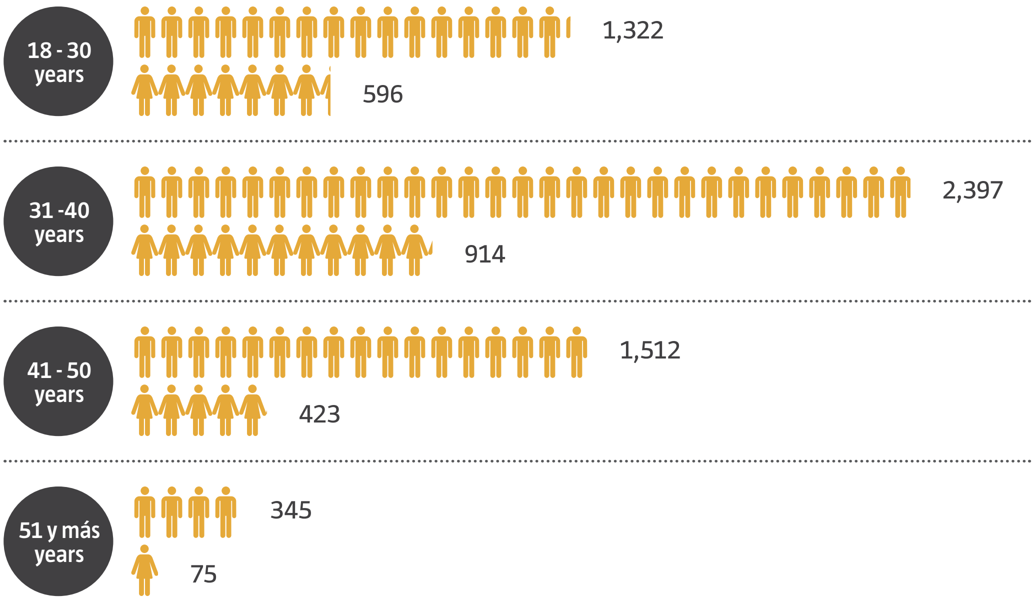
This approval implied the definition and clarity of roles, functions and responsibilities for each area, including the compliance of policies and staff management procedures, comprehensive schemes, talent management, training and development, labor relations, and social responsibility.

All of this generated efficiency in costs and eliminated redundant functions, therefore we were able to maximize the efficiency and productivity of working teams, as well as retain the best talent in the organization.

Currently, we have a unique opportunity to implement new systems and improve the previous ones by promoting the transformation processes according to Axtel's new needs. For 2017, the Human Capital department will seek to consolidate the new culture in our company to attract and maintain the required talent, pointing to an organization oriented to our stakeholders, where we have started with our employees improving communication, creating a climate of trust and forging the new values of the company.

"Change will be constant during 2017, seeking to transform the company with passion, commitment and consistency in all the actions we take to consolidate the new culture of Axtel",
José Eloy Valerio Treviño,
Human Capital Executive Director.

EMPLOYEES BY AGE AND GENDER



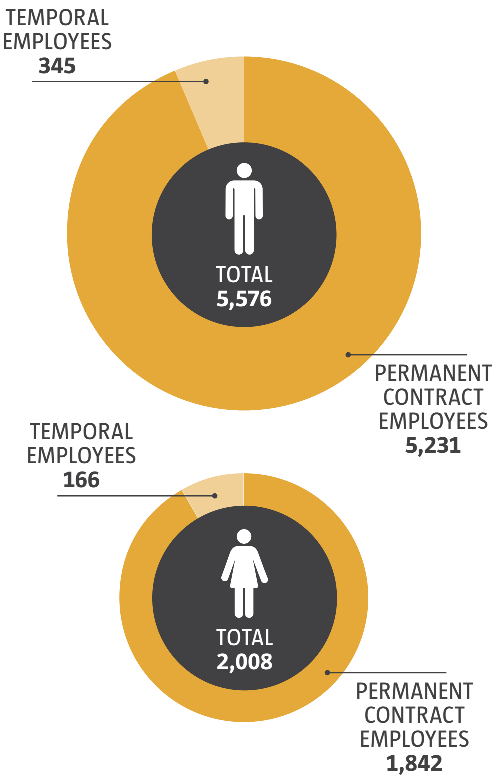
"I am very enthusiastic that the c ompany supports the continuous preparation and development of its employees. Being considered for the Supervisor to Coach Program has been very valuable, as from the first day I have noticed how it has contributed in a positive way in my role as an Axtel employee, as well as in my personal life",
José Manuel Contreras Alderete,
Agile Business Management Table.

7,584 employees make our workforce, 5,576 are men and 2,008 are women. Of that total, 7,073 are permanent employees and 511 are temporal.

We have a benefit plan that includes, among other things, double the year-end bonus established by law, major medical expenses insurance, life insurance, savings account box, maternity and paternity leave, and coverage for disability or invalidity according to law. Employees in the lower wage range of the organization receive 360 percent more than the minimum wage established by law in Mexico.

In 2016, 181 paternity and 121 maternity leaves were granted to Axtel employees, of which 91 percent returned to their job at the end of their license, and 73 percent remained working in the company.

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER

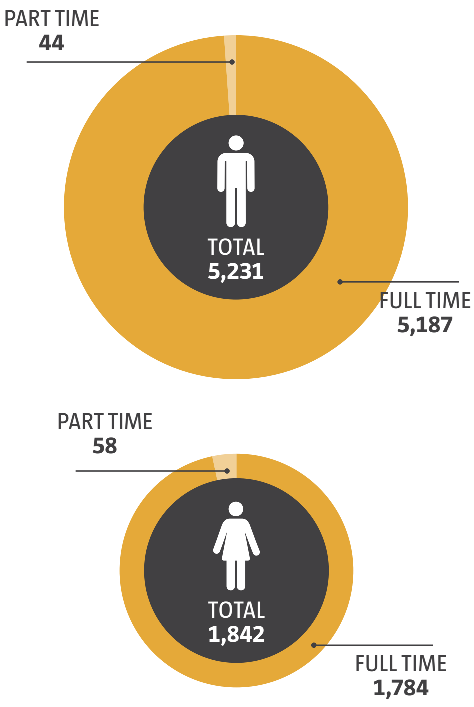


COLABORADORES CONTRATO PERMANENTE TOTAL **7,073**

COLABORADORES EVENTUALES TOTAL **511**

TOTAL 7,584

NUMBER OF EMPLOYEES WITH A PERMANENT CONTRACT BY WORKDAY TYPE AND GENDER



TIEMPO COMPLETO TOTAL **6,971**

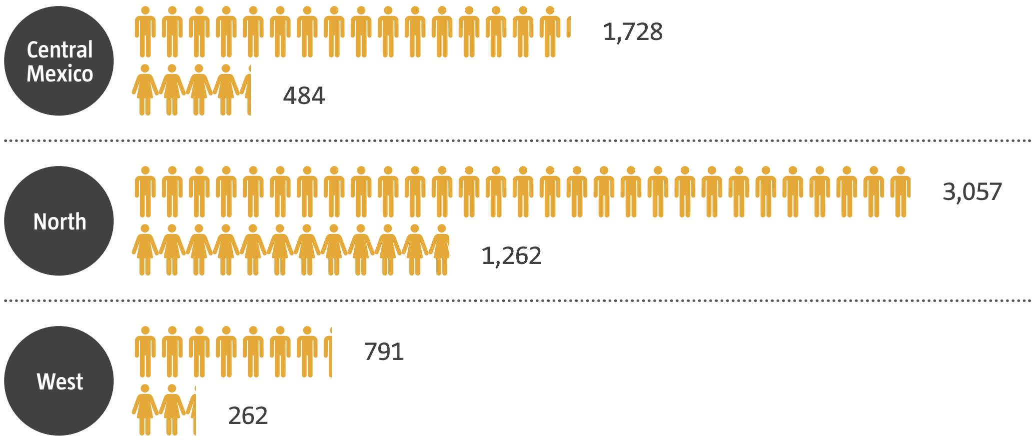
TIEMPO PARCIAL TOTAL **102**

TOTAL 7,073

NUMBER OF EMPLOYEES BY AFFILIATION TYPE, WORKDAY, REGION, AND GENDER

Región	Unionized		Without Union				
	Full time		Part time		Full time		TOTAL
	Men	Women	Men	Women	Men	Women	
Central México	417	0	0	0	1,311	484	**2,212**
North	315	0	15	24	2,727	1,238	**4,319**
West	188	0	40	42	563	220	**1,053**
TOTAL	**920**	**0**	**55**	**66**	**4,601**	**1,942**	**7,584**

EMPLOYEES BY REGION AND GENDER



NEW HIRES BY REGION, GENDER AND AGE

Region	Age	Men	Women	Percentage of Men	Percentage of Women
North	18-30	279	123	69.40%	30.60%
	31-40	141	53	72.68%	27.32%
	41-50	56	38	59.57%	40.43%
	50 +	37	8	82.22%	17.78%
West	18-30	145	66	68.72%	31.28%
	31-40	57	19	75.00%	25.00%
	41-50	25	10	71.43%	28.57%
	50 +	8	2	80%	20.00%
South Central	18-30	110	31	78.01%	21.99%
	31-40	95	38	71.43%	28.57%
	41-50	67	16	80.72%	19.28%
	50 +	18	4	81.82%	18.18%
TOTAL		**1,038**	**408**	**71.78%**	**28.22%**

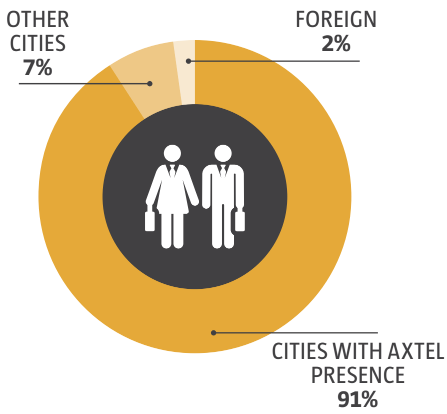
ROTATION RATE BY REGION, GENDER AND AGE

Region	Age	Men	Women	Percentage of Men	Percentage of Women
North	18-30	324	244	57.04%	42.96%
	31-40	309	154	66.74%	33.26%
	41-50	98	96	50.52%	49.48%
	50 +	8	6	57.14%	42.86%
West	18-30	242	98	71.18%	28.82%
	31-40	137	86	61.43%	38.57%
	41-50	62	64	49.21%	50.79%
	50 +	4	2	66.67%	33.33%
South Central	18-30	268	76	77.91%	22.09%
	31-40	205	79	72.18%	27.82%
	41-50	72	42	63.16%	36.84%
	50 +	4	6	40.00%	60.00%
TOTAL		**1,733**	**953**	**64.52%**	**35.48%**

MANAGEMENT COMPOSITION BY AGE AND GENDER

Age	Executive Directors		Directors		Managers		TOTAL
	Men	Women	Men	Women	Men	Women	
18- 30 years	0	0	0	0	0	1	**1**
31-40 years	0	0	1	1	22	3	**27**
41-50 years	4	0	33	3	112	14	**166**
50 +	7	0	16	0	27	3	**53**
TOTAL	**11**	**0**	**50**	**4**	**161**	**21**	**247**

MANAGERS PLACE OF ORIGIN



We know that having trained professional employees is essential for us to be an innovative company, always at the forefront, and capable of meeting our customers' needs, knowing that it is essential for the daily growth and development.

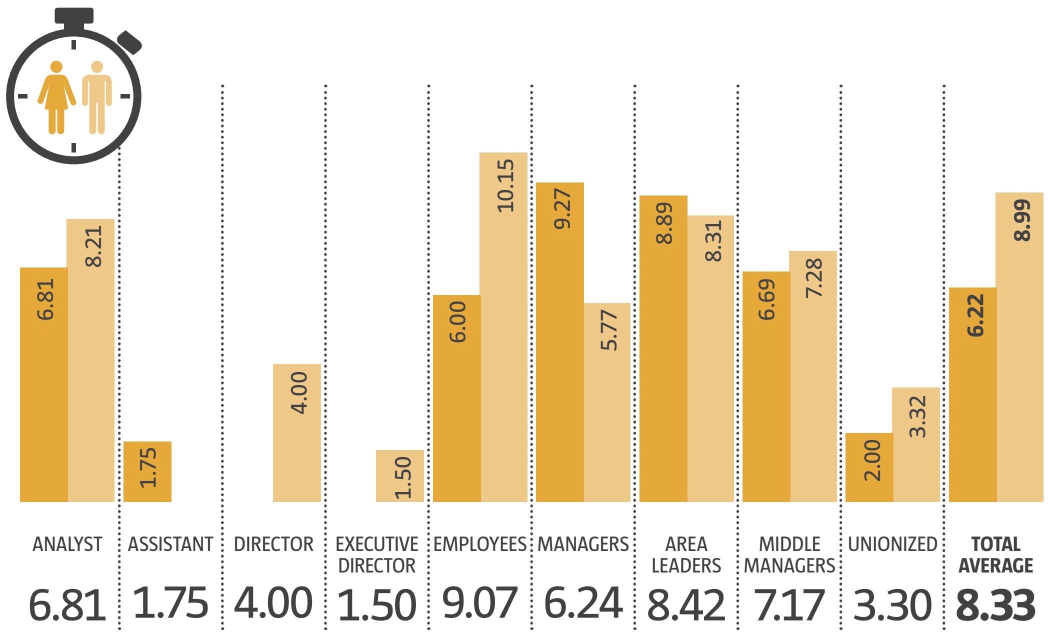
In 2016, we offered different training alternatives for our employees, whether in person or online, about leadership, coaching, personal finances, communication, teamwork, personal development, recruitment and selection, and executive capabilities.

We offer a **Comprehensive Employee Agenda** with a series of cultural, educational and social events for our employees and their families. In 2016, we celebrated Family Day with the participation of 18,190 people, and events such as football tournaments, executive forums and runner clubs, which altogether attended more than 2,300 employees.

"I love working in Axtel, it has been my second home, where I love what I do and I am also recognized. Is the company where my professional growth is manifested in the well-being of my family. Over the years, my career has been supplemented with my academic growth and thus better opportunities. I feel very fortunate of growing together with Axtel",

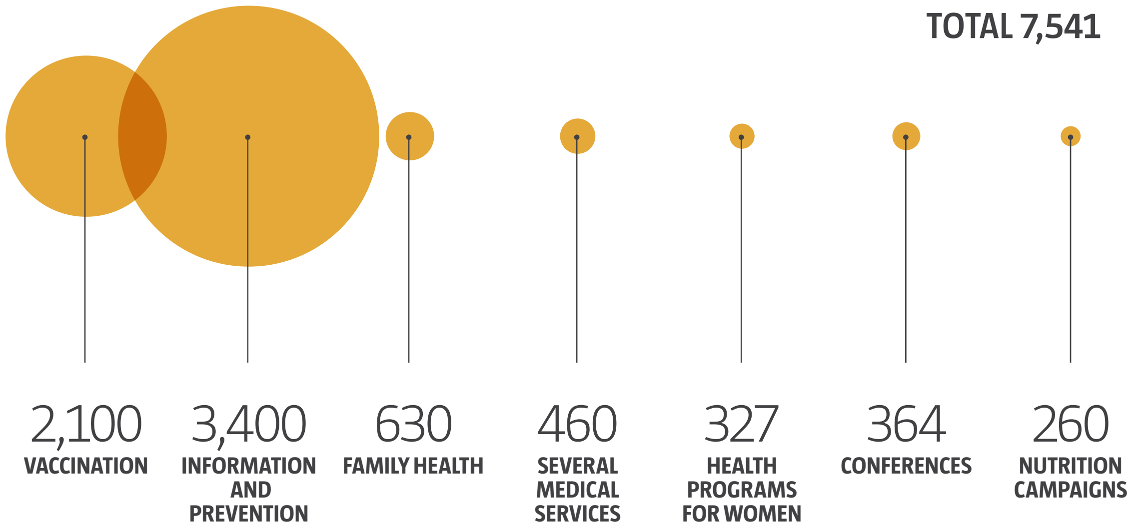
María Guadalupe Librado Merinos,
Indicators and Metrics, Service Delivery.

AVERAGE TRAINING HOURS



HEALTH PROMOTION FOR EMPLOYEES AND THEIR FAMILIES 2016

(PARTICIPANTS PER CAMPAIGN)



SAFETY AND HYGIENE

G4-LA5, G4-LA6, G4-LA7, G4-LA8

It is important to guarantee the integrity of our employees in the performance of their work, as well as their health. To ensure this, we have a series of measures such as inspections and audits, training, personal protective equipment in activities that require it, and 79 Health and Safety committees that represent the totality of our employees.

In Industrial Safety area, our accidents record was reduced by 4 percent versus the previous year and is below the industry average according to the statistics report of the Department of Labor and Social Insurance *(Secretaría de Trabajo y Previsión Social, STPS)*, while the severity indicator of accidents was 12.68 percent less than the national average registered in the same government agency.

In 2016, we recorded no cases of occupational disease, however, 120 employees had labor accidents, thus resulting in an average of 22.7 days lost by accidents and one fatal victim.

LABOR ACCIDENTS, LOST DAYS AND FATAL ACCIDENTS 2016

120
LABOR ACCIDENTS

2,719
DAYS LOST DUE TO LABOR RISKS

1
FATAL VICTIMS FOR LABOR ACCIDENTS

22.7
AVERAGE DAYS LOST FOR LABOR ACCIDENTS

SOCIAL CONNECTION

We connect with the community through social investment, peace and security, as well as through the search and generation of opportunities that promote jointly social development.

We are convinced that we should get involved and participate in the solution of social problems that go beyond our business, supporting those who are part of the community in where we operate, live and where our employees are part.

Therefore, since more than 10 years ago we created the Axtel Foundation, to generate synergies with institutions and perform social investments through the provision of financial resources.

We place special emphasis on programs that support causes aligned with human and community development, and environment. Specifically, we are interested in pointing out projects for young people aged between 13 and 17 who are at social risk by the environment in which they live.

INSTITUTO NUEVO AMANECER

Offers human development services for 500 students with cerebral palsy and their families. Provides child psychology, family therapy, communication, language, and emotional development.

2016 joint results with Axtel

- 100 percent of students improved their behavioral skills.
- 77 percent managed to establish a functional formal communication.
- 49 percent progressed in their abilities and stages of development.
- 45 percent improved their visual perception, listening, visual memory, and auditory skills.
- 45 percent improved their learning processes.
- 50 percent of students advanced in mathematical thinking.
- We will seek to involve 13 students in the regular education system.

ANDARES

It provides residence and training for independent living to 24 adults with disabilities and supports them in their labor integration in order to increase their quality of life.

2016 joint results with Axtel

- The total number of beneficiaries was trained in activities related to safety and home.
- Monthly medical follow-up and nutritional advice was given.
- Beneficiaries' families were trained in disability issues.

SER Y CRECER

Maximize the potential of 29 kids and adolescents in adverse economic conditions.

2016 joint results with Axtel

- Some obtained a better academic achievement.
- Levels of discipline and compliance were elevated.
- Personal improvement and future projects for high school and university were promoted.

In 2016, we supported seven organizations from the civil society that benefited more than 4,600 people. Thanks to this, we received the recognition Social Investment, granted by the Mexican Center for Philanthropy (CEMEFI), by allocating 1 percent of our profits before taxes to these causes.

ALIANZA EDUCATIVA CIUDADANA POR NUEVO LEÓN (AECNL)

Axtel is an ally of the Virtuous Circle program, in which infrastructure and equipment in schools are improved in Nuevo Leon.

2016 joint results with Axtel

- 3 schools, 1,238 students and 53 primary, secondary and high school teachers were benefited.
- All schools are in the third phase of the program, which have achieved promoting self-management from the school community.

POTENCIA JOVEN

Works to decrease social risk conditions of 316 kids and youths of the community of San Gilberto, Santa Catarina, Nuevo León.

2016 joint results with Axtel

- Resiliency and parental skills in parents were developed to reduce the risk factors for children.
- Kids and youths were reinserted to the school system.
- Capabilities for decision-making and non-violent conflict management were generated.

RED SUMARSE NUEVO LEÓN

Operates and gives continuity to initiatives of high social impact in six localities in Nuevo Leon (La Ermita, Riberas de Capellanía, Lázaro Cárdenas, Ciudad CROC, Constituyentes de Querétaro 1° y 3er sector, Xochimilco, Cima de las Mitras, and Lomas de la Fama).

2016 joint results with Axtel

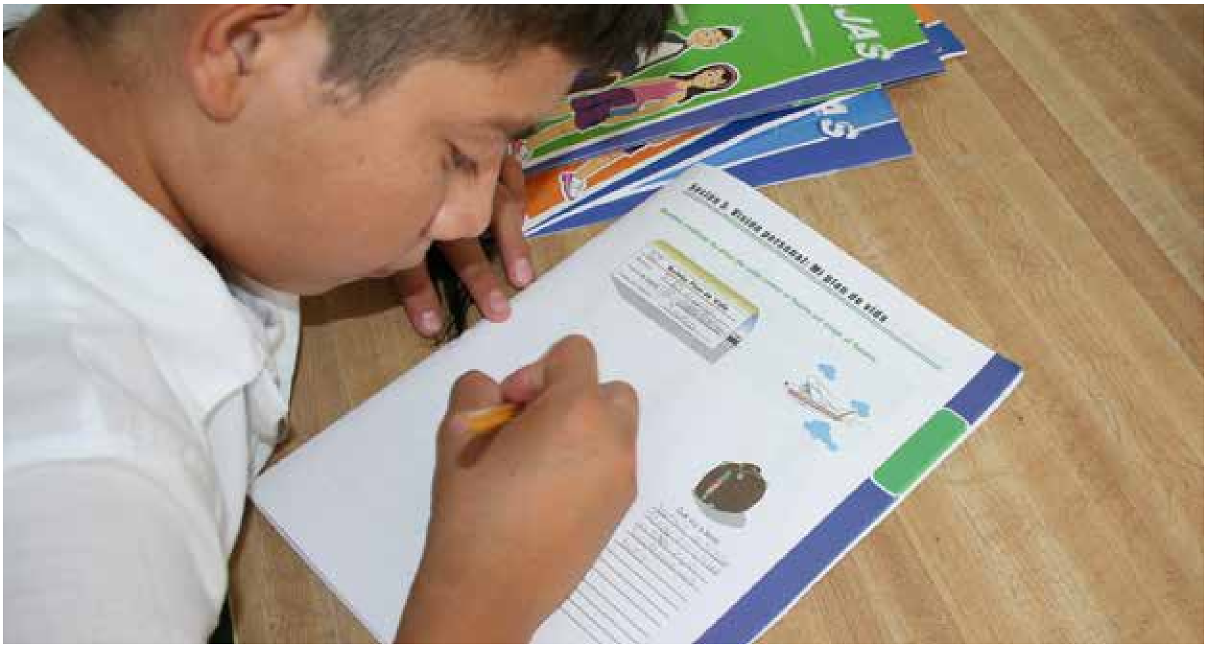
- Since the beginning of the program, seven years ago, more than 2,500 persons, comprising 19 community groups have been benefited.
- We worked in the development of capabilities for citizens of these areas to generate solutions to the problems of their environment.
- Joining 34 multi-sectorial actors and the signature of a collaboration agreement with the government of the United States, through its cooperation agency USAID was achieved.
- The model is being replicated in Coahuila and in Guanajuato is in progress.

CASA PATERNA LA GRAN FAMILIA

Provides education and support for children and youths at social risks.

2016 joint results with Axtel

- The institution has 77 direct beneficiaries and nearly 231 indirect beneficiaries.
- School transportation was provided to kids and youths.
- Guaranteed maintenance of internal services.



DONATION IN CONTACT CENTER SERVICES

Aligned to the Axtel mission "enable organizations to be more productive and bring people to improve their quality of life", in 2016 we launched the contest **Donation in Contact Center Services** that offers our Call Centers services to civil society organizations to support winning institutions in events, projects, update of its database or surveys application. The purpose is to provide access to telephone services that help them generate greater efficiency in their operation.

The results of the announcement were unveiled in May 2016, in which nine organizations were awarded: Fundación Tarahumara José A. Llaguno, A.B.P., Yolia Niñas de la Calle, A.C., Fundación Juconi, A.C., Fundación Comunitaria del Bajío, A.C., Paz Es, A.B.P., Cáritas de Monterrey, A.B.P., Asociación Mexicana para la Audición Ayúdanos a Oír, A.C., Abogados con Cámara, A.C., and Instituto Nuevo Amanecer, A.B.P.

"I have participated as volunteer in different activities, sharing time and bringing knowledge to different groups in the community, looking for their benefit, which has allowed me to learn and grow as a person, and it has left me experiences and infinite satisfaction",
Miguel Ángel Puebla Díaz,
Auditing.

CORPORATE VOLUNTEERING

In 2016 we invited our employees, through the Axtel Foundation, to contribute with their time and knowledge in two corporate **volunteering programs**:

- **Life Purpose** is an initiative in partnership with Fundación Jomar, aimed at young people to find and carry out their life's purpose. We had the participation of 12 volunteers from Axtel that provided 96 hours to benefit 2,980 high school students from "CONALEP Rangel Frías", in the municipality of Guadalupe, N.L.
- **Mentor Friend** is a program provided by Alianza Educativa Ciudadana de Nuevo León, were we participated with nine employees, who taught Spanish and math classes to support 38 students from the primary school "1 de Mayo" in Santa Catarina, N.L., which added 200 hours of volunteer work.

In addition to these initiatives, the workshop ***Formación de Embajadores de la Compasión para el Servicio Social,*** taught by *Escuela de la Compasión*. Its purpose was to raise awareness and put into practice, among our volunteer employees, complementary values that help them enhance their sensitivity towards actions of solidarity.

As part of ALFA, our volunteers also participated in the program **School for Parents**, an initiative that is part of the Educational Project ALFA Foundation. Volunteers talk to the parents of high school students about the different problems their children face, seeking to encourage the development of a healthy and comprehensive family that helps improve their psychological well-being and quality of life.

ENVIRONMENTAL AWARENESS

G4-EN27

We promote an environmental awareness that is reflected in the responsible consumption of resources, energy efficiency in the processes, the proper handling of waste, and a reduction in emissions to lessen our impacts and help slow down climate change.

OUR 2020 COMMITMENT

PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT ARE WE DOING TO ACHIEVE IT?
Energy	• Reduce 2 percent of the electrical energy consumption. • Reduce 5 percent of the fleet fuel consumption.	• Generating energy efficiency initiatives. • Replacing obsolete equipment with more efficient technologies. • Improving the performance of our vehicle fleet.
Emissions	• Reduce greenhouse gas emissions from our operations by 10 percent.	• Having supply of renewable energy (aeolian, geothermal, and solar) • Generating energy from a system of efficient cogeneration. • Having the best technologies of the moment.
Waste	• Recycle 10 percent of waste generated.	• Promoting a nationwide recycling program.
Water	• Reduce 2 percent of the water consumed in our buildings.	• Measuring water consumption to identify areas for improvement and implement cost-saving measures.
Environmental culture	• Create environmental awareness in our stakeholders.	• Promoting information related to environmental issues internally and externally.

In Axtel we work in favor of the construction of environmental awareness that contributes to the decision-making inside the company, focused on improving energy efficiency, saving in water consumption, reduce greenhouse gas emissions, and reduce the generation of waste, while at the same time seeking to pass it on to all our stakeholders.

These topics are supported by the **Environmental Policy** that governs us, and which is aligned to our Sustainability Strategy that contains the guidelines to reduce and prevent negative environmental impact of our activities. Three specific policies emerge from it: Waste and Residues, Energy Savings and Water Consumption.

In addition, we engage in sessions of the Environmental Committee that are held periodically in ALFA, where issues related to legislation and regulations are reviewed, as well as the initiatives we promote in favor of the environment.

In 2016, the workshop Environmental Leadership for Competitiveness was held, where 21 employees from different areas and some of our suppliers participated in developing 14 eco-efficiency projects. Implementing these initiatives will generate annual savings approximated by 7.2 million pesos as a result of reductions in the consumption of energy in 4.5 million kWh and 403 tons of waste, which translates to 2,219 tons of CO2e not emitted.

ENERGY USE

G4-EN3, G4-EN5, G4-EN6, G4-EN7

DIRECT CONSUMPTION OF FUEL BY SOURCE

TYPE		LITERS	GJ
FLEET AND GENERATORS (MOBILE SOURCES)	DIESEL	28,163.00	1,071.46
	GASOLINE	5,777,417.88	190,799.80
	LP GAS	7,053.24	257.16
TOTAL		**5,812,634.12**	**192,128.42**
GENERATORS OF ELECTRICITY (FIXED SOURCES)	DIESEL	79,563.00	3,026.97
	GASOLINE	5,538.00	182.89
	LP GAS	52,600.00	1,917.78
TOTAL		**137,701.00**	**5,127.64**
TYPE		**MWh**	**GJ**
COGENERATION	NATURAL GAS	4,675.00	16,830.00
TOTAL		**4,675.00**	**16,830.00**

The data was obtained from the electricity and fuel invoices, as well as from the fuel purchase orders of the generators. The energy from the cogeneration system is recorded independently.

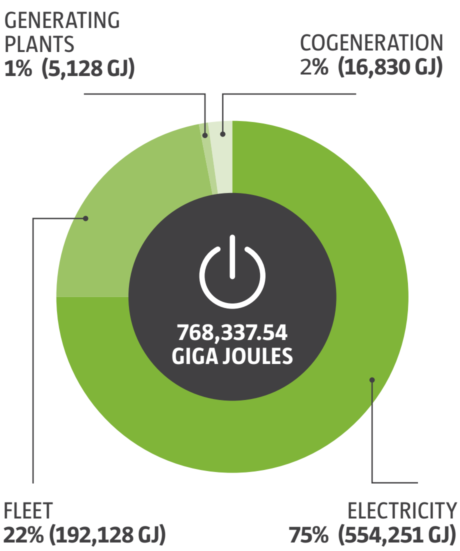
Energy is a topic relevant to the sustainability of our business, since it is a key resource to provide the services that we offer to our customers. Hence the commitment we have to reduce our energy consumption.

To make more efficient the use of electricity and contribute to the reduction of Greenhouse Gas Emissions (GHG), we base our activities in the **Energy Savings Policy**, which describes the expected actions to ensure it.

INDIRECT ENERGY CONSUMPTION BY SOURCE

TYPE		MWH	GJ
ELECTRICITY	CONVENTIONAL	124,632.82	448.678.14
	AEOLIAN	28,251.46	101,705.24
	GEOTHERMAL	1,074.47	3,868.10
TOTAL		**153,958.75**	**554,251.49**

TOTAL ENERGY CONSUMPTION



The **Querétaro Data Center** is rated as the most efficient worldwide according to ICREA (International Computer Room Experts Association), since it has the best practices in power and cooling, resulting in a balance between operating efficiency and environmental commitment. Also, our Data Centers in Apodaca and Querétaro were certified on CEEDA (Certified Energy-Efficient Datacenter Award) for its commitment to energy efficiency, sustainability and with underlying performance.

One of the actions we made in 2016 was the renewal of obsolete power plants by a more efficient natural gas-based, allowing us to reduce 30 percent of energy consumption and 50 percent fuel usage.

We have improved the performance of the vehicle fleet with which we give service to our clients, and implemented a program where units are controlled by GPS to monitor the geographical boundaries and proper driving of the operator, allowing managing fuel consumption efficiently.

ENERGY INTENSITY:

0.74 GJ/Subscriber

1,033,000
SUBSCRIBERS

768,337 GJ
TOTAL CONSUMPTION

PUE ANNUAL AVERAGE OF OUR DATA CENTERS:

Power Usage Effectiveness or PUE, is a metric defined by The Green Grid to measure energy efficiency of the Data Centers. This indicator compares the total energy consumed by its operation with the amount actually reaching the equipment.

1.9 **MONTERREY**	1.9 **APODACA**
1.9 **GUADALAJARA**	2.1 **QUERÉTARO**

NOTE: The closest the PUE value is to 1, the more efficient is the process (the value of 1 means 100 percent efficiency). Studies show that the majority of the Data Centers have PUE values close to 3.0.

