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Ticker: "AXTELCPO"

ANNUAL REPORT

presented in accordance to the general provisions that apply to the Issuers of securities and to other participants of the securities market for the year ended on December 31, 2016

Characteristics of the Securities: The securities that are traded in the Mexican Stock Exchange (Bolsa Mexicana de Valores) ("BMV") are "Ordinary Participation Certificates" ("CPO's"), which are non-amortizable securities, issued under the CPO's Trust (which term is defined below), each of which represents 7 Series B, Class I Shares of the capital stock of Axtel, S.A.B. de C.V. ("Axtel" or the "Company"). The capital stock of the Company is Ps. 464'367,927.49 represented by 20,249,227,481 registered common shares, Class "I" Series "B", with no par value, of which 19,229,939,531 common shares, with no par value, of Class "I" "Series" B ", are fully subscribed and paid and the remaining shares are issued but not subscribed shares held in the Company's treasury. At the date of this Annual Report, the capital stock of Axtel does not have shares issued or subscribed in its variable part.

Registration at the National Registry of Securities ("RNV") does not imply a certification regarding the quality of the registered securities nor Axtel's solvency or accuracy or reliability of the information contained in the Annual Report nor validates the acts, if any, that might have been made in contravention of the law.

For any questions with regards to this Annual Report, please contact Mr. Adrian de los Santos at the phone number (81) 8114-1128 or via e-mail to ir@axtel.com.mx.

This Annual Report is available at Axtel's web page at *www.axtelcorp.mx* and at the BMV's web page at *www.bmv.com.mx*.

San Pedro Garza García, N.L., as of April 27, 2017.

1) GENERAL INFORMATION

1.1) Glossary of Terms and Definitions

The following glossary includes the definitions of the main terms and abbreviations used in this Annual Report:

“Shares”	Ordinary shares, nominative, without par value, representative of the capital stock of the Company
“Series “A” shares”	Ordinary shares of the Series “A”, Class I, nominative, without par value, representing the fixed portion of the Company’s capital stock. At the Extraordinary Shareholders’ Meeting on June 21, 2016, the consolidation of all shares representing the Company’s capital stock in a single Series was approved, through the conversion of Series “A” shares into Series “B” shares.
“Series B shares”	Ordinary shares of the Series B, Class I, nominative, without par value, representing the fixed portion of the Company’s capital stock, which grant to its holders the exact same rights as the Series “A” shares
“America Móvil”	América Móvil, S.A.B. de C.V. including subsidiary and affiliate companies.
“ADSs”	American Depositary Shares, each one representing 7 CPOs, and each CPO representing 7 Series B Shares.
“Alestra”	Alestra, S. de R.L. de C.V.
“Alfa”	Alfa, S.A.B. de C.V.
“AT&T”	AT&T Corporation
“Avantel Concesionaria”	Avantel, S. de R.L. de C.V.
“Avantel Infraestructura”	Avantel Infraestructura, S. de R.L. de C.V., which changed its name to Alestra Comunicación, S. de R.L. de C.V.
“Avantel”	Both, Avantel Concesionaria y Avantel Infraestructura.
“Axtel” or the “Company”	Means Axtel, S.A.B. de C.V., together with its subsidiaries, except when in context the term Axtel refers only to Axtel, S.A.B. de C.V.
“Banamex”	Banco Nacional de México, S.A. integrante de Grupo Financiero Banamex and its affiliates.
“Bancomext”	Banco Nacional de Comercio Exterior, S.N.C.
“BMV”	Bolsa Mexicana de Valores, S.A.B. de C.V. (*Mexican Stock Exchange)*.
“Cablecom”	Grupo Cable TV, S.A. de C.V.
“Cablemás”	Cablemás, S.A. de C.V.
“Cablevisión”	Empresas Cablevisión, S.A.B. de C.V.
“Central Switchboard”	Equipment that frees voice data and does the pertinent connections, allowing the calls to be realized.
“Circular Letter”	Means the general provisions that apply to the Issuers of securities and to other participants of the securities market, issued by the CNBV and published in the Official Federal Gazette on Wednesday March 19, 2003, as updated pursuant to the resolutions issued on the Official Gazette from to time to time.

“CNBV”	Comisión Nacional Bancaria y de Valores. *(Mexican Banking and Securities Commission)*
“Cofetel”	Comisión Federal de Telecomunicaciones *(Federal Telecommunications Commission)*, former industry regulator until September 9, 2013.
“DMS Switch” or “ DMS equipment”	Nortel Neworks’ Central Switchboard model DMS100
“CPOs”	Ordinary Participation Certificates, which are non-amortizable securities, issued under the CPOs Trust, each of which represents, 7 Series “B” Class “I” Shares of Axtel’s capital stock.
“dollars”, “US$”, “Dollars” or “USD”	Current currency of the United States of America
“Financial Statements”	The Consolidated Financial Statements
“Audited Financial Statements”	The audited consolidated financial statements of the Company as of and for the fiscal years ended on December 31, 2016 and 2015 and as of and for the years ended on December 31, 2015 and 2014.
“United States”	The United States of America
“CPOs Trust”	It means the Irrevocable Trust Agreement No. 80471 named AXTEL CPO's, dated November 30, 2005, entered between the Company, as settlor, and Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee, the purpose of which is, among others, to establish a mechanism that allows the allocation of the B Series Shares into the trust for the issuance of CPOs that are eligible for trading in the BMV.
“Trustee” or “NAFIN”	Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, Fiduciary Division, as trustee of the CPOs Trust
“EBITDA”	Defined by the Company as the result of adding to the operating (loss) income, the depreciation, amortization and impairment of assets
“FTTx”	Optical Fiber to the Home or Business.
“Merger with Alestra”, “merger of Axtel and Alestra”, or “the merger”	Merger between Axtel and Onexa described in section *1.4) Relevant Recent Events* of this Annual Report.
“GHz”	Gigahertz (Thousands of millions of cycles per second) Frequency relative to a time unit
“GPON”	Gigabit Passive Optical Network
“G Tel”	G Tel Comunicación, S.A.P.I. de C.V., company acquired by Alestra in 2013, currently merged into Alestra Comunicación, S. de R.L. de C.V.
“IFT”	Instituto Federal de Telecomunicaciones (Federal Telecommunications Institute), industry regulator since September 2013
“Indeval”	S.D. Indeval, S.A. de C.V., Institución para el Depósito de Valores, S.A. de C.V.
“IP”	Internet Protocol
“Iusacell” or “Grupo Iusacell”	The following companies, together or individually: Iusacell PCS, S.A. de C.V., Iusacell PCS de México, S.A. de C.V., Portatel del Sureste, S.A. de C.V., Comunicaciones Celulares de Occidente, S.A. de C.V., Sistemas Telefónicos Portátiles Celulares, S.A. de C.V., Telecomunicaciones del Golfo, S.A. de C.V., Operadora Unefón, S.A. de C.V. and SOS Telecomunicaciones, S.A. de C.V.

"IVA" or "VAT"	Mexican Value Added Tax
"LD"	Long Distance
"LFTR"	Ley Federal de Telecomunicaciones y Radiodifusión *(Federal Telecommunications and Broadcasting Law)*
"LGSM"	Ley General de Sociedades Mercantiles *(General Law of Mercantile Companies)*
"Libor"	London Interbank Offerred Rate.
"LMV"	Ley del Mercado de Valores *(Mexican Securities Market Law)* published in the Official National Gazette on December 30, 2005, as amended from to time to time.
"Maxcom"	Maxcom Telecomunicaciones, S.A.B. de C.V.
"Megacable"	Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate companies.
"México"	United Mexican States.
"MHz"	Megahertz. Frequency in millions of cycles per Second. In radio, it refers to the number of oscillations of electromagnetic radiation per second.
"Nextel"	Comunicaciones Nextel de México S.A. de C.V.
"IFRS"	International Financial Reporting Standards
"Nokia"	Nokia Siemens Networks S.A. de C.V.
"Onexa"	Onexa, S.A. de C.V., company merged into Axtel S.A.B. de C.V.
"pesos", "M.N.", "$", or "Ps."	Current legal currency in Mexico
"Promotora de Sistemas"	Promotora de Sistemas de Teleinformática, S.A. de C.V.
"SCT"	Secretaría de Comunicaciones y Transportes. *(Ministry of Communications and Transport)*
"S&C Constructores de Sistemas"	S&C Constructores de Sistemas S.A. de C.V., IT Mexican Company, subsidiary of Alestra.
"Telcel"	Radiomóvil Dipsa, S.A. de C.V. and/or affiliated companies that all together are subsidiaries of América Móvil, S.A.B. de C.V.
"Telefónica Movistar" or "Grupo Telefónica", or "Telefónica"	The following companies, together o individually: Pegaso PCS, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., and Grupo de Telecomunicaciones Mexicanas, S.A de C.V.
"Televisa"	Grupo Televisa S.A.B., including subsidiary and affiliate companies.
"Tel Holding"	Telecomunicaciones Holding Mx, S. de R.L. de C.V.
"Telmex"	Teléfonos de México, S.A.B. de C.V. and/or Teléfonos del Noroeste, S.A. de C.V.
"Telnor"	Teléfonos del Noroeste, S.A. de C.V.

“ICT”	Information and Communication Technologies
“TIIE”	Interest rate applicable to credit operations in Mexico. (Tasa de Interés Interbancaria de Equilibrio).
“TVI”	Televisión Internacional S.A. de C.V.
RGUs	Revenue Generating Units
“Verizon”	Verizon Communications Inc., including subsidiary and affiliate companies
“VPN o VPNs”	Virtual Private Network
WiMAX	Worldwide Interoperability for Microwave Access, Standardized protocol of wireless broadband access known as the standard 802.16e that can be fixed, nomadic, portable and mobile.

1.2) Executive Summary

This summary is not intended to contain all the information that may be relevant to make investment decisions on the securities mentioned herein. Therefore, investors should read the entire Annual Report, including financial information and relative notes, before making an investment decision. The following summary is prepared in accordance with, and is subject to, the detailed information and financial statements contained in this Annual Report. It is recommended to pay special attention to the "Risk Factors" section of this Annual Report, in order to determine the desirability of making an investment in the securities issued by the Issuer.

Axtel is a Mexican Information and Communications Technology company offering Information Technology ("IT") and Telecommunication solutions to the corporate, financial and government sectors, as well as one of the fastest symmetric broadband services in Mexico for the mass market. The Company serves all market segments -corporate, enterprise, financial, government, wholesale, micro-small businesses and residential, with a robust offering of integrated services. Its world-class network consists of different access technologies like fiber optics, fixed wireless access, point to point and point to multipoint links, in order to offer solutions tailored to the needs of its customers. Axtel's portfolio of services include the fastest broadband services for the mass market in Mexico through the GPON technology used by its FTTx Network, the most advanced solutions for data transmission, voice services, pay television, managed networks and IT, such as hosting, data center and managed security, among others.

The Company was incorporated under the corporate name of Telefonía Inalámbrica del Norte, S.A. de C.V., by means of public deed number 3,680, on July 22, 1994, granted by Rodolfo Vela de León, Public Notary No. 80 in Monterrey, Nuevo León. The first deed of such letter was recorded at the Public Registry of Property and Commerce in Monterrey, Nuevo León, under number 1566, 273, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade on August 5, 1994. In 1999, the Company changed its corporate name to Axtel, S.A. de C.V. As a consequence of certain amendments in the LMV, on December 4, 2006, the Company transformed into Axtel, Sociedad Anónima Bursátil de Capital Variable or S.A.B. de C.V. in compliance with the requirements and timelines of the LMV.

Since December 2005, Axtel's CPOs trade in the BMV, so the Company periodically publishes its corporate, operating and financial information, which can be accessed in the web page of the BMV at *www.bmv.com.mx*. Likewise, the same information can be accessed in Axtel's web page at *www.axtelcorp.mx*, including information regarding its products and services.

On August 31, 2007, an Extraordinary General Shareholders Meeting was carried out, where among other things, the following resolutions were adopted: (i) to carry out a split of the shares that were outstanding, by means of the issuance and delivery to the shareholders of three new shares for each of the shares of the same class and series that they owned; (ii) and to amend the Sixth Clause of the bylaws of the Company.

By virtue of the approval of these resolutions of the Extraordinary General Shareholders Meeting of the Company regarding the split, an update of the shares that were registered in the RNV was requested to the CNBV so that a total of 8,769,353,223 nominative shares, without par value representing the common stock of the Company were registered, of which 96,636,627 were Series "A" and 8,672,716,596 were Series B shares. Currently, there are no shares that have been issued or subscribed in the variable portion of the capital stock of Axtel.

By virtue of the above and according to Clauses First numeral Three and Seventh paragraph eight of the deed of issuance of ordinary participation certificates of the Company, article 228 O of the Negotiable Instruments and Commercial Transactions Law (*Ley General de Títulos y Operaciones de Crédito*) and other applicable provisions, an authorization from the CNBV was obtained for the amendment of the above mentioned deed of issuance as well as its appearance to the execution of the corresponding deed in order to increase the number of ordinary participation certificates that based on the mentioned deed of issuance were outstanding to remain in a total of 1,238,959,485 CPOs, representing 8,672,716,395 Series B Class I shares of Axtel's common stock that were outstanding. The request for an update of the RNV also included the increase in the number of CPOs derived from the split of such shares.

In connection with the aforementioned, and in accordance with the resolutions adopted by the Extraordinary Shareholders' Meeting held on January 25, 2013, the Company issued 972,814,143 Series B Class I shares which will be held in the treasury of the Company, to be subscribed subsequently upon the conversion of the Notes. Likewise, 1,114,029 Series "A" shares were issued.

As of December 31, 2016, the Company has a total of 19,229’939,531 ordinary, par value shares, from the Class “I” Series “B”, fully subscribed and paid.