"In the Querétaro Data Center we have a Cogeneration System to provide us electric energy and use geothermal energy in other internal processes that help us be efficient and sustainable by reducing the carbon footprint. These characteristics made us candidates to the Energy Efficiency certification (CEEDA) and to the Green Seal (ICREA)",

Luis Eduardo Arizpe Aldape,
Critical Mission Center Operations Manager.

The consumption of electrical energy and fuels used to maintain efficiency in our operations generate Greenhouse Gas Emissions (GHG), therefore we implemented initiatives to minimize environmental impacts and voluntarily participate in different programs to demonstrate our efforts:

- We collaborate with ***Programa GEI México*** (Mexico's GHG Program) for the third consecutive year, where we submit a GHG Protocol Report to the Department of Natural Resources and the Environment (SEMARNAT) with the measurement of the greenhouse gas emissions of our company.
- We present our fleet performance to the **Clean Transportation Program** of the SEMARNAT and SCT.
- We report our inventory of GHG emissions and the actions we carry out to reduce them to the international initiative **Carbon Disclosure Project** (CDP) in the category of climate change and suppliers.

We measure our direct emissions as Scope 1; indirect emissions due to electric energy consumption as Scope 2; and other indirect emissions as Scope 3.

SCOPE 1[7]

Our Data Center in Querétaro has a system of efficient cogeneration based on natural gas that supplies 67 percent of the electric energy required to operate. With this system, we have avoided the emission of 1,299 tons of CO_2, allowing us to have lower emission factors than conventional energy.

SCOPE 1 EMISSIONS BY SOURCE

TYPE		LITERS	CO_2	CH_4	N_2O	Ton CO_{2e}
FLEET (MOBILE SOURCES)	DIESEL	28,163.00	75.51	0.00	0.00	75.56
	GASOLINE	5,777,417.88	13,446.11	0.50	0.27	13,532.13
	LP GAS	7,053.24	10.79	0.00	0.00	11.36
TOTAL		**5,812,634.12**	**13,532.41**	**0.51**	**0.27**	**13,619.05**
ELECTRICITY GENERATORS (FIXED SOURCE)	DIESEL	79,563.00	212.95	0.00	0.00	213.65
	GASOLINE	5,538.00	12.58	0.00	0.00	12.63
	LP GAS	52,600.00	84.78	0.00	0.00	84.85
TOTAL		**137,701.00**	**310.31**	**0.00**	**0.00**	**311.12**
TYPE		**MWh**	**CO_2**	**CH_4**	**N_2O**	**Ton CO_{2e}**
COGENERATION	NATURAL GAS	4.68	944.09	0.02	0.00	945.00
TOTAL		**4.68**	**944.09**	**0.02**	**0.00**	**945.00**

[7] Scope 1: emissions from sources controlled by the organization.

SCOPE 2[8]

Pursuant to the commitment of being a more sustainable company, from 159 Axtel buildings, 18 are provided with aeolian energy and 69 with geothermal energy. This represents nearly 20 percent of the total energy consumed, in other words, 13,595 tons of CO_2e that were not emitted during 2016.

During 2016, we emitted a total of 71,957 tons of CO_2e (before emissions intensity).

SCOPE 2 EMISSIONS BY SOURCE

TYPE		MWh	Ton CO_{2e}
ELECTRICITY	CONVENTIONAL	124,632.89	57,081.83
	AEOLIAN	28,251.46	12,882.66*
	GEOTHERMAL	1,074.47	489.96*
TOTAL		153,958.75	57,081.83

* Tons CO_{2e} avoided.

ENERGETIC INTENSITY:

- For each GJ of electric energy consumed, 0.094 tons of CO2e/GJ were emitted, considering 71,957 tons of CO2e of electric consumption (conventional and cogeneration) and 68,337 GJ in our operations.
- For each subscriber 0.07 tons of CO2e, were emitted, considering a total of 71,957 tons of CO2e and 1,033,000 subscribers of all markets.

SCOPE 3[9]

In 2016, Axtel's executives performed 2,201 national and international working trips, accumulating 3,056,122 kilometers, which represents indirect emissions for 548 tons of CO_2e.

To reduce the number of trips and kilometers travelled that generate GHG emissions, we have strengthened the use of videoconferencing, decreasing transfers between offices and cities.

- To obtain Scope 1 and Scope 3 emissions we use a tool to calculate transportation and stationary combustion emissions obtained from The Greenhouse Gas Protocol, with reference to the IPCC Fifth Assessment Report for global warming potentials. (http://www.ghgprotocol.org/calculation-tools/all-tools).
- For the Scope 2 emissions, we use the electrical emission factor published by SEMARNAT in the Federal Official Gazette. (http://www.semarnat.gob.mx/sites/default/files/documentos/cicc/aviso_factor_de_emision_electrico_2015.pdf).

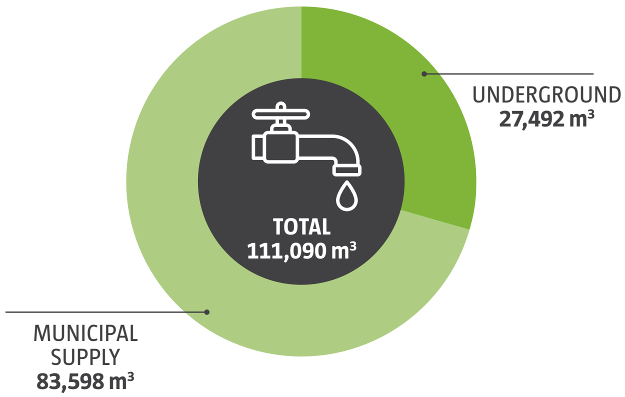
[8] Scope 2: emissions by energy acquired from another organization.
[9] Scope 3: emissions resulting from activities of the organization from sources not controlled or possessed.

WATER CONSUMPTION G4-EN8, G4-EN9, G4-EN10, G4-EN22

Our activity does not require large consumption of water, however, given the reality of the problems surrounding this resource, we promote its conservation for future generations.

We foster a culture for the care and use through our **Efficient Use of Water Policy,** which contains the applicable guidelines to all employees. The reported consumption is limited to the use of sanitary services.

WATER SUPPLY BY SOURCES



WASTE MANAGEMENT AND DISPOSAL G4-EN1, G4-EN2, G4-EN23, G4-EN25, G4-EN28

MATERIALS USED BY TYPE AND VOLUME

We rely on the Official Mexican Standards, current environmental legislation in Mexico, in our **Waste Management and Disposal Policy**, and in its respective procedure to ensure the separation and proper disposal of hazardous and non-hazardous waste, as well as reduce its generation.

Our processes generate waste that comes from the packaging of products, materials used in our operations, and the ones generated in the worksites; which we separate and send to its proper disposal.

With the **Recycling Program** that takes place in the cities where we have more presence, we recycled 65.9 tons of wood, paper, carton, glass, metals, and plastic. This represents 45 percent of waste generated in our working centers in Monterrey, Guadalajara, Mexico City, and Querétaro.

On the other hand, we export 22.5 tons of electronic equipment and 42.5 of batteries with specialized suppliers for the reuse of its components.

We have the **National Recovery of FTTx Equipment Program**, an initiative focused on establishing strategies and actions that allow increasing to 90 percent the number of FTTx equipment recovered, providing the same quality of service, while saving its acquisition and contributing to reduce our negative impact in the environment.

With this initiative, we seek to give more life to these instruments, to help reduce the use of materials such as plastic and metal, as well as energy and natural resources such as petroleum. In 2016, we retrieved 136,068 devices before they completed their life cycle and reused 102,976[10].In total, since the program started in 2015, we have recovered 263,656 devices.

The cities that participated in the National Recovery of FTTx Equipment Program during 2016 were Aguascalientes, Mexico City, Ciudad Juarez, Guadalajara, León, Monterrey, Puebla, Querétaro, San Luis Potosí, and Toluca.

We sent to confinement 19.2 tons of fiber optic, material that represents one of the greatest challenges to reduce our direct impact to the environment.

In the same way that we have done since 2011, we work on reducing our consumption of paper promoting among our customers the option of **electronic invoicing**. To this day, 61 percent of our invoicing is made in this format, which is equivalent to 3,810,890 invoices or 30.6 tons of sheets not sent to print.

At the end of 2016, we implemented a tool named **Time of Arrival**, which digitally handles service requests to the phones of our installers, scheduling visits automatically. With this initiative, we removed 700,000 printed orders, equivalent to 18 tons of paper, which represented 70 percent of all prints of the Service Delivery department.

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[10] The equipment reused in 2016 correspond to devices recovered since 2015, year in which we initiated the program.

OPERATIONAL EFFICIENCY

G4-8, G4-9

We seek operational efficiency using the best corporate governance practices to ensure proper financial management that drives the economic growth of Axtel, always providing the best service that our customers may find in the market.

Today in Axtel we are larger, with the greatest coverage in the country and direct attention in more sites.

We have a robust offer, much more reliable and secure, for tools, services and Information and Communications Technology (ICT) solutions that are at the forefront of the industry. The Axtel portfolio, as well as the way in which we operate to generate value to our customers, is the result of a selection of the best practices in Axtel and Alestra.

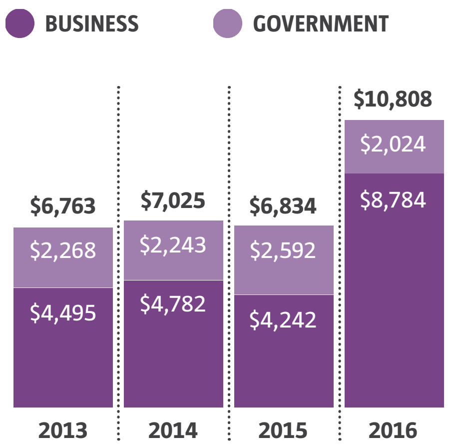
We attend different customers, with different needs, and that belong to different markets, served by us in four areas: Business Market, Government Market, IT Market, and Mass Market.

ENTERPRISE MARKET AND GOVERNMENT MARKET

OUR 2020 COMMITMENT

AREA PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT ARE WE DOING TO ACHIEVE IT
Ensure a unique experience for our customers with the highest standards of operation.	• Integrate our operation and promote the best practices in both organizations to maintain a high level of customer satisfaction.	• Homologating our practices, processes and operations, ensuring a comprehensive, agile and safe service.
Continue with an accelerated growth pace through the promotion of technological adoption in the market.	• Maintain and exceed our acquisition objectives. • Strengthen our technological offer with cutting-edge solutions.	• Capitalizing on the best practices and competitive advantages, achieving a stronger infrastructure, supply and human capital. • Promoting the skills of employees and training them for the fulfillment of the objectives.
Develop the working team professionally.	• Train all employees to acknowledge and obtain all certifications that ensure their leadership inside the business market.	• Working in synergy with Human Capital and other areas of the organization. • Offering training to our staff about the product and services portfolio.

BUSINESS MARKET INCOME
(IN MILLION PESOS)



ENTERPRISE MARKET AND GOVERNMENT MARKET

We serve the segments of medium, big and corporate-sized businesses through the development of ICT solutions for different requirements and market needs. To date, we provide service to more than 18,000 companies nationwide.

Through our technology, we help companies to be more efficient and competitive, in both, its communication and other business processes. Through our managed services offering, companies can dedicate to their goals, while they trust us their ICT infrastructure.

From this Commercial Department, we are in charge of converting into reliable and efficient solutions all the latest technological trends in order to promote companies in Mexico to compete in the global market.

Among the most outstanding achievements of the year is the compliance of the Business Unit Contribution (BUC), by retaining, and renegotiating contracts and their growth.

In addition, during 2016 we launched a new

collaboration service in the cloud that offers increased productivity, efficiency and cost savings. Through a unique offer in its type in Mexico, we offer our customers the tools to work remotely or virtually in a safe way, optimizing time and resources, as well as contributing to the reduction of transfer of people, positively impacting the environment.

As of 2016, the **Government Market** was separated from the Business Market to attend in a more personalized way our customers in the government sector.

"We launched to the market a new collaborative service in the Cloud, where we have the challenge to maintain technological forefront and be sure our customers have the best solutions that help and contribute to the efficiency of their products",
Ricardo J. Hinojosa González,
Business Market Executive Director.

Alestra SummIT

Since 2010, Alestra SummIT has been recognized as the most important technology forum in Mexico and a platform for technology solutions that transform the way of doing business.

The forum, unique in its kind, is performed in five of the most important cities of Mexico, where different decision-makers, leaders, businessmen, and entrepreneurs in the Information Technology (IT) field assist.

During 2016, Querétaro, Guadalajara, Mexico City, Monterrey, and Tijuana were part of this experience, where Vito Di Bari, considered one of the three most important futurists in the world and "European guru of innovation" by New York Times participated, as well as global technological leaders like: Arbor Networks, Avaya, Blue Coat, Cisco, EMC, Fortinet, Hewlett Packard, Huawei, NetApp, SAP, and SUSE.

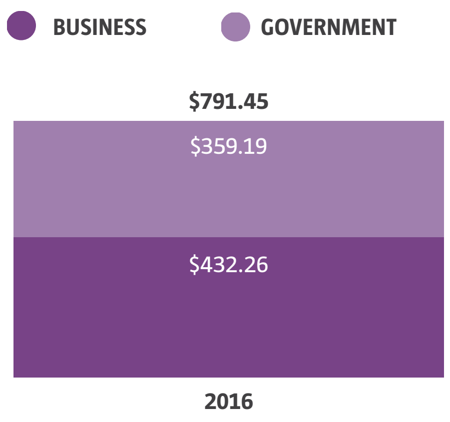
Alestra SummIT 2016 brought more than 4,000 attendees to the technological offer of our company, oriented to the business and government market as Cloud, Collaboration, Security, and Big Data, solutions that generate benefit in businesses and organizations, at the same time drive their growth potential, and prepare them for the trend Internet of Things.

IT MARKET

OUR 2020 COMMITMENT

AREA PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT ARE WE DOING TO ACHIEVE IT?
Technological partner	• Provide Information Technology services that contribute to a more efficient and productive operation of our customers, encouraging the use of technology as an element of value in the transformation of its businesses.	• Providing a consultative sale that adds value. • Bringing businesses to new technological trends for their proper evaluation and adoption. • Offering support in the definition and monitoring of operating indicators.
Delivery of excellence services	• Efficiently implement the IT projects and/or services to become a strategic partner for our customers.	• Implementing methodologies and processes that ensure proper follow-up to the implementation of services. • Attending the process from the design of the solutions until its transition to the operation. • Monitoring delivery indicators to ensure compliance with defined service levels. • Training and certifying employees to guarantee the technical specialization.
Compliance with operation indicators	• Ensure the correct operation of services offered, provide the required business continuity and comply with committed indicators.	• Evolving the operating model by integrating the industry's best practices. • Implementing tools that support the monitoring and management processes to perform a proper operation of services.
Services coverage	• Provide the Mexican business market with IT services, ensuring commercial and advisory coverage, as well as design, delivery and efficient operation.	• Increasing commercial and design coverage through IT consultants. • Creating processes of interaction between foreign offices and centralized equipment for delivery and operation, to provide close attention to customers.

IT MARKET INCOME
(IN MILLION PESOS)



IT MARKET

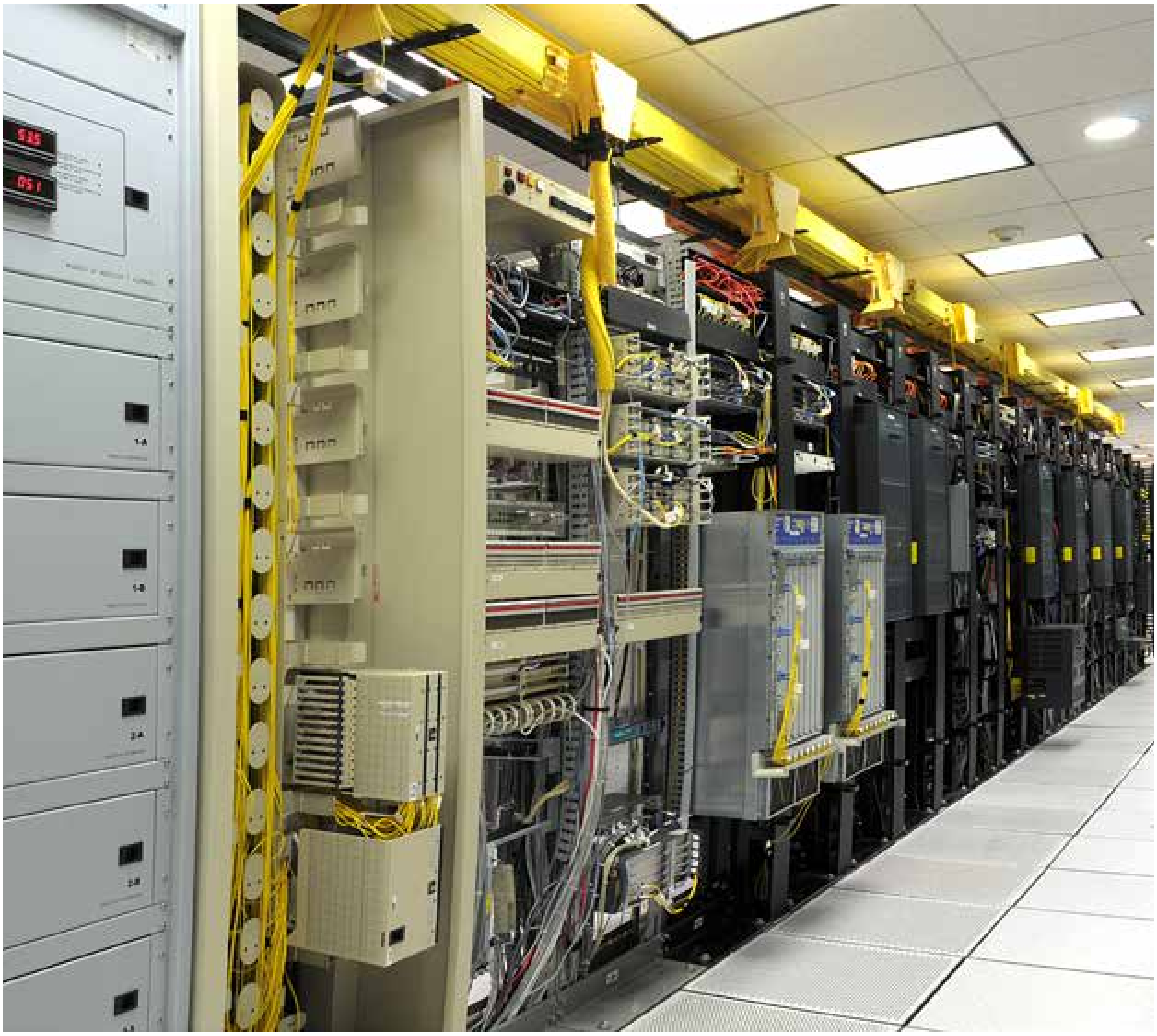
In 2016, we created this area to cover strategy, sales, design, service delivery, and operation, with which we seek to enhance the presence of Axtel among our more than 18,000 business customers that rely on us as its main technology partner.

We serve corporate customers, multinational companies and SMEs, with special insight in manufacturing, finance, services, logistics, retail, health, and education, to which we provide innovative solutions, supported by the new technological trends and promoting its adoption through managed services. We offer solutions based on data centers, cloud services, system integration and application management solutions, as well as a wide range of security services that protect the periphery of the companies up to their applications and Internet portals.

During the year, sales exceeded 214 million pesos and created alliances with strategic partners like Microsoft, Open Xchange, Hewlett Packard Enterprise and *CompuSoluciones* to offer different cloud and email services.

In addition, during 2016 we materialized the integration of companies like GTEL, S&C and Estratel, taking full advantage of values contributing to business from the point of view of technological capabilities, services, processes, and human resources.

"With the merger, we combined all Telecom strengths with all IT capabilities to offer comprehensive solutions and with added value that generate important market differentiators",
Adrián Cuadros Gutiérrez,
IT Commercial Executive Director.

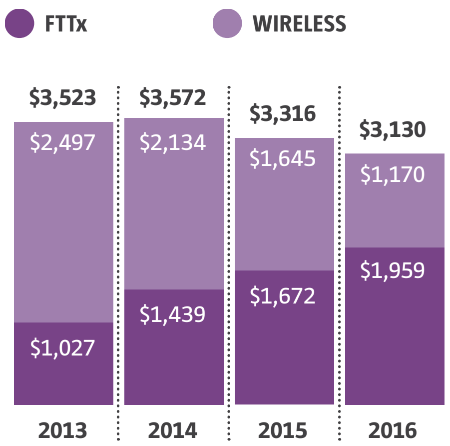


MASS MARKET

OUR 2020 COMMITMENT

AREA PRIORITY APPROACHES	WHAT DO WE EXPECT?	WHAT ARE WE DOING TO ACHIEVE IT?
Customer service	• Improve customers' experience as a key differentiator for the business.	• Transforming our services to maintain product quality. • Optimizing sales efforts. • Integrating tools to the cloud for a 360º management of the traditional and digital service channels like Oracle Right Now, as well as for the operation of field teams that provide installations and repairs Oracle TOA (Time of Arrival).
Increase operational efficiency	• Grow the fiber optic business and reduce disconnections.	• Defining greater coverage areas to implement new sale strategies.
Development of the business model for businesses	• Penetrate in the businesses markets that invoice less than 10,000 pesos per month in telecommunication services.	• Launching Internet solution packages for 200 megabytes, plus telephone lines, SIP trunks or virtual switchboard, as well as value added services (cloud backup, virtual assistance, security and audio conference). • Establishing differentiated service channels to offer specialized attention.

MASS MARKET INCOME
(IN MILLION PESOS)



MASS MARKET

Through this Address we serve more than 440,000 home customers, as well as small and micro businesses, to which, during 2016, we offered solution packages at a very attractive cost.

Consequently from the merge, we incorporated Alestra's customer base to Axtel services – such as Axtel TV, with 124,000 services and fiber optic links with 229,000 Internet accounts – with which we reached an annualized growth of 18 percent in revenue and a national penetration of 17 percent within the coverage areas.

To improve customer experience, we implemented tools that allow us to optimize operating costs. One of them is Rightnow, which offers a platform to track the history of each customer; another one is Time of Arrival, used by our field technicians to coordinate services more effectively; all of this is translated into better service.

Axtel services portfolio relies on technology trends that offer options available to all markets, facilitating access to technology to those who do not have large resources and decreasing the digital gap in Mexico.

Through our two brands we develop solutions for four markets, which we group into the following families of services:

INDUSTRY | **CLOUD AND DATA CENTERS** | **SYSTEMS INTEGRATION AND APPLICATION MANAGEMENT** | **COLLABORATION** | **SECURITY** | **CONNECTIVITY**

INDUSTRY

Services aimed to specific market segments within the public and private sectors in order to address them comprehensively:

- **Digital Government.** Integrates communication and computer systems to support the effectiveness of the different levels of public administration.
- **Digital Education.** Provides resources to strengthen the learning process.
- **Digital Health.** Offers solutions to hospitals and clinics related to security within the hospital, staff communication and digitization of medical records.

CLOUD AND DATA CENTERS

We put at the disposal of our customers in the business market cutting-edge technology through the access of the Cloud, which includes applications, technical support and other solutions that bring unlimited capabilities, universal accessibility, flexibility, and several savings.

All these solutions are backed by security and availability of our Data Centers, which are safe and closed spaces equipped with a robust and redundant electromechanical infrastructure, to guarantee that the operations of our customers are not affected by the conditions of the environment.

We have six world-class Data Centers located in Monterrey: three centers with 1,115 m2, Apodaca (1,885 m^2), Querétaro (3,250 m^2) and Guadalajara (105 m^2), distributed in more than 6,000 m^2 of white floor with the best practices in security, energy efficiency, communication, and cooling. These centers are certified by ICREA (International Computer Room Experts Association), Uptime Institute, CEED, and the highest international standards such as TIA-942, ICREA-Std-132, BICSI-002, ASHRAE, The Green Grid Guidelines, and NFPA.

Alestra Data Center in Querétaro was recognized by ICREA as the best in the world, thanks to its robust and redundant infrastructure, as well as for the best practices in energy and cooling for a balance between operational efficiency and environmental commitment. Is the first Data Center in the industry to obtain the Governability Certification at ALFA level, as well as to be the first one in Latin America to have an Energy Cogeneration System.

- **Sperto Centers.** They are centers designed to provide clients of the Business and Government Market the experience of our solutions to help them analyze their needs and assess the way in which we can promote transformation in their businesses. The centers are located in Monterrey, Querétaro and Mexico City, and have been recognized by the Association of Briefing Program Managers for having world-class marketing, marketing innovation and excellence in 2010, 2011, 2012 and 2014.

Through the **Sperto Centers** we have provided more than 40,000 experiences through demonstrations, talks and tours in seven years of operation. Each center shares the same objective: challenge and experiment the most recent technological solutions demanded by businesses and how they can transform their businesses.

- **Holistic Operation Center.** Is the center that brings the best practices, processes, tools, and experts of our Network Operating Center (NOC), Security Operating Center (SOC), Managed Services Operating Center (MSNOC), IT Services Management Center (CASTI), Help Desk and Systems Support (HD), and Business Service Center (CAE).

SYSTEM INTEGRATION AND APPLICATION MANAGEMENT

System integration practices deliver solutions tailored to requirements, communicating infrastructure, computers, storage, back-ups, monitoring, and management, in a holistic model in which we become the only point of contact for their customers.

Within this practice, we include mission-critical solutions such as DRP (Disaster Recovery Plan), high availability platforms, private and hybrid clouds, and migration of environment, among others.

Application Management Solutions provide a specialized management of IT services accompanied by a complete operational and management model based on the best practices in the industry. With this solution, our customers delegate the operation of their critical applications for which we provide outsourcing services in operations, monitoring, incident management, problems and changes in business applications, such as an ERP, CRM, data bases, among others.

COLLABORATION

With this type of solutions we seek the integration of several communication tools that allow people to interact and collaborate more effectively and efficiently from any place and with any device, facilitating voice channel management, data, video, networks, systems, and business applications.

We offer videoconference services, telepresence, instant messaging, voice, mobility, and Contact Center applications, which are provided through the Cloud so that our customers don't have to invest in specialized equipment.

SECURITY

Through this portfolio we provide solutions to protect computer equipment, networks and systems against threats or hacking through the provision, operation, management, and monitoring of all infrastructure and security of information that the company requires.

Some associated services are the Analysis of Vulnerability, through which we offer a diagnosis to determine the level of exposure of the critical infrastructure of a network in the event of attacks that affect its operation. Other services are Security Consulting, Managed Services for Detection and Prevention of Intruders, Managed Services for Web and Firewall Filtering designed for companies that require web access control, comprehensive protection of multiple layers, and security all in one.

CONNECTIVITY

We have a broad portfolio for connectivity solutions of networks that allow business customers connect via links point to point or point to multipoint, their different national or international offices.

In addition, we offer VPN, Ethernet and Private Line services, with safe transmission of voice information, data or video simultaneously, and protect the Internet gateway against cyber threats through mechanisms called Clean Pipes.

For the residential market we offer Internet up to 200 symmetric high-speed megabytes (same speed for uploading and downloading) and Triple Play (voice, broadband and television), as well as Internet in the modality of Charge per Use, which offers high capacity links with rates depending on the use that customers demand.

We have a portfolio of managed solutions for networks, such as Managed Routers, LAN Switches and Managed WLAN. With these solutions, Axtel customers receive benefits through a monthly rent of the equipment: design, implementation, support, maintenance, operation, and equipment management.

In the SMEs (micro, small and medium companies) market, we help businesses professionalize their Information and Communications Technology platforms to make them more productive, positioning us as their technology partner.

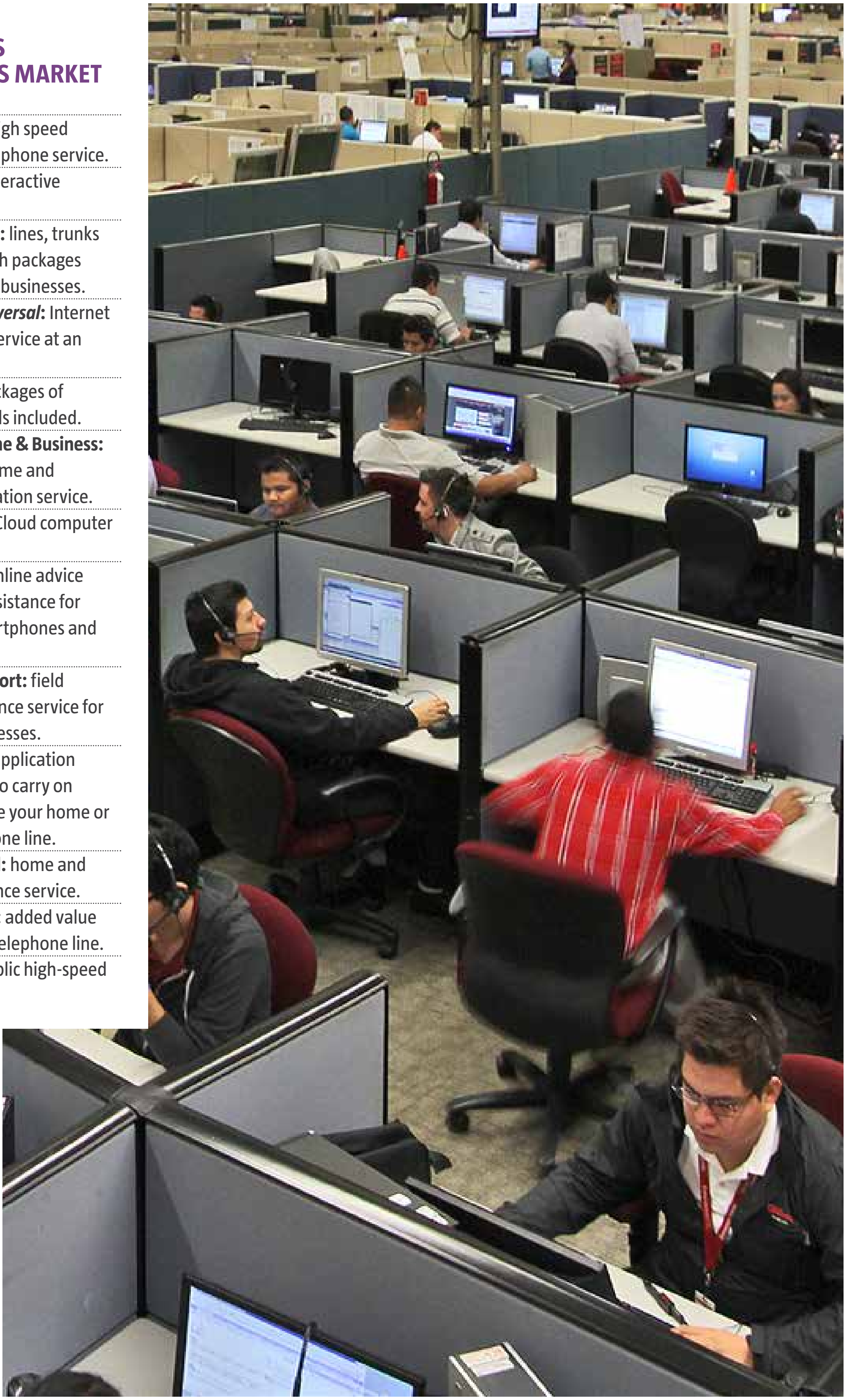
We have three Operative Centers: Video Operation Center (VOC), which is the place of reception and monitoring of video signals that integrate the paid programming television services offered by Axtel; the National Repair Center (CNR) that serves 24 hours 365 days a year all technical requirements of our residential customers; and the Work Center (WC), which is the center of operations for Field technicians and Repairs (I&R).

We have services such as local telephone lines, international long distance, intelligent network, 800 service with national or international coverage, and prepaid and postpaid telephone cards. We also have digital telephone lines, IP lines and fixed-mobile virtual private networks, among others.

"I like the area of Corporate Sales b ecause I enjoy working in projects with customers to help them solve their requirements; also because I am part of the most important technology company in Mexico and this helps me accomplish my personal goals. It is an area where my position implies challenges, dynamism, innovation, teamwork, respect, and integrity to my colleagues and clients",
Julia Echeverría Moreno,
Corporate Sales.

PRODUCTS AND SERVICES FOR THE MASS MARKET

- **Axtel X-tremo:** high speed internet and telephone service.
- **Axtel TV:** paid interactive television.
- **Axtel *Mi Negocio*:** lines, trunks and virtual switch packages focused to small businesses.
- **Axtel *Acceso Universal*:** Internet and telephone service at an accessible price.
- **Axtel *Planes*:** packages of landline with calls included.
- **Axtel Smart Home & Business:** alarm, video, home and business automation service.
- **Axtel Lifesaver:** Cloud computer back-ups.
- **Axtel Experto:** online advice and technical assistance for computers, smartphones and other devices.
- **Specialized Support:** field technical assistance service for home and businesses.
- **Axtel *Conmigo:*** application that allows you to carry on your smartphone your home or business telephone line.
- ***Membresía* Axtel:** home and business assistance service.
- ***Soluciones* Axtel:** added value services for the telephone line.
- **WiFi Xtremo:** public high-speed WiFi.



We take care of the company's finances by properly managing our expenses, attracting new opportunities and propelling the growth of the markets served.

The merger of Axtel and Alestra has presented a unique opportunity to design the company we want to see in the future, with major transformation projects, new platforms, systems and equipment, to satisfy the needs of our business in the following years.

To achieve this integration successfully we performed several synergies required for the operation and which come from new opportunities, system and network changes that generate greater efficiencies.

We dedicated 1,000 million pesos in EBITDA synergies, which more than 900 million were exercised in 2016 through 83 initiatives. For the first quarter of 2017, this phase of the process will conclude, six months before planned, and once finished, a new phase will begin.

By integrating these initiatives to the operation, we supplemented and adopted the best practices of each of the companies, becoming a stronger supplier to the market, since having a combined infrastructure allows us to offer a more robust, reliable and safe portfolio of services, and with more coverage in the Country.

This represented a growth in our cash flow operations by registering 3,673 million pesos, 14 percent more than the previous year. The cash flow of the operation without considering the extraordinary expenses related to the merger was 4,511 million pesos, 28 percent more than the previous year. The business segment had an important growth of more than 100 percent of its revenue versus 2015, which represents 63 percent of the company's total revenue. On the other hand, the mass and government market generated 22 percent and 15 percent of the revenue, respectively.

The mass market achieved a relevant growth in the fiber optic segment by reaching 234,000 Internet accounts and 124,000 television services, 15 percent more compared to 2015, representing an annualized growth of 17 percent in revenues for this segment. As well, we obtained 1,033,000 Income Generating Units[11] (UGIs) at the end of December 2016.

We invested 3,186 million pesos in projects to serve business customers, expand our Data Centers and improve our IT infrastructure and metropolitan circuits, as well as to increase the last mile access for customers of the mass market. In addition, to expand our services coverage, we acquired 49 percent of Estratel[12], a company specialized in IT for business and government customers.

Axtel is part of the Altan Consortium, which in November 2016 the SCT awarded the Red Compartida project to install and operate a new generation wholesale mobile network in the 700 MHz band to provide resale services to operators. With this allocation, Axtel is in a favorable competitive position to use and provide mobile services and infrastructure to the *Red Compartida*.

All of the above makes Axtel a more relevant player in the industry, with more comprehensive and stable processes and with high levels of performance that we will continue to improve in the future.

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[11] UGIs: the sum of voice lines, broadband Internet subscribers and video subscribers that generate frequent revenue for the company.
[12] Alestra acquired the 51 percent of Estratel in 2015.

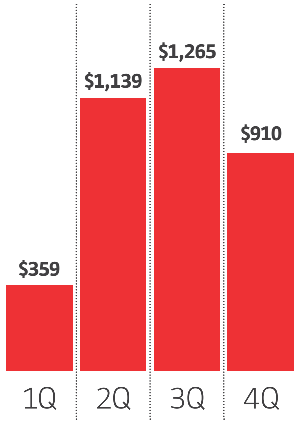
RELEVANT DATA

RESULTS (MILLION PESOS)	2016	2015	2014	2013
Revenue	**13,937**	10,150	10,597	10,286
(Loss) Operating income	**(209)**	589	(500)	2,687
(Loss) Net Income	**(3,599)**	(1,732)	(1,919)	2,408
FINANCIAL SITUATION (MILLION PESOS)				
Total assets	**32,176**	22,199	20,985	19,883
Total liabilities	**29,775**	18,326	15,279	12,355
Stockholders' equity	**2,400**	3,873	5,706	7,528
EBITDA (MILLION PESOS)				
EBITDA*	**3,673**	3,208	2,935	2,793
INDICATORS				
EBITDA / Revenues	**26.4%**	31.6%	27.6%	27.2%
(Loss) Operating income / Revenues	**(1.5%)**	5.8%	(4.7%)	26.1%
(Loss) Net income / Revenues	**(25.8%)**	(17.1%)	(18.1%)	23.4%
Interest coverage	**2.0**	2.7	3.4	3.2
Liabilities / Stockholders' equity	**12.4**	4.7	2.7	1.6
Total Staff	**7,584**	7,001	6,900	6,791

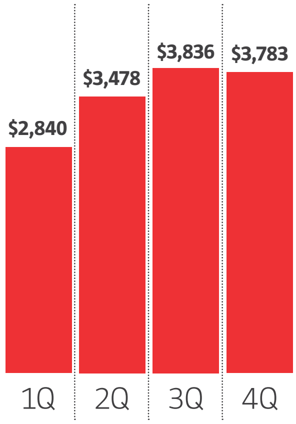
* The EBITDA without extraordinary expenses related with the merger was 4,511 million pesos and 3,532 million pesos for the years 2016 and 2015 respectively. The EBITDA of 2013 does not include the extraordinary revenue of 3,112 million pesos related to the sale of telecommunication towers.

The results of Alestra are incorporated as of February 15, 2016.

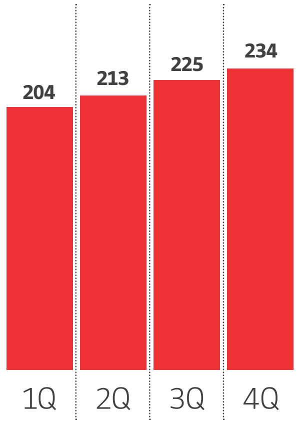
QUARTERLY EBITDA (MILLION PESOS)



QUARTERLY SALES (MILLION PESOS)



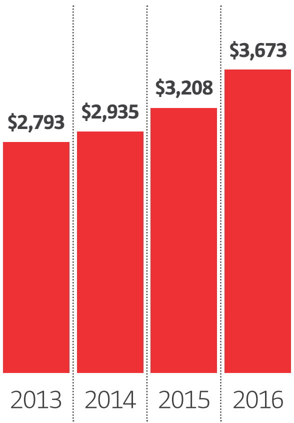
QUARTERLY FTTx BROADBAND SUBSCRIBERS (MILLIONS) UGIs



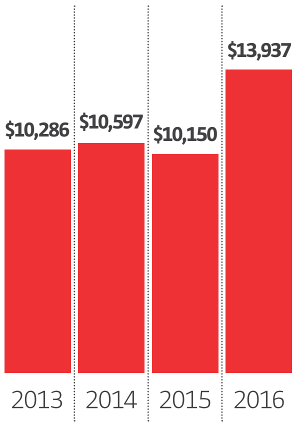
ECONOMIC PERFORMANCE REPORTED TO THE MEXICAN FINANCIAL REPORTING STANDARDS (MILLION MEXICAN PESOS)

CONCEPTO		2016	2015	2014	2013
Economic Value Generated (EVG)	Income	**13,937**	10,150	10,597	10,286
	Interest income	**24**	37	17	16
	Other income		0		3,112
EVG		**13,961**	10,187	10,614	13,414
Distributed Economic Value (DEV)	Operating costs	**(2,748)**	(1,766)	(3,097)	(2,985)
	Acquired services (Outsourcing)	**(421)**	(416)	(400)	(398)
	Social benefits (Payroll and Derivatives)	**(3,226)**	(1,939)	(1,839)	(1,760)
	Paid taxes	**(234)**	(86)	(52)	(75)
	Fund payment to suppliers	**(712)**	(1,165)	(720)	(756)
	Community investments (Donations)	**(1)**	(12)	(13)	(10)
	Other expenses	**(838)**	(437)	(88)	(79)
DEV		**(8,180)**	(5,821)	(6,209)	(6,063)
Retained Economic Value	EVG + DEV	**5,781**	4,366	4,405	7,351

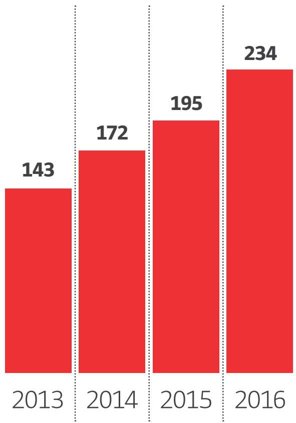
YEARLY EBITDA (MILLION PESOS)



YEARLY SALES (MILLION PESOS)



FTTx BROADBAND SUBSCRIBERS (THOUSANDS) UGIs



* The EBITDA without considering extraordinary expenses related to the merger is 4,511 million pesos for 2016 and 3,512 million pesos for 2015.

OPERATING RESULTS FOR THE YEARS ENDED DECEMBER 31, 2016 AND DECEMBER 31, 2015

The figures include Alestra as of February 15, 2016. However, to explain variations, reference is made to pro forma figures for 2015, which include Alestra's results as of February 15, 2015. These Pro forma figures are located in section 3.2) Financial Information by Line of Business.

REVENUES.

For the twelve-month period ended December 31, 2016, total revenues were Ps. 13,937 million, compared to Ps. 10,150 million in the same period of 2015, an increase of Ps. 3,787 million or 37% derived from the merger with Alestra as of February 15, 2016. Revenues for 2016 decreased Ps. 1,665 million or 11% compared to pro forma 2015 revenues of Ps. 15,602 million, mainly explained by a 38% drop in government sector revenues.

The revenues of the Company come from the following segments:

ENTERPRISE. For the year 2016, revenues amounted to Ps. 8,784 million, compared to Ps. 4,242 million in 2015, an increase of 107% resulting from the merger with Alestra. Revenues in 2016 were 3% lower than Ps. 9,042 million in 2015 pro forma derived from a 5% decline in Telecom services, partially offset by a 21% increase in IT.

Enterprise Telecom. For the year 2016, revenues amounted to Ps. 7,980 million, compared to Ps. 4,139 million in 2015, a 93% increase derived from the merger with Alestra. Revenues in 2016 fell 5% compared to Ps. 8,376 million in 2015 pro forma due to reductions in Voice and Managed Networks revenues. Voice revenues decreased 16% due to a decrease in fixed to mobile revenues and 800s number and an 83% decrease in revenues from international traffic, or traffic generated outside Mexico, explained by volume and price reduction. Data and Internet revenues increased 12% due to the growing demand for dedicated internet from existing Axtel and Alestra customers. Revenues from Managed Networks decreased 7% due to the sale of extraordinary equipment that was not repeated in 2016.

Enterprise IT. For the year 2016, revenues from the IT segment totaled Ps. 804 million, compared to Ps. 103 million in 2015, a 680% increase from the merger with Alestra. Revenues in 2016 increased 21% compared to Ps. 667 million in 2015 pro forma, driven by growth in hosting services in our data center, cloud services and systems integration.

GOVERNMENT. Revenues for 2016 totaled Ps. 2,024 million, compared to Ps. 2,592 million in 2015, a decrease of 22%. Revenues in 2016 decreased 38% compared to Ps. 3,244 million in pro forma 2015.

Telecom Government. For the year 2016, revenues amounted to Ps. 923 million, compared to Ps. 1,728 million in 2015, a decrease of 47%. Revenues in 2016 were 51% lower than Ps. 1,881 million in 2015 pro forma mainly due to reductions in revenues from Managed Networks. Voice revenues decreased 34% due to a decrease in fixed to mobile revenues and 800s number. Data and Internet revenues increased 14% due to growing demand for dedicated internet. Revenues from Managed Networks decreased 69% due to the sale of extraordinary equipment to provide managed services in 2015 that were not replicated in 2016.

IT Government. For the year 2016, revenues from the IT segment totaled Ps. 1,101 million, compared to Ps. 864 million in 2015, a 28% increase from the merger with Alestra. Revenues in 2016 were 19% lower than the Ps. 1,362 million in proforma 2015, due to a 32% decrease in system integration due to a strong level of equipment sales in 2015 that was not repeated in 2016 and 50% in managed applications related to lower services demanded by a customer in our contact center.

MASS MARKET. Revenues decreased 6% to Ps. 3,130 million in 2016 compared to Ps. 3,316 million in 2015.

FTTx. Income from FTTx totaled Ps. 1,959 million in 2016, compared to Ps. 1,672 million in 2015, representing an increase of 17% in line with the 19% increase in customers. Voice revenues rose 10% due to a 23% increase in monthly income mitigated by a 63% drop in fixed to mobile revenues due to a decrease in prices and minutes. Internet and video revenues rose 16% and 33% respectively, due to the increase in subscribers.

Wireless Technologies. Income totaled Ps. 1,170 million in 2016, compared to Ps. 1,645 million in 2015, a decrease of 29% compared to a reduction of 35% in customers.

MASS MARKET OPERATING METRICS

CUSTOMERS. As of December 31, 2016, the number of customers reached 440 thousand, a decrease of 74 thousand during the year due to the continuous fall of customers with wireless technologies. The ARPU for FTTx and Wireless clients was Ps. 802 and Ps. 414, respectively, at the end of 2016.

RGUS. As of December 31, 2016, RGUs (Revenue Generating Units) amounted to 1,033 thousand. During 2016, there were 73 thousand net disconnections, compared with 148 thousand net disconnections in 2015, due to higher additions of FTTx in 2016.

Voice RGUs (Lines in Service). As of December 31, 2016, the lines in service totaled 508 thousand, made up of 281 thousand of the FTTx segment and 226 thousand of the wireless segment. During 2016 the lines decreased 60 thousand compared to 99 thousand the previous year, due to the continuous decline of wireless subscribers.

Broadband RGUs (Subscribers). Broadband subscribers decreased 7% year-on-year by a total of 401 thousand as of December 31, 2016. During 2016, broadband subscribers decreased by 29 thousand compared to 64 thousand in the same period of 2015 due to continuous disconnections of wireless subscribers and the increase in net additions in FTTx during the year. As of December 31, 2016, total wireless subscribers reached 167 thousand, compared to 235 thousand a year ago, while subscribers of AXTEL X-tremo, or FTTx, rose to 234 thousand compared to 195 thousand against year. Broadband penetration rose from 76% in December 2015 to 79% in December 2016.

Video RGU's (Subscribers). As of December 31, 2016, video subscribers reached 124 thousand compared to 109 thousand the previous year, an increase of 15%. Video penetration within the FTTx subscriber base was 53% at the end of 2016.

COST OF REVENUES, EXPENSES, EBITDA AND OPERATING PROFIT

COST OF REVENUES. For the year 2016, cost of sales represented Ps. 2,748 million, an increase of 19% or Ps. 448 million, compared to Ps. 2,300 million in 2015 from the merger with Alestra. The cost in 2016 represented a decrease of 18% compared to Ps. 3,368 million in 2015 pro forma mainly due to reductions in costs of the Government sector in Telecom and IT. Telecom costs declined 22% mainly due to a drop in managed networks associated with the lower revenue level. IT costs dropped 19% due mainly to the drop in system integration costs associated with the lower level of revenue. Mass Market costs decreased 3% due to a reduction in wireless voice segment costs, mitigated by an increase in cost of the FTTx video segment.

GROSS PROFIT. Gross profit is defined as income minus cost of sales. For the year 2016, gross profit represented Ps. 11,190 million, 43% higher than in 2015. Gross profit in 2016 decreased 9% compared to Ps. 12,234 million in 2015 pro forma, due to the sharp fall in revenues and, consequently, the contribution of voice Telecom services and managed networks of the Government sector. The gross profit margin rose from 78.4% to 80.3% year-on-year, mainly due to the increase in IT and managed network projects margins and the reduction of extraordinary projects, such as the sale of equipment, which have lower margins.

OPERATING EXPENSES. For the year 2016, operating expenses amounted to Ps. 6,732 million, 41% higher than the Ps. 4,740 million recorded in 2015 from the merger. Operating expenses in 2016 decreased 1% compared to Ps. 6,812 million in 2015 pro forma, due to decreases in personnel, outsourcing and advertising derived from the synergies of the merger, mitigated by the increase in maintenance expenses due in part to the depreciation of the peso against the dollar.

OTHER INCOME (EXPENSES). For the year 2016, other expenses represented Ps. 785 million, compared to other income of Ps. 97 million in 2015 or Ps. 162 million in pro forma 2015. These figures include extraordinary expenses related to the merger of Ps. 838 million for 2016 and Ps. 304 million by 2015. The 2015 figure includes other revenues that include the agreement with América Móvil during the first quarter of 2015 to terminate several interconnection disputes, partially mitigated by other expenses that include the agreement with Telefónica to terminate disagreements related to interconnection rates for the 2005-2011 period.

EBITDA. The EBITDA defined as operating income plus depreciation and amortization and impairment of assets amounted to Ps. 3,673 million, 14% higher compared to Ps. 3,208 million in 2015. The EBITDA in 2016 registered a fall of 34% compared to Ps. 5,583 million in pro forma 2015. Excluding merger-related expenses, the operating flow was Ps. 4,511 million for 2016 and Ps. 5,887 million for pro forma 2015, a decrease of 23%, as a result of the 11% decrease in revenues, thus a 9% decrease in the contribution margin and a higher ratio of expenses to sales in 2016. Additionally, the operating flow in 2015 was benefited by other extraordinary income mentioned in the previous point.

DEPRECIATION, AMORTIZATION AND IMPAIRMENT OF ASSETS. The depreciation and amortization for 2016 was Ps. 3,882 million, of Ps. 2,619 million in 2015. Pro forma, it increased Ps. 365 million or 10%, which corresponds mainly to the amortization of 2016 for Ps. 220 million of new intangible assets resulting from an agreement related to the merger and an increase of Ps. 48 million in impairment of fixed assets.

OPERATING INCOME (LOSS). For 2016, the Company recorded an operating loss of Ps. 209 million compared to an operating income of Ps. 589 million. Pro forma, operating income was Ps. 2,066 million in 2015, representing a decrease of Ps. 2,275 million due to lower contribution margin, higher expenses related to the merger and higher depreciation and amortization levels in 2016.

COMPREHENSIVE FINANCIAL RESULT, NET

The integral cost of financing reached Ps. 4,856 million in 2016, compared to a cost of Ps. 2,695 million in 2015. Pro forma was Ps. 3,386 million in 2015. The increase is explained by higher interest expense due to the premium paid for the prepayment of Notes during the first quarter of 2016 and by the greater exchange loss during 2016.

TAXES

During 2016 the income tax was a benefit of Ps. 1,472 million, compared to Ps. 373 million the previous year. Pro forma, the income tax was a benefit of Ps. 154 million in 2015. This variation is mainly due to an increase in the deferred tax benefit in 2016, due to the tax loss generated in the year, mainly due to negative effects on the exchange rate and financial expenses of the Company.

NET INCOME (LOSS)

The Company recorded a net loss of Ps. 3,599 million in 2016, compared to a net loss of Ps. 1,732 million recorded in 2015. Pro forma net loss increased Ps. 2,433 million, the above mentioned variations, considering the financial cost, explain this loss.

CAPITAL INVESTMENTS

For the twelve-month period ended December 31, 2016, capital investment amounted to Ps. 4,065 million, compared to Ps. 2,011 million in 2015. Pro forma investment increased by 17% in 2016 compared to Ps. 3,479 million in 2015, due to the impact of the increase in the exchange rate of investments in dollars.

FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND AS OF DECEMBER 31, 2015.

ASSETS

As of December 31, 2016, total assets totaled Ps. 32,176 million compared to Ps. 22,199 million as of December 31, 2015, an increase of Ps. 9,976 million, or 45%, due to the merger of Axtel and Alestra in February 2016.

Cash and cash equivalents. As of December 31, 2016, cash and cash equivalents totaled Ps. 1,447 million compared to Ps. 2,575 million as of December 31, 2015, a decrease of Ps. 1,128 million, or 44%, derived from an EBITDA that was not sufficient to cover investment and financial expenses.

Accounts Receivable. As of December 31, 2016, accounts receivable amounted to Ps. 3,129 million compared to Ps. 2,455 million as of December 31, 2015, an increase of Ps. 674 million or 27%.

Property, systems and equipment, net. As of December 31, 2016, property, plant and equipment, net, were Ps. 19,619 million compared to Ps. 13,216 million as of December 31, 2015, an increase of Ps. 6,403 million or 48% derived from the merger with Alestra. Property, plant and equipment without deducting accumulated depreciation amounted to Ps. 63,634 million and Ps. 43,657 million as of December 31, 2016 and 2015, respectively.

LIABILITIES

As of December 31, 2016, total liabilities amounted to Ps. 29,775 million compared to Ps. 18,326 million as of December 31, 2015, an increase of Ps. 11,450 million or 62%, mainly due to the inclusion of Alestra's debt and the 17% depreciation of the Mexican peso, which increases the amount in pesos of the dollar-denominated debt.

Accounts Payable and Accrued Expenses. As of December 31, 2016, the accounts payable and accumulated liabilities amounted to Ps. 3,183 million compared to Ps. 2,677 million as of December 31, 2015, an increase of Ps. 506 million, or 19%.

Debt. As of December 31, 2016, total debt increased Ps. 8,046 million compared to 2015, mainly explained by (i) an increase of Ps. 14,863 million related to the new syndicated loan, which refinanced Ps. 12,053 million Notes due 2017, 2019 and 2020, (ii) an increase of Ps. 3,621 million related to Alestra's debt and (iii) an increase of Ps. 2,414 million (accounting) caused by the 17% depreciation of the Mexican peso.

STOCKHOLDERS' EQUITY

As of December 31, 2016, the Company's stockholders' equity totaled Ps. 2,400 million compared to Ps. 3,873 million as of December 31, 2015, a decrease of Ps. 1,473 million, or 38%. The capital stock was recorded in Ps. 10,362 million as of December 31, 2016 and Ps. 6,862 million as of December 31, 2015, an increase caused by the merger between Axtel and Alestra in February 2016.

CASH FLOW

As of December 31, 2016 and 2015, cash flow from operating activities was Ps. 3,898 million and Ps. 3,120 million, respectively.

At December 31, 2016, the cash flow (used in) generated by investment activities was Ps. (3,527) million, compared to Ps. (1,925) million in the same period of 2015. The amounts above reflect investments in property, plant and equipment for the amounts of Ps. 3,105 million and Ps. 2,011 million as of December 31, 2016 and 2015, respectively.

As of December 31, 2016, the cash flow (used in) generated by financing activities was Ps. (1,675) million, compared to Ps. (1,565) million in 2015.

At December 31, 2016, the ratio of net debt to EBITDA and the Company's interest coverage ratio stood at 4.5x and 2.1x, respectively. Excluding the merger-related expenses mentioned above, the ratio of net debt to EBITDA and the Company's interest coverage ratio stood at 3.8x and 2.5x, respectively. As of December 31, 2015, the ratio of net debt to EBITDA and interest coverage was 3.1x and 2.7x, respectively.

Monterrey, N. L., February 21, 2017

To the Shareholders and Directors of
Axtel, S. A. B. de C. V. and subsidiaries

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the consolidated financial statements of Axtel, S. A. B. de C. V. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position at December 31, 2016 and the related consolidated statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the period then ended, and the explanatory notes to the consolidated financial statements that include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the Company's consolidated financial position at December 31, 2016, and its financial performance and its cash flows for the period then ended, in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Basis of the opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section in this report. We are independent from the Company in accordance with the Ethics Code of the Mexican Institute of Public Accountants, together with ethical requirements applicable to our audit of the consolidated financial statements in Mexico, and we have complied with our ethical responsibilities in accordance with those requirements and said Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key sudit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the overall consolidated financial statements and in forming our opinion thereon, and we express no separate opinion on these matters.

KEY AUDIT MATTE

Business combination

As described in Note 2 to the consolidated financial statements, during the year ended December 31, 2016, the Company conducted the following business combination:

On February 15, 2016, Onexa, S. A. de C. V. ("Onexa"), a 100% direct subsidiary of Alfa, S. A. B. de C. V. ("Alfa") was merged into Axtel, S. A. B. de C. V. ("Axtel"), the surviving company.

Onexa was incorporated in the Axtel financial statements by using the predecessor method, and the difference between the book value of Onexa's net assets of $3,368 million and the fair value of the issuance of Axtel shares of $4,850 million was recognized as an effect of the merger on retained earnings.

Under IFRS, for the purpose of determining the acquiring party in a merger, it must be determined which entity obtains control, requiring significant judgments by Management with regard to the power to conduct its relevant activities, exposure to rights to variable returns stemming from its involvement and the link between power and yield.

Additionally, we focused on recognition of this acquisition during our audit, due mainly to the importance of the impact of the merger on the entity's financial position and because the determination of fair value of the shares issued requires applying significant judgments.

HOW OUR AUDIT ADDRESSED THE MATTER

Due to the significant judgments required to determine that the entity has obtained control, we:

- Obtained the analysis conducted by Management that includes the criteria used for determining the power to conduct its relevant activities, exposure or rights to variable returns stemming from its involvement and the link between power and returns.
- Compared the criteria used to determine the power to conduct its relevant activities, exposure or rights to variable returns stemming from its involvement and the link between power and returns with the terms of the "Master Operating Agreement", "Agreement between shareholders" and "Collaboration Agreement", as well as the minutes of Board of Directors' Meetings and other relevant information. Moreover, we attended meetings with Management and corroborated these decisions.
- We obtained confirmations from attorneys with regard to the preceding criteria.
- We evaluated the Company's power to designate key officers taking into consideration the points above.

Additionally, due to the significant judgments used by management in the valuation models for the determination of the consideration given, we involved our valuation experts to selectively evaluate the premises and criteria used by Management and their independent expert on said models. Specifically:

- We reviewed the reasonableness of the consideration given, with respect to the market ranges, conducting calculations in parallel to estimate the value of the majority interest in the company based on the total value of the business acquired.

Assessment of impairment of long-lived assets

As mentioned in Notes 4k and 4m to the consolidated financial statements, the Company conducts annual impairment testing of intangible assets with an indefinite useful lifetime, and of property, plant and equipment and remaining intangible assets with a definite useful lifetime when there are events and circumstances that indicate that there are signs of impairment.

We have focused on this matter due mainly to the importance of the balance of property, plant and equipment of $19,619 million and of intangible assets of $1,838 million for the Company's consolidated financial statements, and due to the fact that the impairment testing involves applying significant judgments by the

Company's Management in determining the assumptions and premises related to the estimation of the recovery value of cash generating units ("CGUs").

In particular, we focused on the following significant assumptions considered by the Company upon estimating the future projections to evaluate the recoverability of intangible assets and property, plant and equipment: estimates of future projections, growth rates, gross margins and discount rates used.

As part of our audit, we assessed future cash flows projections prepared by Management, and the processes used for preparation thereof. In particular, we assessed whether all relevant CGUs were identified and the internal processes was carried out by Management to perform the projections, including timely oversight from those charged with governance, and if the projections are consistent with the budgets approved by them.

Due to the significant judgments used in the valuation models for the determination of recovery values, and with the support of our valuation experts, we questioned the premise and criteria used by Management on said models, following the procedures set down below.

- We verified that the models applied in the determination of the recovery values of the assets are methods used and recognized in valuing assets with similar characteristics.
- We challenged the financial projections, including the terminal value, comparing them to the performance and historical trends, obtaining Management and explanations of variations.
- We compared actual results for the current year with the figures budgeted for the current year, to determine whether any of the assumptions included in the projections could be considered to be very optimistic.
- We compared the most significant valuation assumptions (growth rates, gross margins and discount rates used) with those commonly used and accepted for assets of this nature for the industry in which the Company operates.
- We discussed with Management the sensitivity calculations for all CGUs and evaluated the extent to which the assumptions would need to be modified for impairment to be required. Moreover, we discussed with Management the probability of those changes being made.

Evaluation of the recoverability of the deferred income tax asset

As described in Note 3.o), Note 6c.) and Note 19 to the consolidated financial statements, the Company recorded a deferred income tax asset arising from tax losses and therefore, Management performed a recoverability assessment thereof prior to recognizing it in its financial statements.

We have focused on this line item in our audit due to the importance of the balance of the deferred income tax asset arising from tax losses at December 31, 2016 ($2,797 million) and because the estimate of its recoverable value involves application of significant judgments by the Company´s Management; specifically, upon determining expected future income, future projections, as well as the Company's future tax results.

In particular, we focused our audit efforts on the significant assumptions that the Company considered in estimating the recoverability of the deferred tax asset, based on assumptions similar to those set out in the point above.

As part of our audit, we evaluated the projections used to determine the recoverability of the deferred income tax asset from tax losses. We compared these projections to those used to determine the recoverable value of the aforementioned goodwill, over which we applied procedures similar to those indicated above.

With the support of experts, we evaluated and also considered the projected tax results prepared by Management, as well as the processes used to prepare them.

We also challenged, with the support of our tax experts, the assumptions used by Management in tax projections.

We compared the actual results for the current year with the figures budgeted for the current year, to determine whether or not any of the assumptions included in the projections could be considered to be very optimistic.

Also, as mentioned above, we discussed with Management the sensitivity calculations and assessed the degree to which the assumptions would need to be modified to require adjustment.

Additional information

Company management is responsible for the additional information presented. This additional information comprises the Annual Report presented to the National Banking and Securities Commission ("CNBV" from Spanish) and the Annual Report presented to the shareholders (but does not include the consolidated financial statements and our audit report thereon), which is expected to be made available to us after the date of this report.

Our opinion on the consolidated financial statements does not cover the additional information and we will no express any form of assurance conclusion thereon.

However, in connection with our audit of the Company's consolidated financial statements, our responsibility is to read this additional information, when available, and determine whether it is materially inconsistent with the consolidated financial statements or with our knowledge acquired during the course of our audit, or otherwise appears to be materially misstated.

When we read the additional information that we have not yet received, we must issue a formal statement on the Annual Report required by the CNBV and if we conclude that there are any material misstatements therein, we must communicate this finding to those charged with governance and if required describe the issue in such statement.

Responsibilities of Management and those charged with governance in connection with the Consolidated Financial Statements

The Company's Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and for the internal control structure considered by Management to be necessary to allow for ensuring that the consolidated financial statements are free of material misstatement due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable matters related to going-concern, and using the going-concern basis of accounting unless management intends to liquidate the Company or discontinue operations, or has no realistic means of doing so.

Those charged with governance are responsible for overseeing the Company´s financial reporting process.

Responsibilities of the auditors for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements arising from fraud of err0r, and to issue and audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted as per ISAs, will detect any material mistakes when if exist. Errors arise from fraud or error and are considered to be material if, either individually or in the aggregate, it can be reasonably concluded that they influence the economic decisions made by users based on the consolidated financial statements.

When conducting an audit in accordance with ISA, we exercise our professional judgment and apply our professional skepticism. We also:

- Identify and assess the risks of material misstatements in the consolidated financial statements whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of failing to detect a material misstatement arising from fraud is higher than that one resulting from an unintentional error, because fraud may involve collusion, forgery, intentional omissions, misrepresentations, or overriding of internal controls.

- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company' internal control.
- Evaluate the appropriateness of the accounting policies applied and the reasonableness of the accounting estimates and of the related disclosures made by Management.
- Conclude on the appropriateness of Management´s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Company to cease to continue as going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events, thus achieving a fair presentation.
- Obtain sufficient and adequate audit evidence in relation to the financial information of the entities or business operations within the company to express an opinion on the consolidated financial statements. We are responsible for directing, supervising and conducting the audit of the consolidated financial statements. We are the only party responsible for our audit opinion.

We communicate to those charmed with governance, among other matters, the scope and timing and significant findings of the audit, as well as any significant internal control deficiency identified during the course of our audit.

We also provide those charmed with governance with a statement declaring that we have complied with all relevant ethics requirements concerning independence and have advised them of all the relationships and other matters that could reasonably influence our independence, as well as the corresponding safeguards applied.