On October 1, 2015, the Company, ALFA, Onexa and Alestra signed an agreement of understanding to merge the operations of Axtel and Alestra, creating a stronger competitor in the telecommunications market in Mexico. On December 3, 2015, ALFA, Onexa, Alestra and Axtel signed the definitive agreements, subject to the corresponding corporate and regulatory approvals, to carry out the merger of Axtel and Onexa. On December 15, 2015, the Company published an information prospectus on the Mexican Stock Exchange, whereby it made official the intention to enter into a merger agreement between Axtel, as merging company, with Onexa, as merged company. On January 15, 2016, Axtel and Onexa held Extraordinary Shareholders' Meetings where the merger was approved and the members of the Board of Directors, the CEO and the Audit and Corporate Practices Committee were appointed. After completing the legal, operational and financial review process, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, date on which ALFA became the majority shareholder of Axtel, surviving entity under its current corporate name Axtel, S.A.B. de C.V. ("the merger" or "the merger between Axtel and Alestra"). As a result of the merger, ALFA owns approximately 51% of the shares representing Axtel's capital stock. Also, as of this date, Alestra became 100% subsidiary of Axtel. Alestra began operations in 1997 and became a leading provider of IT and telecommunications services focused on the enterprise segment with a portfolio of solutions including managed networks and IT services such as security, systems integration and cloud services.

The Company’s registered office is the municipality of San Pedro Garza García, Nuevo León, and its main offices are located in Blvd. Díaz Ordaz Km. 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Its telephone is (+52) (81) 8114-0000 and its web page is *www.axtelcorp.mx*.

The forty-five cities Axtel provides integrated communication services to the mass market as of December 31, 2016 are: Mexico City, Monterrey, Guadalajara, Puebla, Toluca, Leon, Queretaro, San Luis Potosi, Aguascalientes, Ciudad Juarez, Saltillo , Tijuana, Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Ciudad Victoria, Reynosa, Tampico, Cuernavaca, Merida, Morelia, Pachuca, Hermosillo, San Juan del Rio, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun, Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlán, Coatzacoalcos, Minatitlán, Acámbaro, Linares, Parras, Pénjamo, San Francisco del Rincon and Silao. The cities where Axtel provides services based on its FTTx network are: Mexico City, Monterrey, Guadalajara, Queretaro, San Luis Potosi, Aguascalientes, Puebla, Leon, Ciudad Juárez and Toluca.

As for the twelve-month period ended December 31, 2016, Axtel generated revenues, operating loss and EBITDA for the amounts of Ps. 13,937 million, Ps. 209 million and Ps. 3,673 million, respectively. EBITDA eliminating non-recurring expenses arising from the merger with Alestra was Ps. 4,511 million. Axtel recorded a loss before taxes of Ps. 5,071 million and a net loss of Ps. 3,599 million. As of 2016, the Company had cash for Ps. 1,447 million, restricted cash for Ps. 153 million and total debt for Ps. 21,514 million.

During the twelve-month period ended December 31, 2015, Axtel generated revenues, operating income and EBITDA for the amounts of Ps. 10,150 million, Ps. 589 million and Ps. 3,208 million, respectively. Axtel recorded a loss before taxes of Ps. 2,105 million and a net loss of Ps. 1,732 million. As of 2015, the Company had cash for Ps. 2,575 million and total debt for Ps. 13,527 million.

Finally, during 2014, Axtel generated revenues, operating loss and EBITDA for the amounts of Ps. 10,597 million, Ps. 500 million and Ps. 2,935 million, respectively. In that year, Axtel recorded a loss before taxes of Ps. 2,457 million and a net loss of Ps. 1,919 million. As of 2014, the Company had cash for Ps. 2,698 million and total debt for Ps. 11,455 million. The financial information of the Company is detailed in subsection 3) FINANCIAL INFORMATION, of this Annual Report.

As of December 31, 2016, for the mass market, the Company had 508 thousand lines in service and 401 thousand broadband subscribers representing 441 thousand customers in service. In 2016, 22% of revenues came from mass customers (residential and micro/small businesses), of which 14% came from customers connected with FTTx and 8% from customers connected with wireless technologies; 15% of revenue came from the government segment, 50% from medium and large enterprises and financial institutions and the remaining 14% from incoming international long distance, interconnection, carriers and public telephony.

Regarding the performance of the CPO, as of December 31, 2016, 2015 and 2014, the Company's share closed at Ps. 3.52, Ps. 8.70 and Ps. 3.38 per CPO respectively. See details throughout the years in Section 5.2) Stock Behavior in the Securities Market.

1.3) Risk Factors

The investing public should carefully consider the risk factors described below before making any investment decisions. The risks and uncertainties described below are not the only risks faced by the Company. The risks and uncertainties that the Company does not know, as well as those that the Company considers at present as minor, could also affect its operations and activities.

The realization of any of the risks described below could have a material adverse effect on the Company's operations, financial condition or results of operations.

The risks described below are intended to highlight those that are specific to the Company, but which in no way should be considered as the only risks that the investing public may face. These additional risks and uncertainties, including those that generally affect the industry in which the Company operates, the geographical areas in which they have a presence or those risks that they consider not important, may also affect their business and Value of the investment.

Information other than historical information included in this report reflects the operational and financial perspective in relation to future events and may contain information on financial results, economic situations, trends and uncertain facts. The expressions "believe," "expect," "estimate," "consider," "forecast," "plan," and other similar expressions identify such estimates. In evaluating such estimates, the potential investor should take into account the factors described in this section and other warnings contained in this Report. Risk Factors describe non-financial circumstances that could cause actual results to differ materially from those expected based on forward-looking statements.

1.3.1) Risks Related to the Company

History of substantial losses and possibility to incur further losses in the future.

Since its incorporation in 1994, the Company has had accumulated comprehensive losses by Ps. 8,478 million as of December 31, 2016. In previous periods it has experienced a reduction in revenues and EBITDA and experienced liquidity constraints. Axtel has adopted plans to deal with its liquidity situation, including the sale of assets, exchange debt and placement of new debt, however, if it continues to incur future losses or generating a cash flow that is not sufficient to cover investments, interests and other expenses and costs, the operation of the business could be compromised and even be required to file for bankruptcy, liquidation or reorganization.

Revenues, operating income and EBITDA could decline.

In 2016, the Company recorded an increase in revenues and EBITDA of 37% and 14% due to the merger of Alestra's operations as of February 15, 2016. Compared to pro forma 2015, that is, considering the results of Alestra as of February 15, 2015, revenue in 2016 fell 11% mainly due to the decline in revenues from the government sector and EBITDA decreased 34% due to this drop in revenues and the increase in merger-related expenses. If revenues decline or if margins are reversed in the future, the Company's results of operations and financial condition may be affected, perhaps materially. Axtel reported an operating loss of Ps. 209 million in 2016, compared to an operating income of Ps. 589 million in 2015. The 2016 operating loss was due to the lower contribution margin, higher merger-related expenses and higher depreciation and amortization levels. Axtel had EBITDA of Ps. 3,673 million and Ps. 3,208 million pesos for the years ended December 31, 2016 and 2015 respectively, and financial ratios of net debt to EBITDA of 4.5x and 3.1x as of December 31, 2016 and 2015 respectively, and interest coverage of 2.1x and 2.7x for the twelve-month period ended December 31, 2016 and 2015, respectively. Without considering the non-recurring expenses arising from the merger with Alestra, the Company generated EBITDA of Ps. 4,511 million and net debt to EBITDA and interest coverage ratios of 3.8x and 2.5x.

Axtel's network growth strategy may fail to generate anticipated revenues.

Since Axtel's incorporation and through December 31, 2016, Axtel has invested Ps. 63,634 million in network and infrastructure and, according to projections, will have to make significant additional investments to maintain and upgrade its network, increase its capacity and business in the future. These investments, together with operating expenses, may affect cash flow and profitability, particularly if the investments do not lead to additional revenue. In addition to maintaining a strict control on the administration of the business, the continued growth will require Axtel to attract and retain qualified personnel to efficiently manage such growth. If Axtel is unable to meet the challenges that this growth presents, its results of operations and financial condition could be adversely affected.

Axtel's ability to generate cash flow will depend on its ability to compete in the Information and Communication Technology (ICT) industry in Mexico.

As a result of the reduction in its revenues from voice services, Axtel has relocated its resources and sales efforts to seek different alternatives, including capturing future growth providing information and communication technology services in Mexico. This strategy has several risks, which include the following:

- The continuous, rapid and important changes in technology and new products in the field of information technology, the data and internet services, and the inability that Axtel might have to access alternative technology.
- The high levels of capital investment required to provide all the information technology services, data and internet services, and be alert to the most important technological changes.
- The highly competitive nature of the information and communication technology market.
- The stronger competitive position of some of Axtel's competitors, including Telmex, which is the dominant provider of telecommunications services in Mexico and is in a better position to offer enterprise customers, which are Axtel's main target, data and voice services at lower prices.
- The limited flexibility in the regulatory framework of telecommunications for the purpose of offering a change in technology.
- New competition from companies providing cable and terrestrial TV services, which also provide voice and Internet broadband services to the Mexican public; and
- The development of wireless technologies in Mexico, which could allow Axtel's competitors to capture even more of the market for broadband and spectrum services, should the competent regulatory agency decide to tender available frequencies without certain limitations.

Competition in the information and communications technology has increased significantly as Axtel's competitors have also faced a reduction in their margins from voice services and have redirected their focus to ICT services. In the event that Axtel is not successful in its strategy of focusing on ICT services in Mexico and is unable to obtain the benefits of these high margin operations, the results of its operations and the financial situation could be adversely affected.

The telecommunications industry is characterized by rapid technological change, which could render Axtel's products obsolete and cause an asset impairment charge.

Most of network and other system equipment used in the telecommunications industry have a limited life and must be replaced because of damage or competitive obsolescence. For example, increased demand for bandwidth-intensive services has required an upgrade from fixed wireless access technologies, including WiMAX, to fiber optic-based technologies like GPON. Such upgrades or migrations require significant capital expenditures and Axtel's services could become obsolete due to unforeseen technological developments. To the extent equipment or systems become obsolete; Axtel may be required to recognize an impairment charge to such assets, which may have a material adverse effect on our business and results of operations.

Axtel depends on certain important customers for a significant portion of its revenues.

Banco Nacional de México S.A. and its Mexican affiliates (collectively "Banamex"), Axtel's largest corporate customer, accounted for approximately 6% of total revenues in 2016. Additionally, there are certain commercial agreements with AT&T Global Services de México ("AGNS México") under which Axtel provides AGNS Mexico certain telecommunication services in order to enable AGNS México to provide AT&T Global Services directly to its customers in Mexico, such agreement represented 6% of Axtel's total revenues during 2016. Revenue from these agreements may in the future be reduced to the extent that prices do so or to the extent that AT&T changes those services to other networks. Currently, AT&T acquired Mexican companies Grupo Iusacell and NII Digital (formerly Nextel), which have concessions that allow them to provide both fixed and mobile services.

If a major customer, such as Banamex or AGNS Mexico, reduces or terminates its relationship with Axtel under the terms contemplated in the respective agreements, Axtel's financial condition, revenues and operating results could be affected. No other customer accounted for more than 5% of Axtel's total revenues in 2016.

Axtel operates in a highly competitive environment, it competes with companies that have greater financial resources and experience significant rate pressure, all of which may negatively affect its operating margins and results of operations.

The telecommunications industry in Mexico is becoming more competitive. With the convergence of services, competition has intensified and Axtel competes with established telecom companies such as Telmex and Maxcom, with cable companies such as Megacable and Televisa Cable Companies (Cablemás, Cablevisión, Cablecom and TVI) and with mobile operators such as América Móvil, AT&T and Telefónica Movistar.

Axtel has experienced and expects to continue experiencing pricing pressures, primarily as a result of:

- focus of our competitors on increasing their market share;
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks, resulting in long distance overcapacity;
- greater participation of traditional fixed-line service providers;
- further penetration of cable television operators in markets where Axtel operates; and
- the entrance of new competitors, such as AT&T.

If there are further declines in the price of telecommunication services in Mexico, Axtel will be forced to competitively react to those price declines by lowering its prices or risk losing market share, which would adversely affect its operating results and financial position.

Certain competitors, including Telmex, subsidiary of América Móvil and the former state-owned telecommunications monopoly and dominant provider of local and other telecommunications services in Mexico, have significantly greater financial resources and scale than Axtel. In addition, Telmex's nationwide network and concessions, as well as its established and long-standing customer base, give it a substantial competitive advantage.

Delays in the implementation and availability of new technologies or service access networks could adversely affect Axtel's results of operations.

Telecommunications companies constantly migrate to new technologies or access networks depending on the demand for services in the market, and the characteristics of the technological alternatives available and their cost and adaptability. Since 2010, Axtel has tested different optical fiber technologies, such as GPON last mile and Fiber Optic Modem ("FOM"), to provide converged telecommunications services to its customers. Deployment of these technologies is susceptible to delays and/or such technologies may fail to meet expected capacities, which would result in slower growth and adversely affect the results of operations of the Company. Additionally, if any of Axtel's suppliers for FTTx optical fiber or ICT services fails to provide such services or equipment, the ability to make the necessary deployments in order to have the penetration and coverage Axtel seeks would be adversely affected, which could adversely affect its results of operations.

Any loss of key personnel could adversely affect the business.

Axtel's success depends to a large extent on the skills, experience and collaboration of the management team and key personnel and the correct strategic decision making by the executive team. The executive management team has extensive experience in the industry and it is of the utmost importance that they continue in the company or be replaced by equally qualified executives to maintain the contractual relations with the most important clients as well as the proper operation of the assets. The loss of the technical knowledge, management and industry expertise of key employees could hinder the optimal execution of our business plan and could result in delays in launching new products, loss of customers and diversion of resources to the extent that such employees be replaced.

If Axtel does not successfully maintain, upgrade and efficiently operate accounting, billing, customer service and management information systems, it may not be able to maintain and improve its operating efficiencies.

Having efficient information and processing systems is vital to the Company's operations and growth, as well as having the ability to monitor costs, provide monthly invoices for services, process service orders, provide customer service and achieve operating goals. The Company considers it has the systems necessary to provide these services efficiently. However, the Company cannot assure that in the future it will be able to continue with the correct operation and maintenance of such systems or that they will continue to perform as expected. Any failure in these systems could affect the billing, collection and response of the Company in the provision of services to its customers.

The Company's operations are dependent upon its ability to protect its network infrastructure.

The operations of the Company depend on its ability to protect its network infrastructure against damage from fire, earthquakes, hurricanes, floods, power loss, security breaches, software flaws and similar events, and on building networks that are not vulnerable to the effects of such events. The occurrence of a natural disaster or other unanticipated problems at the facilities or sites of switches could cause interruptions in the services Axtel provide. The failure of a switch would result in the interruption of service to the customers served by that switch until necessary repairs are made or replaced. Repairing or replacing damaged equipment may be costly. Any damage or failure that causes interruptions in Axtel's operations could have a material adverse effect on its business, financial and operating results.

Axtel depends on Telmex for interconnection, if in the future Telmex ceases to be an economic preponderant agent and is allowed to charge interconnection fees higher than those currently applicable under the LFTR, such development could have a material adverse effect on our business and results of operations.

Axtel maintains a number of dedicated links and last-mile-access infrastructure under lease agreements with Telmex. If Telmex breaches the agreed contractual conditions, or if Telmex discontinues the provision of services before Axtel is able to migrate these customers to its own network, there could be a material adverse effect on the Company's operations, business, financial condition and results of operations.

Since March 6, 2014 and for the time it remains as the Prevailing Economic Agent in the telecommunications industry, Telmex and Telcel are prohibited from charging interconnection fees for terminating calls on their network.

In early 2017, the IFT concluded the process of reviewing the preemptive measures imposed on América Móvil as a holding company of Telmex and Telcel, and issued a resolution on February 27, 2017 (published on March 14, 2017), which "confirms the existing measures". That is, the determination of Prevailing Economic Agent continues. If the asymmetric regulation imposed on Telmex and Telcel is softened and/or eliminated in the future, this could have a material adverse effect on the business, financial condition and results of operations.

A system failure could cause delays or interruptions of service, which could cause a loss of customers.

To be successful, the Company will need to continue providing its customers reliable service over its network. Some of the risks that our network and infrastructure are exposed to include:

- physical damage to access lines;
- power surges or outages;
- software defects; and
- disruptions beyond the Company's control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause the loss of customers and/or the incurrence of additional expenses.

Under Mexican law, the Company's concessions could be expropriated or suspended.

Pursuant to the LFTR enacted in August 2014, the public telecommunications networks are considered public domain and holders of concessions to install, operate and develop public telecommunications networks are subject to the provisions of the LFTR and any other provision contained in the concession title. The LFTR provides, among other things, for the following:

- The rights and obligations granted under the concessions to install, operate and develop public telecommunications networks may only be assigned with the prior authorization of the IFT;
- Neither the concession nor the rights thereunder or the related assets may be assigned, pledged, mortgaged, placed in escrow or sold to any government or country;
- The Mexican government may request changes or seize the spectrum granted in the concession, in any of the following events: i) reasons relating to public order, ii) national security, iii) introduction of new technologies,

iv) to solve interference problems, v) to comply with international treaties, vi) to reorder the frequency bands and vii) for the continuity of a public service; and

- The Mexican government may expropriate or temporarily seize the assets related to the concessions in the event of natural disasters, war, significant public disturbance or threats to internal peace or for other reasons relating to economic or public order.

Mexican law sets forth the process for indemnification for direct damages arising out of the expropriation or temporary seizure of the assets related to the concessions, except in the event of war. However, in the event the concessionaire does not agree with the amount of the indemnity determined by IFT they may apply to the Specialized Tribunals on telecommunication matters to solicit their intervention so that they may determine the definitive amount. Mexican law does not prohibit the concessionaire to grant guarantees to its creditors (except for those granted to a foreign government or country) related to the concessions or its assets, provided that respective legislation is complied with. However, in the event that such guarantee is executed, the assignee must comply with legal provisions related to concessionaires, including, among others, the requirement to receive the authorization by the regulatory authority to be a holder of the concession.

Axtel could encounter unfavorable conditions with respect to its concessions.

Derived under the concession titles, Axtel is subject to the fulfillment of the obligation established in them, so it must ensure its correct compliance in a timely and legal manner. Failure to fulfill these commitments outlined in the concessions could result in a fine or the termination of the concessions. Furthermore, the concessions of spectrum have an expiration date which are scheduled to expire between 2018 and 2020. In this regard, Axtel requests in time and form to IFT the extensions for each spectrum concession, however Axtel cannot guarantee the granting of renewals or the same terms. The renewal fee for the concessions will be determined by IFT. Non-renewal of concessions could have a materially adverse effect on the business.

The regulatory authorities could require the Company to offer services in certain geographical areas where it may experience a lower operating margin.

The SCT granted Axtel concessions to provide telecommunication services nationwide, as such the possibility exists of requiring the Company to provide services in certain geographical areas where it currently does not provide services.

Axtel has experienced losses in the past in relation to derivative financial instruments.

Axtel uses derivative financial instruments to manage risk associated with interest rates and to hedge the total or a portion of dollar-denominated debt. The policy is not to enter into derivative transactions for speculative purposes; however, Axtel may continue to enter into derivative financial instruments as an economic hedge against certain business risk, even if these instruments do not qualify for hedge accounting under IFRS. The mark to market accounting for derivative financial instruments is reflected in our income statement.

Certain technologies used by the Company may become obsolete in respect to the technology used by its competitors. Delays in the implementation and availability of services based on new technologies or access networks could adversely affect the results of operations.

The fixed wireless systems, fiber optic network, point-to-multipoint and point-to-point infrastructure may, in the future, not be as efficient as technologies used by competitors. Axtel relies heavily on the continued performance of wireless technology. Technological changes or advances in alternative technologies may adversely affect the Company’s competitive position requiring it to reduce prices, increase capital expenditures and/or replace obsolete technology.

Telecommunications companies constantly migrate to new technologies or access networks depending on the market demand and also on the particular characteristics of the technological alternatives that are available, their costs and their adaptability to the environment of the Company. Starting 2010, Axtel has focused significantly on several last mile fiber optics technologies like GPON and FOM in order to provide convergent telecommunication services to its clients. Nonetheless, these deployments may be susceptible to delays or not reaching its expected capabilities, resulting in lower growth and, as a consequence, affecting adversely the operating results of the Company. Likewise, if any of the suppliers of optical fiber for FTTx or ICT services stops providing such equipment and services, or if it does not permit necessary actions to assure the desired penetration and coverage, the Company may experience a negative impact on its results.

A number of our residential and small enterprises are served using WiMAX technology. As of December 31, 2016, Axtel had 167 thousand broadband customers connected with WiMAX and other wireless technologies, compared to 235 thousand in 2015. This technology is capable of providing up to 2 Mbps. As other access technologies, such as FTTx, continue to evolve, the lack of upgrades to WiMAX technology have adversely affected the competitiveness of Axtel's commercial offers to customers served with WiMAX. If Axtel is not able to migrate WiMAX customers to other technologies like FTTx, and if WiMAX customers demand services that cannot be provided, a significant disconnection of customers could occur which could adversely affect the operating results of the Company.

If the churn rate increases, the business could be negatively impacted.

The cost of acquiring a new customer is much higher than the cost of maintaining an existing customer. Accordingly, customer deactivations, or churn, could have a material negative impact on the Company's operating income, even if the Company is able to obtain one new customer for each lost customer. The average monthly churn rate during 2016 was 2.8%. The Company believes churn rate mainly results from customer deactivations due to nonpayment of bills and from the lack of technological competitiveness of wireless technologies such as WIMAX. If in the future, the Company experiences an increase in churn rate, its ability to achieve revenue growth could be materially impaired. In addition, a decline in general economic conditions in Mexico could lead to an increase in churn due to nonpayment, particularly among our residential customers.

The Company has a majority shareholder, ALFA, whose interests may not be aligned with those of minority shareholders and creditors.

As of February 15, 2016, the Company is a subsidiary of ALFA. ALFA is a holding company that, through its subsidiaries including Axtel, operates in various industrial sectors. The interests of ALFA may be different from the interests of minority shareholders or creditors in material aspects, among others, appointment of board of director members, the appointment of the CEO and approval of mergers, acquisitions and other non-recurring transactions. In addition, ALFA and a group of shareholders holding approximately 42.5% of the capital stock of Axtel prior to the merger, entered into a shareholders' agreement for the purposes of regulating their relationship as shareholders of the Company, as well as the transfer of shares between ALFA and such shareholders. Such shareholders' agreement contains, among other provisions, rules for the appointment of board members, matters of qualified majority at shareholder meetings and preemptive rights.

1.3.2) Risks relating to indebtedness and possibility of bankruptcy

The level of indebtedness of Axtel could affect its flexibility of operation and the development of the business, as well as the capacity to fulfill its obligations.

As of December 31, 2016, total debt and accrued interest were Ps. 21,382 million and Ps. 133 million, respectively. Such indebtedness could have significant implications for investors, including:

- Limit the ability to generate sufficient cash flow to meet obligations with respect to indebtedness,
- Limit the cash flow available to finance working capital, equity investments or other general corporate requirements
- Increase vulnerability to negative economic and industrial conditions, such as increases in interest rates, exchange rate fluctuations and market volatility
- Limit the ability to obtain additional financing to refinance debt or working capital, capital expenditures, other general corporate requirements and acquisitions, on favorable terms or otherwise, and

In addition, the actual cash requirements may be higher than expected in the future. The cash flow from operations may not be sufficient to pay the full amount of the outstanding debt if it matures and it may be possible that borrowed money, asset sales or otherwise fund-raising could not be obtained on acceptable terms or not, to refinance such debt.

Axtel may require additional financing, which could aggravate the risks associated with its debt.

The Company may, in the future, require additional financing to finance its operations which would increase its leverage. To the extent that Axtel incurs additional indebtedness, the above risks could be increased.

Axtel operates in a capital intensive industry and expects to make investments in the years to come as it enters into new technologies and expands the capacity and coverage of its existing network to exploit market opportunities and maintain its network infrastructure and facilities accordingly with the needs of the market. In addition, it operates in a highly regulated industry and faces the risk of having the mandate of government agencies to increase capital investments or incur other expenses that are not currently contemplated. There can be no assurance that there will be sufficient resources available to make these investments or to cover potential expenditures requested by government agencies and that, if required, there is funding available or with terms and conditions acceptable to Axtel. In addition, the power to obtain additional financing will be limited to the terms and conditions of existing credit agreements or those entered into in the future.

Adverse and volatile conditions in the domestic or international credit markets, including higher interest rates, reduced liquidity or a decrease in interest by financial institutions in granting Axtel a credit, have increased in the past and could increase in the future the cost of funding or the possibility of refinancing the debt maturities. This could have adverse consequences on the financial situation or results of operations. There can be no assurance that the financial resources will be obtained to refinance the incurred debt or obtain proceeds from the sale of assets or the raising of capital to make payments for such debt.

To service its indebtedness, the Company will require a significant amount of cash and its ability to generate cash depends on many factors beyond its control.

The Company's ability to make payments or to refinance debt and to fund capital expenditures will depend on its ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond its control.

The covenants on the syndicated loan contract signed on January 15, 2016, may restrict both the financial and operational ability of the Company.

The Syndicated facility signed on January 15, 2016 limits, among other things, the ability to:

- incur additional indebtedness;
- pay dividends or make distributions to its stockholders;
- create liens to secure indebtedness;
- make loans or investments;
- enter into transactions with affiliates;
- sell or transfer assets;
- merge or consolidate where the Company is dissolved;
- enter into new lines of business; and
- perform operations with financial derivative instruments

Some limitations include financial ratios. The Company may not have the ability to maintain these ratios in the future. The affirmative and negative covenants may limit our ability to finance our future operations, capital requirements, enter into a merger or acquisition or enter into other favorable business activities.

1.3.3) Risks Relating to the Mexican Telecommunications Industry

Axtel operates in a highly regulated industry.

As public service provider, the Company is subject to extensive regulation. The operation of telecommunications systems in Mexico is currently subject to laws and regulations administered by IFT, which have been recently amended and may be amended from time to time in the future. Therefore, Axtel must implement changes and/or adjustments to its operation to adapt them to the current regulatory framework and comply with all obligation to avoid affecting the business.

If the Mexican government grants more concessions or amends existing concessions, the value of Axtel concessions could be severely impaired.

The Mexican government regulates the telecommunications industry. Concessions granted to Axtel are not exclusive and the Mexican government has granted and has discretion to grant additional concessions covering the same geographic regions. Axtel cannot assure that additional concessions to provide services similar to those it provides will not be granted or that existing concessions will not be modified and, therefore, cannot assure that the value of its concessions nor its competition position will not be adversely affected as a result.

Decreases in market rates for telecommunication services could have a material adverse effect on Axtel's results of operation and financial condition.

It is expected that the Mexican telecommunications market continue experiencing rate pressure, primarily as a result of:

- increased competition and focus by competitors on increasing market share; and
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks resulting in long distance overcapacity.

Continued rate pressure could have a material adverse effect on our business, financial condition and operating results if we are unable to generate sufficient traffic and increased revenues of its IT business to offset the impact of the decreased rates on its operating margin.

As a result of technological advances, regulatory changes and lack of enforcement, Axtel is facing additional competition from new entrants in the market, which may result in a reduction in prices for its services, margins of reduced income and / or the loss of some market share.