From the matters communicated to those charged with governance, we determine those considered to be the most significant in the audit of the consolidated financial statements for the current period and consequently, the audit key matters. We describe those matters in our audit report, unless the legal and regulatory provisions prohibit public disclosure thereof or, under extremely rare circumstances, we determine that a matter should not be communicated in our report, because the adverse consequences of doing so are expected to exceed the benefits of public interest.

The name of the audit partner assigned to conduct the audit of the Company is Ricardo Noriega Navarro.

PricewaterhouseCoopers, S. C.

C.P.C. Ricardo Noriega Navarro
Audit Partner

Thousands of Mexican pesos

		December 31, 2016	2015
Assets			
Current:			
Cash and cash equivalents	7	$1,447,118	$2,575,222
Trade receivables and other receivables, - Net	9	4,066,826	3,208,265
Inventories	10	109,388	53,069
Financial instruments	21	152,978	378,099
Prepayments		517,455	151,511
Total current assets		**6,293,765**	**6,366,166**
Noncurrent:			
Restricted cash	8	153,040	-
Non-current account receivable	9	8,642	128,613
Property, plant and equipment - Net	11	19,619,451	13,216,179
Goodwill and intangible assets - Net	12	1,838,727	124,999
Deferred income tax	19	4,056,773	2,235,469
Other non-current assets	13	205,305	127,798
Total non-current assets		**25,881,938**	**15,833,058**
Total assets		**$32,175,703**	**$22,199,224**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Current:			
Debt	17	$1,028,588	$1,050,864
Trade payables and other payables	14	5,645,436	3,893,666
Provisions	15	129,647	190,100
Other liabilities	16	1,022,605	509,415
Total current liabilities		**7,826,276**	**5,644,045**
Noncurrent:			
Debt	17	20,485,861	12,475,950
Derivative financial instruments	21	-	65,222
Other non-current accounts payable	14	985,975	112,340
Employee benefits	18	467,036	28,231
Deferred income tax	19	10,318	-
Total non-current assets		**21,949,190**	**12,681,743**
Total liabilities		**29,775,466**	**18,325,788**
SHAREHOLDERS' EQUITY			
Controlling interest:			
Capital stock	20	10,233,841	6,861,986
Premium on issuance of shares		644,710	644,710
Reserve for the repurchase of shares		-	90,000
Retained earnings		(8,484,717)	(3,719,469)
Other reserves		6,398	(3,791)
Total controlling interest		**2,400,232**	**3,873,436**
Non-controlling interest		**5**	**-**
Total shareholders' equity		**2,400,237**	**3,873,436**
Total liabilities and shareholders' equity		**$32,175,703**	**$22,199,224**

The accompanying notes are in integral part of these consolidated financial statements.

Dr. Sergio Rolando Zubirán Shetler	Lic. Adrián de los Santos Escobedo	Ing. Manuel Ramírez López
Chief Executive Officer	Chief Financial Officer	Corporate Controller

Thousands of Mexican pesos

	Note	Year ended December 31, 2016	2015
Net revenue		$13,937,320	$10,150,438
Cost of sales	22	(5,944,104)	(4,143,378)
Gross profit		**7,993,216**	**6,007,060**
Administration and selling expenses	22	(7,364,867)	(4,980,456)
Other (expenses) income - Net	23	(837,729)	437,321
Operating (loss) profit		**(209,380)**	**589,283**
Financial income	24	234,505	696,769
Financial expenses	24	(5,090,904)	(3,391,508)
Financial result - Net		**(4,856,399)**	**(2,694,739)**
Share of results in associates- Net		(5,189)	(5)
Pretax loss		(5,070,968)	(2,105,461)
Income tax	26	1,471,706	373,194
Consolidated loss - Net		**($3,599,262)**	**($1,732,267)**
Loss attributable to:			
Controlling interest		($3,599,267)	($1,732,267)
Non-controlling interest		5	-
		($3,599,262)	($1,732,267)
Loss per basic and diluted share*		**($0.20)**	**($0.19)**
Weighted average of common **outstanding shares (thousands)**		**18,415,933**	**9,185,205**

*The impact of including the effect of convertible bonds and the financial liability as a result of the merger is anti-dilutive, thus the basic and diluted profit remains unchanged. See Note 20.

The accompanying notes are in integral part of these consolidated financial statements.

Dr. Sergio Rolando Zubirán Shetler Chief Executive Officer	Lic. Adrián de los Santos Escobedo Chief Financial Officer	Ing. Manuel Ramírez López Corporate Controller

Thousands of Mexican pesos

	Note	Year ended December 31, 2016	2015
Consolidated loss - net		($3,599,262)	($1,732,267)
Items to be reclassified to the statement of income:			
Effect of currency conversion	26	10,189	-
Items not to be reclassified to the statement of income:			
Remeasurement of defined benefit liability, net of taxes	26	(17,617)	(1,182)
Total comprehensive income for the period		($3,606,690)	($1,733,449)
Attributable to:			
Controlling interest		(3,606,695)	(1,733,449)
Non-controlling interest		5	-
Total comprehensive income for the year		**($3,606,690)**	**($1,733,449)**

The accompanying notes are in integral part of these consolidated financial statements.

Dr. Sergio Rolando Zubirán Shetler
Chief Executive Officer

Lic. Adrián de los Santos Escobedo
Chief Financial Officer

Ing. Manuel Ramírez López
Corporate Controller

Thousands of Mexican pesos
(Note 20)

Controlling interest

	Nota	Capital stock	Premium on the subscription of shares	Reserve for repurchase of shares
Balances at January 1, 2015		**$6,728,342**	**$644,710**	**$90,000**
Transactions with shareholders:				
Capital stock increase from conversion of bonds	20	133,644	-	-
		6,861,986	644,710	90,000
Correction of provision for impairment of trade receivables	3			
Net loss				
Total other components of comprehensive income for the year				
Comprehensive loss				-
Ending balances adjusted at December 31, 2015		**6,861,986**	**644,710**	**90,000**
Transactions with stockholders:				
Cancellation of the reserve for the repurchase of shares				(90,000)
Capital stock increase from conversion of bonds	20	36,094		
Effect of merger	20	3,335,761		
Other				
Total transactions with shareholders		**3,371,855**	**-**	**(90,000)**
Net loss				
Total other items from comprehensive income for the year				
Comprehensive loss				
Balances at December 31, 2016		**$10,233,841**	**$644,710**	**$-**

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Corporate Controller

Retained earnings	Other reserves	Total controlling interest	Non controlling interest	Total shareholder’s equity
($1,753,543)	**($3,791)**	**$5,705,718**	**$-**	**$5,705,718**
-	-	133,644		133,644
(1,753,543)	(3,791)	5,839,362		5,839,362
(232,477)		(232,477)		(232,477)
(1,732,267)		(1,732,267)		(1,732,267)
(1,182)		(1,182)		(1,182)
(1,733,449)	-	(1,733,449)		(1,733,449)
(3,719,469)	**(3,791)**	**3,873,436**		**3,873,436**
90,000		-		-
		36,094		36,094
(1,197,805)		2,137,956		2,137,956
(40,559)		(40,559)		(40,559)
(1,148,364)		**2,133,491**		**2,133,491**
(3,599,267)		(3,599,267)	5	(3,599,262)
(17,617)	10,189	(7,428)	-	(7,428)
(3,616,884)	10,189	(3,606,695)	5	(3,606,690)
($8,484,717)	**$6,398**	**$2,400,232**	**$5**	**$2,400,237**

Thousands of Mexican pesos

	Nota	Año que terminó el 31 de diciembre de 2016	2015
Pretax loss		($5,070,968)	($2,105,461)
Adjustments from:			
Depreciation and amortization	22	3,829,589	2,618,567
Exchange loss, net	29, 24	2,778,679	1,659,066
Allowance for doubtful accounts	9	209,930	154,621
Profit from sale of property, systems computer equipment	23	4,483	(113,734)
Estimate of the realizable fair value of inventories		558	12,047
Interest income	24	(24,381)	(36,929)
Interest expenses	24	1,805,661	1,236,309
Amortization of premium on issuance of debentures		-	(2,213)
Employees Profit Sharing (PTU) currently payable		13,192	13,736
Equity in net results of associated companies		5,189	5
Disposal of property, plant and equipment	23	52,795	-
Provisions and other	15	(92,390)	190,100
Change in unrealized fair value and liquidation of financial instruments	24	296,439	(163,706)
Changes in working capital:			
Trade receivables and other accounts receivable, net	9	480,889	(410,685)
Inventories	10	(16,134)	14,028
Suppliers, related parties	14,27	(789,846)	368,558
Employee benefits	18	180,175	3,104
Employees Profit Sharing (PTU) paid		(6,507)	(10,774)
Deferred income		474,117	(220,352)
Income Tax paid		(233,816)	(85,964)
Net cash flows provided by operating activities		**3,897,654**	**3,120,333**
Investing activities:			
Acquisitions of property, plant and equipment	11	(3,185,729)	(2,011,430)
Disposal of property, plant and equipment	11	80,772	129,823
Acquisition of intangible assets	12	(960,034)	-
Increase in financial instruments		-	(34,918)
Interest income		24,381	36,919
Notes receivable		51,544	(45,812)
Effect of merger, net	2	450,708	-
Disposal of investment in associated company		11,234	-
Net cash flows used in investing activities		**(3,527,124)**	**(1,925,418)**

Financing activities			
Current and non-current debt obtained		16,133,066	-
Payment of current and non-current debt		(15,421,366)	(399,611)
Paid interest and other financial expenses	24	(2,386,734)	(1,165,405)
Net cash flows provided by financing activities		(1,675,034)	(1,565,016)
Net decrease in cash and cash equivalents		(1,304,504)	(370,101)
Exchange fluctuation of cash and cash equivalents		176,400	247,488
Cash and cash equivalents at beginning of year		2,575,222	2,697,835
Cash and cash equivalents at end of year		**$1,447,118**	**$2,575,222**
Investment operations not requiring the use of cash flows: Issuance of shares, indemnification, financial liability arising from merger and transfer of capital reserves (see Note 2 and Note 20)			
Conversion of bonds	20	$ 36,094	$ 133,644
Capital leasing		$174,201	$647,734

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

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Chief Executive Officer

Lic. Adrián de los Santos Escobedo
Chief Financial Officer

Ing. Manuel Ramírez López
Corporate Controller

Thousands of Mexican pesos, unless otherwise specified

NOTE 1- GENERAL INFORMATION:

Axtel, S. A. B. de C. V. and subsidiaries ("Axtel" or "the Company") was incorporated in Mexico as a capital stock company. Axtel's main office is located at Boulevard Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

Axtel is a publicly owned corporation, whose shares are registered at the National Securities Registry and are traded at the Mexican Stock Exchange (the "Bolsa" from Spanish) through Certificates of Participation ("COPs") issued under the Trust, whose trustee is Nacional Financiera, S. N. C., a subsidiary of Alfa, S. A. B. de C. V. ("ALFA"), direct controlling and last company of the Group , which exercises control and holds 50.19% through the Trust Administration Agreement No. 2673 entered into with Banco Invex, S. A. ALFA has control over the Company's relevant activities.

The Company is engaged in installing, operating and/or exploiting a public telecommunications network for the provision of services involving conducting voice signals, sounds, data, internet, texts and images, IT, local as well as domestic and international long-distance telephone service and restricted television service. Concessions are required to provide these services and conducting the Company's business activities. See Note 12.

Axtel conducts its activities through subsidiary companies of which it is the owner or of which it controls, either directly or indirectly, most of the common shares representing their capital stock. See Note 4. The term "the Company", as used in this report, refers to Axtel and its subsidiaries in the aggregate.

In the notes to the financial statements, reference to pesos or "$" stands for thousands of Mexican pesos. The captions dollars or "US$" refer to thousands of U.S. dollars, unless otherwise specified.

NOTE 2 - RELEVANT EVENTS:

2016

a. Merger

On December 3, 2015, the Company, ALFA and Onexa, S. A. de C. V. ("Onexa"), a subsidiary of ALFA and a group of the main shareholders of Axtel signed a cooperation agreement, as well as an agreement among shareholders ("the Agreements") to merge Onexa into Axtel. Onexa holds the capital stock of Alestra, S. de R. L. de C. V. (Alestra) and 100% direct subsidiary of ALFA.

On December 15, 2015, the Company published an informative brochure at the Mexican Stock Exchange, through which, it officially declared its intention to enter into an agreement for the merger of Onexa into Axtel.

On January 15, 2016, Axtel and Onexa held extraordinary shareholders' meetings to approve the merger, designating the members of the Board of Directors, the CEO and the Audit and Corporate Practices Committees. After completing the process pertaining to the legal, operating and financial review, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, when Alfa became Axtel's majority shareholder, with the merged company disappearing and surviving company subsisting under its current business name Axtel, S. A. B. de C. V. As a result of the aforementioned merger, ALFA holds 50.19% of Axtel outstanding shares. According to the assessment of control conducted by Management, it was determined that the acquiring party was ALFA, due to which, goodwill arising from the merger and any other related effect were recorded in ALFA.

Onexa was a holding company whose only asset was its 99.98% interest in Alestra's capital stock. In turn, Alestra is a lead supplier in the IT and telecommunications service market in Mexico. Alestra focuses on the business segment, including multinational companies, institutional customers, as well as small and medium companies. Through its extensive optic-fiber and data-center network, Alestra offers administrative network, IT, data and internet services, as well as local and international long-distance services. In recent years, Alestra has refocused its business strategy by concentrating on the segment pertaining to administrative networks and IT service such as data centers, cloud services, systems integration and network security.

Under the merger agreements, in exchange for 100% of Onexa voting shares, Axtel issued 9,668,965,488 shares for ALFA, at the rate of 0.8027 per Onexa share, acquiring 50.19% of the combined entity's voting shares. The Agreements established a series of rights and obligations for the parties involved in terms of corporate governance and decision making, that granted ALFA the ability to direct activities related to the merged entity, mainly due to the fact that ALFA appoints most of the members of the Board of Directors and the main Directors who hold the power to direct the merged entity's relevant operations. Alestra's CEO, who prior to the transaction was a 100% subsidiary of ALFA, is the Company's CEO as from February 15, 2016.

As from the merger date, Alestra is a subsidiary of Axtel. It inclusion in the consolidated financial statements was not recognized as a business combination due to the fact that Alestra is controlled by ALFA both before and after the merger. Alestra's net book value was recognized using the predecessor method and no profit or loss was recognized in the statement of income as a result of the transaction.

The difference between the book value of Alestra net assets of $3,368,099 and the fair value of the issue of shares of $6,850,122 was recognized as an effect of the merger in the merger reserve of $3,482,023. See note 20.

As part of the merger, on the date the transaction took effect, in a separate operation but related to the merger, and based on the Agreements, Alestra paid $809,793 as compensation for assuming certain obligations to do and not to do (confidentiality and abstaining from certain activities, among others), which has been recognized as an intangible asset. See Note 12.

The aforementioned Agreements included certain indemnity payments in the event of default by any of the parties, such as: a consequence of the lack of integrity, inaccuracy or falsehood, solely with respect to their own statements and/or failure to comply with their respective obligations. On the basis of the foregoing and in accordance with the obligations assumed under the aforementioned Agreements, an agreement was reached for ALFA to receive compensation from Axtel for the negative economic effects that resulted in the uncollectibility of certain accounts receivable of $983,747. See Notes 20 and 27. Said amount was recorded with a charge to capital, as it pertained to operations between the holding company, ALFA, and its subsidiary, Axtel, at the period close, the liability has been recorded in related parties in the Suppliers and other accounts payable line item.

As a result of the aforementioned merger agreements, the parties agreed to an adjustment to the fair value assigned to the issuance of shares to ALFA, related to the exchange rate of the Mexican peso to the U.S. Dollar, as published in the Official Gazette. In said agreement expiring on July 14, 2017, ALFA is required to pay a minimum US$0 and up to US$65 million, in the event the average exchange rate is between $16 and $14.50 pesos or less to the U.S. dollar up to the date of expiration. Otherwise, ALFA would receive between 0% and 2.50% additional shareholding interest in Axtel, with a maximum cap of up to 53.5%, if said exchange rate were between $17.01 and $18.50 pesos or more to the U.S. dollar. In accordance with IFRS (IAS 32), this agreement represents a financial liability to be liquidated with own shares presented in the short term in the Suppliers and other accounts payable line item. At December

31, 2016, Axtel has applied $246,396, corresponding to the value of the instrument, to retained earnings. Upon exercising this instrument, at maturity, the conversion will result in a variable number of shares, increasing the capital stock and canceling the corresponding liability.

As a result of the merger, the Company incurred a number of expenses totaling $835,200, which it classified as merger expenses in the other operating expenses line item. See Note 23.

Income contributed for Alestra assets included in the consolidated statement of income from the effective acquisition date at December 31, 2016 amounted to $5,889,266 and a net profit of $228,812. Had the acquisition taken place on January 1, 2016, income would have increased by $780,759 and net income would have decreased by approximately $91,383.

b. Borrowings

As a result of the above-mentioned transaction, the Company conducted the following operations:

i. On January 15, 2016, the Company signed a loan of US$500,000 and $4,759,000 to refinance all of the senior notes expiring on 2017, 2018 and 2020. Redemption took effect on February 19, 2016. The entire new loan expires in January 2019 for the portion in pesos and quarterly payments to the capital as from April 2018 and up to February 2021 for the dollar portion, at the interbank interest rate (TIIE from Spanish) for the portion in pesos, plus 2% in the first year, TIIE plus 2.25% in the second and TIIE plus 2.5% in the third and an initial interest rate for the dollar portion at the Libor, plus 2.25%, to be increased up to the Libor plus 3.25%. Management analyzed the effects of this operation and determined it had acquired a new debt.

During April 2016, the Company obtained an additional portion of said loan, for $1,500 million, to refinance the debt maturing in the short term. This portion matures at 5 years, quarterly payments on the capital as from 2018 at the TIIE + 2.25%, to be increased to the TIIE + 2.75%.

In order to obtain these resources, expenses were incurred in the amount of $270,168, of which, during 2016, $98,108 has been recognized as part of the effective interest expense related to the new debt. Moreover, in 2016, the Company exercised its option for prepayment and incurred a penalty for early cancellation of $758,064, which was recognized as part of the interest expense on financing. The Company charged a net total $83,527 to income for the year, corresponding to costs, discounts and premiums on the original debt.

On January 31, 2013, the Company completed an exchange of unsecured bonds maturing in 2017 and 2019, for bonds and a secured convertible bond, respectively, maturing in 2020, plus a payment in cash to the participating holders. The holders of the convertible bonds could opt to convert the notes in American Depository Shares (“ADSs”) or in Certificate of participation (COPs). An embedded derivative was recorded, arising from the conversion option. Said derivative of $71,318 was extinguished at the date of prepayment of the debt and was applied to financial income for the period.

2015

c. Dispute resolution

During 2015, the Company entered into a number of agreements related to disputes with other telephone service operators, as follows:

- On March 18, 2015, the Company signed a transaction agreement with América Móvil, S. A. B. de C. V., ("AMX") and its affiliate Radiomóvil Dipsa S. A. de C. V. ("Telcel"), whereby it was agreed to terminate a number of disputes related to interconnection services. As part of the agreement, the Company and Telcel entered into an interconnection agreement for the period from 2005 to 2015. Moreover, the Company, Telcel and Teléfonos de México S. A. B. de C. V. ("Telmex") agreed to voluntarily dismiss a number of disputes involving interconnection matters.

As a result of the agreements and after settling, for and against, the different amounts in dispute and/or pending payment, the Company entered into agreements to market and resell telecommunications services and for shared access and use of idle infrastructure with Telcel and Telmex, respectively.

- In another act that took place that same day, the Company and companies pertaining to the Iusacell Group ("Iusacell") signed an agreement whereby both parties end the disputes related to interconnection services for the 2005-2010 period. During said act, the Company and Iusacell signed a number of commercial agreements involving telecommunications infrastructure for their mutual benefit.

- Lastly, on May 27, 2015, the Company signed an agreement with Pegaso PCS, S. A. de C. V. ("Telefónica México"), whereby both parties terminate the disputes related to interconnection services for the period from 2005 to 2011.

As a result of the above agreements and having settled, for and against, the different amounts in dispute and/or pending payment, the Company obtained net income in cash of $534,240, shown in the statement of income in the Cost of sales line item.

NOTE 3 - REVISED FINANCIAL STATEMENTS

The Company has corrected its consolidated financial statements at December 31, 2015, due to an immaterial correction in the determination of the provision for impairment of trade receivables, which was determined inaccurately. Management conducted an evaluation under IAS 8 "Accounting policies, changes in accounting estimates and errors", concluding that qualitatively and quantitatively, the effect is not material for the Company to reissue its historical information and therefore, decided to correct the figures following the revised model.

Following are the comparative figures in the financial statements at December 31, 2015 pertaining to the revision described in the above paragraph:

	Previously reported	Revised balance
Statement of financial position		
Accounts receivable, net (Note 9)	$ 2,893,017	$ 2,454,656
Value added tax and other taxes payable (Note 14)	(642,530)	(582,066)
Deferred income tax, net (Note 19)	2,103,961	2,235,469
Retained earnings and other reserves	(3,476,871)	(3,723,260)
Statement of income		
Administrative and selling expenses	($ 4,960,582)	($ 4,980,456)
Deferred tax	428,537	434,499
Consolidated net loss	(1,718,355)	(1,732,267)
Consolidated statement of comprehensive income		
Comprehensive loss	($ 1,719,537)	($ 1,733,449)
Statement of cash flows		
Cash flows provided by operating activities		
Loss before taxes on income	($ 2,085,587)	($ 2,105,461)
Increase in trade receivables and other accounts receivable	(430,559)	(410,685)

Additionally, the following notes to the consolidated financial statements were modified for the aforementioned review. See Notes 9, 14 and 19

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Los estados financieros consolidados adjuntos y sus notas fueron autorizados, para su emisión el 21 de febrero de 2017, por los funcionarios con poder legal que firman al calce de los estados financieros básicos y sus notas.

A continuación se presentan las políticas de contabilidad más significativas seguidas por la Compañía y sus subsidiarias, las cuales han sido aplicadas consistentemente en la preparación de su información financiera en los años que se presentan, a menos que se especifique lo contrario:

a. Basis of preparation

The consolidated financial statements of Axtel, S. A. B. de C. V. and subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). IFRS include International Accounting Standard (IAS) currently in effect, as well as all related interpretations issued by the IFRS Interpretations Committee (IFRS-IC), including those previously issued by the Standing Interpretations Committee (SIC).

The consolidated financial statements have been prepared on the basis of historical cost.

Preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires that Management exercise its judgment in the process of applying the Company's accounting policies. The areas involving a greater degree of judgment or complexity, as well as the areas in which the judgments and estimates are significant for the consolidated financial statements are disclosed in Note 6.

b. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company.

The following standards and modifications have been adopted by the Company for the first time for the period started on January 1, 2016:

- Clarification of acceptable depreciation and amortization methods - Revisions of IAS 16 and IAS 38.

- Annual revisions of cycle 2012 - 2014 IFRS

- Initiative of disclosures - Amendments to IAS 1.

Adoption of these amendments has had no impact in the current period or any preceding period and is unlikely to affect any future periods.

ii. New standards and interpretations yet to be adopted by the Company.

A number of new standards, amendments and interpretations thereof have been published, and are not effective for reporting periods at December 31, 2016, and have not been adopted in advance by the Company.

Following is the Company's evaluation of the effects of these new standards and interpretations:

IFRS 9 "Financial instruments". This standard addresses classification, measurement and recognition of financial assets and liabilities and introduces new hedge accounting rules. In July 2014, the IASB made additional changes to classification and measurement rules and introduced a new impairment model. These latest changes now make up the overall new financial instrument regulation. The new hedge accounting rules require that a company's hedge accounting be in line with risk management thereof. As a general rule, hedge accounting is easier to apply, as the standard introduces a principles-based approach. The new standard also introduces extensive disclosure requirements and presentation changes, which continue to be evaluated by the Company. The new impairment model is a model of expected loan losses, which would therefore result in early recognition of credit losses. The Company will continue assessing the impact of adopting this standard. This standard is effective for annual periods beginning on or after January 1, 2018. Early adoption is allowed.

In May 2014, the IASB issued IFRS 15 "Revenue from contracts with customers" ("IFRS 15"). Under IFRS 15, an entity recognizes revenue as evidence of the transfer of goods or services promised to customers, for an amount that reflects the compensation that the entity expects to earn in exchange, following the five-step model: Step 1: identifying the contract(s) with the customer, reflected under agreements between two or more parties that create rights and obligations payable; Step 2: identifying the deliverables set down in the contract, considering the fact that if a contract includes promises, they are different deliverables and must be recorded separately; Step 3: determining the transaction price, representing by the amount established in the contract that the company expects in return for the transfer of goods and services promised to the customer; Step 4: distributing the price of the transaction to the deliverables under the contract, on the basis of the selling price related individually considered for each of the goods or for each service promised in the contract; and Step 5: recognizing revenue when (to the extent that) the entity satisfies the deliverables, through the transfer to the customer of the promised goods and services (when the customer obtains control of the goods or services). A deliverable can be satisfied at the point in time (commonly in promises to deliver goods to the customer) or during a period of time (commonly in promises to provide services to the client). IFRS 15 includes the disclosure requirements to provide comprehensive information with respect to the nature, amount, periodicity and uncertainty of the income and cash flows resulting from the contracts of an entity with its customers. IFRS 15 will replace all existing standards for revenue recognition.

This standard is effective for annual periods beginning on or after January 1, 2018. For the transition, the standard allows for a complete retrospective approach and a modified retrospective approach for adoption thereof. The Company has evaluated the two approaches and the modified retrospective approach is that used for the adoption. Under this approach, adjustments are recognized for the initial application effect (January 1, 2018) on retained earnings in the financial statements at December 2018, without reformulating the comparative period, applying the new rules to contracts in effect as from January 1, 2018 or those which, although pertaining to prior years, remain in effect at the date of initial application.

For the purposes of disclosure of the 2018 financial statements, the amounts of line items credited or debited must be mentioned, taking into account application of the current Revenue standard, as well as an explanation of the reason underlying the significant changes made.

The Company is currently implementing a project to evaluate the impact of IFRS 15 on its financial information and the matters considered more relevant are:

- The Company identified that there are contracts with customers under which different performance obligations could need to be recognized separately, resulting in changes in the timing and form of recognizing revenue. Due to the complexity of certain contracts with companies and government, the effort and level of judgment required for this evaluation is high.

- Upon distributing revenue among each of the performance obligations that differs from the current standard, the revenue amount to be recognized for each compliance obligation could also change, thus possibly changing the timing of revenue recognition.

- In some cases, the agent and principal evaluation could change with respect to the current analysis, upon including the matter of control in the evaluation. This is why an evaluation is being conducted to determine whether or not the presentation of revenue from the sale of licenses to third parties could have a change.

- Commission currently paid for the acquisition of contracts are applied to income as they are incurred, under the new standard for revenue, these payments could qualify as subject to capitalization and are amortized during the expected time of the contract.

Management considers that the effort made for implementation and the impact of this standard could be relevant. During 2017, the Company will work on identifying impacts.

IFRS 16 - "Leases" In January 2016, the IASB issued a new rule for accounting for leases. That rule replaces current IAS 17, which classifies leasing as either financial or operating. NIC 17 Identifies leases as financial when the risks and benefits of an asset are transferred, and all others as operating leases. IFRS 16 eliminates classification of leases as either financial or operating and requires recognition of a liability by reflecting future payments and an asset for "right to use" in most leases.

The IASB has included certain exceptions for short-term leases and leases of low-value assets. The above modifications are applicable to accounting for leases, while rules for the lessor remain similar to current rules. The most significant effect of the new requirements is reflected in the increase in leasing assets and liabilities, which also affects the statement of income under depreciation and financing expenses for assets and liabilities recognized, respectively, and reduces expenses pertaining to leases previously recognized as operating. At the date of issuance of these financial statements, the Company has not quantified the impact of the new requirements. The rule is effective for periods beginning on or after January 1, 2019, with early adoption allowed, provided IFRS 15 is also adopted.

There are no other IFRS or interpretations thereof yet to take effect or still expected to have a significant impact on the entity in the reporting periods, either current or future, and in foreseeable future transactions.

c. Consolidation

i. Subsidiaries

Subsidiaries are all entities over which the Company exercises control. The Company controls an entity when it is exposed or is entitled to variable yields arising from an interest in the entity and is capable of affecting yields through its power over the entity. When the Company's interest in the subsidiaries is under 100%, the interest attributed to the external shareholders is reflected as non-controlling interest.

The subsidiaries are consolidated in their entirety from the date on which control is transferred to the Company and up to the date on which said control is lost.

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which control of a business is obtained and through which it has the power to direct and manage the activities relevant to the body of assets and liabilities pertaining to said business, for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to the investors.

The consideration transferred in the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Company. The consideration paid includes fair value of any asset or liability arising from a contingent consideration agreement. The identifiable assets acquired, the liabilities and contingent liabilities assumed in a combination of businesses are initially measured at their fair value on the acquisition date. The Company recognizes any non-controlling interest in the acquired entity based on the proportional part of the non-controlling interest in the acquired entity's identifiable net assets.

Acquisition-related costs related to the acquisition are recorded as expenses in the statement of income as they are incurred.

Goodwill is initially measured as the excess of the consideration paid and fair value of the non-controlling interest in the subsidiary acquired over the fair value of identifiable net assets and liabilities acquired. If the consideration transferred is below the fair value of the acquired subsidiary's net assets in a purchase at a bargain price, the difference is directly recognized in the consolidated statement of income.

The Company applies the accounting of the predecessor method for business combinations between entities under common control as from the date on which the transaction was conducted. The predecessor method consists of including the book value of the acquired entity, which includes goodwill recorded at the consolidated level with respect to the acquired entity. Any difference between the consideration paid by the Company and the book value of the net assets acquired at the subsidiary level is applied to capital.

Intercompany transactions and balances, as well as unrealized earnings from transactions between Axtel companies are eliminated in the preparation of the consolidated financial statements. Unrealized losses are eliminated. In order to ensure consistency with Company policies, the amounts reported of the subsidiaries have been modified when considered necessary.

At December 31, 2016 and 2015, the companies that comprise Axtel's consolidated financial statements are as follows:

		Shareholding percentage (%)		
Company	**Country**	**2016**	**2015**	**Functional currency**
Axtel, S. A. B. de C. V. (Controlling company) [3]	México			Peso
Servicios Axtel, S. A. de C.V. [1]	México	100.00%	100.00%	Peso
Alestra Comunicación, S. de R. L. de C. V. [3] [d]	México	100.00%	100.00%	Peso
Avantel, S. de R. L. de C.V. ("Avantel")[3]	México	100.00%	100.00%	Peso
Telecom Network, Inc. [3][4] [a]	USA	-%	100.00%	Dollar
Avantel Networks, S. A. de C. V.[3][4] [b]	México	-%	100.00%	Peso
Axes Data, S. A. de C. V. [1] [4]	México	100.00%	100.00%	Peso
Contacto IP, S. A. de C. V. [1]	México	100.00%	100.00%	Peso
Instalaciones y Contrataciones, S. A. de C. V. [1]	México	100.00%	100.00%	Peso
Axtel Track, S. A. P. I. de C. V. [1] [c]	México	-%	100.00%	Peso
Alestra, S. de R. L. de C. V. ("Alestra") [3]	México	100.00%	-	Peso
Servicios Alestra, S. A. de C. V. [1]	México	99.98%	-	Peso
Ingeniería de Soluciones Alestra, S. A. de C. V. [1]	México	100.00%	-	Peso
Alestra USA, Inc. [2][4]	USA	100.00%	-	Dollar
G-Tel Comunicación, S. A. P. I. de C. V. ("G-Tel") [3] [d]	México	-	-	Peso
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	México	100.00%	-	Peso
Alesre Insurance Pte, Ltd. [4]	Singapur	100.00%	-	Dollar
Cogeneración de Querétaro, S. A. de C. V. [1]	México	99.99%	-	Peso
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel")[3]	México	100.00%	-	Peso
Servicios Alestra TI, S. A. de C. V. [1]	México	99.90%	-	Peso

[a] Company liquidated on November 29, 2016.
[b] Company liquidated on September 21, 2016.
[c] Company liquidated on November 17, 2016.
[d] On July 25, 2016, the merger of G-Tel Comunicación, S. A. P. I. de C. V. into Alestra Comunicación, S. de R. L. de C. V., (formerly Avantel Infraestructura, S. de R. L. de C. V.) was agreed. This merger became effective on August 1, 2016.
[1] Provider of administrative services.
[2] Leasing of telecommunications and infrastructure equipment.
[3] Provider of telecommunications services.
[4] Company with no operations.