Derived from technological advances and regulatory changes, cable network operators entered the Mexican telecommunications market with converged services, which increased the level of competition. Several of the cable network providers have modified their concessions in order to offer telephony services. In addition to the above, and because the regulator has not been able to apply the regulations for the purpose of suspending the illegal provision of telecommunications services by entities that do not have the corresponding concessions, some of the companies providing telecommunications services at an international level are focusing on the Mexican market in order to offer and provide illegal telecommunications services.

The telecommunications market in Mexico is a highly concentrated market, characterized by the reduction of prices and margins. In the event that potential new entrants in the market actually enter the market, it could be subjected to a price battle as Telmex, the most important player in the market, tries to maintain its dominant position. In the event that there are additional reductions in the price of telecommunications services in Mexico, Axtel would be required to react to such a reduction through similar actions or, in the absence thereof, would face the risk of losing part of its market share, all of which would adversely affect its business, financial condition and results of operations.

Fraudulent use of services could increase Axtel's operating costs.

The fraudulent use of telecommunications networks could impose a significant cost upon service providers, who must bear the cost of services provided to fraudulent users. Axtel may suffer a loss of revenue as a result of fraudulent use and incur an additional cost due to its obligation to reimburse other carriers for the cost of services provided to fraudulent users. Although technology has been developed to combat this fraudulent use and Axtel has implemented it in its network, this technology does not eliminate the impact of fraudulent use entirely. In addition, as Axtel relies on other long distance carriers to terminate its calls on their networks, some of which do not have anti-fraud technology, Axtel may be particularly exposed to this risk in its long distance service.

1.3.4) Risks Relating to Mexico and other global risks

Global and Mexican economic conditions may adversely affect business and financial performance.

Global and Mexican economic conditions may adversely affect the Company's business, results of operations or financial condition. When economic conditions deteriorate, the financial stability of customers and suppliers may be affected, which could result in lower demand for services and products, delays or cancellations, increases in bad accounts or breaches by customers and suppliers. It could also be more expensive or difficult to obtain financing to fund operations, investment or acquisition opportunities, or to refinance debt. If Axtel were not able to access debt markets at competitive rates or simply could not access them, the ability to implement its business plan and strategies or to refinance debt could be adversely affected.

The global economic slowdown in general, the fall in the price of oil and the strong depreciation of the peso against the dollar have caused extreme volatility in credit and in the capital and debt markets. If the global economic deterioration or deceleration continues, or if the exchange rate of the Mexican peso against the US dollar depreciates considerably, we could face a deterioration in our financial condition, a decrease in the demand for our services and an affectation to our customers and suppliers. The effects of the current situation are very difficult to predict and mitigate.

Weakness in the Mexican economy could adversely affect the Company's business, financial condition and results of operations.

Operations, results and financial condition of the Company are dependent partly on the level of economic activity in Mexico. Income in Mexico has a considerable dependence on oil, U.S. exports, remittances and commodities, and these variables and factors are beyond the Company's control. External economic events could significantly affect Mexico's general economy and cause sudden economic shocks like those experienced in 2009 when Mexico's GDP declined 4.7%. Mexico's volatile economy could significantly affect our business and results of operations.

Political events in Mexico may affect Axtel's operations.

Failure and delay of political and economic reforms, caused by the differences between the legislative and federal powers, different policy objectives of each parliamentary group and differences in priorities between the agendas of parties, have been the norm in Mexico in the last few years. The aforementioned has resulted in the reluctance of these political actors to build the agreements that Mexico require on the economic, industrial and security sectors, among others. The lack of political agreement on the material reforms required by Mexico and a potential deterioration in relations between the various political parties and between federal legislative powers could have an adverse effect on Mexico's economy and therefore affect the revenue and profit of the business.

Social and political instability as well as insecurity in Mexico or other adverse social or political developments in or affecting Mexico could adversely affect Axtel's business, financial condition and result of operations, as well as market conditions and prices for its shares. These and other future developments in the Mexican political or social environment may cause disruptions to Axtel's business operations and decreases in its sales and net income.

Mexican federal governmental policies or regulations, as well as economic, political and social developments in Mexico, could adversely affect our business, financial condition, results of operations and prospects.

Axtel is a Mexican *sociedad anónima bursátil de capital variable* and substantially all of its assets are located in Mexico. As a result, its business, financial condition, results of operations and prospects are subject to political, economic, legal and regulatory risks specific to Mexico. The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. The impact that political conditions will have on the Mexican economy cannot be predicted. Furthermore, Axtel's business, financial condition, results of operations and prospects may be affected by currency fluctuations, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which Axtel has no control. Axtel cannot assure investors that changes in Mexican federal governmental policies will not adversely affect its business, financial condition, results of operations and prospects. Axtel does not have political risk insurance.

Developments in other countries could adversely affect the Mexican economy, the market value of its CPOs and its results of operations.

As is the case with respect to securities of issuers from emerging markets, the market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers.

In addition, the direct correlation between economic conditions in Mexico and the U.S. has sharpened in recent years as a result of NAFTA and increased economic activity between the two countries. As a result of the slowing economy in the United States and the uncertain impact it could have on general economic conditions in Mexico and the United States, Axtel's financial condition and results of operations could be adversely affected. In additional, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict the Company's ability to obtain financing or refinance its existing indebtedness on favorable terms, if at all.

Axtel faces risks related to fluctuations in interest rates, which could adversely affect its results of operations and its ability to pay off debt and other obligations.

Axtel is exposed to fluctuations in interest rates. As of December 31, 2016, more than 95% of Axtel's loans bear interest at a variable rate. Changes in interest rates could affect the cost of these loans. If interest rates increase, the service obligations of the variable rate would increase (even if the amount owed remained the same) and the net income, or the cash available for the payment of the debt, would decrease. As a result, financial position, results of operations and liquidity could be adversely and significantly affected.

Changes in the relative value of the Mexican peso against the US dollar could have an adverse effect.

While our revenues are almost entirely denominated in Pesos, the substantial majority of our capital expenditures and 66% of our contracted debt as of December 31, 2016 are denominated in U.S. dollars. The value of the Mexican Peso has been subject to significant fluctuations with respect to the U.S. dollar in the past and may be subject to significant fluctuations in the future. In 2014, the peso depreciated 11.2%, 14.5% in 2015 and 16.7% in 2016. Further declines in the value of the peso may also result in disruption of the international foreign exchange markets. This may limit Axtel's ability to convert Pesos into U.S. dollars and other currencies and adversely affect its ability to meet current and future U.S. dollar-denominated. Any change in the monetary policy, the exchange rate regime or the exchange rate itself, as a result of market conditions, could have a significant impact, whether positive or negative, on the business, financial condition, results of operations and perspectives of the Company.

Mexico could experience high levels of inflation in the future, which could adversely affect the business, financial situation, results of operations and prospects.

Mexico has a history of high levels of inflation and may experience high inflation in the future. Historically, inflation in Mexico has led to higher interest rates, peso depreciation and the imposition of substantial government controls on exchange rates and prices, which has adversely affected income and operating margins of companies. The annual inflation rate for the last three years, as measured by changes in the NCPI, was 4.1% in 2014, 2.1% in 2015 and 3.4% in 2016. It cannot be asserted that Mexico will not experience high inflation in the future. A substantial increase in the Mexican inflation rate could adversely affect consumers' purchasing power and, consequently, the demand for Axtel services, as well as increasing some of the costs, which could adversely affect the business, financial condition, results of operations and prospects of the Company.

Amendments approved to Mexican tax laws may adversely affect the Company.

On December 11, 2013, certain amendments to Mexico's tax laws were enacted, effective as of January 1, 2014. The tax reforms resulted in various modifications to corporate tax deductions, for example, certain deductions that were previously allowed in relation to third-party payments related to foreign entities and reducing tax deductions on wages paid to employees. Corporate income tax, which had been programmed to be reduced, remained at 30%, among others.

Business, financial condition and results of operations could be adversely affected as a result of the increase in taxes and the increase in costs resulting from the adoption of new fiscal measures that may arise.

Natural disasters, health epidemics, terrorist or organized crime activities, episodes of violence and other geopolitical events and their consequences could adversely affect Axtel's business, financial condition, results of operations and prospects.

Natural disasters, such as earthquakes, hurricanes, floods or tornadoes, have affected the business of Axtel and its suppliers and customers in the past and could do so in the future. If similar events occur in the future, there may be business interruptions, which could adversely affect material results of operations. In addition, the business could be affected by epidemics or health outbreaks, disrupting business operations. We have not taken any written preventive measures or contingency plans to combat any future outbreaks or any epidemics.

Terrorist attacks or the continuing threat of terrorism or organized crime in Mexico and in other countries, the potential for military action in this regard and the increase of security measures in response to such threats could lead to a significant World level. These activities, their possible escalation and the violence associated with them could have a negative impact on the Mexican economy or our operations in the future. Additionally, some political events could lead to prolonged periods of uncertainty that would adversely affect business, financial condition, results of operations and prospects.

1.3.5) Risks Related to the CPOs

The Company cannot guarantee that there will always be an active market for the stock that will give the necessary liquidity to shareholders.

The Company cannot guarantee the liquidity of the CPOs or that the market price could not decrease significantly. Circumstances like variations in the results of operation in the present or future, changes or misses in achieving the estimations of revenues of the analysts, among others, could cause that the prices of the CPOs to decrease significantly.

Due to the low level of liquidity and the high level of volatility of the Mexican Stock Exchange, the market price or volume of operation of Axtel's CPOs could experience significant fluctuations.

The Company has listed its CPOs in the BMV, the only stock exchange brokerage in financial instruments and securities in Mexico. The Mexican stock market is substantially smaller in terms of trades, is less liquid and more volatile than most stock exchanges in the United States and other developed economies. These characteristics of the Mexican market could substantially limit the ability of shareholders to sell CPOs affecting its market price.

The price of CPOs may be volatile and investors may lose all or part of their investment.

The market price of CPOs may fluctuate considerably and may be higher or lower than the price paid. The price of CPOs may fluctuate due to different factors, some of which are beyond Axtel's control and may not be related to its operating performance. Some factors include:

- Investors' perceptions of Axtel's prospects;
- Differences between actual and expected results by investors and analysts;
- Axtel's operating performance and the performance of its competitors, as well as other companies providing similar services;
- the public's reaction to the Company's and its competitors' press releases or other public announcements;
- changes in general economic conditions;
- fluctuations in the exchange rate between the peso and the US dollar;
- changes in Axtel's rating by the main rating agencies;
- actions of its main shareholders regarding the sale of their shares;
- the arrival or departure of key personnel;
- acquisitions, divestitures, strategic alliances and/or joint ventures involving Axtel or its competitors; and
- Other developments affecting Axtel, the industry or competitors.

Future issuances of Shares may result in a decrease of the market price of the CPOs.

Future sales by existing shareholders of a substantial number of Axtel Shares, or the perception that a large number of Shares will be sold, could depress the market price of the CPOs.

Currently, under various terms contained both within Axtel's By-Laws and in the CPO Trust Fund, foreign investors can only directly acquire 49% of the Company's shares. Notwithstanding the foregoing, foreign investors may acquire a greater share of the former through CPOs under the CPOs Trust. Upon maturity of the CPO Trust in 50 years or in the event that it is terminated in advance, the Series B Shares covered by the CPOs shall be assigned to a new trust similar to the CPOs Trust or the necessary CPOs shall be disposed of in terms of the CPOs Trust in order to be below the limitations established by the applicable legislation. Axtel cannot guarantee that at the expiration of the CPO Trust a similar trust will be formed. In the event that a new trust is not established, and since foreign investors can not currently hold more than 49% of the shares of the Company, foreign holders of CPOs may be forced to sell to Mexicans such CPOs.

Preemptive rights may be unavailable to certain holders of ADSs and CPOs, which may result in a dilution of such ADS and CPO holders' equity interest in the Company.

Under Mexican law, subject to limited exceptions, if Axtel issues new shares for cash as part of a capital increase, Axtel generally must grant preemptive rights to its shareholders, giving them the right to purchase a sufficient number of shares to prevent dilution. However, the CPO Trustee will offer holders of CPOs, whether directly or through ADSs, preemptive rights only if the offer is legal and valid in the CPO or ADS holders' country of residence. Accordingly, Axtel may not be legally permitted to offer non-Mexican holders of ADSs and CPOs the right to exercise preemptive rights in any future issuances of shares unless:

- it files a registration statement with the Securities Exchange Comission ("SEC") with respect to that future issuance of shares; or
- the issuance qualifies for an exemption from the registration requirements of the Securities Act.

At the time of any future capital increase, Axtel will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC, the benefits of enabling U.S. holders of ADSs and CPOs to exercise preemptive rights and any other factors considered important in determining whether to file a registration statement. However, Axtel has no obligation to file a registration statement and it is possible that it will not file one. As a result, the equity interests of U.S. holders of ADSs and CPOs would be diluted to the extent that such holders cannot participate in future capital increases.

In addition, although the deposit agreements permit the ADS depositary, if lawful and feasible at the time, to sell preemptive rights and distribute the proceeds of the sale to entitled ADS holders, sales of preemptive rights are not currently permitted in Mexico.

Non-Mexican holders of our securities forfeit their shares if they invoke the protection of their government.

Pursuant to Mexican law, the Company's bylaws provide that non-Mexican holders of CPOs may not ask their government to interpose a claim against the Mexican government regarding their rights as shareholders. If non-Mexican holders of CPOs violate this provision of the bylaws, they will automatically forfeit the Series B Shares underlying their CPOs to the Mexican government.

Non-Mexican holders of the Company's securities have limited voting rights.

Holders of ADSs or CPOs who are not Mexican nationals will have limited voting rights with respect to the underlying Series B Shares. As to most matters, voting rights with respect to the Series B Shares held in the CPO Trust on behalf of holders of ADSs and CPOs who are non-Mexican investors will be voted in the same manner as the majority of the Series B Shares that are held by Mexican investors and voted at the relevant meeting.