At December 31, 2016 and 2015, there are no restrictions in the subsidiaries over the Company's capability to use the assets or liquidate the liabilities.

Balances and operations between group companies have been eliminated in preparing the consolidated financial statements.

ii. Associated companies

Associated companies are those over which the Company has significant influence, but not control, generally from holding between 20% and 50% of the voting rights in the associated company. The Company's investment in associated companies includes the goodwill identified in the acquisition, net of accumulated impairment losses.

If equity in an associated company is reduced but significant influence is retained, only a portion of the amounts previously applied to comprehensive income will be reclassified to income for the year, when appropriate.

The Company's equity in the profits or losses of the associated company following the acquisition is recognized in the statement of income and its equity in the comprehensive results following the acquisition is recognized directly in other components of comprehensive income. Post-acquisition accumulated movements are adjusted against the book value of the investment. When the Company's equity in the associated company's losses is equal to or exceeds its equity in the associated company, including any unsecured account receivable, the Company does not recognize future losses, unless it has incurred obligations or has made payments on behalf of the associated company.

The Company assesses, at each reporting date, whether or not there is objective evidence that the investment in the associated company is impaired. If so, the Company calculates the impairment loss as the difference between the recoverable value of the associated company and its book value, and recognizes the amount in "Equity in losses of associated companies recognized by the equity method" in the statement of income.

The unrealized gains on transactions between the Company and its associated companies are eliminated according to the interest the Company has in each. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. In order to ensure consistency with Company policies, the associated companies' accounting policies have been modified.

When the Company ceases to have significant influence over an associated company, any difference between the fair value of the retained investment, including any consideration received from disposal of part of the equity, and the book value of the investment.

During 2016, the only associated company was Conectividad Inalámbrica 7 GHz, S. de R. L. de C. V. ("Conectividad Inalámbrica"), which was liquidated during the period. At December 31, 2015, the company had no associated companies.

c. Foreign currency conversion

i. Functional and reporting currency

The amounts included in the financial statements of each of the Company's entities must be measured using the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are shown in Mexican pesos, which is the Company's reporting currency. Note 4c. contains a description of the functional currency of the Company and its subsidiaries.

ii. Transactions and balances

Foreign currency transactions are converted to the functional currency using the exchange rate in effect on the transaction or valuation dates, when the amounts are re-measured. Exchange gains and losses resulting from settlement of said transactions and from conversion of monetary assets and liabilities denominated in a foreign currency at the closing exchange rates are recognized as exchange fluctuation in the statement of income, except for those deferred in the comprehensive income and which qualify as cash flow hedges.

The exchange differences in monetary assets classified as financial instruments at fair value with changes in income are recognized in the statement of income as part of the gain or loss in fair value.

iii. Consolidation of foreign subsidiaries

The financial statements of the subsidiary companies that maintain a recording currency other than the functional currency, were converted to the functional currency, as per the following procedure:

a. The balances shown for monetary assets and liabilities stated in the recording currency are converted at the closing exchange rates.

b. The historical balances of non-monetary assets and liabilities and of shareholders' equity converted to the functional currency are increased by the movements occurred during the period, which were converted at the historical exchange rates. Movements of non-monetary items recognized at fair value, occurring during the period and stated in the recording currency, are converted using the historical exchange rates at the date on which said fair value was determined.

c. Income, costs and expenses for the periods stated in the recording currency (euro), were converted at the historical exchange rates of the date on which they arose and were recognized in the statement of income, unless they originated from non-monetary items, in which case, the historical exchange rates of non-monetary items were used.

d. The exchange differences arising from conversion from the recording currency to the functional currency were recognized as income or expenses in the statement of income in the period in which they arose.

Following is a summary of the main accounting principles:

Local currency unit in Mexican pesos

	Tipo de cambio de cierre al 31 de diciembre de		Tipo de cambio promedio anual	
	2016	2015	2016	2015
Dólar americano	20.66	17.21	18.66	15.85

d. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits available for the operation and other high-liquidity short-term investments with original maturities of three months or less, all subject to immaterial risks of changes in value.

e. Restricted cash

Cash, whose restrictions resulted in failure to meet the aforementioned definition of cash and cash equivalents, is shown in the line item shown separately in the statement of financial position and are excluded from cash and cash equivalents in the statement of cash flows.

f. Financial instruments

Financial assets
The Company classifies its financial assets in the following categories: at fair value through income, loans and accounts receivable, investments held to maturity and available for sale. Classification depends on the intended purpose of the financial assets. Management determines the classification of its financial assets upon initial recognition thereof. Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are initially recognized on a fair value basis. Transaction costs directly attributable to the acquisition or issuance of financial assets (other than financial assets at fair value with changes in income) are added or deducted from the fair value of financial assets, as applicable, in their initial recognition. Transaction costs directly attributable to the acquisition of financial assets at fair value with changes in income are immediately applied to income.

Financial assets are canceled in their entirety when the right to receive related cash flows expires or is transferred and the Company has substantially transferred all of the risks and benefits inherent to ownership thereof, as well as control over the financial asset.

i. Financial assets at fair value through income

Financial assets at their fair value through income are financial assets held for trading. A financial asset is classified in this category is it was mainly acquired to be sold in the short-term. Derivative financial instruments are also classified as held for trade, unless they are designated as hedges.

Financial assets recorded at fair value through income are initially recognized at their fair value and transaction costs are recorded as expenses in the statement of income. Gains or losses arising from changes in the fair value of these assets are applied to income for the period in which they were incurred, in the Other expenses, net line item.

ii. Loans and accounts receivable

Accounts receivable are non-derivative financial assets with fixed or determined payments that are not traded in an active market. They are included as current assets, except for maturities of over 12 months after the date of the statement of financial position. They are classified as non-current assets.

Loans and accounts receivable are initially valued at fair value, plus transaction costs incurred, and are subsequently recognized at amortized cost, using the effective interest rate method. When circumstances arise that indicate that receivables will not be collected in the amounts initially agreed or will but at a different term, said accounts receivable are impaired.

Financial liabilities

Financial liabilities that are not derivatives are initially recognized at their fair value and subsequently valued at their amortized cost by the effective interest method. Liabilities in this category are classified as current liabilities, if they are expected to the settled within the following 12 months; otherwise, they are classified as non-current.

Accounts payable are obligations to pay for goods or services either acquired or received from suppliers in the normal course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently recorded at their amortized cost. Any differences between the amounts received (net of transaction costs) and the settlement value is recognized in the statement of income during the term of the loan, using the effective interest method.

Impairment of financial instruments

a. Financial assets valued at their amortized cost

At the end of every reporting year, the Company evaluates whether or not there is objective evidence of impairment of each financial assets or group of financial assets. An impairment loss is recognized only if there is objective evidence of impairment resulting from one or more events occurring after initial recognition of the asset (a "loss event") and provided the loss event or events have an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

The aspects evaluated by the Company to determine whether or not there is objective evidence of impairment is:

- Significant financial difficulties of the issuer or debtor.

- Noncompliance with the contract, such as late payment of interest or principal.

- The Company's granting of a concession to the issuer or debtor as a result of the issuer's or debtor's financial difficulties not considered under other circumstances.

- The issuer or debtor is likely to declare bankruptcy or some other type of financial reorganization.

- The disappearance of an active market for the financial asset is due to financial difficulties.

- Verifiable information indicating that there is a quantifiable decrease in future estimated cash flows relative to a group of financial assets subsequent to initial recognition, although the decrease cannot yet the identified with individual financial assets, such as:

    i. Adverse changes in the status of debtor payments on the group of assets.

    ii. Domestic or local conditions related to noncompliance on the part of issuers of the group of assets.

Based on the aforementioned aspects, the Company evaluates the objective evidence of impairment, if any, the book value of the asset is decreased by said amount, and is recognized in the statement of income.

If the interest rate of a loan or investment held to maturity is variable, the discount rate to measure any impairment loss is the current effective interest rate determined according to the terms of the contract. Alternatively, the Company could determine the impairment of the asset considering its fair value determined on the basis of its current observable market price.

If the impairment loss is reduced in subsequent years due to objective verification of an event occurred subsequent to the date on which said impairment was recorded (such as an improvement in the debtor's credit rating), the reversal of the impairment loss is recorded in the statement of income.

Information on impairment of accounts receivable is set out in Note 9.

g. Derivative financial instruments and hedging activities

All derivative financial instruments contracted and identified, classified as fair value hedging or cash flow hedging for trading purposes, or market risk hedging, are recognized in the statement of financial position as assets and/or liabilities at fair value and are subsequently measured at fair value. Fair value is determined on the basis of recognized market prices and when they are not traded in the market, it is determined based on valuation techniques accepted in the financial sector, using inputs and variables observable in the market, such as interest rate and exchange rate curves obtained from reliable sources of information.

The fair value of derivative financial instruments used as hedging instruments is classified as a non-current asset or liability if maturity of the remaining hedge amount is over 12 months, and as a current asset or liability if maturity of the remaining hedge amount is under 12 months.

Derivative instruments hedges are contracted to cover risks and there is compliance with all coverage requirements. Designation is documented at the outset of the coverage operation, describing the purpose, the primary position, risks to be covered, types of derivatives and measurement of the effectiveness of the relationship, features, accounting recognition and the manner in which effectiveness is to be measured in the case of that operation.

h. Inventories

Inventories are shown at the lesser of its cost and net realization value. The cost of the products includes only the purchase price of the products. The net realization value is the selling price estimated in the normal course of the business, less the applicable corresponding variable selling costs. The cost is determined by the First-in, first-out (FIFO) method.

Physical inventory counts are conducted periodically and inventory records are adjusted according to the results of said counts. Historically, shortages have been immaterial, as the Company has implemented strict inventory control procedures.

i. Prepayments

Prepayments mainly comprise insurance and prepayments to service providers. The amounts are recorded on the basis of contractual values and are recorded monthly in the statement of income over the lifetime of the corresponding prepayment: the amount corresponding to the proportion to be considered over the following 12 months is shown under current assets and the remaining amount is shown under non-current assets.

j. Property, plant and equipment

The components of property, plant and equipment are recorded at their cost, less accumulated depreciation and the accrued amount corresponding to impairment losses. The cost includes expenses directly attributable to acquisition of the asset.

Subsequent costs are included in the book value of the asset or recognized as an asset separately, as appropriate, only when the Company is likely to obtain future economic benefits from the asset, and the cost of the component can be calculated reliably. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the statement of income during the year in which they are incurred. Significant improvements are depreciated during the remaining useful lives of the related asset.

Depreciation is calculated by the straight-line method, separately considering each of their components, except for land not subject to depreciation. The average useful life of families of assets are as follows:

	Years
Buildings	40 - 60
Computer equipment	3 - 5
Transportation equipment	4
Office equipment	10
Telecommunications network	6 to 28

Spares and parts for use at more than a year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Costs pertaining to general and specific loans, attributable to the acquisition, construction and production of qualifying assets, which necessarily take a substantial period of time to get ready for their intended use or sale, are not capitalized to form part of the acquisition cost of said qualifying assets until such time as they are ready for their intended use or sale.

If the carrying value exceeds the estimated recovery value, impairment of an asset's carrying value is recognized and the asset is immediately recognized at its recovery value.

Assets classified as property, plant and equipment is tested for impairment when there are facts and circumstances that indicate there are signs of impairment. Impairment losses are recognized on the basis of the amount by which the book value of the assets exceeds their recovery value.

The residual value, useful life and method for depreciation of assets are reviewed, at least at the end of each reporting period and if expectations differ from prior estimates, the changes are recognized as a change in an accounting estimate.

Gains or losses on asset disposals are determined comparing the selling value and the carrying value and are recognized in the other expenses, net in the statement of income.

k. Leasing

Classification of leases as financial or operating depends on the substance of the transaction more so than the contract form.

Leasing, in which a significant portion of the risks and benefits pertaining to the property are retained by the lessor, is classified as straight leasing. Payments made under straight leasing (net of any incentive received from the lessor) are charged to the statement of income by the straight line method over the leasing period.

Leasing under which all the risks and rewards of ownership are transferred to the Company are classified as financial leases. Financial leases are capitalized at the outset of the lease at least between the fair value of the property under lease and the present value of minimum payments. If determination thereof is determined to be practical to discount minimum payments at their present value, the interest rate embedded in the lease is used; otherwise, the lease's incremental rate must be used. Any initial direct cost of the lease will be added to the original amount recognized as an asset.

Each payment on the lease is allocated between the liability and the financial charges, until a constant rate is reached in the current balance. The corresponding rent obligations are included in non-current debt, net of the financial charges. Financial cost interest is charged to income for the year during the lease period, with a view to producing a constant periodic interest rate in the remaining balance of the liability for each period. Property, plant and equipment acquired through financial leases is depreciated between the lesser of the useful lifetime of the asset and term of the lease.

Indefeasible Right of Use (IRU) leases are considered to qualify as financial leasing.

l. Intangible assets

Intangible assets are recognized when they are identifiable and provide future economic benefits and when there is control over those benefits.

Intangible assets are classified as follows:

i. Definite useful life - The definite useful life of an asset is recognized at cost, less accumulated amortization and impairment losses recognized. They are amortized by the straight-line method, according to the useful life, determined based on expected future economic benefits, and are subject to impairment testing when there is evidence of such.

Trademarks and licenses

Trademarks and licenses acquired individually are recognized at their historical cost. Trademarks and licenses acquired through business combinations are recognized at fair value at the acquisition date. Trademarks and licenses have an indefinite useful life and are recorded at cost, less their accumulated amortization. Amortization is calculated by the straight-line method to distribute the cost of trademarks and licenses based on the estimated useful lives.

The estimated useful lives of intangible assets with a finite useful life are summarized as follows:

	Years
Software and licenses	3 - 7
Concessions	20 - 30
Capacity of communications network	13
Other	4
Obligations to do and not to do	3
Trademarks	5
Customer relation	15

ii. Defined useful life - These intangible assets are not amortized and are subject to annual impairment testing. At December 31, 2016 and 2015, no factors have been determined that might limit the useful life of these intangible assets.

Goodwill

Goodwill represents the acquisition cost of a subsidiary in excess of the Company's interest in the fair value of the identifiable net assets acquired, determined at the acquisition date and is not subject to amortization. Goodwill is shown in the Goodwill and intangible assets line item and is recognized at its cost, less accumulated impairment losses, which are not reserved. Gains or losses on the sale of an entity include the book value of goodwill relating to the entity sold.

For the purpose of substantiating impairment, goodwill generated in a business combination is allocated to each of the operating segments, which is expected to benefit from the synergies of the business combination. Each business segment to which goodwill is allocated represents the lowest level within the Company at which goodwill is monitored for internal management purposes.

Goodwill impairment is tested annually, or more frequently if events or changes in circumstances indicate possible impairment. Goodwill book value is compared with the recoverable amount, which is the greater of the value in use and fair value, less the cost of sales. Impairment, if any, is recorded immediately as an expense and is not subsequently reversal in the future.

Intangible assets acquired in a business combination

An intangible asset acquired through a business combination is recognized at its fair value at the acquisition date. Subsequently, intangible assets acquired in a business acquisition of intellectual property, such as: trademarks, customer relations, intellectual property rights, obligations to do and not to do, among others, are recognized at their cost, less accumulated amortization and the accrued amount of impairment losses.

m. Impairment of non-financial assets

Assets without an indefinite useful life, such as goodwill, are not subject to depreciation or amortizable, as well as to annual impairment testing. Assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the book value might not be recoverable. An impairment loss corresponds to the amount by which the carrying value of the non-financial asset exceeds its recovery value. Recovery value is the greater of the fair value of an asset less costs incurred for its sale and its value in use. For the purpose of evaluating impairment, assets are grouped in the minimum levels where there are identifiable cash flows separately (cash generating units). Non-financial long-lasting assets other than goodwill that have been impaired are reviewed for possible reversal of impairment on each reporting date.

n. Taxes on income

The income taxes caption in the statement of income represents the sum of currently-payable and deferred taxes on income.

The amount shown for income taxes reflected in the statement of income represents the tax incurred in the year, as well as the effects of deferred income taxes determined by the assets and liabilities method, applying the rate enacted or substantially enacted in effect at the date of the balance sheet where the Company operates and generate taxable income to total temporary differences resulting from comparing the book and tax values of assets and liabilities expected to apply when the deferred tax asset is realized or the deferred tax liability is settled, taking into account unamortized tax losses, if any, following an analysis of their recovery. The effect of changes in tax rates in effect is applied to income for the period in which said rate change is determined.

Management periodically evaluates the positions exercised in tax refunds with respect to the situations in which the applicable legislation is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

The deferred tax asset is recognized only when a future taxable profit is likely to exist against which temporary difference deductions can be used.

Deferred income taxes on temporary differences arising from investments in subsidiaries and associated companies are recognized, except when the reversal period of the temporary differences is controlled by Axtel and the temporary differences are unlikely to be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legal right and when the taxes are collected by the same tax authority.

o. Employee benefits

The Company grants the following plans:

i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan through which the Company pays fixed contributions to an entity on a separate basis. The Company has no legal or assumed obligation to pay additional contributions if the fund has insufficient assets to pay the benefits related to the services to all its employees in the current or past periods. Contributions are recognized as expenses arising from employee benefits at the date of the obligation to make the contribution.

Defined benefit plans:

Un plan de contribución definida es un plan de pensiones mediante el cual la Compañía paga contribuciones fijas a una entidad por separado. La Compañía no tiene obligaciones legales o asumidas para pagar contribuciones adicionales si el fondo no mantiene suficientes activos para realizar el pago a todos los empleados de los beneficios relacionados con el servicio en los periodos actuales y pasados. Las contribuciones se reconocen como gastos por beneficios a empleados a la fecha que se tiene la obligación de la aportación.

Planes de beneficios definidos:

A benefit plan is defined as the pension-related benefit amount to be received by an employee at retirement, usually reliant on one or more factors such as age, the number of years of service and compensation.

The liability recognized in the statement of financial position with respect to defined benefit plans is the present value of the defined benefit obligation at the date of the statement of financial position, along with the adjustments for unrecognized past services. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using the discount rates, in accordance with IAS 19, denominated in the currency in which the benefits will be paid, and that have maturity terms approximating the terms of the related pension liability. The discount rate reflects the value of money over time but not the actuarial or investment risk. Additionally, the discount rate reflects no credit risk pertaining to the entity, or the risk that future experience could differ from the actuarial assumptions. The Company uses the government CETES rate as the discount rate.

Re-measurements of employee obligations are recorded directly in shareholders' equity under other components of comprehensive income in the year in which they occur.

The costs of past services are immediately recognized in the statement of income.

The current cost of services under the defined benefit plan, applied to income as an employee-benefit expense, unless it is included in the cost of an asset, reflects the increase in the defined benefit obligation stemming from the employee's service during the year. The benefit modifies layoffs and severance payments.

The net interest cost is calculated applying the discount rate for the net balance of defined benefit obligations. This cost is included in the employee benefits account in the statement of income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial hypotheses are charged or credited to shareholders' equity in "Other components of comprehensive income for the year" in the period in which they arise.

ii. Other post-employment benefits

The Company provides benefits such as post-employment medical care to its retired employees. The right to access said benefits generally depends on whether the employee worked up to the age of retirement and completed a minimum period of years of service. The expected cost of these benefits is recognized during the period services were provided, using the same criteria as those described for defined benefit plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee voluntarily accepts the termination of the work relationship in exchange for these benefits. The Company recognizes termination benefits when there is a verifiable commitment to conclude the work relationship of certain employees and a formal detailed plan providing so and that can not be surrendered. If there is an offer promoting termination of the labor relationship voluntarily by the employees, the termination benefits are valued based on the expected number of employees estimated to accept said offer. Benefits paid in a term of 12 months after the period close are discounted at their present value.

iv. Short-term benefits

The Company provides short-term employee benefits, which can include, wages, salaries, annual bonuses and bonuses payable over the following 12 months. The Company recognizes a provision without discount, when is it contractually obligated or when the former practice has created an obligation.

v. Deferred employees' statutory profit-sharing (ESPS) and Bonuses

The Company recognizes a liability and an expenses corresponding to bonuses and employees' statutory profit sharing when it has a legal or assumed obligation to pay benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

p. Provisions

Liability provisions represent a present legal obligation or a constructive obligation arising from past events, likely to require the use of resources to settle the obligation and the amount thereof has been reliably estimated. No provisions are recognized for future operating losses.

Provisions are measured at the present value of the expenses expected to be required to settle the obligation using a pre-tax rate that reflects current market conditions with respect to the value of money over time and of the specific risks of said obligation. The increase in the provision over time is recognized as an interest expense.

In the event of similar obligations, the probability of requiring the use of economic resources to settle said obligations is determined considering them as a whole. In such cases, the provision so estimated is recognized even though the probability of using of cash flows with respect to a specific item considered in the whole is remote.

Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) resulting from past events, likely to require the use of economic resources to settle the obligation and the amount thereof can be reliably estimated.

A reserve for restructuring is recognized when the Company has developed a formal detailed plan to conduct a restructuring, and a valid expectation is created among the affected parties, that the restructuring will take place, either for having started implementation of the plan or for having announced its main features thereof to the affected parties.

q. Share-based payments

The Company has compensation plans based on the market value of ALFA shares granted to certain Company directors. The conditions for granting the compensation to illegible executives includes, meeting certain metrics, such as the level of profits reached, at least 5 years seniority in the company, and others. ALFA's Board of Directors has put together a Technical Committee to manage the plan. The board reviews the estimate of the liquidation in cash of this compensation at the year end. Payment of the plan is always subject to the discretion of ALFA management. The adjustments to said allowance are charged or credited to the statement of income.

The fair value of the amount payable to employees with respect to share-based payments, which are settled in cash, is recognized as an expense, with the corresponding increase in the liability, during the period of services required. The liability is included in the Other liabilities line item and is updated on each reporting date and at the settlement date. Changes, if any, in the fair value of the liability are recognized as a compensation expenses in the statement of income.

r. Capital stock

Axtel's common stock is classified as capital stock under shareholders' equity. The incremental costs directly attributable to issuance of new shares are included in the capital as a deduction of the consideration received, net of taxes; however, the company has incurred no such costs.

t. Utilidad integral

La utilidad integral la componen la pérdida neta, más otras reservas de capital, netas de impuestos, las cuales se integran por los efectos de conversión de entidades extranjeras, las remediciones de obligaciones por beneficios a empleados, los efectos por el cambio en el valor razonable de los instrumentos financieros disponibles para su venta, así como por otras partidas que por disposición específica se reflejan en el capital contable y no constituyen aportaciones, reducciones y distribución de capital.

u. Información por segmentos

La información por segmentos se presenta de una manera consistente con los reportes internos proporcionados al Director General que es la máxima autoridad en la toma de decisiones operativas, como asignación de recursos y evaluación del rendimiento de los segmentos de operación.

s. Comprehensive income

Comprehensive income is comprised of net income, plus other capital reserves, net of taxes, which are comprised of the effects of conversion of foreign entities, re-measurement of obligations arising from employee benefits, the effects of the change in fair value of financial instruments available for sale, as well as other items required by specific provisions to be reflected in shareholders' equity and which do not constitute capital contributions, reductions or distributions.

t. Segment reporting

Segment reporting is presented consistently with the internal reports provided to the CEO, who is the highest authority for making operating decisions, assigning the resources and evaluating the operating segments' yield.

u. Revenue recognition

Revenue is comprised of the fair value of the compensation received or to be received on the sale of goods and services during the normal course of operations. Revenue is shown net of the estimated amount of returns from customers, value added tax, discounts and after eliminating intercompany sales.

Revenue from both domestic and international outgoing and incoming long-distance service is recognized based on the number of minutes processed by the Company, is recognized at the month end close once the service has been provided and the risks and benefits have been transferred to the customer.

Revenue arising from the provision of pay television, interconnection, data transmission, Internet and local services is recognized as the services are rendered.

Installation income and corresponding costs are deferred and recognized as income during the period of the contract established with the customer.

Interest income is recognized when the economic benefits are likely to flow to the Company and the amount corresponding to income can be valued reliably, applying the effective interest rate.

The Company recognizes income provisions at the end of each month on the basis of the use and enjoyment of services provided by the Company, taking into account the type of customer, the type of transaction and the specifications set out in each agreement.

Income from the sale of goods and the provision of services, when each and every one of the following conditions are met:

- The risks and benefits of ownership are transferred.
- The amount of the revenue can be measured reasonably.
- Future economic benefits are likely to flow to the Company.
- The Company retains no implication related to the property or effective control of the goods sold.
- Costs incurred or to be incurred in connection with the transaction can be measured reliably.

Costs for the acquisition of subscribers are applied to income as they are incurred.

Advances from customers

Customer prepayments for pay television, interconnection, data transmission, Internet and local services are billed monthly and applied to income as Income for the period as the services are provided. The Company's deferred charges are recorded on the basis of the commitment to provide a service to the customers. Said service is applied to income as it is provided.

v. Earnings per share

Earnings per share are calculated dividing the earnings attributable to the shareholders by the weighted average of ordinary shares outstanding during the year. At December 31, 2016 and 2015, there are no effects of dilution per financial instrument potentially convertible to shares.

w. Reclassifications

Certain reclassifications have been made of 2015 figures to ensure they are in line with the current presentation.

NOTE 5 - FINANCIAL RISK MANAGEMENT:

5.1 Financial risk factors

The Company's activities expose it to a number of financial risks; market risks (including exchange rate risks, interest rate risk on cash flows and interest rate risk on fair values), credit risks and liquidity risk. Risk management of the Company's general program considers the unpredictability of financial markets and seeks to minimize the potential adverse effects of the Company's financial performance.

The objective is to protect the businesses' financial health against the volatility of exchange and interest rates.

ALFA (holding company) has a Risk Management Committee (CAR from Spanish) comprised of the Chairman of the Board, the Managing Director, ALFA's Finance Director and a Finance executive of ALFA acting as technical secretary. The CAR supervises derivative operations proposed by the Company, in which the maximum possible loss exceeds US$1 million. This committee supports both the Executive Director and the Chairman of the Company's Board of Directors. All of the derivative operations that Company intends to conduct, as well as renewal of existing derivatives, require the approval of both the Company and ALFA, as per the following authorizations program:

MAXIMUM POSSIBLE LOSS US$ MILLIONS

	Individual operation	Accumulated annual operations
CEO 1	5	
ALFA'S Risk Management Committee	30	100
Board of Finance Directors	100	300
ALFA Board of Directors	>100	>300

a. Market Risk

i. Exchange rate risk

The Company is exposed to the exchange risk arising from exposure of its currency, mainly with respect to the U.S. dollar. Axtel's indebtedness and part of its accounts payable are stated in U.S. dollars, which means that it is exposed to the risk of variations in the exchange rate of the peso to the dollar. The risk of fluctuations in the exchange rate involves changes in the value of the peso to the dollar.

The Company's interest expense on the dollar debt, stated in pesos in the Axtel consolidated financial statements, varies with the movements in the exchange rate. Depreciation of the peso gives rise to increases in the interest expense recorded in pesos.

The Company records exchange gains or losses when the peso appreciates or depreciates against the dollar. Due to the fact that the Company's monetary liabilities denominated in dollars have exceeded (and are expected to continue exceeding) Axtel's monetary assets stated in that same currency, depreciation of the peso to the dollar will give rise to exchange losses.

Based on exposure to the exchange rate at December 31, 2016, a hypothetical 5% increase/decrease in the MXN/USD exchange rate and maintaining all of the other variables constant, would result in an effect on the statement of income of ($541,790) and $515,990, respectively.

Following is an analysis of the Company's exposure to the exchange risk at December 31, 2016 and 2015. The accompanying table reflects the book value of the Company's monetary assets and liabilities denominated in a foreign currency:

	December 31, 2016		December 31, 2015	
Monetary assets	US$	62,311	US$	124,523
Monetary liabilities		(586,793)		(837,503)
Net position	(US$	524,482)	(US$	712,980)

ii. Interest rate risk and cash flow

The Company's interest rate risk is associated to its long-term loans. Variable rate loans expose the Company to interest rate risks on cash flows, which are partially offset by the cash held at variable rates. Fixed rate loans expose the Company to interest rate risks related to changes in fair value.

At December 31, 2016, 95% of Axtel's total debt generates variable interest, whereas the remaining 5% generates fixed interest rates.

The Company analyzes its exposure to interest rate risk dynamically. A number of scenarios are simulated, taking into account the refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on the annual result, of a change in the interest rate determined by each simulation, using the same change in the interest rate for all currencies. The scenarios are produced only for liabilities that represent the main positions that generate the highest interest.

Axtel's results and its cash flows can be impacted if additional financing is required in the future when interest rates are high with respect to the Company's current conditions.

At December 31, 2016, if interest rates on variable rate loans were increased/decreased by 1%, the interest expense shown in income would be modified by ($203,056) and $203,828 respectively.

b. Credit risk

The credit risk represents the risk of financial loss for the Company, if a customer or counterpart of a financial instruments defaults on its contractual obligations, mainly in connection with accounts receivable from customers, as well as from investment instruments.

Account receivables

The Company is responsible for managing and analyzing the credit risk for every one of its new customers prior to setting down the terms and conditions for payment. Credit risk arises from exposure of credit to customers, including accounts receivable. If there is no independent rating in place, the Company evaluates the credit risk pertaining to its customers, taking into account the financial position, past experience and other factors such as historical lows, net recoveries and an analysis of the oldest balances and accounts receivable with reserves that are usually increased to the extent the accounts receivable increases in age.

Axtel determined its provision for impairment of accounts receivable, taking into account the probability of recovery, based on past experiences, as well as current collection trends and overall economic factors. Accounts receivable are entirely reserved when there are specific collection problems, based on past experience, mass customers are completely reserved when those accounts are past due by over 270 days, and business customers, carriers and government more than 360. Moreover, collection problems such as bankruptcy or catastrophes are also taken into account. Accounts receivable are analyzed monthly, and the provision for impairment of accounts receivable is adjusted in income.

Axtel conducts an economic evaluation of the efforts necessary to initiate legal proceedings for the recovery of past-due balances.

Besides Companies A and B, which are the Company's main customers, the Company has no significant exposure to credit risk involving a single customer or group of customers with similar characteristics. A group of customers is considered to have similar characteristics when they are related parties. The credit risk concentration of companies A and B must not exceed 20% of the gross amount of monetary assets at any given moment during the year. The credit risk concentration of any other customer must not exceed 5% of the gross amount of monetary assets at any given moment during the year.

Company A accounts for 5% and 12% of the Company's total account receivable at December 31, 2016 and 2015, respectively. Additionally, income related to Company A for the years ended December 31, 2016 and 2015 was 7% and 4%, respectively.

Company B accounts for 1% and 1% of the Company's total account receivable at December 31, 2016 and 2015, respectively. Additionally, income related to Company B for the years ended December 31, 2016 and 2015 was 7% and 3%, respectively.

At December 31, 2016 and 2015, the reserve for impairment totaled $1,920,753 and $3,178,325 respectively. Axtel considers this reserve to be sufficient to cover the probable loss of accounts receivable; however, it can not ensure that it will not need to be increased. A 10% change in the amounts estimated as uncollectable would result in a change in the uncollectable expenses of approximately $118,000.

Investments

The Company's policies for managing cash and temporary cash investments are conservative, which allows for minimizing risk in this type of financial asset, taking into account also that operations are only conducted with financial institutions with high credit ratings.

The Company's maximum exposure to credit risk is equivalent to the total book value of its financial assets.

c. Liquidity risk

The Company's finance department e Company's liquidity requirements, ensuring that cash and investments in marketable securities are sufficient to meet operating needs.

The Company regularly monitors and makes its decisions based on not violating its limits or covenants established in its debt contracts. Projections consider Company financing plans, compliance with covenants, compliance with minimum internal liquidity ratios and legal or regulatory requirements.