Holders of ADSs and CPOs may face disadvantages when attempting to exercise voting rights as compared to an ordinary shareholder.

Shareholders may instruct the Depositary or CPO Trustee on how to exercise their voting rights, if any, pertaining to the deposited Series B Shares underlying their securities. If requested, the Depositary or CPO Trustee will try, as far as practical, to arrange to deliver voting materials. Axtel cannot assure shareholders will receive the voting materials in time to ensure they can give timely instructions as to how to vote the Series B Shares underlying their securities. If the Depositary or CPO Trustee does not receive shareholders' voting instructions in a timely manner, it will provide a proxy to a representative designated by the Company to exercise their voting rights or refrain from representing and voting the deposited Series B Shares underlying their securities, in which case, those securities would be represented and voted by the CPO Trustee in the same manner as the majority of the Series B Shares that are held by Mexican investors and voted at the relevant meeting. This means that shareholders may not be able to exercise their right to vote.

Minority shareholders may be less able to enforce their rights against Axtel, its directors or its controlling shareholders in Mexico.

Under Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because Mexican laws concerning fiduciary duties of directors are not well developed, it is difficult for minority shareholders to bring an action against directors for breach of this duty as permitted in most jurisdictions in the United States. The grounds for shareholder derivative actions under Mexican law are extremely limited, which effectively bans most of these kinds of suits in Mexico. Procedures for class action lawsuits do not exist under Mexican law. Therefore, it may be more difficult for minority shareholders to enforce their rights against Axtel, its directors or its controlling shareholders than it would be for minority shareholders of a U.S. company.

Any actions shareholders may wish to bring concerning the Company's bylaws or the CPO Trust must be brought in Mexican court.

Pursuant to the Company's bylaws and the CPO trust documents, shareholders will have to bring any legal actions concerning bylaws or the CPO Trust in courts located in Monterrey, Nuevo Leon, México, regardless of their place of residence. Any action the shareholder may wish to file shall be governed by Mexican law. As a result, it may be difficult for non-Mexican national shareholders to enforce their rights as shareholders.

Axtel's bylaws contain certain provisions restricting takeovers which may affect the liquidity and value of the Shares representing the Company's capital stock.

Axtel's bylaws provide that, subject to certain exceptions, (i) any person that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such person holding individually or together with such other persons shares representing certain threshold amounts from 5% to 45% or more of our outstanding capital stock, and (ii) any competitor that individually or together with other persons wishes to acquire shares or beneficial ownership of shares, directly or indirectly, in one or more transactions, resulting in such competitor holding individually or together with such other persons shares representing 3% or more of our outstanding capital stock or any multiple thereof, must obtain the prior approval of Axtel's Board of Directors and/or of its shareholders, as the case may be. Persons that acquire shares in violation of the antitakeover provision will not be recognized as owners or beneficial owners of such shares under the Company's bylaws, will not be registered in its stock registry and will be required to transfer such shares to a third party who has been approved by the Board of Directors or by the general shareholders meeting. Accordingly, these persons will not be able to vote such shares or receive any dividends, distributions or other rights in respect of these shares. This restriction does not apply to transfers of shares by inheritance. These provisions of the bylaws will operate in addition to, and not affect, if any, the obligations to conduct public offerings and to disclose transfers of shares representative of Axtel's capital, established in the applicable legislation and the general regulations issued by competent authority.

This provision could discourage possible future purchases of CPOs and, accordingly, could adversely affect the liquidity and price of the CPOs. (See "Company's Bylaws and Other Agreements – Measures to prevent the change of control in Axtel" in this Annual Report).

1.4) Recent relevant events

Axtel's Extraordinary General Shareholder Meeting of March 10, 2017

On March 10, 2017, by means of an Extraordinary General Shareholder Meeting, the shareholders of the Company resolved to reduce the capital stock in its fixed minimum amount in the amount of Ps. 9,868,331,650.99 to remain the fixed minimum amount in Ps. 464,367,927.49, in order to partially absorb the negative balance of the account called "Cumulative losses", having previously applied to that account the balance as of December 31, 2016 of the account "Additional paid-in capital".

Axtel's Extraordinary General Shareholder Meeting of July 21, 2016

On July 21, 2016, the shareholders of the Company resolved, among other matters, to rectify the number of outstanding shares and shares in the Company's treasury previously approved by the Extraordinary General Shareholder Meeting held on January 15, 2016, at which among others, approved the merger between Axtel, as a merging company, and Onexa, S.A. de C.V., as a merged company, the latter being extinguished, in which it was stated that it would proceed to reflect the relevant changes and adjustments in the capital stock derived, among others, from the conversions exercised by the holders of convertible Notes issued pursuant to the resolutions adopted by Axtel on January 25, 2013. Accordingly, it was approved to cancel 182,307,349 ordinary Class "I" Series "B" shares with no par value, representing the fixed part of Axtel's capital stock, neither subscribed nor paid, which had been deposited in the treasury of the Company, intended to support the conversions of the convertible Notes, whose owners did not exercise their respective conversion rights; as a consequence, the reduction of the capital stock was resolved in the amount of Ps. 92,398,010.82 due to the cancellation of the 182,307,349 shares representing the minimum fixed part of the capital stock. In addition, it was resolved to consolidate Axtel's capital stock into a single series by converting all the Series "A" shares which were outstanding, representing the capital stock of the Company, into Series "B", of the same characteristics.

Merger between Axtel and Onexa, holding company of Alestra (the "merger", the "merger with Alestra" or "the merger between Axtel and Alestra", terms used in this Annual Report)

On October 1, 2015, the Company, ALFA, Onexa and Alestra signed a memorandum of understanding to merge Axtel and Alestra, creating an entity with a stronger competitive position in the Mexican telecommunications industry. On December 3, 2015, ALFA, Onexa, Alestra and Axtel signed the definitive agreements, subject to corporate and regulatory approvals, to merge Axtel and Onexa. The merger was approved in January 2016 by the Board of Directors of Axtel, ALFA and Onexa, and by the Shareholders' Meetings of Axtel and Onexa. Additionally, on January 11, 2016, Mexico's CNBV issued the exception necessary to proceed with the merger transaction without a tender offer. The merger became effective on February 15, 2016, date as of which ALFA owns approximately 51% of the capital stock of Axtel and Alestra became a wholly-owned subsidiary of Axtel. The merger created an entity with a stronger competitive position and improved capabilities to provide telecommunication information technology services to enterprise customers and FTTx-based triple play offers to the high-end consumer segment.

Syndicated Credit Facility

On January 15, 2016, a contract was signed for a syndicated loan used to redeem, on February 19, 2016, all of (i) US$544.7 million in Secured Senior Notes maturing on January 31, 2020, (ii) US$50.4 million in Senior Unsecured Notes maturity on February 1, 2017, and (iii) US$101.7 million Senior Unsecured Notes maturing on September 22, 2019. The facility was also used to pay other short-term loans.

The facility is divided into three portions: portion "A" in pesos (equivalent to US$250 million) with one amortization in month 36; Portion "B" in dollars (US$500 million) and in pesos (equivalent to US$85 million) with nine equal quarterly amortizations as of month 36. Such syndicated facility could be amortized early due to, among other things, the non-payment of principal or interests; the breach of affirmative and/or negative covenants and change of control.

ALTÁN Redes Consortium

On November 17, 2016, the Ministry of Communications and Transportation ("SCT") granted ALTÁN Redes the exclusive right to exploit the 90 MHz spectrum in the 700 MHz band for the creation of a national 4G wholesale network in Mexico. This project, known as the *Red Compartida*, will allow Axtel to complement its existing services portfolio and strengthen its competitive position by offering its business customers mobility in their IT and telecommunications services and its residential customers a high quality quadruple-play offer. Axtel participates in ALTÁN with approximately 2% stake in non-voting shares, which represents an opportunity to maximize the use of its existing assets and take advantage of its operating experience. ALTÁN Redes is a multinational consortium that has among its investors infrastructure funds and Mexican private, institutional and industrial partners, which provides committed and available resources to develop the *Red Compartida*. ALTÁN Redes is led by Grupo Multitel, among its main investors are Morgan Stanley Infrastructure Fund and the IFC/China Mexico Fund; which have approximately a 60% share.

1.5) Other Securities

a) At the date of the Annual Report, the Company has a total of 19,229,939,531 ordinary shares, with no par value, of Class "I" Series "B", fully subscribed and paid representing the fixed part of its capital stock; and

b) The Company is listed on the BMV through non-amortizing CPOs issued under the Trust of CPOs which each represent 7 Series "B" Class "I" Shares of Axtel's capital stock.

Since its listing in the BMV, the Company has delivered in complete form, the reports referred to by the LMV and by the Circular Única regarding relevant facts and periodic information according to these.

1.6) Significant Changes To The Duties Of The Shares Registered In The Record Book

Not applicable.

1.7) Use of Proceeds

Not applicable.

1.8) Public Domain Documents

This Annual Report, as well as the quarterly reports and the press releases regarding relevant events, are available in Axtel's web page at: *www.axtelcorp.mx.*

Any clarification or information can be requested by sending a letter to the Company's address at Blvd. Díaz Ordaz Km 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, Nuevo León, 66215, to the attention of Adrian de los Santos, or by e-mail to *ir@axtel.com.mx*

2) THE COMPANY

2.1) History and Development of the Company

The Company was incorporated under the name of Telefonía Inalámbrica del Norte, S.A. de C.V., by means of the public deed 3,680, dated July 22, 1994, formalized before Lic. Rodolfo Vela de León, Notary Public number 80 of the city of Monterrey, Nuevo Leon. These articles of incorporation were registered at the Public Registry of the Property and Commerce of Monterrey, Nuevo Leon under number 1566, folio 273, volume 417, Book 3, Second Part of Mercantile Companies, Section of Trade on August 5, 1994. On 1999, the Company changed its name to Axtel S.A. de C.V., and due to the implementation of the changes incorporated by the LMV in December 2006, the Company became a *Sociedad Anónima Bursátil*, and its corporate name today is Axtel, Sociedad Anónima Bursátil de Capital Variable or Axtel, S.A.B. de C.V.

On June 1996, the Mexican government granted the Company a permit to install and operate a public telecommunications network to offer local and long distance telephone services in Mexico. In 1998 and 1999, the Company won several radio-electric spectrum auctions, including for 60 MHz at 10.5 GHz for point-to-multipoint access, for 112 MHz at 15 GHz for point-to-point backhaul access, for 100 MHz at 23 GHz for point-to-point last mile access and for 50 MHz at 3.4 GHz for fixed wireless access, which together allow it to service the entire Mexican territory. In June 1999, the Company launched commercial operations in the city of Monterrey.

With the intention to continue with its sustained growth and in order to enhance the position of leadership of Axtel in Mexico, on October 25, 2006, the Company entered into a contract with Banamex and Tel Holding, former controlling shareholders of Avantel, to purchase substantially all of the assets of Avantel Infraestructura and the equity interests of Avantel Concesionaria and Avantel Infraestructura for an estimate of US$516 million (including the acquisition of net debt of US$205 million). Following receipt of all required approvals from Axtel's shareholders and government regulators, the acquisition was completed on December 4, 2006.

Along with the acquisition of Avantel, in January 2007, the Company issued 246,542,625 new Series B Shares (represented by 35,220,375 CPOs). Of this amount, Tel Holding subscribed and paid 246,453,963 Series B Shares and other shareholders of the Company exercising their right of first refusal, subscribed and paid 88,662 Series B Shares through the CPO Trust. The new Series B shares were subscribed and paid at a price of Ps. 1.52 each.

With the acquisition of Avantel, the Company became the second largest fixed-line integrated telecommunications company in Mexico, providing local and long distance telephony, broadband Internet, data services, web hosting, information security services, virtual private networks (VPNs), a wide range of integrated telecommunications services and pay television.

Avantel was acquired on December 2006. Avantel Infraestructura and Avantel Concesionaria were incorporated as a 55.5%-44.5% joint-venture between Banamex (through Promotora de Sistemas) and MCI Telecommunications Corp. On June 30, 2005, several capitalizations in related debt and/or transfer of stocks were made resulting in a dilution of MCI Telecommunications Corp. participation to 10% in both companies. On June 30, 2005 Avantel Infraestructura and certain subsidiaries as "Asociados", together with Avantel Concesionaria, as "Asociante", entered into a "Asociación en Participación" agreement, with the intention for Avantel Concesionaria to provide services and operate a public telecommunications network of Avantel Infraestructura, and therefore Avantel Infraestructura provided as "Asociado" the above said telecommunications network, and the "Asociados" provided the agreements with clients, support services and human resources.

The integration of Avantel brought to Axtel valuable spectrum in various frequencies, approximately 390 kilometers of metropolitan fiber optic rings, 7,700 kilometers of long-distance fiber optic network, a robust IP backbone and connectivity in 200 cities in México, among others. The new Company's size allowed it to use its complementary infrastructure platforms, that combine pioneer Axtel's "last mile access" with Avantel's advanced IP network and over 7,700 kilometers of fiber optic network.

On October 1, 2015, the Company, ALFA, Onexa and Alestra signed a memorandum of understanding to merge Axtel and Alestra, creating an entity with a stronger competitive position in the Mexican telecommunications industry. On

December 3, 2015, ALFA, Onexa, Alestra and Axtel signed the definitive agreements, subject to corporate and regulatory approvals, to merge Axtel and Onexa. The merger was approved in January 2016 by the Board of Directors of Axtel, ALFA and Onexa, and by the Shareholders' Meetings of Axtel and Onexa. Additionally, on January 11, 2016, Mexico's CNBV issued the exception necessary to proceed with the merger transaction without a tender offer. The merger became effective on February 15, 2016, date as of which Alfa owns approximately 51% of the capital stock of Axtel and Alestra became a wholly-owned subsidiary of Axtel. The merger created an entity with a stronger competitive position and improved capabilities to provide telecommunication information technology services to enterprise customers and FTTx-based triple play offers to the high-end consumer segment.