Management's responsibility with respect to the liquidity risk corresponds to the Company's board of directors, which has established a general framework for proper handling of liquidity risk in the short, medium and long term. The Company manages liquidity risks, maintaining a proper level of reserves, use of credit lines from banks, and is vigilant of real and projected cash flows.

The following chart analyzes the Company's derivative and non-derivative financial liabilities grouped according to maturity from the reporting date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the terms of the Company's cash flows.

The figures shown in the chart are the contractual cash flows not discounted.

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5+ years
December 31, 2016						
Current debt	$1,719,992	-	-	-	-	-
Suppliers, related parties and creditors	4,286,158	539,829	580,933	-	-	-
Non-current debt	-	1,456,283	11,039,101	6,033,816	1,975,554	2,500,844
Financial leases	408,965	238,992	135,681	213	-	-
December 31, 2015						
Current debt	$1,203,000	-	-	-	-	-
Suppliers, related parties and creditors	3,254,257	-	-	-	-	-
Current debt	-	1,906,966	1,006,732	2,756,149	9,860,087	-
Other non-current accounts payable	-	112,340	-	-	-	-
Financial leases	442,546	329,518	181,369	97,809	6	-
Convertible debt derivative instruments	65,222	-	-	-	-	-

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders.

5.2 Capital risk management

The Company's objectives, in managing capital, are to safeguard its capacity to continue operating as a going concern, so as to be able to continue providing its shareholders with yields and benefits to other interested parties, as well as to maintain an optimal capital structure to reduce capital costs.

In order to be able to maintain or adjust the capital structure, the Company can adjust the amount corresponding to dividends paid to the shareholders, return capital to the shareholders, issue new shares and sell assets to reduce the debt.

The Company's capital structure includes debt, which in turn includes bank loans, financial leases, cash and cash equivalents and shareholders' equity, which includes capital, retained earnings and reserves. Historically, the Company has invested substantial resources in capital goods to expand its operations, through reinvesting earnings. The Company has no policy in place for declaring dividends.

Axtel monitors its capital based on the degree of leverage. This percentage is calculated by dividing the Company's total debt, less cash and cash equivalents (net debt) by total shareholders' equity and the net debt.

The financial ratio of: net debt / total shareholders' equity plus the net debt, totals 88.34% and 73.87% at December 31, 2016 and 2015, respectively. The above gives rise to leverage that meets the Company's risk management policies.

NOTE 6 - CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGMENTS:

Estimates and judgments are reviewed on a regular basis and are based on historical experience and other factors, including expectation of future events considered reasonable under the circumstances.

Long-lived assets

Estimates and assumptions indicating a significant risk of giving rise to a material adjustment to the book values of assets and liabilities within the following financial year are as follows:

Useful lives of property, systems and equipment

The Company reviews the estimated useful lives of property, systems and equipment at the end of every annual period. The level of uncertainty in connection with the estimated useful life is related to market changes and the use of assets of service volumes and technological development.

Allowance for impairment of goodwill

Identification and measurement of impairment of goodwill involves an estimate of fair values. These estimates and assumptions could have a significant impact on the decision to recognize or not an impairment charge and also on the magnitude of said charge. The Company conducts a valuation analysis with third-party assistance and considers relevant internal information, as well as other public market information.

Estimates of fair value are mainly determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected cash flows (including terms), discount rates that reflect the risk inherent to future cash flows, perpetual growth rates, determination of proper market comparables and the determination of whether or not a premium or discount should be applied to the comparables. There is a certain level of risk inherent to the estimates and assumptions that the Company believes to have considered in its valuations. However, if the current/future results differ from those estimated, a possible impairment charge can be recognized in future periods in connection with the decrease in the book value of goodwill, aside from the amounts previously recognized. See Note 12.

Taxes on income

The charge corresponding to income taxes is the total sum of the currently-payable and deferred tax charges and credits. One important judgment is required in the determination of the global provision for income taxes. There are many transactions and calculations due to which the final tax determination is uncertain. The Company recognizes liabilities related to the early tax audit, based on estimates as to whether or not additional taxes will be paid. Because the final tax result for these purposes differs from the amounts initially recognized, said differences will impact both currently-payable and deferred income tax assets and liabilities in the period in which the determination was carried out.

As part of the processes for preparation of these financial statements, the Company is required to calculate its taxes on income. This process involves estimating the current exposure to currently-payable taxes, aside from evaluating the temporary differences resulting from according the items differently, such as impairment of accounts receivable from customers, deferred assets, inventories, property, plant and equipment, accumulated expenses and unamortized tax losses, for tax and book effects.

These differences result in deferred tax assets and liabilities included in the statement of financial position. The Company then evaluates the probability of its deferred tax assets being recovered. The Company recognizes deferred tax assets for all deductible temporary differences, to the extent the entity is likely to dispose of future tax benefits against which to apply these deductible temporary differences. The most recent projections of available earnings are used to determine future tax benefits.

Commitments and contingencies

The Company exercises its judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigation or other pending claims subject to negotiation for liquidation, mediation, arbitrage or government regulation, as well as other contingent liabilities. The Company applies its judgment to evaluate the probability that a pending claim is effective, or results in recognition of a liability, and to quantify the possible range of the liquidation. Due to the uncertainty inherent to this evaluation process, actual losses could differ from the provision originally estimated.

Contingencies are recorded as provisions when a liability has probably been incurred and the amount of the loss can be reasonably estimated. It is not practical to conduct an estimate regarding the sensitivity to potential losses, of all other assumptions have been made to record these provisions, due to the number of underlying assumptions and to the range of reasonable results possible, in connection with the potential actions of third parties, such as regulators, both in terms of probability of loss and estimates of said loss.

NOTE 7 - CASH AND CASH EQUIVALENTS:

Cash and cash equivalents shown in the statement of financial position are mainly comprised of cash funds, bank deposits and short-term investments, all highly liquid and subject to immaterial risks related to change in value. Following is the breakdown of said balances:

	December 31,	
	2016	2015
Cash on hand and banks	$ 620,862	$ 250,695
Short-term investments	826,256	2,324,527
Total cash and cash equivalents	$ 1,447,118	$ 2,575,222

The credit quality of cash and cash equivalents has been evaluated using external credit ratings as reference:

	December 31,	
	2016	2015
AAA	$ 825,616	$ 2,535,664
A-2	621,502	39,558
	$ 1,447,118	$ 2,575,222

NOTE 8 - RESTRICTED CASH:

The value of restricted cash is made up as follows:

	December 31,	
	2016	2015
Current	$ -	$ -
Non-current	153,040	-
Restricted cash	$ 153,040	$ -

Alestra filed a complaint with the Federal Telecommunications Institute (IFT from Spanish) in connection with a dispute on the resale interconnection rates established between Alestra and Telmex and Teléfonos del Norte ("Telnor", a subsidiary of Telmex).

After the deposit described in Note 28, restricted cash represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the statement of financial position under Non-current assets.

NOTE 9 - TRADE RECEIVABLES AND OTHER ACCOUNTS RECEIVABLE, NET:

Trade receivables and other accounts receivable are comprised as follows:

	December 31,	
	2016	2015
Current:		
Trade receivables	$ 5,049,799	$ 5,632,981
Allowance for impairment of trade receivables (1)	(1,920,753)	(3,178,325)
Trade receivables, net	3,129,046	2,454,656
Taxes recoverable	859,477	597,262
Advances to suppliers	-	52,648
Notes and other accounts receivable	57,354	103,699
Related parties	20,949	-
	$ 4,066,826	$ 3,208,265

Noncurrent:		
Other account receivable	$ 8,642	$ 128,613

(1) Following is an analysis of the movements pertaining to the allowance for impairment of trade receivables:

	2016	2015
Initial balance (January 1)	$ 3,178,325	$ 3,021,130
Cancellation of accounts receivable (a)	(1,571,426)	-
Allowance for doubtful accounts for the year	209,930	154,621
Increase from merger	103,924	-
Effect of variations in exchange rates	-	2,574
Final balance (December 31)	$ 1,920,753	$ 3,178,325

To determine the recoverability of accounts receivable, the Company considers any change in the credit quality of account receivable from the date on which the credit is granted to the date of the financial statements. The credit risk concentration is moderate due to the number of customers and the fact that they are not related.

a. During 2016, the Company canceled $1,571,426 bad debts from customers that were already entirely impaired and reserved, as a result of which, said cancellation had no impact on the Company's financial position or results in 2016.

Trade receivables and account receivable include unimpaired past-due balances of $1,367,754 and $2,130,827 at December 31, 2016 and 2015, respectively.

	2016	2015
1 to 30 days	$ 284,656	$ 1,367,447
30 to 90 days	365,489	137,680
90 to 180 days	251,947	187,707
Over 180 days	465,662	437,793
	$ 1,367,754	**$ 2,130,827**

At December 31, 2016 and 2015, the maximum risk inherent to accounts receivable is their book value.

At December 31, 2016, customer credit quality, net of the allowance for impairment, is evaluated as follows:

		Massive
Low Risk < 60 days	$	279,115
Medium Risk 61-180 days		43,072
High Risk > 180 days		149,401
	$	**471,588**

		Business
Low Risk < 90 days	$	1,121,811
Medium Risk 91-270 days		101,735
High Risk > 270 days		200,035
	$	**1,423,581**

		Government
Low Risk < 180 days	$	963,594
Medium Risk 181-360 days		164,960
High Risk > 360 days		105,324
	$	**1,233,878**
Total	**$**	**3,129,047**

NOTE 10 - INVENTORIES:

Inventories are analyzed as follows:

	December 31,			
		2016		2015
Materials and consumables	$	109,145	$	52,725
Other		243		344
	$	**109,388**	**$**	**53,069**

The cost of inventories applied to income and included in the cost of sales was of $207,441 and $197,173 for 2016 and 2015, respectively.

For the period at December 31, 2016 and 2015, damaged, slow-moving and obsolete inventory was recognized in the cost of sales in the amount of $558 and $12,047, respectively.

At December 31, 2016 and 2015 there were no inventories given in guarantee.

NOTE 11 - PROPERTY, PLANT AND EQUIPMENT:

Movements of property, plant and equipment for the period at December 31, 2016 and 2015 are analyzed as follows:

	Buildings	Telecommunications network	Office equipment
For the period ended Thursday, December 31, 2015			
Net book value	$113,289	$9,291,648	$61,835
Additions	-	846,170	42
Transfers	-	1,679,472	3,051
Disposals	-	(14,975)	
Depreciation charges recognized in the year	(14,286)	(2,384,172)	(15,396)
Ending balance	**$99,003**	**$9,418,143**	**$49,532**
At December 31, 2015			
Cost	$263,659	$37,181,970	$260,627
Accumulated depreciation	(164,656)	(27,763,827)	(211,095)
Ending balance	**$99,003**	**$9,418,143**	**$49,532**
For the period at December 31, 2016			
Net book value	$99,003	$9,418,143	$49,532
Merger-related acquisitions (Note 2)	719,865	4,550,467	43,965
Effect of conversion		3,292	
Additions		620,061	44
Transfers	179,201	2,104,885	4,210
Disposals	-	(100,405)	(2)
Depreciation charges recognized in the year	(30,500)	(3,059,965)	(22,095)
Ending balance	**$967,569**	**$13,536,478**	**$75,654**
At December 31, 2016			
Cost	$1,163,254	$53,627,218	$482,638
Accumulated depreciation	(195,685)	(40,090,739)	(406,984)
Ending balance	**$967,569**	**$13,536,479**	**$75,654**

Depreciable assets			Non-depreciable assets		
Computer equipment	Transportation equipment	Leasehold improvements	Land	Investments in process	Total
$2,209,728	$29,589	$77,248	$167,331	$1,010,874	$12,961,542
	2,410	-	-	1,985,452	2,834,074
153,436	19,654	21,615	-	(1,877,228)	-
(74)	(227)	-	-	(813)	(16,089)
(111,562)	(16,795)	(21,137)	-	-	(2,563,348)
$2,251,528	**$34,631**	**$77,726**	**$167,331**	**$1,118,285**	**$13,216,179**
$3,839,082	$374,327	$451,809	$167,331	$1,118,285	$43,657,091
(1,587,554)	(339,696)	(374,083)	-	-	(30,440,912)
$2,251,528	**$34,631**	**$77,726**	**$167,331**	**$1,118,285**	**$13,216,179**
$2,251,528	$34,631	$77,726	$167,331	$1,118,285	$13,216,179
189,656	16,167	45,110	314,305	690,045	6,569,580
					3,292
8,277	2,901			2,753,883	3,385,166
198,424	13,151	8,060	6	(2,507,937)	-
(665)	(2,486)	-	-	(34,492)	(138,050)
(257,039)	(20,850)	(26,267)	-	-	(3,416,716)
$2,390,181	**$43,514**	**$104,628**	**$481,642**	**$2,019,783**	**$19,619,451**
$4,665,963	$408,448	$587,635	$481,642	$2,019,783	$63,436,581
(2,275,782)	(364,934)	(483,006)	-	-	(43,817,130)
$2,390,181	**$43,514**	**$104,628**	**$481,642**	**$2,019,783**	**$19,619,451**

Assets under financial lease include the following amounts in which the Company acts as lessee:

	December 31, 2016	2015
Cost - capitalized financial leases	$ 1,370,389	$ 1,105,952
Accumulated depreciation	(675,255)	(324,633)
Carrying value, net	**$ 695,134**	**$ 781,319**

Projects in process mainly include telecommunications network equipment to extend the Company's infrastructure and the capitalization period thereof is approximately twelve months.

For the years ended December 31, 2016 and 2015, the Company capitalized $27,770 and $44,223, respectively, of loan costs related to rateable assets of $858,114 and $831,303. These amounts were capitalized based on an interest rate of 6.09% and 10.14%, respectively.

Of the depreciation expense for 2016 of $3,416,716 ($2,563,348 in 2015), $3,095,736 ($2,322,537 in 2015) was recorded in the cost of sales and in selling and administrative expenses of $320,980 ($240,811 in 2015).

NOTA 12 - CRÉDITO MERCANTIL Y ACTIVOS INTANGIBLES:

Los movimientos de activos intangibles para el periodo al 31 de diciembre de 2016 y 2015 se analizan como sigue:

	Concessions	Defined-life trademarks	Relations with customers
Opening balance at January 1, 2015	$144,022	$-	$-
Amortization charges recognized during the year	(40,321)	-	-
Ending balance at December 31,2015	**$103,701**	**$-**	**$-**
Cost	681,713		
Accumulated amortization	(578,012)	-	-
Ending balance at December 31, 2015	**$103,701**	**$-**	**$-**
December 31, 2015			
Opening balance at January 1, 2016	$103,701	$-	$-
Additions	6,858	40,000	-
Acquisition via merger (Note 2)	18,824	38,255	220,412
Disposals			
Amortization charges recognized during the year	(46,105)	(14,139)	(15,191)
Ending balance at December 31, 2016	**$83,278**	**$64,116**	**$205,221**
Cost	707,395	78,255	220,412
Accumulated amortization	(624,117)	(14,139)	(15,191)
Ending balance at December 31, 2016	**$83,278**	**$64,116**	**$205,221**

	Defined life			Indefinite life	
s	Obligations to do and not to do	Software and licenses	Other defined life	Goodwill	Total
	$-	$-	$29,934	$-	$173,956
	-	-	(8,636)	-	(48,957)
	$-	**$-**	**$21,298**	**$-**	**$124,999**
			183,226		864,939
	-	-	(161,928)	-	(739,940)
	$-	**$-**	**$21,298**	**$-**	**$124,999**
	$-	$-	$21,298	$-	$124,999
	809,793	99,791	3,592		960,034
		285,834	115,011	488,232	1,166,568
	(219,051)	(92,123)	(26,265)	-	(412,874)
	$590,742	**$293,502**	**$113,636**	**$488,232**	**$1,838,727**
	809,793	385,625	301,829	488,232	2,991,541
	(219,051)	(92,123)	(188,193)	-	(1,152,814)
	$590,742	**$293,502**	**$113,636**	**$488,232**	**$1,838,727**

Company concessions

Its concessions allow the Company to provide local basic telephone service; national long-distance service, the purchase or rent of network capacity for the generation, transmission or reception of data, signals, text, script, images, voice, sound and any other type of information; rent of digital circuits; restricted TV and audio service.

The Company's principal concessions are as follows:

- Sole concession for commercial use for the purpose of providing any type of telecommunications and/or radio broadcasting that is feasible to be provided, granted for a 30-year period, expiring in 2046.

- Public telecommunications network concession granted for data transmission via satellite, granted for a 30-year period, expiring in 2042. (*)

- Public telecommunications network concession granted for the provision of local telephone service, as well as national and international long-distance service, granted for a 30-year period, expiring in 2026. (*)

- Public telecommunications network concession granted for the provision of point-to-multipoint microwave connection services, granted for a 20-year period, expiring in 2018. (*)

- Public telecommunications network concession granted for the provision of service for fixed or mobile wireless access, granted for a 20-year period, expiring in 2018. (*)

(*) In November 2016, the Company obtained authorization to consolidate these concession into the Sole Concession for commercial use.

- Public telecommunications network concession granted to Avantel, to offer local and international long-distance service for a 30-year period, expiring in 2025.

- Public telecommunications network concession granted to Avantel, to offer basic local telephone service for a 30-year period, expiring in 2029.

Concession under renewal

- In 1998, Alestra obtained two concessions for the use, leasing and exploitation of frequency band pertaining to the radio-electric spectrum to provide capacity to establish point-to-point microwave connections and three point-to-multipoint concessions covering Mexico City, Monterrey and Guadalajara. The concessions are for 20 years as from 1998 and are amortized based on said period by the straight-line method.

- Concessions for a number of frequencies pertaining to the radio-electric spectrum granted to Axtel in 1998 for a 20-year period, renewable for additional periods of 20 years, provided the Company meets all of its obligations and the new conditions set forth in the law, and agreements are reached with respect to any condition imposed by the Federal Telecommunications Institute (IFT from Spanish).

The Company provides services, under an added value plan, which are authorized independently from said concessions, such as: Internet access.

In this regard, the Company expects the concessions to be extended, for which the IFT will require payment in advance of the corresponding consideration, which will be set taking into account, among other criteria, the bandwidth of the frequencies of the radio-electric spectrum under concession, the geographic coverage of the concession and the services that can be provide in said bands.

The Company must comply with the new conditions issued in this regard by the IFT. Current conditions are:

i. Submitting a request at the IFT within a year prior to the start of the last fifth of the term of the concession;

ii. Meeting the licensee's obligations in the terms of the Federal Telecommunications and Radio Broadcasting Law (LFTR from Spanish) and other applicable regulations, and the concession title;

iii. Acceptance, by the Concession holder, of the new conditions for renewal thereof, as per the provisions of the IFT.

To date, the IFT has established no amount for the corresponding compensation, and has not yet determined the aforementioned conditions to be met. Revenue from concessions under renewal amounts to 8.4% of income for 2016.

During 2013, 2014 and 2015, the Company has submitted a request to the IFT to extend the concessions for the use and exploitation of frequency bands pertaining to the radio-electric spectrum. In the event said concessions are renewed, this will not be considered an additional period in the amortization of prior concessions.

It should be mentioned that this situation is not particular to the Company, but rather, of all licensees having obtained a concession for the use and exploitation of frequency bands pertaining to the radio-electric spectrum in 1998, 1999 and 2000.

Telecommunications network capacity consists of the right to use fiber optics, contracted with a private party on December 10, 2012 for a 10-year period.

One of the indefinite-life intangible assets held by the Company is goodwill, which has been assigned to the Business segment. The rest of its intangible assets are of defined life.

Of the $412,874 and $48,957 amortization expense, $53,224 and $41,838 was recorded in the cost of sales; and $359,649 and $7,119 in administration and sales expenses, in 2016 and 2015, respectively.

Impairment testing of goodwill

Goodwill is comprised of the value paid in excess of the book value of net assets and liabilities of $488,232, which were allocated to the business segment.

At the date of issuance of these financial statements, no signs of impairment have been identified.

Following are the percentages used for the companies' goodwill.

	S&C	G-Tel	Estratel
Estimated gross margin	20.0%	7.5%	24.0%
Growth rate	1.3%	3.3%	12.6%
Discount rate	5.5%	5.5%	5.5%

NOTE 13 - OTHER NON-CURRENT ASSETS:

	December 31, 2016	2015
Investment in shares of associated company	$ -	$ 8,212
Rental of Connections	51,311	65,878
Guarantee deposit	68,237	49,628
Other	85,757	4,080
Total other non-current assets	**$ 205,305**	**$ 127,798**

NOTE 14 - SUPPLIERS AND OTHER ACCOUNTS PAYABLE:

The Suppliers and other accounts payable line item is comprised as follows:

	December 31, 2016	2015
Current		
Suppliers	$ 3,183,091	$ 2,676,819
Related parties	680,546	-
Value added tax and other federal and local taxes payable (see Note 3)	990,198	582,066
Accrued expenses payable	668,917	577,438
Other	122,684	57,343
	$ 5,645,436	**$ 3,893,666**

Noncurrent:		
Other	$ -	$ 112,340
Related parties	985,975	-
Total	**$ 985,975**	**$ 112,340**

NOTE 15 - PROVISIONS:

	Litigios	Reestructuración [1]	Otros	Total
At December 31, 2014	$-	$-	$-	$-
Additions	-	89,000	101,100	190,100
Payments	-	-	-	-
At December 31, 2015	**$-**	**$89,000**	**$101,100**	**$190,100**
Additions	50,620	514,600	-	565,220
Additions under merger	-	31,937	-	31,937
Payments	-	(556,510)	(101,100)	(657,610)
At December 31, 2016	**$50,620**	**$79,027**	**$-**	**$129,647**

Provisions at December 31, 2016 and 2015 are short term.

[1] Provisions due to restructuring include indemnities to obtain efficiencies.

NOTE 16 - OTHER LIABILITIES

Other liabilities at December 31, 2016 and 2015 is comprised as follows:

	December 31, 2016	December 31, 2015
Current:		
Deferred Income	$ 1,022,605	$ 509,415
Total	**$ 1,022,605**	**$ 509,415**

The variations in the year of deferred income are as follows:

	2016	2015
Starting balance	$ 509,415	$ 729,768
Increases	1,235,772	616,466
Applied to income for the year	(722,582)	(836,819)
Ending balance	**$ 1,022,605**	**$ 509,415**

NOTE 17 - BORROWINGS:

	December 31, 2016	December 31, 2015
Bancomext	$ 3,867,268	$ -
Banco Nacional de México, S. A. (a) (b)	1,500,151	130,000
BBVA Bancomer, S. A. (a) (b) (c)	1,418,643	-
Banco Mercantil del Norte, S. A. (a) (b) (c)	1,418,643	-
JPMorgan Chase Bank, N. A. (c)	1,095,192	
Banco J. P. Morgan, S. A. (a)	404,959	-
Banco Santander (México), S. A. (a) (c)	1,500,151	-
Bank of America, N. A. (c)	1,239,840	-
ING Bank, N. V. Dublin Branch (c)	1,239,840	-
Export Development Canada (a) (c)	1,176,445	-
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (c)	702,576	
Bank of Tokyo-Mitsubishi UFJ (México), S. A. (a)	370,549	-
Mizuko, Bank, Ltd. (c)	826,560	-
Comerica Bank (c)	826,560	-
HSBC México, S. A. (a)	1,058,712	-
Scotiabank Inverlat , S. A. (a) (c)	705,808	-
Sabcapital, S. A. de C. V., SOFOM, E. R. (a) (b) (c)	471,318	-
Morgan Stanley senior Funding, Inc. (a)	441,130	-
Banco Monex, S. A. (a) (c)	194,565	-
BBVA Bancomer, S.A. de C. V.	400,000	-
Unsecured notes	-	12,024,160
Financial leasing with Telmex (1) (3)	400,137	385,968
Other financial leases (2) (3)	303,399	535,423
Accrued interest payable	132,815	545,208
Issuance costs	(180,812)	(93,945)
Total debt	**21,514,449**	**13,526,814**
Current portion of debt	(1,028,588)	(1,050,864)
Non-current debt	$ 20,485,861	$ 12,475,950

[a] Unsecured syndicated loan Tranche A MXP
[b] Unsecured syndicated loan Tranche B MXP
[c] Unsecured syndicated loan Tranche B USD

[1] Indefeasible Right of Use (IRU) lease entered into with Teléfonos de México, S. A. B. de C. V. for an approximate amount of $708,041 expiring in 2019.

[2] Financial leases entered into with banking institutions at approximate rates of 6% for those denominated in U.S. Dollars and the interbank interest rate (TIIE from Spanish) plus 3% and 5.5% for those denominated in pesos, with maturities ranging from 1 to 3 years.

[3] Non-bank borrowings.

At December 31, 2015 and 2007, unsecured notes were comprised as follows::

	2015
Principal of US$50,400, at an interest rate of 7 5/8 %, maturing in 2017, with interest payable semiannually,	$ 867,173
Principal of US$101,700, at an interest rate of 9%, maturing in 2019, with interest payable semiannually.	1,750,417
Principal of US$544,600, at an initial interest rate of 7% that would increase to 9%, maturing in 2020, with interest payable semiannually.	9,371,572
Principal of US$22,200 of convertible notes at an interest rate of 7% that would increase to 9%, maturing in 2020, Interest was payable semiannually. (*)	45,856
Discount on the issuance of notes, arising from unsecured notes payable at an initial interest rate of 7% that would increase to 9%, maturing in 2020.	(19,462)
Premium on issuance of debentures, arising from unsecured notes payable, at an interest rate of 9%, maturing in 2019.	8,604
Total	**$ 12,024,160**

(*) The holders of the convertible bonds could opt to convert the notes in American Depository Shares ("ADSs") or in Certificate of participation (COPs). See Note 2b.

Moreover, the overall unsecured notes were liquidated as part of the redemption mentioned in Note 2.

Los términos, condiciones y valores en libros de la deuda no circulante son los siguientes:

							At December 31,	
	Country	Currency	contractual	Interest rate Effective	Periodicity of maturity	Payment of interest	2016	2015
Bancomext	México	USD	3.88%	4.43%	17/01/2024	Trimestral	$3,729,852	$-
Syndicated loan Tranche A	México	MXP	TIIE + 2%	7.03%	15/01/2019	Quincenal	4,759,800	-
Syndicated loan Tranche B	México	MXP	TIIE + 2.25%	7.26%	15/01/2021	Semestral	1,499,842	-
Syndicated loan Tranche B	México	USD	EuroDolar rate+ 2.25	3.64%	15/01/2021	Quincenal	10,332,000	-
Unsecured notes	México	MXP/USD	varias	varias	varias	Semestral	-	12,024,160
Total bank loans						20,321,494	12,024,160	
Issuance costs						(180,812)	(93,945)	
Financial leases and other					345,179	545,735		
Total							**$20,485,861**	**$12,475,950**

At December 31, 2016, the annual maturities of the non-current debt are as follows:

	2018	2019	2020	2021 onwards	Total
Bank loans	$137,132	$10,257,788	$5,604,750	$4,141,012	$20,140,682
Financial leases and other	214,910	130,064	205	-	345,179
	$352,042	**$10,387,852**	**$5,604,955**	**$4,141,012**	**$20,485,861**

At December 31, 2015, the annual maturities of the non-current debt are as follows:

	2017	2018	2019	2020 en adelante	Total
Stock certificates and bonds	$867,173	$-	$1,750,417	$9,312,625	$11,930,215
Financial leases and other	287,680	164,214	93,841	-	545,735
	$1,154,853	**$164,214**	**$1,844,258**	**$9,312,625**	**$12,475,950**

Costs of issuance of debentures and financing are directly attributable to issuance of the Company's debt and are amortized according to the effective interest rate over the lifetime of the debt.

At December 31, 2016 and 2015, the Company had not unused contractual credit facilities.

The fair value of the non-current debt is disclosed in Note 21. Fair values at December 31, 2016 and 2015 are based on a number of different discount rates, which fall within level 2 of the fair value hierarchy.

Liabilities related to financial leases are effectively covered with the rights of the leased asset to be returned to the lessor in the event of default.

Financial leasing obligations - minimum payments, gross	December 31, 2016	2015
• Less than one year	$358,357	$375,656
• More than a year and less than five years	345,179	545,735
Future financial charges on financial leases	79,805	125,948
Present value of liabilities from financial leases	**$783,341**	**$1,047,339**

The present value of liabilities from financial leases is analyzed as follows:

	December 31, 2016	2015
Less than one year	$408,456	$442,770
More than a year and less than five years	374,885	604,569
	$783,341	**$1,047,339**

The most restrictive obligations to do and not to do of the debt:

The Company settled its debt in unsecured notes at December 31, 2015 in February 2016, due to which, the restrictions described herein refer to the new debt. On February 16, 2016, the Company drew down on a long-term syndicated loan, in the amounts of US$500,000 y $4,787,000. Subsequently, on April 13, an additional draw down was made in the amount of $1,500,000.

The loan and debt issuance agreements currently in effect contain restrictions for the Company, mainly to comply with certain financial ratios, delivery of financial information, keeping accounting records and book, compliance with the applicable laws, rules and provisions. Failure to comply with said requirements within a specific term to the satisfaction of the creditors could be considered a cause for early termination.

The financial ratios to be complied with include the following:

a. Interest hedge ratio (to be calculated in dollars at the average exchange rate): which is calculated by dividing: the operating profit (loss) before depreciation, amortization and expenses related to "adjustment events" (such as a merger) by the interest expense (excluding interest expenses related to "adjustment events") for the last four quarters of the period under analysis. This factor can not be less than 2.75 times during the first 18 months after the date on which control is exercised and no less than 3.0 times from that point on.

b. Leverage ratio (calculated in dollars at the average exchange rate for the year, except for the net debt, which is the exchange rate prevailing at year end): which is arrived at by dividing the net consolidated debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) by the operating profit (loss) before depreciation, amortization and expenses related to "adjustment events" (such as a merger) for each quarter. At December 31, 2016 and up until December 31, 2017, this factor can not exceed 4.25 times. From March 31, 2018 to June 30, 2018, this factor must not exceed 3.75 times; and from September 30, 2018 to the end of the contract, this factor must not exceed 3.5 times.

The obligations to do and not to do contained in the loan agreements establish some obligations, conditions and certain exceptions that require or place restrictions on the Company's ability to:

- Grant lien on assets;
- Conduct operations with affiliates;
- Conduct a merger in which the Company is dissolved, unfavorable sale of assets; and
- Pay dividends

At December 31, 2016 and at the date of issuance of these financial statements, the Company and its subsidiaries had duly complied with the obligations set down in the loan agreements.

NOTE 18 - EMPLOYEE BENEFITS:

Defined contribution plans:

The Company has a defined contribution plan. According to the structuring of this plans, the cut down on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contributions plan. Due to the changes made in the 2014 tax reform, the Company interrupted deposits to the trust; however, it has preserved this benefit and recognized labor obligations of $160,118 at December 31, 2016.

Defined benefit plans:

Valuation of defined benefit plans is mainly based on the number of years of service completed by Company employees, their age and estimated compensation at retirement.

Following is a summary of the main financial information pertaining to said employee benefits:

	December 31,	
Obligations in the statement of financial position arising from:	**2016**	**2015**
Pension benefits [1]	$302,399	$28,231
Medical benefits at retirement	4,520	-
Liabilities in the statement of financial position	$306,919	$28,231
Re-measurements from accumulated employee benefit obligations applied to other comprehensive income	$25,167	$1,404

[1] Up until February 15, 2016, the Company recognized seniority premiums.

Pension-related benefits

The Company operates defined benefit pension plans related to pensionable compensation and the duration of the service.

Movements in the defined benefit obligation are as follows:

	December 31, 2016	2015
Present value of obligations equal to the liability in the statement of financial position	$302,399	$28,231

Movements in the defined benefit obligation are as follows:

	2016	2015
At January 1	$28,231	$25,128
Present cost of current service	8,066	3,336
Financial cost	8,353	1,665
Remediation:		
Loss from changes in financial assumptions	27,226	1,182
Cost of past services	2,719	(3,079)
Benefits paid	(3,392)	-
Liabilities acquired in merger	116,168	-
Changes to plan (See Note 23) [(*)]	137,321	-
Reductions	(22,193)	-
At December 31	**$302,399**	**$28,231**

[(*)] Effect arising from homogenization of personnel benefits with those offered by ALFA..

The amounts shown in the statement of income are as follows:

	2016	2015
Current cost of service	$8,066	$3,336
Financial cost	8,353	1,665
Cost of past services	2,719	(3,079)
Changes to plan	137,321	-
Effect of reduction	(22,193)	-
Total	**$134,266**	**$1,922**

The main ranges of the actuarial assumptions for Mexico were as follows:

	December 31, 2016	2015
Discount rate	6.75%	6.75%
Future salary increase	5.25%	4.25%
Health care inflation rate	7.50%	-%

The average lifetime of defined benefit obligations is 32.28 and 33.99 years at December 31, 2016 and 2015, respectively.

The sensitivity analysis of the principal assumptions for defined benefit obligations was as follows:

Impact on defined benefit obligations

	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	Decreased by ($1,150)	Increased by $885

The above-mentioned sensitivity analyses are based on a change in an assumption, while all other assumptions remain constant. In practice, this is not likely to happen, and there may be changes in other correlated assumptions. When calculating the sensitivity of pension plans to principal actuarial assumptions, the same method has been used as if it involved calculation of liabilities pertaining to pension benefit plans recorded in the consolidated statement of financial position. The methods and type of assumptions used in preparing the sensitivity analysis suffered no changes with respect to the prior period.

Post-employment health care benefits

The Company operates post-employment health-care benefit plans. The accounting method, the assumptions and frequency of the valuations are similar to those used for defined benefits in pension plans. These plans are not funded.

The amounts recognized in the statement of financial position were determined as follows:

	December 31, 2016	2015
Present value of obligations equal to the liability in the statement of financial position	$4,520	$-

The movements of post-employment health-care benefits are as follows:

	2016	2015
At January 1	$-	$-
Present cost of current service	128	-
Financial cost	409	-
Liabilities acquired in merger	6,094	-
Losses (gains) from changes in financial assumptions	(2,059)	-
Benefits paid	(52)	-
At December 31,	**$4,520**	**$**

The amounts shown in the statement of income are as follows:

	2016	2015
Current cost of service	$128	$-
Financial cost	409	-
Cost of past services	-	
Total included in personnel costs	**$537**	**$**

Associated risks

With respect to its defined benefit pension plan and its health-care plan, the Company is exposed to a number of risks, the most significant of which are as follows:

Changes in the discount rate - A decrease in the discount rate would give rise to an increase in obligations under the plans.

Inflation risk - Some of the labor obligations are tied to inflation, higher inflation would give rise to an increase in plan obligations.

Life expectancy - Most of the obligations of the plans will result in benefits to be received by the members thereof; therefore, an increase in the life expectation would result in an increase in plan obligations.

NOTE 19 - DEFERRED TAXES:

Following is an analysis of the deferred tax asset and liability, on a net basis:

	At December 31, 2016	2015
Deferred tax asset:		
To be recovered at more than 12 months	\$3,037,830	\$1,808,845
To be recovered within 12 months	1,018,943	426,624
	4,056,773	2,235,469
Deferred tax liability:		
To be covered at more than 12 months	(10,318)	-
To be covered within 12 months	-	-
	(10,318)	-
Deferred tax asset net	**\$4,046,455**	**\$2,235,469**

Gross movements in the deferred tax on income account are as follows:

	2016	2015
At January 1 (Note 3)	\$2,235,469	\$1,806,710
Credit to statement of income	1,556,866	428,537
Merger	242,203	-
Taxes receivable related to other components of comprehensive income	11,917	222
At December 31	**\$4,046,455**	**\$2,235,469**

Movements in the deferred income tax asset during the year are as follows:

Assets (liabilities)

	At December 31, 2016	2015
Unamortized tax losses	$2,797,686	$1,682,858
Allowance for doubtful accounts	591,444	469,257
Property, plant and equipment	1,012,748	295,775
Provisions and other	481,128	387,443
Intangible assets and other	153,908	-
Deferred tax asset	**$5,036,914**	**$2,835,333**
Property, plant and equipment	(54,416)	-
Telephone concession rights	(15,905)	(28,554)
Long-term debts	(549,342)	(549,342)
Intangible assets and other	(370,796)	(21,968)
Deferred tax liability	(990,459)	(599,864)
Deferred tax asset, net	**$4,046,455**	**$2,235,469**

The movements in temporary differences during the year are as follows:

	Balance at December 31, 2015	Applied to income	Increase from merger	Applied to other comprehensive income	Balance at Dec. 31, 2016
Unamortized tax losses	$1,682,858	$1,111,685	$3,143	$-	$2,797,686
Allowance for doubtful accounts	469,257	15,367	106,820	-	591,444
Property, plant and equipment	295,775	716,973		-	1,012,748
Intangible assets and other		(9,417)	163,325		153,908
Provisions and other	387,443	(22,249)	104,017	11,917	481,128
	2,835,333	**1,812,359**	**377,305**	**11,917**	**5,036,914**
Telephone concession fees	28,554	(12,649)	-	-	15,905
Long-term debts	549,342	-	-	-	549,342
Property, plant and equipment		(80,686)	135,102	-	54,416
Fair value of derivative financial instruments	11,257	(11,257)		-	-
Intangible assets and other	10,711	360,085		-	370,796
	599,864	**255,493**	**135,102**	**-**	**990,459**
Deferred tax asset	**$2,235,469**	**$1,556,866**	**$242,203**	**$11,917**	**$4,046,455**

	Balance at December 31, 2014	Applied to income	Increase from merger	Applied to other comprehensive income	Balance at Dec. 31, 2015
Unamortized tax losses	$1,257,927	$424,931	$-	$-	$1,682,858
Allowance for doubtful accounts	498,990	(29,733)	-	-	469,257
Property, plant and equipment	312,239	(16,464)	-	-	295,775
Provisions and other	366,192	21,029		222	387,443
	2,435,348	**399,763**	**-**	**222**	**2,835,333**
Telephone concession fees	40,466	(11,912)	-	-	28,554
Long-term debts	549,342	-	-	-	549,342
Fair value of derivative financial instruments	28,123	(16,866)	-	-	11,257
Intangible assets and other	10,707	4	-	-	10,711
	628,638	**(28,774)**	**-**	**-**	**599,864**
Deferred tax liability	**$1,806,710**	**$428,537**	**$-**	**$222**	**$2,235,469**

The deferred income tax asset arising from unamortized tax losses is recognized when the existence of future tax profits is probable and realization of the related tax benefit is permitted. The Company recognized a deferred tax asset of $4,046,455 for 2016 and $2,235,469 for 2015, of which the asset from tax losses arising from a remaining and incurred amount of $2,797,686 for 2016 and $1,682,858 for 2015, which can be amortized against future tax profits.

Tax losses at December 31, 2016 expire in the following years:

Year of expiration	Amount
2017	
2018	$381,363
2019	-
2020	18,715
2021	1,693,985
2022 y posteriores	9,184,996
	$11,279,059

NOTE 20 - SHAREHOLDERS' EQUITY:

At December 31, 2016, the Company's capital stock was $10,233,841 and was comprised of 19,229'939,531 Class "I", Series "B" common nominative shares, with no par value, entirely subscribed and paid in. At that date, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

As a result of the merger mentioned in Note 2.1., the following, among other matters, were approved: a) issuance of 97,750,656 Class "I", Series "A" shares and 9,571,214,832 Class "I", Series "B" shares worth $3,464,252, which were subscribed by ALFA, to be subscribed by the Onexa, S. A. de C. V. shareholders, according to their shareholding interest in said company, as part of the price for the merger, when the merger went into effect, and b) issuance of 4,279,126 Class "I" Series A shares and 1,015,008,824 Class "I", Series "B" shares, to held in the Company's treasury, free of preferred subscription rights, as these

shares were issued as part of the price of the merger, to be delivered to ALFA. If it becomes necessary, as per the adjustment that is the object of the transaction's Confirmatory Agreement, without the need to make additional contributions, and will be considered paid as per the terms of said agreement. The shares held in the Company's treasury can not be represented or voted at shareholders' meetings, and will confer no corporate or economic rights.

Following is an analysis of the effect of the merger on the company's shareholders' equity:

	Capital Stock	Fusion reserve	Total
Issuance of shares (see Note 2)	$3,464,252	$3,385,870	$6,850,122 (*)
Difference between the fair value and shareholders' equity of Onexa		(3,482,023)	(3,482,023)
Transfer to the reserve	(128,491)	128,491	-
Indemnification (see Note 2)		(983,747)	(983,747)
Financial liability (see Note 2)		(246,396)	(246,396)
	$3,335,761	**($1,197,805)**	**$2,137,956**

(*) Corresponds to the fair value of shares issued for merger mentioned in Note 2a., taking into account the estimated unit price thereof at the date of the merger, which totaled $6,850,122.

During 2016, the $90,000 reserve set up for the repurchase of shares was canceled. Moreover, during 2016 and 2015, conversion options were exercised totaling $36,094, equivalent to 104,833,887 shares and $133,644 equivalent to 388,180,282 shares, respectively.

In light of the above, through agreements adopted at the July 21, 2016 extraordinary general shareholders' meeting, the following matters among others, were approved: (i) the pertinent changes in capital stock arising from the conversions exercised or, if applicable, not exercised by the holders of the obligations convertible to shares; (ii) cancellation of 182'307,349 Class "I", Series "B" shares, not subscribed or paid in, which had been deposited in the Company's treasury to backup conversion of convertible debentures, the holders of which exercised no conversion rights in this regard, or consequently, the authorized capital stock reduction; and (iii) consolidation in a single series of all shares currently comprising the capital stock, through conversion of the Series "A" shares to Series "B" shares, with the same characteristics as those current outstanding.

At December 31, 2015, the Company's capital stock was $6,861,986 and was comprised of 9,456,140,156 shares, entirely subscribed and paid in. The Company's shares were divided into two classes: Class "I", representing the minimum fixed portion of the capital stock, and Class "II" representing the variable portion of the capital stock. The shares pertaining to the two classes, "I" and "II", offer their holders the same economic and corporate rights (the only different being those rights that can be conferred as per the applicable law, to the holders of shares that form part of the variable portion of a Variable Capital Publicly Traded Stock Company. Each of the classes had two series: Series "A" and "B", both indistinct and providing their holders the same corporate and economic rights. The shares had no par value. Of the total number of shares, 97,750,656 were Class "I" Series A and 9,358,389,500 were Class Series B. At December 31, 2015, the Company had issued no Class "II" shares (either series "A" or series "B"). At December 31, 2015, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

During the years ended Saturday, December 31, 2016 and 2015, the Company suffered net losses of $3,599,262 and $1,732,267, respectively. At December 31, 2016 and 2015, the Company showed an accumulated deficit of $8,486,561 and $111,074,524, respectively, and short-term liabilities in excess of current assets of $1,532,511 in 2016. At December 31, 2016, the Company had lost more than two thirds of its capital stock, a legal cause for dissolution, which any interested party may request be declared by the courts. However, the principal shareholders have expressed their intention to support the Company so as to allow it to continue in existence as a going-concern.

Net income for the year is subject to the legal provision requiring that at least 5% of the profit be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock.

Dividends are not subject to income tax if paid from the after-tax earnings account (CUFIN from Spanish). Dividends in excess of the CUFIN are subject to 42.86% tax, when paid out. The tax incurred is payable by the Company and may be credited against income tax for the current year or for the following two years. Dividends paid from previously taxed profits are not subject to tax withholding or additional payments. At December 31, 2016, the tax value of the CUFIN and the value of the Capital Contributions Account (CUCA from Spanish) totaled $1,235,485 and $21,964,841, respectively.

In October 2013, the Senate and House of Representatives approved the issuance of a new Income Tax Law that went into effect on January 1, 2014. Among other aspects, this law establishes a 10% tax on earnings generated as from 2014, on dividends paid to residents in Mexico and abroad, and establishes that for the periods from 2001 to 2013, the net tax profit will be determined in the terms of the current Income Tax Law in the tax period in question. During November 2015, a temporary-validity article was issued, granting a tax incentive for individuals resident in Mexico subject to an additional 10% payment on distributed dividends or earnings. The incentives is applicable, provided said dividends or earnings were generated in 2014, 2015 and 2016, and were reinvested in the entity that generated said earnings, and consists of a tax credit equivalent to the amount arrived at by applying the percentage corresponding to the year of the distribution, to the dividend or earnings distributed, as shown below:

Year of distribution of the dividend or profit	Percentage of application to the dividend or distributed profit.
2017	1%
2018	2%
2019 onward	5%

The tax credit determined is only creditable against the additional 10% income tax that the entity is required to withhold and pay.

The following requirements must be met to apply the tax credit:

- The entity must identify, in its books of account, the records corresponding to the earnings or dividends generated in 2014, 2015 and 2016, as well as the respective distributions.

- In entity must disclose, in the notes to the financial statements, analytical information for the period in which the earnings were generated, or the dividends were reverted or distributed.

- Entities whose shares are not traded in the Mexican Stock Market and who apply this incentive must opt for having their financial statements audited for tax purposes in the terms of Article 32-A of the Federal Tax Code.

Entities distributing dividends or profits on shares placed among the general investing public must advise stock brokerage firms, credit institutions, investment operators, the parties distributing the shares of investment entities or any other securities market intermediaries of the period corresponding to the profits on which dividends are being paid, so that said intermediaries can withhold the respective tax.

According to the procedures established in the Income Tax Law, in the event of a capital reduction, any excess of shareholders' equity over the capital contributions account is accorded the same tax treatment as dividends.

NOTE 21 - FINANCIAL INSTRUMENTS:

a. Financial instruments per category

The book values of the financial instruments per category are comprised as follows:

At December 31, 2016

	Accounts receivable and payable at amortized cost	Activos y pasivos financieros a valor razonable con cambios en income	Total categories
Financial assets:			
Cash and cash equivalents	$1,447,118		$1,447,118
Restricted cash	153,040		153,040
Trade receivables and other accounts receivable, net	3,207,349		3,207,349
Financial instruments (zero strike call)	-	$152,978	152,978
Non-current account receivable	8,642		8,642
Total financial assets	**$4,816,149**	**$152,978**	**$4,969,127**
Financial liabilities:			
Current debt	$1,028,588		$1,028,588
Suppliers, related parties and sundry creditors	4,286,158	246,396	4,532,554
Non-current debt	20,485,861		20,485,861
Other non-current accounts payable	985,975		985,975
Total financial assets	**$26,786,582**	**$246,396**	**$27,032,978**

At December 31, 2015

	Accounts receivable and payable at amortized cost	Activos y pasivos financieros a valor razonable con cambios en income	Total categories
Financial assets:			
Cash and cash equivalents	$2,575,222		$2,575,222
Trade receivables and other accounts receivable, net	2,358,355		2,358,355
Financial instruments (zero strike call)		$378,099	378,099
Non-current account receivable	127,798		127,798
Total financial assets	**$5,061,375**	**$378,099**	**$5,439,474**

Financial liabilities:			
Current debt	$1,050,864		$1,050,864
Suppliers, related parties and sundry creditors	2,676,819		2,676,819
Non-current debt	12,475,950		12,475,950
Derivative instruments (convertible debt)	-	65,222	65,222
Other non-current accounts payable	112,340		112,340
Total financial assets	**$16,315,973**	**$65,222**	**$16,381,195**

b. Fair value of financial assets and liabilities

The amounts shown for cash and cash equivalents, trade receivables and other accounts receivable, other current assets, trade payables and other accounts payable, current debt, current provisions and other current liabilities approximate their fair value given the short span of their terms. The net book value of these accounts represents the expected cash flow.

Following are the book and value and estimated fair value of financial assets and liabilities valued at their amortized cost:

	At December 31, 2016		At December 31, 2015	
	Book value	Fair value	Book value	Fair value
Financial assets:				
Non-current receivable	$8,642	$8,310	$128,613	$122,489
Financial liabilities:				
Bank loans	20,458,910	19,525,014		
Unsecured notes			11,989,865	11,989,134
Other liabilities	703,536	658,793	921,391	945,706
Indemnification (*)	983,747	983,747	-	-

Estimated fair values were determined on a discounted cash flow basis, and these fair values are considered Level 2. These fair values do not consider the current portion of financial assets and liabilities, as the current portion closely resembles its fair value.

(*) The fair value of the indemnification closely resembles its book value due to the term and interest-rate terms. See Note 27.

c. Financial instruments and derivative financial instruments

Financial instruments

At December 31, 2016 and 2015, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S.A.B. de C.V. (GBM) denominated "Zero Strike Call" or options, at a price closely resembling zero. The asset underlying these instruments is the market value of Axtel's CPOs. The contracts signed prior to October 2016 can only be settled in cash. As from that date, the term of the contracts yet to be settled was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as opted by the Company's. The original term of these contracts is 6 months and can be extended by mutual agreement between the parties; however, as this is an American type option, the Company can exercise it at any given time prior to the date of maturity.

According to the contracts, in the option is taken for payment in cash, the amount to be settled will be calculated as per the following formula: *Number of options per option right per (reference price - exercise price)*.

Where:

Number of options = determined in the contract

Right of option = defined as 1 "share" per option, defining "share" as Bloomberg Code AXTELCPO MM.

Reference price = "The price per share that GBM receives upon settling the position of the hedges thereof, under commercially reasonable terms, discounting commissions and taxes".

Exercise price = 0.000001 pesos

The company determined the classification and measurement of these contracts as financial assets at fair value with changes in income.

At December 31, 2016 and 2015, the lending position of the options represents the maximum amount of their credit exposure, as shown below:

Counterparty	National amount	Contract start date	Type of underlying asset	Fair value 2016	Fair value 2015
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$106,954	$264,348
Corporativo GBM, S.A.B. de C. V.	13,074982	2015 y 2014	CPO's Axtel	46,024	113,751
				$152,978	**$378,099**

For the year ended December 31, 2016, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of 225,121 (unrealized profit of 221,182 at December 31, 2015), recognized in comprehensive financing income, in the Changes in fair value of financial instruments line item, net. During 2015, the Company paid a premium of $34,918.

Following is a summary of the fair value hierarchy by which financial instruments and derivative financial instruments:

	At December 31, 2016			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Zero strike calls	152,978	$-	$-	$152,978
Financial liabilities:				
Financial liabilities arising from the merger (see Note 2)	$-	$246,396	$-	$246,396

	At December 31, 2015			
	Level 1	Level 2	Level 3	Total
Financial assets:				
Zero strike calls	$378,099	$	$-	$378,099
Financial liabilities:				
Convertible bonds	-	$65,222	-	$65,222

d. Hierarchy of fair value

The Company has adopted the standard that establishes a three-level hierarchy to be used upon measuring and disclosing the fair value. Classification of an instrument within the fair value hierarchy is based on the lowest level of the significant data used in valuation thereof. Following is a description of the three levels of the hierarchy:

- Level 1 - Price quoted for identical instruments in an active market.

  The fair value of financial instruments negotiated in active markets is based on market price quoted at the closing date of the balance sheet. A market is considered active if the quotes are clear and regularly available through a stock exchange, trader, broker, industry group, price setting services, or regulatory agency and those prices currently and regularly reflect the market transactions in conditions of independence.

- Level 2 - Prices quoted for similar instruments in active markets; prices quoted for identical or similar instruments in inactive markets; and valuations through models where all significant data are observable in active markets.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximize the use of information observable in the market when it is available and is based as little as possible on specific Company estimates. If all of the significant data entered and required to measure an instrument at fair value are observable, the instrument is classified at Level 2.

- Level 3 - Valuations conducted through techniques where one or more of the related significant data are not observable.

This hierarchy requires the use of observable market data when available. In its valuations of fair value, the Company considers relevant and observable market information, to the extent possible.

If one or more of the significant data is not based on observable market information, the instrument is included in Level 3.

NOTE 22 - EXPENSES ACCORDING TO THEIR NATURE:

The cost of sales and selling and administration costs classified according to their nature are comprised as follows:

	Year ended December 31 2016	2015
Cost of service [1]	$2,747,613	$1,765,628
Employee benefit expenses (Note 26)	2,958,216	1,939,545
Maintenance	1,667,790	1,123,856
Depreciation and amortization	3,829,589	2,618,567
Advertising expenses	169,736	182,978
Energy and fuel consumption	273,001	198,325
Travel expenses	69,199	42,765
Operating leases	1,107,916	904,230
Technical assistance, professional fees and administrative services	126,934	48,922
Other	358,977	299,018
Total	**$13,308,971**	**$9,123,834**

(1) The cost of services consists mainly of interconnection costs and costs related to implementation of IT solutions, including:

- Charges related to leased lines, normally paid on a per-circuit basis per month to Telmex and to other suppliers of last-mile access.
- Cost of interconnection, including charges for local access and resale, paid on a per-minute basis mainly to Telmex.
- International payments to foreign operators on a per-minute basis to complete international calls originating in Mexico.

NOTE 23 - OTHER (EXPENSES) INCOME, NET:

Other income and expenses for the period at December 31, 2016 and 2015 is comprised as follows:

	Year ended December 31, 2016	2015
Merger-related expenses [1]	($ 835,200)	$-
Disposals of property, plant and equipment due to damage and obsolescence	(52,795)	-
(Loss) profit on sale of property, plant and equipment	(4,483)	113,734
Other income (expenses), net	54,749	(551,055)
Total other expenses, net	**($837,729)**	**($437,321)**

(1) Corresponds mainly to $514,630 of staff compensation, $137,300 to adoption of the retirement benefit plan and $183,270 to other merger-related expenses (mainly fees for professional services). See Note 2.a.

NOTE 24 - FINANCIAL INCOME OR LOSS, NET:

Financing income and costs for the years ended December 31, 2016 and 2015 is comprised as follows:

	Year ended December 31, 2016	2015
Financial income:		
Interest income on short-term bank deposits	$19,738	$30,192
Financial assets at fair value applied to income	-	221,182
Other financial income	4,643	6,737
Financial income, excluding exchange gains	24,381	258,111
Exchange gains	210,124	438,658
Total financial income	**$234,505**	**$696,769**
Financial expenses:		
Interest expense on bank loans	($775,668)	($42,474)
Expense related to prize for early cancellation (Note 2b)	(758,064)	-
Financial assets at fair value applied to income	(225,121)	
Interest expense on unsecured notes	(221,944)	(1,165,094)
Expenses related to other interest and commissions	(2,472)	-
Financial expenses related to employee benefits	(6,492)	-
Embedded derivative instrument	(71,318)	(57,475)
Other financial expenses	(41,021)	(28,741)
Total financial expenses, excluding exchange loss	(2,102,100)	(1,293,784)
Exchange loss	(2,988,804)	(2,097,724)
Total financial expenses	**(5,090,904)**	**(3,391,508)**
Financial profit or loss, net	**($4,856,399)**	**($2,694,739)**

NOTE 25 - EMPLOYEE BENEFIT EXPENSES:

	Year ended December 31, 2016	2015
Wages, salaries and benefits	$2,448,479	$1,599,088
Social security dues	421,205	285,554
Employee benefits (Note 19)	8,914	5,800
Other dues	79,618	49,103
Total	**$2,958,216**	**$1,939,545**

NOTE 26 - INCOME TAXES FOR THE YEAR:

	Year ended December 31, 2016	2015
Currently-payable tax:		
Tax incurred on income for the period	($97,048)	($61,305)
Deferred tax	1,556,866	434,499
Adjustment with respect to prior years	11,888	-
Income tax charge to income	**$1,471,706**	**$373,194**

The reconciliation between the statutory and the effective income tax rates is as follows:

	2016	2015
Pretax loss	($5,070,968)	($2,105,461)
Equity in earnings of associated companies recognized by the equity method	5,189	5
Loss before equity in associated companies	(5,065,779)	(2,105,456)
Statutory rate	30%	30%
Tax at statutory rate	1,519,734	631,637
(Plus) less the effect of taxes on:		
Tax effect of inflation	105,895	4,023
Non-deductible items	(249,064)	(192,040)
Other differences, net	95,141	(70,426)
Total reserve for taxes on income applied to income	**$1,471,706**	**$373,194**
Effective rate	**29%**	**18%**

The charge / credit of tax related to the components of other comprehensive income is as follows:

	2016			2015		
	Pretax	Tax charged/ (credited)	After taxes	Pretax	Tax charged/ (credited))	After taxes
Effect of translation of foreign entities	$14,556	($4,367)	$10,189	$	$	$
Remediation of employee benefit obligations	(25,167)	7,550	(17,617)	(1,404)	222	(1,182)
Deferred tax	**($10,611)**	**$3,183**	**($7,428)**	**($1,404)**	**$222**	**($1,182)**

NOTE 27 - TRANSACTIONS WITH RELATED PARTIES:

The transactions with related parties for the year ended December 31, 2016 conducted at market values were as follows:

31 de diciembre de 2016

	Accounts receivable	Accounts payable	Loans received from related parties Amount	Interest	Currency	Date of expiration DD/MM/YY	Interest rate
Holding company [2]	$	$246,396			MXN	14/07/17	N/A
Holding company	$	$	$413,280	$12,605	USD	15/07/17	3%
Holding company [1]		$ 287,300			MXN	28/02/18	TIIE +2.25%
Holding company [1]		$ 287,300			MXN	28/02/19	TIIE +2.25%
Holding company [1]		$ 204,574			USD	28/02/18	TIIE +2.25%
Holding company [1]		$ 204,574			USD	28/02/19	TIIE +2.25%
Affiliates	20,949	$8,034	2,228	229	USD		Libor 3M+2,75%
Total	**$20,949**	**$1,238,178**	**$415,508**	**$12,834**			

(1) Indemnification (see Note 2).

(2) Merger-related financial liabilities (see Note 2).

Income from sales and other to related parties

Year ended December 31, 2016

	Services	Interest	Dividends	Other
Holding company	$	$	$	$
Affiliates	131,060			
Associated companies				
Total	**$131,060**	**$**	**$**	**$**

Cost of sales and other expenses with related parties.

Years ended December 31

	Interest	Administrative services	Other costs and expenses	Dividends paid
Tenedora	$10,093	$2,317	$	$
Afiliadas	1,458		31,287	
Asociadas				
Total	**$11,551**	**$2,317**	**$31,287**	**$**

Additionally, as mentioned in note 2a., during 2016, $809,793 was paid corresponding to obligations to do and not to do.

For the year ended December 31, 2016, compensation and benefits paid to the Company's main officers totaled $245,506 ($259,368 in 2015), comprised of base salary and benefits required by law, complemented by a program of variable compensation basically based on the Company's results and by the market value of ALFA shares.

The principal transactions with related parties for the years ended on December 31, 2015 are as follows:

Rent expense	$34,860
Installation service expenses	18,020
Other	2,705

Salaries payable to related parties at December 31, 2015 included in the Accounts payable line item are as follows:

Short-term accounts payable	
GEN Industrial, S.A. de C.V. *	$131
Neoris de México, S.A. de C.V. *	598
Total	**$729**

*Main administrative services.

NOTE 28 - CONTINGENCIES AND COMMITMENTS:

At December 31, 2016, the commitments and contingencies pertaining to Axtel and its subsidiaries were as follows:

I. Contingencies

Disagreements related to Interconnection with other mobile operators.

a. Radiomóvil Dipsa, S. A. de C. V. (Telcel).

i. The Company (Axtel and Avantel) signed transaction agreements with Telcel in 2015 that covered the period from January 1, 2005 to April 4, 2014, under which the parties agreed to terminate their disputes related to mobile interconnection rates generated during that period.

ii. Rates corresponding to mobile interconnection services provided by Telcel to the Company as from April 5, 2014 to date are subject to gratuitousness conditions stipulated in article 131 of the LFTR. Telcel contested said condition; however, no ruling has yet been handed down by the Supreme Court of Justice of Mexico.

Therefore, at December 31, 2016 and 2015, the Company and its advisors consider that the gratuitousness conditions will prevail as per the favorable resolutions obtained, as a result of which, the Company has recognized the cost based on said rates and there are no reserves related to this contingency.

b. Telefónica Group

i. The Company (Axtel and Avantel) signed transaction agreements with Telefónica Group covering the period from 2005 to 2011, under which the parties agreed to terminate their disputes related to mobile interconnection rates generated during that period.

ii. For 2012, 2013, 2014 and 2015, the Federal Telecommunications Institute (IFT from Spanish) resolved interconnection disagreements with the Company, reducing the interconnection rates for termination services involving mobile service users. Given the results of other litigation procedures regarding interconnection rates in the mobile network, in February 2016, the Company and Telefónica Group signed the agreements for termination of disputes related to interconnection rates.

Alestra entered into settlement agreements with Telefónica Group for the period from January 1 2007 to July 31, 2016, with the period from August 1 to December 31, 2016 yet to be determined by the courts. The rates used for payment of compensation for said period are those resolved by the IFT in other cases, and based on the results of the litigation process, no changes are expected.

Therefore, at December 31, 2016 and 2015, the Company and its advisors consider that the rates will prevail as per the favorable resolutions obtained, as a result of which, the Company has recognized the cost based on said rates and there are no reserves related to this contingency.

c. Iusacell Group (now AT&T)

i. For 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements with the Company, reducing the interconnection rates for termination services involving mobile service users.

ii. In 2015, the Company (Axtel) signed transaction agreements for the aforementioned periods, except for 2012 and 2013, because the IFT's resolution that set the rates is under litigation at the specialized courts. For said years, the company obtained a favorable sentence in July 2016, as a result of which, the Second Specialized Collegiate Court confirmed the rates set by the IFT.

iii. Iusacell Group contested the IFT's resolution for 2015 and in July 2016, the Company (Axtel) obtained a favorable fist instance sentence confirming the rates. At present, no ruling has yet been handed down by the Specialized Collegiate Court with respect to the new motion for review filed by Iusacell.

iv. Alestra has on-going litigation at the specialized courts regarding interconnection rates with Iusacell for 2012, 2013, 2014 and 2015 and wit ATT for 2015 and 2016, for which no ruling has yet been handed down.

Therefore, at December 31, 2016 and 2015, the Company and its advisors consider that the rates pertaining to the IFT resolutions will prevail, as a result of which, the Company has recognized the cost based on said rates and there are no reserves related to this contingency.

d. Disagreements on interconnection with Telmex & Telnor.

i. For the periods from 2009 to 2014, the Company (Axtel) obtained favorable definitive sentences confirming that rates for termination of long-distance calls from the Company to Telmex set by the Federal Telecommunications Commission ("Cofetel"). For 2009, 2012, 2013 and 2014, Telmex filed legal actions contesting the rates set by Cofetel.

ii. Additionally, there is a disagreement between Telmex and Avantel regarding the rates for terminating long-distance calls that the Cofetel resolved in favor of Avantel for 2009, approving a rate reduction. Telmex contested this resolution at the courts, and the related sentence is expected to be handed down shortly.

iii. In May 2011, Cofetel also approved a reduction in the rates for termination of long-distance calls for 2011. Telmex contested this resolution before the SCT; however, the appeal was dismissed. Telmex filed a new appeal with the Federal Court of Justice for Administrative Matters, sentence pending.

iv. In August 2015, the IFT set the interconnection rates to be paid by Telmex to the Company for local origination. Telmex obtained a first-instance sentence protected by the Eightieth Transitory article of the Federal Telecommunications and Radio Broadcasting Law (LFTR) (for the two different rates per period). Telmex filed an appeal which was sent to the Supreme Court of Justice to determine the constitutionality of said transitory article.

v. For 2015, the IFT set the interconnection rates to be paid by Telmex to the Company for fixed termination. Telmex contested said resolution and the gratuitousness imposed by article 131 of the LFTR regarding termination in its network. No ruling has yet been handed down by the Supreme Court in this regard.

vi. Alestra is a party in litigation with Telmex for interconnection rates applicable from 2008 to 2013, except 2009, as Telmex contested the reduction of rates set by the Cofetel. There is a trust with BBVA Bancomer (as trustee) to guarantee payment of fixed interconnection services in the dispute applicable to 2008. This trust agreement was amended to include the amounts in dispute from 2009 to 2010. In April 2013, Alestra obtained a favorable sentence for 2009, and was awarded a refund of the amount deposited in the trust for that year, plus interest, for a total $290.6 million pesos, for a resulting balance at December 31, 2016 of $153.0 million. (See Note 8).

vii. As from April 2012, Alestra and Telmex resumed negotiations and given the most recent and reliable information and the market conditions, the resale interconnection rates have changed prospectively based on Alestra Management's analysis and judgment. Alestra continues its negotiations with Telmex and the parties are expected to reach an agreement in the near future.

viii. In April 2015, the IFT set the interconnection rates for termination of long-distance calls in the Telmex network to be applied by Alestra from 2013 to 2015. Telmex contested the injunction trial Alestra obtained a favorable sentence for 2015 and the trials pertaining to the other years are soon to be resolved.

ix. Under the LFTR, as from August 13, 2014 and during the time they remain as preponderant agents in the telecommunications sector, Telmex and Telcel are forbidden to charge the interconnection rates for termination of calls that end in their network. During 2016, IFT began a process for review of the measures of preponderance imposed on América Móvil as holding company for Telmex and Telcel. A number of different scenarios can arise from this review, such as: i) that the measures imposed on Telmex and Telcel be either entirely or partially eliminated; ii) that the existing measures be modified; or iii) that they are confirmed. If the asymmetric regulation imposed on Telmex and Telcel is softened and/or eliminated, this could have a material adverse effect on the Company's business. At December 31, 2016, the preponderant agent status of Telmex, Telnor and Telcel remained unchanged.