The Company's life shall be unlimited and its corporate domicile is based in the municipality of San Pedro Garza García, Nuevo León, and its corporate offices are located on Blvd. Díaz Ordaz Km. 3.33 L-1, Colonia Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215. Its telephone is +52 (81) 8114-0000 and its web page is *www.axtelcorp.mx*.

2.2) Business Overview

2.2.1) General

Axtel is a Mexican information and communications technology company that offers ICT solutions for the corporate, financial and government sectors, as well as one of the fastest symmetric broadband services in Mexico for the mass market in Mexico. The Company serves all market segments: corporate, business, financial, government, wholesale, micro and small businesses and residential, with a robust offering of integrated communications services. Axtel's network consists of different access technologies like fiber optics, fixed wireless access, point-to-point and point to multipoint links, in order to offer solutions tailored to the needs of its customers. Axtel's portfolio of services includes one of the fastest broadband services for the mass market in Mexico through the GPON technology used by its FTTx network, an advanced solution for data transmission, voice services, pay television, managed networks and information technology (IT) solutions such as hosting, data center and managed security, among others.

The forty-five cities where Axtel provides integrated communication services to the mass market as of December 31, 2016 are: Mexico City, Monterrey, Guadalajara, Puebla, Toluca, Leon, Queretaro, San Luis Potosi, Aguascalientes, Ciudad Juárez, Saltillo, Tijuana, Torreon (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Ciudad Victoria, Reynosa, Tampico, Cuernavaca, Merida, Morelia, Pachuca, Hermosillo, San Juan del Rio, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancun, Zacatecas, Matamoros, Nuevo Laredo, Culiacan, Mazatlán, Coatzacoalcos, Minatitlán, Acámbaro, Linares, Parras, Pénjamo, San Francisco del Rincon and Silao.

The Company has concessions to provide local and long distance telecommunications services throughout Mexico. The Company provides its services through an extensive network of local access wired and wireless hybrid designed to optimize capital investments. The current options for last-mile access to customers of the Company include FTTx or optical fiber directly to home or business, fixed wireless access, wireless point-to-point and point-to-multipoint, copper wires and direct links to our metropolitan fiber optic rings. As of December 31, 2016, the Company had invested Ps. 64 billion mainly in its network, including digital switching stations, fixed wireless access and WiMAX sites, point-to-multipoint, and point-to-point links, metropolitan optical fiber rings and FTTx technology, as well as data centers.

The Company's strategic goal is to make Axtel a leader in selected areas of ICT services and in high speed broadband (largely as a result of the FTTx offered services), with differentiated services oriented to high-value segments in the residential, business, corporate, financial and government segments. Consistent with this goal, six business strategies were identified: (1) focus and growth on differentiated IT service solutions for the enterprise and government segment, (2) focus on high speed broadband for the mass market, increasing presence in micro/small businesses, (3) gain market share in selected residential and business segments with high profit potential, (4) compete based on quality of service and innovative product offerings, (5) re-orient the Company's culture towards innovation and (6) improve operational efficiency and a greater productivity and profitability in the operation of its assets.

As part of the implementation of these strategies, the Company has included data, Internet, pay TV, security, collaboration, data center storage, cloud services, among others, in integrated telecommunications solutions for businesses and high-usage residential customers which has allowed the Company to obtain improved revenues per user and a higher profitability per unit invested in infrastructure.

The Company's future growth is expected to come from new customer acquisitions in existing service areas and new customers resulting from the build-out incremental network capacity within our current markets and in selected new cities. The Company may also explore other growth opportunities through commercial agreements or strategic associations with one or more telephone, data, internet, satellite TV, cable and/or other value-added service providers in the future.

As of December 31, 2016, for the mass market, the Company had 508 thousand lines in service and 401 thousand broadband subscribers representing 441 thousand customers. For the fiscal year ended December 31, 2016, Axtel generated revenues, operating loss and operating cash flow for the amounts of Ps. 13,937 million, Ps. 209 million and Ps. 3,673 million or Ps. 4,511 million without considering the expenses derived from the merger, respectively. Revenue for 2016 was obtained from the following segments: 22% of the mass market (residential, micro and small businesses) of which 14% came from clients connected with FTTx and 8% from customers connected to wireless technologies, 15% of government entities, 50% of medium and large companies and financial institutions and the remaining 14% of international traffic, interconnection, other carriers and public telephony.

2.2.2) Competitive Strengths

a) Market Position

Axtel, strengthened by the merger between Axtel and Alestra, is a company focused on the Mexican ICT market with emphasis on the corporate, business and government segments. Approximately 80% of the Company's income comes from these sectors. With a high focus on managed Data Center services, it has positioned itself as a brand that has the experience, infrastructure and leading services to energize the ICT industry, and contribute to the birth of a new generation of more innovative, efficient and competitive companies. This is backed by strong partnerships with leading technology partners and a service philosophy based on excellence. The company has experience and recognition in the market that ensures the highest standards of service required by corporations and companies in the most relevant sectors of the Mexican economy.

Axtel has strengthened its position in the market, consolidating itself as the first company with direct fiber optic service to the home or business (FTTx) in ten of the main cities of Mexico achieving a 20% growth in FTTx broadband subscribers in 2016.

b) Comprehensive Voice, Data and Video Service Portfolio and Information Technology (IT) Solutions

The Company provides a wide range of services, including local and long distance voice services, as well as Internet, data, pay TV and other IT services such as cloud services, security, managed services, Systems integration, among others. The Company's comprehensive portfolio of services enables it to build strong, long-term relationships with its customers, reducing the number of disconnections and increasing the return on investment in network infrastructure. Axtel has a very broad strategy in Data Centers, which are designed to the highest standards, representing the best and most complete alternative in the market and the most advanced and reliable in Mexico and Latin America.

In addition, for the mass segment, Axtel has deployed an FTTx network that allows it to expand its portfolio of solutions to the residential and small business market, as it can offer high-speed internet services (up to 200 Mbps symmetric) and incorporate new generation services that demand high transmission capacity. The offers are aligned to the entertainment and security needs of the customers. In addition, it has a special focus for small businesses that helps them professionalize their communication platforms and information technologies to become more productive.

c) Reliable, Flexible and Technologically Advanced Digital Network.

The structure of Axtel's fixed hybrid local network (wireless and wired) allows it to penetrate new markets quickly and effectively. During 2016, Axtel promoted the growth of its FTTx network in the three main cities of the country, in the five cities opened in 2013 (Puebla, Querétaro, San Luis Potosi, Aguascalientes and Leon), and in the two cities opened in 2015 (Ciudad Juárez and Toluca), covering more than 1.4 million of economic units passed and 233 thousand customers installed with FTTx, complementing its capacity to deliver convergent services with speeds up to

200 megabits per second. As a result of the merger with Alestra, the network strengthened and, as of December 31, 2016, it had 40,000 km of fiber optics, comprising 23 thousand km of the long-distance network, 11 thousand km of metropolitan rings and 6 thousand km of FTTx network. In addition, it has more than 7,000 m^2 of capacity in six Data Centers under the most rigorous standards and worldwide certifications.

d) Robust Data Center Capacity

Axtel's new generation services are provided using world-class Data Centers built in accordance with international standards including the TIA-942 standard. Axtel currently owns six Data Centers with more than 7,000 m^2 of capacity nationwide with ICREA (International Computer Room Experts Association) level 3 through 5 certifications.

2.2.3) Business Strategy

The Company's strategic objective is to turn Axtel into a leader in select areas of integrated IT services and high-speed broadband, with differentiated services oriented to high-value segments in the mass, corporate, and financial and government markets. The key elements to carry out our business strategy are:

a) Focus and growth on differentiated IT service solutions for the enterprise and government segments.

The strategy during 2016 was focused on concretizing and enhancing the synergies obtained through the merger with Alestra, as was consolidating a more robust service portfolio, where we combined the telecommunications strengths and IT capabilities to offer integral value-added solutions which will generate important market differentiators. Axtel seeks to increase IT revenues within its portfolio of services, for that reason, the Commercial IT area was created focusing on serving the Mexican business segment with Information Technology solutions that provide a differentiator to the customers' business, whether in terms of their productivity, efficiency, availability or security, as well as supporting their strategies to reduce costs and/or generate new revenues.

The Company will focus its efforts on strengthening its expertise in a number of services, including cloud services, security, data centers, systems integration solutions, contact centers and managed services, among others. These services are offered in an integrated manner along with traditional telecommunication services such as dedicated links, VPNs and frame-relays, among others, adapting the solutions to the needs of its clients. For SMEs, a series of standardized offers are commercialized, while for large corporate and government accounts the design of the solutions is based on the need of each client.

In November 2014, Alestra acquired S&C Constructores de Sistemas, a Mexican company with a broad portfolio of information technology services and in August 2013 it acquired GTel, a company that provides integrated services for voice, data and video solutions for medium and large companies. During 2016, the complete integration of GTel and S&C took place, taking full advantage of the values they brought to the business regarding technological capabilities, services, processes and people. S&C, being a key player in the creation of the IT Commercial area, provided resources and processes for the sale, design and delivery of IT services. In July 2016, Axtel acquired the remaining 49% of Estratel, a Mexican firm specializing in the integration of IT solutions for the business and government sectors. Alestra had acquired 51% in May 2015. Estratel maintains its operation as an independent company, however its interaction with Axtel is clearly defined to take advantage of and maximize the benefits that the companies grant each other related to the technical capabilities of the personnel in certain brands or technologies. The Company will continue to seek opportunities through acquisitions or partnerships to strengthen its portfolio of IT services.

b) Focus on high speed broadband for the mass market, increasing presence in micro/small businesses

Axtel offers high speed broadband services of up to 200 symmetrical megabytes per second ("Mbps") to mass market customers in Mexico. Axtel's objective is to provide integrated voice, internet services and pay television at speeds that its competitors are not able to offer, satisfying the growing demand for this type of services both in the residential and micro, small and medium enterprise segments.

c) Gain market share in selected residential and business segments with high profit potential

The Company focuses commercial efforts and investments in two core segments: mass market, which includes residential customers and small and micro businesses; and the business segment that includes medium and large enterprises, including federal government entities, financial institutions, multinational corporations and wholesale customers. In the mass market, Axtel is focused on being the leading provider of high-speed broadband-related services and value-added solutions to the high-high, high-low and medium-high consumer segments, thus differentiating from the competition by service quality, not price, generating strong customer satisfaction. With respect to business segments including local, state and federal government entities, efforts are focused on delivering a wide array of services, incorporating selected IT solutions, such as cloud services, security, data centers, contact centers and managed services, among others. These services are offered in an integrated manner with conventional or infrastructure-based telecommunication services by adapting the solutions to the needs of its customers. The Company has developed customized service plans to attract business customers and maintain residential customers of high consumption in each market segment. Axtel believes that focusing on business and residential customers of high value or consumption within its coverage allows it to increase the return on each invested Peso in its network infrastructure.

d) Compete based on quality of service and innovative product offerings

The fiber optic network allows Axtel to have infrastructure through which it can offer a greater number of IT services, thus meeting the growing demand of that market. Axtel has been characterized as the technological partner of the Mexican business sector, pioneering cloud services in Mexico with the most innovative Data Centers in Latin America, with an Innovation Center to promote ground-breaking innovation and continuous improvement, with NAVE as the first business accelerator, and above all, with a broad portfolio of services which is strengthened year by year with the incorporation of new products aligned to global technological trends. These innovations are offered to the different market segments and industries, supporting the adoption of these new services, seeking to close the digital gap in such way that the country's business sector uses technology as a key element in the development of its business.

The Company aims to continue growing its network with new and better technologies available and to adapt its existing network infrastructure to the market and customers' needs with the purpose of actively participating in the technological convergence of voice, data, cloud, mobility and video. Following this strategy, Axtel has achieved a leadership position in the broadband segment in Mexico by introducing innovative products and offerings such as "Axtel X-tremo," a high-speed internet service that offers speeds up to 200 Mbps symmetric which provides customers with the same bandwidth or speed for uploading and downloading data. Axtel X-tremo uses Axtel's fiber optic network in Mexico City, Monterrey, Guadalajara, Puebla, Aguascalientes, San Luis Potosi, Queretaro, Leon, Juarez and Toluca. The Fiber optic network, introduced for the first time in Mexico by Axtel, enables the client to receive telephony services, internet and television via optical fiber delivered directly to its home or business, known as FTTx. The ability to offer FTTx-based services positions Mexico at a level of internet speeds that is comparable to that of the most advanced countries in the world. Users are able to access applications that require high bandwidth, such as streaming high-definition video, using multimedia applications or downloading large files, experiencing high speed, quality and performance.

e) Re-orient the Company's culture towards innovation

Axtel has nine years of experience successfully managing the innovation program covering three major areas: continuous improvement, innovation, and open innovation.