At the date of issuance of the financial statements, the Company and its advisors consider that the rates pertaining to the IFT and Cofetel resolutions will prevail as per the favorable resolutions obtained, as a result of which, the Company has recognized the cost based on said rates and there are no reserves in the books of account related to this contingency. Likewise, the process for review of the preponderance measures is still ongoing.

Litigation between Axtel and Solution Ware Integración, S. A. de C. V. ("Solution Ware")

i. The Company (Axtel) and Solution Ware participated in seven projects with the Government of Nuevo León, the Department of Labor And Social Welfare, The Department of Social Development, The National Population Registry, the National Forest Commission, Seguros Monterrey and the Government of the State of Tamaulipas. To date, Solution Ware has filed a number of ordinary commercial lawsuits against the Company, for payment of a number of purchase orders for administrative services, as well as interest, damages and lost profits, as well as legal costs. At the date of these financial statements, Solution Ware has demanded, via commercial notary public, payment of $91,776 and $US12,701.

At the date of issuance of the financial statements, the Company and its advisors consider there is no real probability that these lawsuits will prosper and therefore, no reserves were set up in this regard.

While the results of the disputes can not be predicted, at December 31, 2016, the Company does not believe there are any actions to be applied, or threats, claims or legal procedures against the Company, which, if determined adversely for the Company, would significantly damage, whether individually or in the aggregate, its financial position and/or operating results.

Other contingencies

The Company is a party to a number of lawsuits and claims arising from the normal course of its operations, which Management does not expect will have a significant adverse effect on its financial position or results of future operations. Reserves were set up in connection with these contingencies.

II. Commitments

The Company has commitments related to lease agreements, mainly in connection with office space, that qualify as operating leases.

The minimum future payments added, corresponding to non-cancellable operating leases are as follows:

Within 1 year	$7 62,194
After 1 year but not exceeding five years	2,451,428
After 5 years	5,110,650

NOTE 29 - FOREIGN CURRENCY POSITION:

At February 21, 2017, date of issuance of the audited financial statements, the rate of exchange was 20.41 nominal pesos to the US dollar.

At December 31, 2016 and 2015, the Company has the following foreign currency assets and liabilities:

	At December 31, 2016		At December 31, 2015	
	Dollar (US)	Mexican Pesos	Dollar (US)	Mexican Pesos
Monetary assets	$62,311	$1,287,601	$124,523	$2,141,796
Liabilities:				
Current	(84,604)	(1,748,248)	(127,022)	(2,184,778)
Non-current	(502,189)	(10,377,242)	(710,481)	(12,220,273)
Foreign currency position	**($524,482)**	**($10,837,889)**	**($712,980)**	**($12,263,255)**

NOTE 30 - SEGMENT REPORTING:

Up until 2015, the Company considered itself to operate in a single business segment. Management formerly evaluated the business by dividing the information into two types of revenue (mass market and business); however, in 2016 and 2015, it was not possible to attribute individual costs to each of them, either directly or indirectly.

During 2016, as a result of the merger mentioned in Note 2 a., the information provided to the Chief Operating Decision Maker (CODM), two additional segments were incorporated: Consumption and Government, to the segment in place in 2015. The information per segment for 2015 was reformulated for comparative purposes.

At present, the information used in strategic decision making is reported to the CODM based on three operating segments. The approach of the tree operating segments is as follows:

The Massive operating segment offers the consumer and small-business markets communication products and services.

The Business operating segment offers communication services and added value services, such as information, data and Internet technologies, managed through the Company's network and infrastructure, both for multinational companies and international and national businesses.

The Government operating segment offers communication services and added value services, such as information, data and Internet technologies, managed through the Company's network and infrastructure, for the federal, state and municipal governments.

Aside from the three operating segments focusing on customers, the Company's remaining operations are included in the "Unallocated expenses" category to be applied to the Company's consolidated income. The "Unallocated expenses" category includes expenses related to the group's centralized functions, including acquisitions, chain of supply and the entity's management.

These operating segments are managed separately, as the products and services offered and the markets where they are located are different. Resources are allocated to the operating segments considering the strategies defined by the Company's Management. Operations between operating segments are conducted at market values.

The operating segments' performance is measured on the basis of the Business Unit Contribution (BUC) defined as the each operating segment's operating profit, including sales, costs per segment and the segment's direct expenses, as included in the internal financial reports reviewed by the CODM.

The Company determines the adjusted EBITDA as the result of adding depreciation and amortization; and impairment of merger assets and expenses, to the operating (loss) profit. This is considered a useful measurement of the business's operating performance, as it provides a significant analysis of the commercial performance, by excluding specific items reported separately due to the nature or incidence. Interest income or expenses are not allocated to the reporting segments, as this activity is handled globally by the group's central treasury.

When projects are not directly attributed to a particular operating segment, the capital expense is assigned to each segment based on the rate of future economic benefits estimated as a result of the capital expense.

Following is the consolidated financial information pertaining to the information segments:

I. Analytical information per segment

		2016	
	Mass	Business	Government
Sales per segment	$3,129,580	$8,783,843	$2,023,897
Cost of service	(436,820)	(1,579,947)	(730,846)
Expenses	(1,098,137)	(905,408)	(242,768)
Business Unit Contribution (BUC)	$1,594,623	$6,298,488	$1,050,283
	51%	72%	52%
Unallocated expenses			
Adjusted EBITDA			
Impairment of non-current assets			
Merger-related expenses			
Depreciation and amortization			
Operating (loss) profit			
Financial gain (loss), net			
Equity in the results of associated company			
Income taxes			
Net consolidated loss			

		2015		
Total	Mass	Business	Government	Total
$13,937,320	$3,316,104	$4,242,215	$2,592,119	$10,150,438
(2,747,613)	(448,381)	(1,032,026)	(819,461)	(2,299,868)
(2,246,313)	(1,103,005)	(292,033)	(137,390)	(1,532,428)
$8,943,394	$1,764,718	$2,918,156	$1,635,268	$6,318,142
64%	53%	69%	63%	62%
(4,435,190)				(3,110,292)
4,508,204				3,207,850
(52,795)				-
(835,200)				-
(3,829,589)				(2,618,567)
(209,380)				589,283
(4,856,399)				(2,694,739)
(5,189)				(5)
1,471,706				373,194
(3,599,262)				(1,732,267)

II. General information

a. Sales of service

	2016	2015
Voice	$4,236,979	$3,844,266
RA (Networks under Administration)	3,046,351	2,976,006
DI (Internet data)	4,209,462	1,901,650
Video	499,726	375,122
Administrative Applications	215,042	265,573
Hosting	586,149	269,899
Systems Integration	573,475	197,428
Security	322,680	226,854
Cloud Services	125,474	7,086
Other services	121,982	86,554
Total	**$13,937,320**	**$10,150,438**

b. Per geographic segment

Sales per geographic zone

	2016	2015
Mexico	$13,865,436	$9,859,514
Outside Mexico	71,884	290,924
Total	**$13,937,320**	**$10,150,438**

NOTE 31 -SUBSEQUENT EVENTS:

In preparing the financial statements, the Company has evaluated events and transactions for subsequent recognition or disclosure thereof at December 31, 2016 and up to February 21, 2017 (date of issuance of the financial statements), and has concluded there are no subsequent events that would affect said statements, except for the following relevant subsequent event that has no effect on the records in the financial statements at December 31, 2016:

On November 17, 2016, the consortium ALTAN Redes, S. A. P. I. de C.V. ("ALTAN"), won the international request for tenders put out by the Ministry of Communications and Transportation, for construction and operation of the Shares Network.

The Company will hold a 4% shareholding interest in ALTAN, representing an investment of US$30,000, of which US$1,000 was payable in cash in January 2017 and the remainder through a service provision plan.

In this regard, Axtel will not only be a shareholder, but will also provide telecommunications and IT services to ALTAN. However, because it is a telecommunications service licensee, the Company will have no significant influence on the ALTAN operation. In light of the above, its interest will be effected through the acquisition of a special series of shares with no voting rights, mostly contributing services and capabilities.

With respect to ALTAN, on January 17, 2017, through its Agency for Promotion of Investments in Telecommunications (PROMTEL), the Ministry of Communications and Transportation and the IFT granted ALTAN a concession title for commercial use as a wholesale shared network, for a 20-year term as from the date of the award.

At present, the Company is working with ALTAN to subscribe the agreement requiring that Axtel provide services for up to a minimum of US$29,000. We trust that by month end, said agreement was subscribed by both parties.

Dr. Sergio Rolando Zubirán Shetler
Chief Executive Officer

Lic. Adrián de los Santos Escobedo
Chief Financial Officer

Ing. Manuel Ramírez López
Corporate Controller

To Axtel the year 2016 was very different to previous years; we started operations as a new entity due to the merger with Alestra, which brought more complex challenges and different opportunities to face, that without a doubt we were able to cope.

Despite the change, we maintained our commitment to transparently report our annual results in the areas of corporate governance, society, environment, and finances through Axtel's Integrated Annual Report 2016.

The document, comprising the period from January 1st to December 31, 2016, was prepared following the indicators proposed in the Global Reporting Initiative (GRI) guide in its G4 version, with the Essential compliance option and verified by e3 Consultora Ambiental.

In this report, we do not present historical information or reformulations of data presented in previous reports since Axtel is a new company. We also not include information about other entities, companies or institutions, nor of shareholders, customers or business partners. The important organizational changes presented during this period are specified throughout the document.

GLOBAL REPORTING INITIATIVE INDEX

GRI G4 (ESSENTIAL COMPLIANCE)			
G4	**Page**	**Description**	**Direct response**
STRATEGY AND ANALYSIS			
G4-1	3	Statement from de most senior decision-maker of the organization, such as CEO, about the relevance of sustainability to the organization and the strategy for addressing it.	
G4-2	3	Key impacts, risks and opportunities.	
ORGANIZATIONAL PROFILE			
G4-3	-	Name of the organization.	Axtel, S.A.B de C.V.
G4-4	7	Primary brands, products and services.	
G4-5	7	Location of the organization's headquarters.	
G4-6	7	Countries where the organization operates.	
G4-7	-	Nature of ownership and legal form.	Axtel, S.A.B de C.V.
G4-8	7, 56	Markets served (with geographic breakdown, sectors served, and types of customers).	
G4-9	39, 56, 66	Scale of the organization, including: total number of employees, total number of operations, net sales, total capitalization and quantity of products or services provided.	
G4-10	39	Total number of employees by employment contract, type, gender and region.	
G4-11	39	Percentage of total employees covered by collective bargaining agreements.	
G4-12	32	Organization's supply chain.	
G4-13	3, 7, 152	Significant changes during the reporting period (regarding size, structure, ownership, or its supply chain).	
PARTICIPATION IN EXTERNAL INITIATIVES			
G4-14	16	Whether and how the precautionary approach or principle is addressed by the organization.	
G4-15	24, 164	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses.	

G4-16	164	Memberships of associations and national or international advocacy organizations in which the organization holds a position on the governance body, participates, provides funding, or views membership as strategic.	
MATERIAL ASPECTS AND BOUNDARIES			
G4-17	10	Entities included in the organization's consolidated financial and equivalent statements, and the entities not covered by the report.	
G4-18	27	Process followed to define the report content and the Aspect Boundaries. How the organziation implemented the Reporting Principles for Defining Report Content.	
G4-19	27	List of material Aspects.	
G4-20	27	Aspect Boundary within the organization for each material Aspect.	
G4-21	27	Aspect Boundary outside the organization for each material Aspect.	
G4-22	152	Effect of any restatements of information provided in previous reports, and the resons for such restatements.	
G4-23	152	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	
STAKEHOLDER ENGAGEMENT			
G4-24	30	List of stakeholder groups engaged by the organization.	
G4-25	30	Basis for identification and selection of stakeholders with whom to engage.	
G4-26	30	Organization's approach to stakeholder engagement, including frecuency of engagement by type and by stakeholder group.	
G4-27	30	Key topics and concerns that have been raised through stakeholder engagement.	
REPORT PROFILE			
G4-28	152	Reporting period for information provided.	
G4-29	152	Date of most recent previous report.	
G4-30	152	Reporting cycle (annual, biennial).	
G4-31	165	Contact point for questions regarding the report or its contents.	
GRI CONTENT INDEX			
G4-32	152	"In accordance" option chosen by the organization, GRI Context Index for the chosen option, and the reference to the External Assurance Report (if that is the case).	
G4-33	152, 161	Organization's policy and current practice regarding external assurance for the report. Relationship between the organization and the assurance providers.	
GOVERNANCE			
G4-34	13	Governance structure of the organization, including committees of the highest governance body and their responsibles about social, economic and environmental impacts.	
G4-35	13	Process for delegating authority for economic, social and environmental topics from the highest governance body to senior executives and other employees.	
G4-36	13	Executive-level positions with responsibility for economic, environmental and social topics, and if the holders report directly to the highest governance body.	
G4-37	17	Processes for consultation between stakeholders and the highest governance body on economic, social and environmental topics.	
G4-38	13	Composition of the highest governance body and its committees.	
G4-39	13	Indicate whether the Chair of the highest governance body is also an executive officer, describing his or her function within the organization's management and the reasons for this arrangement.	

G4-40	13	Nomination and selection processes for the highest governance body and its committees.	
G4-41	13, 22	Processes for the highest governance body to ensure conflicts of interest are avoided and managed, indicating if these are disclosed to stakeholders.	
HIGHEST GOVERNANCE BODY'S ROLE IN SETTING PURPOSE, VALUES, AND STRATEGY			
G4-42	13	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, and policies.	
HIGHEST GOVERNANCE BODY'S COMPETENCIES AND PERFORMANCE EVALUATION			
G4-43	13	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, social and environmental topics.	
G4-44	13	Processes for evaluation of the highest governance body's performance with respect to governance of economic, social and environmental topics. Indicate whether such evaluation is independent or not, and its frequency.	
HIGHEST GOVERNANCE BODY'S ROLE IN RISK MANAGEMENT			
G4-45	16	Higest governance body's role in the identification and management of impacts, risks and opportunities, and its role in the implementation of due diligence processes. Indicate whether stakeholder consultation is used.	
G4-46	16	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes.	
G4-47	16	Frequency of the highest governance body's review of economic, social and environmental impacts, risks, and opportunities.	
HIGHEST GOVERNANCE BODY'S ROLE IN SUSTAINABILITY REPORTING			
G4-48	-	Highest committee or position that reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.	General Direction
HIGHEST GOVERNANCE BODY'S ROLE IN EVALUATING ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE			
G4-49	17	Process for communicating critical concerns to the highest governance body.	
G4-50	22	Nature and total number of critical concerns communicated to the highest governance body, and the mechanism(s) used to address and resolve them.	
REMUNERATION AND INCENTIVES			
G4-51	13	Remuneration policies for the highest governance body and senior executives.	
G4-52	13	Process for determining remuneration, if consultants are involved, and if they are independent of management.	
G4-53	13	How stakeholders' views are sought and taken into account regarding remuneration.	
G4-54	-	Ratio of the annual total compensation for the organization's highest-paid person in each country to the median annual total compensation for all employees, excluding the highest-paid person in the same country.	Confidential information
G4-55	-	Ratio of percentage increase in annual total compensation for the organziation's highest-paid person in each country to the median percentage increase in annual total compensation for all employees, excluding the highest-paid person in the same country.	Confidential information
ETHICS AND INTEGRITY			
G4-56	9, 21,22	Organization's values, principles, standards and norms, such as code of conduct or code of ethics.	
G4-57	22	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as help or advice lines.	
G4-58	22	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.	

DEVELOPMENT INDICATORS				
G4	**Page**	**Description**	**Direct response**	**UN Global Compact**
ECONOMIC PERFORMANCE				
G4-EC1	66	Direct economic value generated and distributed.		
G4-EC2	-	Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure.	Information not available	
G4-EC3	39	Coverage of the organization's defined benefit plan obligations.		
G4-EC4	-	Financial aid received from government.	Axtel has not received financial aid from the Government in any modality.	
Market presence				
G4-EC5	-	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.	Information not available	
G4-EC6	39	Proportion of senior management hired from the local community at significant locations of operation.		
Indirect economic impacts				
G4-EC7	-	Development and impact of infrastructure investments and services supported.	Not material	
G4-EC8	-	Indirect economic impacts.	As part of compliance with the Federal Law on Telecommunications and Broadcasting we put in place the necessary adaptations for better accessibility for users with disabilities; we also offer users in rural areas the Social and Rural Coverage and Connectivity Program, granting special rates according to the zone. Likewise, we provide services to entities such as schools, hospitals and libraries as requested by the Secretaría de Comunicaciones y Transportes with preferential discounts, favoring connectivity and social development.	
Procurement practices				
G4-EC9	32	Proportion of spending on local suppliers at significant locations of operation.		
ENVIRONMENTAL PERFORMANCE				
Materials				
G4-EN1	55	Materials used by weight or volume.		
G4-EN2	55	Percentage of materials used that are recycled.		7 y 8
Energy				
G4-EN3	50	Energy consumption within the organization.		8
G4-EN4	-	Energy consumption outside of the organization.	Information not available	
G4-EN5	50	Energy intensity.		
G4-EN6	50	Reduction of energy consumption.		8
G4-EN7	50	Reductions in energy requirements of products and services.		8 y 9

Water				
G4-EN8	54	Total water withdrawal by source.		7 y 8
G4-EN9	54	Water sources affected by withdrawal of water.		
G4-EN10	54	Percentage and total volume of water recycled and reused.		8 y 9
Biodiversity				
G4-EN11	-	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not material	
G4-EN12	-	Significant impacts of activities, products, and services on biodiversity in protected and of high biodiversity value areas.	Not material	
G4-EN13	-	Habitats protected or restored.	Not material	
G4-EN14	-	IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not material	
Aspecto: Emisiones				
G4-EN15	52	Direct GHG emissions (scope 1).		8
G4-EN16	52	Indirect GHG emissions (scope 2).		8
G4-EN17	52	Other indirect GHG emissions (scope 3).		8
G4-EN18	52	GHG emissions intensity.		8 y 9
G4-EN19	52	Reduction of GHG emissions.		7 y 8
G4-EN20	-	Emissions of ozone-depleting substances.	Does not apply because we do not emit ozone-depleting substances.	
G4-EN21	-	NOx, SOx and other significant air emissions.	Does not apply because we do not have significant NOx and SOx emissions.	
Effluents and waste				
G4-EN22	54	Total water discharge by quality and destination.		
G4-EN23	55	Total weight of waste by type and disposal method.		8
G4-EN24	-	Number and volume of significant spills.	Not material	
G4-EN25	55	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally.		
G4-EN26	-	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff.	Not material	
Products and services				
G4-EN27	48	Extent of impact mitigation of environmental impacts of products and services.		7
G4-EN28	55	Percentage of products sold and their packaging materials that are reclaimed by category.		8
Compliance				
G4-EN29	-	Fines and non-monetary sanctions for non-compliance with environmental laws and regulations.	In 2016 fines for non-compliance with environmental laws and regulations were not received.	8

Transport				
G4-EN30	52	Environmental impacts of transporting products and other goods for the organization's operations, and transporting employees.		7 y 8
Overall				
G4-EN31	-	Environmental protection expenditures and investments by type.	Not material	
Supplier environmental assessment				
G4-EN32	32	Percentage of new suppliers that were examined using environmental criteria.		
G4-EN33	32	Significant actual and potential negative environmental impacts in the supply chain and actions taken.		7 y 8
Environmental grievance mechanisms				
G4-EN34	-	Number of grievances about environmental impacts filed, addressed and resolved through formal mechanisms.	In 2016 environmental grievances were not received.	8
LABOR PRACTICES AND DECENT WORK				
Employment				
G4-LA1	39	Total number and rates of new employee hires and turnover by age group, gender and region.		
G4-LA2	39	Benefits provided to full-time employees that are not provided to temporary or part-time employees.		6
G4-LA3	39	Return to work and retention rates after parental leave, by gender.		
Labor/management relations				
G4-LA4	-	Minimun notice periods regarding operational changes, including whether these are specified in collective agreements.	Not material	
Occupational health and safety				
G4-LA5	43	Percentage of workers represented in formal health and safety committees.		3
G4-LA6	43	Type and rates of injury, occupational diseases, lost days, absenteeism and fatalities related to work by region and gender.		1
G4-LA7	43	Workers with high incidence or risk of disease related to their occupation.		
G4-LA8	43	Health and safety topics covered in formal agreements with trade unions.		
Training and education				
G4-LA9	39. 42	Average hours of training per year per employee, by gender and employment category.		1
G4-LA10	42	Programs for skills management and lifelong learning that support employability of workers and assist them in managing career endings.		
G4-LA11	42	Percentage of employees receiving regular performance and career development revews, by gender and employee category.		

Diversity and equal opportunity				
G4-LA12	39	Composition of governance bodies and breakdown of employees by category according to gender, age group, minorities and other indicators of diversity.		
Equal remuneration for women and men				
G4-LA13	-	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.	Information not available	
Supplier assessment for labor practices				
G4-LA14	-	Percentage of new suppliers that were examined in terms of labor practice.	Information not available	
G4-LA15	32	Significant actual and potential negative imapcts for labor practices in the supply chain and actions taken.		6
Labor practices grievance mechanisms				
G4-LA16	22	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.		
HUMAN RIGHTS				
Investment				
G4-HR1	-	Number and percentage of significant investment agreements and contracts that include human rights clauses.	Not material	
G4-HR2	-	Total hours of employee training on human rights policies or procedures concerning aspects that are relevant to operations.	Information not available	
Non-discrimination				
G4-HR3	22	Total number of incidents of discrimination and corrective actions taken.		1, 2, 4 y 5
Freedom of association and collective bargaining				
G4-HR4	23, 32	Operations and suppliers identified in which freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.		1, 2 y 6
Child labor				
G4-HR5	23, 32	Operations and suppliers identified as having significant risk of child labor, and measures taken to contribute to the effective abolition of child labor.		1, 2, 4 y 5
Forced or compulsory labor				
G4-HR6	23, 32	Operations and suppliers identified as having significant risk for incidents of forced labor, and measures taken to contribute to the elimination of all forms of forced labor.		1, 2, 4 y 5
Security practices				
G4-HR7	23	Percentage of security personnel trained in policies and procedures of the organization regarding human rights.		1, 2 y 4

Indigenous rights				
G4-HR8	-	Number of incidents of violations involving rights of indigenous people and actions taken.	Not material	
Assessment				
G4-HR9	23	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.		1
Supplier human rights assessment				
G4-HR10	32	Percentage of new suppliers examined using human rights criteria.		1, 2, 3, 4, 5 y 6
G4-HR11	32	Significant actual and potential negative human rights impacts in the supply chain and actions taken.		1, 2, 3, 4, 5 y 6
Human rights grievance mechanisms				
G4-HR12	22	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms.	Not material	
SOCIETY				
Local Communities				
G4-SO1	45	Percentage of operations with implemented local community engagement, impact assessments, and developed programs.		
G4-SO2	-	Operations with significant actual and potential negative impacts on local communities.	Not material	
Anti-corruption				
G4-SO3	-	Number and percentage of operations assessed for risks related to corruption and the significant risks identified.	100 percent of the operations.	10
G4-SO4	23	Communication and training on anti-corruption policies and procedures.		10
G4-SO5	22, 23	Confirmed incidents of corruption and actions taken.		2 y 10
Public policy				
G4-SO6	-	Total value of political contributions by country and recipient.	Economic or in kind political contributions are not made.	10
Anti-competitive behavior				
G4-SO7	-	Number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	Legal actions for anti-competitive behavior, anti-trust or monopoly practices were not presented during 2016.	
Compliance				
G4-SO8	-	Monetary value of fines and number of non-monetary sanctions due to non-compliance with laws and regulations.	In regulatory issues, fines or sanctions due to non-compliance with laws and regulations were not received.	
Supplier assessment for impacts on society				
G4-SO9	32	Percentage of new suppliers that were examined using criteria for impacts on society.		
G4-SO10	32	Significant actual and potential negative impacts on society in the supply chain and actions taken.		

Grievance mechanisms for impacts on society				
G4-SO11	-	Number of grievances on society filed, addressed and resolved through formal grievance mechanisms.	Not material	
PRODUCT RESPONSIBILITY				
Customer health and safety				
G4-PR1	-	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	Not material	
G4-PR2	-	Number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	Not material	
Product and service labelling				
G4-PR3	-	Type of prodcut and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements.	Not material	
G4-PR4	-	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.	Not material	
G4-PR5	31	Results of surveys measuring customer satisfaction.		
Marketing communications				
G4-PR6	-	Sale of banned or disputed products.	We do not sell banned or disputed products.	
G4-PR7	-	Number of incidents of non-compliance with regulations or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship.	We did not received non-compliance with regulations or voluntary codes concerning to marketing.	
Customer privacy				
G4-PR8	22	Number of substained complaints regarding breaches of customer privacy and losses of customer data.		1
Compliance				
G4-PR9	-	Monetary value of fines for non-compliance with laws and regulations concerning the provision and use of products and services.	We did not received fines for non-compliance with laws and regulations concerning the provision and use of products and services during 2016.	

Independent verification report

The publics of Axtel’s 2016 annual environmental information are hereby informed that:

RYM Servicios Ambientales Internacionales, S.C., hereinafter referred to as **e3 Consultora Ambiental** has completed an independent review of the environmental information contained in the sections of Axtel's 2016 Comprehensive Annual Report, which will be published on several voluntary initiatives platforms that present the results of the environmental Indicators of Axtel, S.A.B de C.V., hereinafter referred to as Axtel, for the fiscal year January to December 2016.

Scope

In this project, **e3 Consultora Ambiental** acted as a third party independent from Axtel, and whose specialists have the knowledge and tools necessary to review the environmental information. At no time does e3 Consultora Ambiental declare to be a company certified to issue environmental certificates.

This report merely seeks to issue a professional opinion on the limited review conducted of Axtel's environmental information.

This report neither represent nor substitutes a certificate of the Company’s emissions inventory.

Summary of Activities

e3 Consultora Ambiental assembled a work team of specialists in energy and emissions, water, waste and other environmental issues. The team reviewed the emissions inventories and the evidence provided by Axtel to then check the calculations made in order to obtain the figures presented in the Annual Report and on the voluntary initiatives platforms.

To confirm the quality of a sample of information on Axtel's environmental performance, the confirmation team only requested access to the policies and consolidated records of information on the consumption of water, energy and the emissions inventory of 2016.

The team reviewed the tools used to make the calculations to confirm that the correct emission factors had been used. The use of the latest GHG Protocol tool to calculate emissions by energy source was confirmed.

Methodologies

The team reviewed the environmental performance information in terms of energy, emissions and water in accordance with version GRI G4 of the “G4-EN1 to G4-EN31” indicators of the Guides used to prepare the sustainability reports, the public calculation tools provided in the GHG- Protocol and the National Emissions Registry's (RENE) reporting methodology.

This independent verification report was prepared based on the following standards: *AA1000APS and ISAE 3000 (AccountAbility) and The External Assurance of Sustainability Reporting (Global Reporting Initiative).*

Conclusions

There was no evidence to show any errors in the calculations.

There was no evidence to show that the tool used to calculate the emissions inventory was not the most recent available.

Ms. Mariana Martínez Valerio
Sustainability Coordinator
e3 Consultora Ambiental

NOTES. This work covers a limited verification exercise conducted under the charge of Axtel that was completed in February 2017. Under no circumstances shall this work be understood as an audit of the figures contained in the environmental indicators or an exhaustive review of the internal control mechanisms for the generation, analysis, calculation and filing of Axtel's non-financial information.
e3 Consultora Ambiental is a company independent from Axtel.

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VERIFICATION LETTER

TECHNOLOGICAL CERTIFICATIONS

Avaya	• Platinum Partner • Small Medium Business Solution • Unified Communications Solution • Video Solution • Enterprise UC Expert Specialization • Mid Market UC Expert Specialization • Video Expert Specialization • DevConnect
Cisco	• Gold Certified Partner • Advanced Collaboration Architecture Specialization • Advanced Enterprise Networks Architecture Specialization • Advanced Security Architecture Specialization • Advanced Data Center Architecture Specialization • Cloud Services Reseller • Cloud and Managed Services Master • Telepresence Video Master Authorized Technology Provider (ATP) • Identity Services Engine Authorized Technology Provider (ATP)
ICREA	• Level IV: HS-WCQA • Level III: S-WCQA
Uptime Institute	• Tier III Certification of Constructed Facility • Tier III Certification of Design Documents
BCS	• Certified Energy Efficient Datacenter Award (CEEDA) Bronze
Fortinet	• Platinum Partner
Check Point	• Certified Support Provider (CCSP/CSP) • Specialization/Level: Three Stars
Blue Coat	• Partner Premier *Soluciones de Seguridad*
SAP	• MCaaS Partner
Spamina	• Partner *Certificado Antispam en la Nube*
HP Enterprise	• HP Cloud Agile Partner
Trustwave	• Partner *Autorizado*
Symantec	• Platinum Partner
EMC	• Silver Partner
ITIL	• Expert ITIL V3
LRQA	• ISO 9001:2008
BSI	• ISO 27001:2013 • ISO 20000-1:2011
IMT	• *Modelo Global CIC (MGCIC)*
Nestlé	• Nestlé Responsible Sourcing Audit Plan

AXTEL EMPLOYEES' CERTIFICATIONS

In 2016, 410 of our employees were certified in several institutional tools such as Cisco, ITIL, Avaya, Microsoft, Isaca, EC-Council, ICREA, Fortinet, Check Point, Cobit, DCDynamics, Sourcefire, Blue Coat, PMI, Sonus, EMC, Suymantec, Compitia, Allot, Scrum, Meraki, Symantec, vmWire, Sun, Red Hat, Qualys, Polycom, ISO, TetraMap, 6 Sigma, TIA, ACME, and Oracle.

ENVIRONMENTAL RECOGNITIONS

- *Transporte Limpio*
- *Liderazgo Ambiental para la Competitividad*
- *Programa GEI México*

DISTINCTIONS

- *Empresa Socialmente Responsable (ESR),* Cemefi
- CPI Sustainability Index, Mexican Stock Exchange (BMV)
- 1 percent Social Investment Company, Cemefi

ADOPTED ASSOCIATIONS AND INITIATIVES G4-15, G4-16

- United Nations Global Compact
- OECD Guidelines
- Carbon Disclosure Project (CDP)
- *Programa GEI México*
- *Programa Transporte Limpio*
- CANIETI (Mexican Chamber of Electronics, Telecommunications and Information Technology Industry)
- AMIPICI (Mexican Internet Association)
- CCE (Business Coordinating Council)
- Nuevo León Software Council
- AMCHAM (American Chamber México)
- Fiber to the Home Council
- MEF (Metro Ethernet Forum)
- Portability Committee, Numbering and Signage coordinated by the Instituto Federal de Telecomunicaciones
- CANIETI's National Telecommunications Advisory Council
- Users Minimum Rights Letter pursuant to Art. 191 of Ley Federal de Telecomunicaciones y Radiodifusión
- Guidelines for Collaboration on Justice Matters pursuant to Art. 189 and 190 of the Ley Federal de Telecomunicaciones y Radiodifusión
- ––Technical specifications for 911 use implementation

CONTACT INFORMATION

G4-31

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