In the area of continuous improvement, there is a platform called Innsight. In 2016, 28% of Axtel's staff had access to the platform where they feed ideas, comment and/or vote, generating close to US$3 million in savings with the initiatives implemented in 2016. In the innovation area, Axtel has an Innovation Hub, where employees work on different initiatives, innovation circles and also providing the innovation service for third parties. As for open innovation, innovation projects were promoted through Nave, the first accelerator of a Mexican Information and Communication Technology corporate, which seeks to identify and develop startups and scaleups with potential for success in the ICT market in terms of Big data, internet of things, virtualization, social networks, mobility and security. The objective is to drive them through an acceleration program that fosters technological innovation and growth with Axtel's support and infrastructure to create new products and business lines. In 2016, six out of more than 400 projects were selected for the acceleration program where entrepreneurs obtained technological infrastructure and spaces, commercial network of potential clients and partners, and human and financial capital.

f) Improve operational efficiency and a greater productivity and profitability in the operation of its assets

The Company is continuously seeking to optimize its operation and maintenance of its network and analyzing which non-core administrative and operating services should be outsourced. To increase efficiencies in the deployment of its fiber network, the Company continually evaluates opportunities to expand its coverage areas and to strengthen its ability to gain new large customers with multi-regional needs resulting in higher revenues and improved margins that, over time, should help reduce its capital investments. Currently, the Company is increasing its fiber network presence in cities where it is already present representing greater synergies and operating efficiencies. To achieve the selective expansion of services and network coverage, the Company may participate in strategic transactions with other telephony, video, internet and/or value-added service providers. Moreover, the Company has different operating models for different cities; cities representing a greater amount of income for the Company have more dedicated resources, such as personnel, offices and warehouse space.

The Company believes that bundling voice, data, Internet and video services in order to provide communication solutions for its customers, allows it to generate higher revenues per customer, greater profitability for each peso invested in access infrastructure and greater loyalty of its customers, which increases the productivity and profitability of the Company's fiber or FTTx network. Axtel has consolidated its offer of "Axtel X-tremo" which is a high-speed internet, telephony and pay-TV service through which the customer can choose from 20 Mbps up to 200 Mbps of symmetrical internet speed through FTTx. In addition, it includes unlimited local and unlimited LD service to the United States and Canada, as well as included mobile minutes. The customer can select the package that best suits its needs and can customize the package by adding additional lines and services.

Regarding WiMAX and other wireless technologies, while the Company is not investing in additional capacity, its objective is to maintain price and service levels that allow it to extract the highest possible value of that asset for the longest possible time. Axtel will continue to offer its WiMAX-based "Universal Access" packages to its mass market customers with lower bandwidth requirements, through which the customer can access quality voice and data services with speeds of 0.5 to 2 Mbps.

2.3) Business Activity

Axtel is a company that offers information and telecommunication services in Mexico. Axtel's corporate purpose, among others, is to install, operate and exploit a public telecommunications network as per the concession granted by the SCT, for the provision of national and international telephony, data and Internet services, television, as well as other value added services like managed networks and information technologies (IT). Axtel offers its services through fixed wireless and wired technologies with a permit or concession to use and exploit radio-electric spectrum frequencies granted by the competent authorities.

As a result of the company´s merger with Alestra in 2016 and trends and opportunities in the industry, Axtel has refocused its business strategy, placing greater emphasis on managed networks and IT services such as hosting, systems integration, network security and cloud services.

To analyze revenues, we track the following categories:

(i) *Enterprise and Government Segment*: The Company provides Telecom and IT services to the corporate segment, including medium and large companies, corporations, financial institutions, carriers, and federal, state and municipal government entities.

a. *Telecom*: The Company generates revenues providing telecommunications services to the Enterprise segment, including medium and large companies, corporations, financial institutions, and government entities. The main services offered are:

- *Voice:* Local and international long distance calls to fixed and mobile telephones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP, among others.
- *Data and Internet:* Private lines, dedicated links and dedicated internet.
- *Managed Networks:* Includes managed services, VPN, Ethernet and collaboration, among others.

b. *Information Technologies ("IT"):* The Company generates revenues providing IT services to the Enterprise segment, such as system integration, hosting, managed applications, security and cloud services, among others.

(ii) *Mass Market:* The Company generates revenues by providing connectivity to residential and small business customers through its infrastructure, either fiber network or wireless network, through which voice, data and video services can be offered. The services are offered in commercial packages or, in some cases, as independent or complimentary services.

a. *Fiber to the home or business ("FTTx"):* Voice, data and video services offered through the fiber network, with symmetrical speeds from 20 Mbps up to 200 Mbps.

b. *Wireless:* Voice and data services offered through the wireless network, primarily WiMax, with speeds from 0.5Mbps to 2Mbps. Given the low competitiveness of this technology, clients connected with WiMax and similar technologies have been decreasing and it is expected that these clients will voluntary or involuntary disconnect within the next few years.

The products and services offered by the Company are, among others:

Mass Market (Residential and Small Business)	**Enterprise and Government Segment**	
	TELECOM	**IT**
TRADITIONAL TELEPHONY	**VOICE**	**HOSTING**
Telephone lines	*800 Service*	
Telephony Service (national and international)	*Digital Links*	**SYSTEM INTEGRATION**
	IP Links	
800 Service (national)	*Telephone lines*	**CLOUD SERVICES**
	Smart Lines	*Infrastructure Services*
IP TELEPHONY	*VoIP*	*Software Services*
AXTEL Conmigo		
	DATA AND INTERNET	**SECURITY**
VOICE, INTERNET AND TELEVISION PACKAGES	*Direct Access*	*IT Managed Security*
	Frame Relay	*Network Managed Security*
Voice plans	*Domestic and International Private Lines*	
Axtel X-tremo		**MANAGED APPLICATIONS**
Acceso Universal	*Dedicated Internet*	*Service Desk*
Axtel TV	*Broadband*	*Managed Applications*
Axtel Mi Negocio		
	MANAGED NETWORKS	**ADAPTIVE NETWORKS**
VALUE ADDED SERVICES	*VPN*	
X-tremo Support (Soporte X-tremo)	*Ethernet*	**FUNCTIONAL CONSULTING**
Axtel Expert	*Managed Services*	
Family Membership Axtel	- *MS Routers*	
SME Assistance	- *Managed LAN*	
Antivirus	- *Equipment Sales*	
Smart Home and Business	- *Structured Cabling*	
Lifesaver	*Collaboration*	
Public WiFi	- *Unified Communications*	
	- *Integrated Videoconferencing*	
	- *Global Conference*	
	- *Meeting room*	
	- *Contact Center*	
	- *Equipment Sales*	

2.3.1) Mass market

Axtel's portfolio of services to the mass market, made up of residential and small business customers, includes voice, data and video services. Double or triple-play offers of *Axtel X-tremo* include voice services, broadband from 20 to 200 symmetrical Mbps and video or *Axtel TV* provided through the fiber optic network to the home or business ("FTTx"). The *Acceso Universal* offerings are voice and broadband services with a speed of 0.5 to 2 Mbps that are offered through the wireless network. Axtel's strategy within the mass segment is to grow FTTx's business and profitability by offering the best quality in service and customer experience and increasing penetration in the small business market. In addition, different value-added services are offered; *Axtel Smart Home & Business* is an alarm, video and home and business automation service, *Axtel Lifesaver* is a cloud computer back-up service; *Axtel Experto* is an online advice and technical assistance for computers, smartphones and other devices and *Soporte Especializado* is technical advisory in the field; *Axtel Conmigo* is an application that allows you to take the telephone line of your home or business on your mobile phone; among others.

Axtel remains at the forefront of internet services thanks to *Axtel X-tremo* which has been recognized for its speed and performance. During the second quarter of 2016, offers were strengthened by increasing the internet speeds available so the most basic package now includes 20 Mbps, the intermediate package includes 50 Mbps and unlimited calls to mobile phones, and up to 200 Mbps in the advanced package. Significant growth in the fiber optic business has been achieved, reaching by the end of 2016 234 thousand internet accounts and 123 thousand television or video accounts, as well as a 17% growth in revenues. Within the areas covered by fiber optics a 17% penetration was achieved. In the wireless business aggressive cost cutting efforts, as well as sales strategies to market low-cost broadband services, were continued in order to maximize the revenue stream generated by these technologies.

As a result of the merger and a new commercial strategy, the mass market segment has increased its efforts to increase small and micro business customers, launching offers under *Axtel Mi Negocio* of internet solutions with speeds of 200 Mbps plus telephone lines, SIP trunks or virtual switches, as well as value-added services (cloud support, virtual assistance, security, audio conferencing, among others) that offers the business a customized solution at a very attractive cost. Likewise, differentiated channels have been created to offer a more specialized customer service.

Efforts to improve the customer experience and optimize costs continue, cloud tools for 360 management of traditional and digital service channels have been implemented (Oracle Rightnow) as well as the operation of in field crews of installation and repairs (Oracle TOA). The Company has also worked with suppliers to optimize the cost of products such as television content and value added services.

In order to obtain new subscribers, the Company actively promotes attractive packages and offers which generate recurring monthly payments such as voice plans, *Acceso Universal*, *Axtel X-tremo* or *Axtel TV*, which may include unlimited local calls, long distance calls to the US and Canada, broadband internet and Pay TV. Once a customer decides to hire Axtel's services, the Company focuses on satisfying its needs and offer benefits, rather than low prices, in order to maximize the client's retention rate. An example of this is the free trials of value-added services to *Axtel X-tremo* and *Acceso Universal* customers with the goal of their eventual subscription to these services. Likewise, we give the customer a greater bandwidth than the one they signed up for free for the first 30 days in order for them to experience the speeds and reconsider their package. In the micro and small business segment, Axtel's prices are the most competitive in the market since, unlike the competition, Axtel has the same price for these services and residential offers.

2.3.2) Enterprise and Government Segment

The Mexican business sector is becoming more aware of the importance of technology for the development of its businesses. Axtel has been characterized as a technological partner of the Mexican business sector, supporting clients with IT and Telecommunication services to have a more productive and efficient operation, promoting the use of technology as an element of value in the transformation of their businesses. Within this scope, Axtel seeks to provide the market with innovative solutions, supported by all the new technological trends, encouraging the adoption of these in Mexico through managed services with the highest levels of service.

Part of Axtel's strategy is to increase revenues from its IT services within the revenue mix. For this reason, the IT Commercial area was created to focus on serving the Mexican business market through Information Technology solutions that provide a differentiator to the customers' business, whether in terms of productivity, efficiency, availability or security. As well as helping in their cost reduction and/or revenue generation strategies. These solutions are aimed at the national business segment, offering services for corporations and multinational companies, as well as small and medium sized companies with strong presence in the manufacturing, financial, retail, logistics, health and education industries. The IT Commercial area offers these market segments solutions based on data centers, cloud services, systems integration, and application management, as well as a wide range of security services that protect the company´s applications and internet portals. The Commercial IT area seeks to guarantee the experience and the level of service committed, for which it is composed by functions of Strategy, Sales, Architecture, Delivery, and Operation of Services.

Noting some achievements of 2016, the International Computer Room Experts Association (ICREA) awarded the Data Center in Queretaro the recognition "Best Data Center" due to its electrical installation, air conditioning, communications environment, security specifications, among others. Data Center Dynamics awarded the Queretaro Data Center the CEEDA (Certified Energy Efficiency in Data Centers Award) certification, the only independent and certified evaluation for data centers that provides an action plan in all areas (operational, mechanical and electrical management and IT infrastructure) and deployment in energy efficiency. In addition, ICREA awarded the Green Seal and the Governance Certification level ALFA, the first Data Center to earn this honor worldwide. Additionally, Axtel began the construction on the second Data Center in Queretaro, which will have 1,800m^2 in its initial phase, out of which 600m^2 will be ready early 2017.

In 2016, from a commercial perspective, penetration in the financial sector increased through large DRP (Disaster Recovery Plan) solutions and the integration of Big Data solutions in the market began where financial customers acquired Digital Archive solutions. Sales were completed to co-locate entities from the US Technology sector in our Data Centers, and there was significant growth in the adoption of managed IT services. In addition, agreements were signed with important partners to offer applications based on Axtel's cloud to Mexican and Latin American markets.

Additionally, in 2016 the complete integration of GTEL and S&C took place, taking full advantage of the capabilities they contributed to the business in regards to technology, services, processes and human capital. S&C, being part of the creation of the IT Commercial area contributing resources and processes for design, sale and delivery of IT services. Estratel, whose 100% acquisition was completed in July 2016, maintains its operation independent, however, its interaction with Axtel is clearly defined to take advantage of and maximize the benefits that are generated as are technological capabilities in certain brands or technologies, regional presence, as well as discounts that each of the companies has.

The following are some of the solutions available to satisfy the needs of the different markets Axtel serves:

Telecom:

Voice:

- Telephony: These solutions include services such as local calls, international long distance, Smart lines (which allows, among other things, to assign authorization and call filtering codes), 800 service with national or international coverage and prepaid and postpaid phone cards. Also, digital phone lines, telephone lines over IP protocol among others.

Data and Internet

- Data: Direct Access or last mile access and digital private lines with national or international reach.
- Internet: Axtel has a broad portfolio of internet solutions, from 1 Mbps links to high capacity connections of up to 10 Gbps. In addition, Axtel offers protection for the internet link against cyber threats through mechanisms called Clean Pipes. It also offers internet on demand, which offers high capacity links with rates depending on the use the client demands. The broadband internet can be offered to medium sized companies in "best-effort" mode through the FTTx infrastructure.

Managed Networks

- *Networks*: Axtel has a wide portfolio of network connectivity solutions that allow customers to connect their offices point-to-point or point-multipoint either nationally or internationally. In the family of network connectivity services are VPN and Ethernet services. All these options allow the secure transmission of voice, data or video information simultaneously.
- *Managed Services*: Axtel has a portfolio of managed networks services, such as Managed Reuters, LAN switches and managed WLAN. With these solutions, Axtel's customers receive the following benefits through a monthly fee: design, implementation, support, maintenance, operation, and management of equipment.
- *Collaboration:* With these types of products Axtel seeks the integration of various communication tools that allow people to interact and collaborate more effectively and efficiently, facilitating the management and integration of various channels of voice, data, video, networks, systems and business applications. Some of the services that make up the collaboration solutions are:
    - Videoconference and telepresence services that facilitate collaboration between geographically distant rooms, providing flexibility and connectivity coverage.
    - Unified communication solutions that allow the use of instant messaging, voice, mobility and applications for call centers, which are accessed through the cloud so the customer does not have to invest in the purchase of equipment.
    - Conference solutions which allow customers to have voice communication between a group of people which can share content and interact with the information safely.
    - Cloud solutions that allow collaboration through new workspaces that helps people work from anywhere and on any device.

<u>IT:</u>

System Integration

Delivery of customized solutions for special products that integrate infrastructure, applications, connectivity, security and management of several different technologies and manufacturers in a holistic model where Axtel becomes the only point of contact for its customers. This practice includes critical solutions such as DRP, high availability platforms, private and hybrid clouds, environment migration, among others.

Cloud Solutions and Data Centers

Axtel offers state of the art technology through cloud access, which includes applications, technical support and solutions, which offer unlimited capacity, universal accessibility, flexibility and savings by not having to invest in equipment. All of this backed by the security and availability of Data Centers, whose mission is to ensure that information and applications are available anywhere and under any circumstances. These solutions include, but are not limited to:

- Services that offer virtual or physical servers through a public cloud.
- Services that offer the customer the option to acquire on-demand computing resources, flexible server configurations, RAM and storage, which can be provisioned by the client via the web.
- Access to ERP (Enterprise Resource Planning) version “All in One” of SAP, this across a cloud service scheme that allows the customer to obtain savings by not having to purchase the system.
- Comprehensive infrastructure management services that include the design, implementation and operation of complex computing solutions in high availability environments prepared to handle natural disasters (“DRP”).
- Corporate e-mail, a platform that offer clients personalized and accessible e-mail addresses from fixed and mobile devices.

- Open platform for streaming (without interruption) digital audio and video for mass distribution of media (audio, video and images) through the web.
- Learning management service based on the Learning Management System platform in the cloud, which enables companies and educational institutions to improve, optimize and automate their processes, ensuring alignment with their business strategies.
- The swift generation of server backups that allows the assurance of information through a platform available under an "as a service" scheme.
- Storage as a service for hosting and the execution of applications under an "on demand" scheme.
- Cloud BackUp for safe, periodic, and automated backups.
- Virtual desktops to remotely access your desktop and applications from any device.
- The Help Desk Service, which is a single point of contact for users that manages incidents, problems, or issues that are related to IT services,

Hosting

- Dedicated, co-located and virtual Hosting services which allows the customer to host their servers in a secure space, with energy redundancies and links to the internet and VPN networks, as well as the ability for rapid growth, system monitoring, administration and management.

Security Solutions

- The security portfolio provides solutions that allow for the protection of computer equipment, networks and systems from threats and computer attacks by providing, operating, managing, and monitoring the entire information security infrastructure the client requires. Some associated services include Vulnerability Analysis that offers a diagnosis of the level of exposure the critical infrastructure of a network has in the event of an attack that would affect its operation. Others include: Security Consulting, Intruder Detection and Intruder Prevention Services, Web Filtering and Managed Firewall Services, designed for businesses requiring controlled Web access, comprehensive and multi-layer protection and all in one security that provides, controls, detects, mitigates and monitors secure perimeter access.

Management of Applications

- Solutions that provide specialized management of IT services accompanied by a complete operational model of monitoring and management based on the best practices of the industry. In this solution, our customers delegate the operation of their critical applications in such a way as to provide an outsourcing service for operation, monitoring, incident management, problems and changes of business applications such as ERP, CRM, databases, among others.

2.4) Advertising and Sales

Mass Market Segment:

The Company uses different means of advertising to the mass market segment through the "Axtel" brand, such as advertising sent through mail (both special delivery and contained in account statements), online advertising, and telemarketing which serves to both create awareness about its brand and to sell new services to existing customers. Likewise, Axtel created brand awareness through outdoor media, whether it be with billboards or print media, including newspapers and magazines. The Company also uses radio and television advertisements to promote its products, as well as sponsorships in local news programs. The Company's brand promotion strategy is to combine an attractive and modern image that reflects a human profile.

This marketing strategy is complemented with sales efforts targeting specific customer segments using a variety of channels. The main selling methods are: direct sales, online sales, home sales, telemarketing, location sales (in strategic locations such as malls and department stores), Attention and Payment Modules (MAP´s), which are

Axtel's sales and services offices located strategically in the cities; and sales distributors who are certified to conduct sale activities on the Company's behalf.

Government and Enterprise Segment:

For business customers and government entities, Axtel offers solutions through the "Alestra" brand that help clients optimize their businesses, increase their productivity, and reduce the technological investment in ICT services, thus enabling them to concentrate on their core business. Axtel implements a consultative sales method where it provides true added value and brings new technological trends to its customers' attention. The services offered are grouped into two lines of business: telecommunications and IT.

To promote the products in the business and government segment, Axtel uses a variety of communication and commercial tools, among which are the launching events for new products, publications in specialized magazines, experience centers or "Centro Sperto", participation in forums, online communication and direct promotion with the support of presentation tools.

2.4.1) Sales Channels and Strategies

Advertising campaigns are complemented by sales objectives aimed at specific market segments using various sales channels.

Mass Market Segment:

The main sale methods used by Axtel for the Mass Market are:

- ***Personal Business Sales.*** Sales executives focused on small business potential customers, who are responsible for prospecting and meeting customer requirements. They carry out consultative work to offer products, services and packaged solutions focused on customers in this segment.
- ***Online Sales.*** Through efforts generated on the Internet, demand is generated and customers from the residential and micro and small businesses customers are acquired. Additionally, through Axtel's webpage, clients can purchase services.
- ***Door to Door.*** Sales agents search are dedicated to finding potential clients in residential areas and areas with micro and small businesses. They do prospecting and sale activities.
- ***Telemarketing.*** The Company has two distinct telemarketing techniques. On one hand, a team of sales agents seeks potential clients by calling customers listed on a database created by the Company. This same team also respond to calls from potential clients which have received advertising through promotional campaigns. On the other hand, executives from the Service Center for Enterprise customers offer products and services to customers with basic needs through targeted phone calls.
- ***Points of Sale.*** Sales agents that are strategically located at sales points where potential customers go shopping.
- ***MAPs (Service and Payment Modules*)**.** Sales through its service offices, which are strategically located in cities where the Company provides its services.
- ***Indirect Channels (Sales Distributors).*** Certain companies are authorized to engage in activities on behalf of Axtel. These companies focus on sectors in which they have a certain influence. For the Enterprise segment, Axtel works with companies specializing in IT services that integrate products with a global solution; this method allows Axtel to approach new Enterprise customers.

Axtel's sales efficiency is measured in comparison to the cost of acquisition of subscribers. During the past three years, there has been a reconfiguration of the channels, where the Online Sales channel has increased in importance in line with the tendencies observed in the customers' behavior, who use digital mechanisms to investigate and evaluate offers.

Telemarketing handles all the incoming calls generated by the Company's advertising in magazines, newspaper, television, billboards, flyers, among others.

For the small business segment, Axtel uses specialized telemarketing, through which the agents call clients and prospects to give advice and timely follow-up according to the specific needs of each customer and offer tailor made solutions.

Enterprise and Government Segment:

Axtel's Enterprise Segment model is based on sales teams that include a Sales Consultant, a Customer Service Representative, a Solution Design Engineer and a Service Delivery Representative. Accounts are grouped into categories depending on the revenues and/or business potential of the customer. Resources are allocated according to the block prioritization scheme described in the below diagram. Sales Consultants can be either Axtel employees or ICT Integrator Indirect Channel representatives.

Category	Segment	Channel
Premier Experience	Medium-sized Enterprise Clients	Sales Consultants Indirect Channels
Premier Plus Experience	Large Enterprise Clients with Managed Services	Sales Consultants
Select Experience	Primarily Corporates with Managed Services	
Elite Experience	TOP Clients from the Financial, Corporate and Wholesale Segments	

Promotion efforts through Centro Sperto and focused events, such as the annual Business Technology Summit, are key to the market's understanding of Axtel's differentiators. Axtel has three experience centers called Centro Sperto, located in Monterrey, Mexico, and Queretaro with international recognition by the Association of Briefing Program Managers. These centers are world class spaces designed to foster the experience of the services that are in the vanguard of technological innovation. The aim is to offer Axtel customers a forum to converge their communication challenges with Axtel's high-tech experience and services with the goal of designing the precise information technology solutions required by the companies. For eight years, Centro Sperto has received on average 950 visits annually from the local and national business segment, in 2016 there were more than 900 assisted sales opportunities recorded or about US$2.5 million.

On the other hand, since 2010, Alestra SummIT has stood out for being the most important technological forum across the nation. It is carried out in five of the most important cities of Mexico attended by different decision makers, leaders, businessmen and entrepreneurs in the field of Information Technology. During 2016, Querétaro, Guadalajara, Mexico City, Monterrey and Tijuana were part of this experience, with the participation of global technology leaders such as Arbor Networks, Avaya, Blue Coat, Cisco, EMC, Fortinet, Hewlett Packard, Huawei, NetApp, SAP and SUSE. Alestra SummIT 2016 brought to more than 4,000 attendees Axtel's technological offer aimed at the business and government segment such as cloud, collaboration, security and big data, solutions that generate benefits in business and organizations, while boosting their potential of growth and preparing them for the Internet of Things trend.

2.4.2) Customer Service

A key element of Axtel's competitive strategy is to consistently provide reliable, responsive customer service. In order to achieve this goal, the Company has established a 24/7 customer service center for voice, data, television and internet services which is staffed by highly trained personnel. The Company has implemented a comprehensive training, testing and certification program for all staff that directly interacts with customers.

Axtel provides post-sales service on a nationwide basis through the following:

- Customer Service. Provides post-sales customer support, ranging from general information to additions and changes resulting from billing inquires and technical support.
- Operator Service 24 hours a day. Includes wake-up calls, time of day, emergency calls and assistance for placing domestic and international long distance calls.
- Advanced Services Center. For customers with advanced services that require high availability, there is a monitoring center that maintains proper operation of services, correcting faults and deviations proactively.
- Repair Calls. The National Center for Repairs is the point of contact for customers who address and manages the reports and provides on-line technical support and analysis.
- Local Testing. Analyzes and tests all reports that are not resolved on-line by Repair Calls. This team is accountable for routing these reports to Repair Dispatch.

Both the Repair Calls and Local Testing areas work together with the network maintenance center in order to monitor and repair network failures.

The Holistic Operation Center is the center that brings together best practices, processes, tools and experts from our Network Operation Center (NOC), Security Operation Center (SOC), Managed Service Operation Center (MS NOC), IT Service Management Center (CASTI), Help Desk and Systems Support (HD) and Business Service Center (CAE).

2.4.3) Billing and Collection

The Company believes its billing and collection processes are an important aspect of its competitive advantage.

Axtel's billing team receives and validates the detailed log of consumption, recurring and non-recurring charges. The Client typically receives the printed invoice at home, within 14 days following the end of the billing period. If requested, the client also receives its electronic invoice (CFDI) via email within the following five days after the end of its billing period. A Payment Reminder is sent 7 days before their payment due date –only if payment is not detected yet. In both modes, Axtel monitors the delivery efficiency.

To ensure the quality of the bills and as a last validation filter, a statistical process of Quality Control Post-Billing and Pre-delivery is performed on a representative sample, verifying the following: amount charged, fiscal information, complete shipping information, proper allocation of messages or advertising (messages or inserts), valid emails and changes in different sections of the bill due to new offers and/or products.

An ongoing revenue assurance process, which consists of reviewing the billing stream, payments and adjustments, as well as fraud detection and control, has become part of our regular billing operation. This process has contributed in minimizing frauds and risks.

To facilitate the reception of payments and to make the payment process convenient for customers, the Company has developed a number of payment reception channels. Some of these channels are:

- Convenience stores;
- Banks (cashiers, web page, automatic cash dispensers and cellular phones);
- Axtel MAPs (Axtel's Sales and Payment Points);
- Internet webpage;
- ATMs;
- Automatic charges to credit cards (upon customer approval);
- Automatic charges to check accounts; and
- by telephone with customer service or self-service charged directly to its credit card.

These channels provide easy and fast options for customers to select the most suitable and convenient alternative for a prompt payment.

To encourage customers to pay in time and form, the Company has implemented preventive collection procedures, such as reminders of upcoming expiration of the invoice, as well as delay in payment. Likewise, the Company has an automated system to intercept outgoing calls, asking the customer to pay its overdue invoice. Once the term given to the customer for the payment of its invoice is concluded, the Company executes corrective collective procedures, including partial or total suspension of services, such as data and internet, long distance, mobile calls or local calls; while starting internal collection practices visiting the customers' domiciles.

In parallel, accounts are turned over to External Collection Agencies 180 days after their due date, to exhaust all possible resources to negotiate each of the accounts and therefore enforce their payment. Always with the firm intention to retain the customer, guiding and providing alternative solutions and payment programs, even reconnecting their service under a prepayment scheme and/or granting the customer an appropriate payment schedule for the outstanding balance, thus avoid reaching 180 days of default which would result in the imminent disconnection of the account.

2.5) Patents, Licenses, Trademarks, other Contracts and Certifications

2.5.1) Company's Concessions

Axtel holds certain concessions titles granted by the Federal Government which have a duration of 20 and 30 years and which could be renewed for the same period originally granted. All requests for extensions of concessions have been requested in time to the authority. Such concession titles allow the Company to provide the following telecommunications services nationwide:

a. basic local telephony service and national and international long distance telephony;
b. the sale or lease of network capacity for the generation, transmission or reception of signs, signals, writings, images, voice, sounds or other information of any nature;
c. the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
d. value-added services;
e. operator services;
f. data, video, audio and videoconference services;
g. message delivery service (SMS);
h. point to point and point to multipoint links;
i. satellite restricted TV service;
j. delivery of data through satellite;
k. restricted television, continuous music services or digital audio services;
l. public telephone services.

Axtel has the Concesión Única or Single Concession, which has the following advantages: it confers the right to converge all types of public telecommunications services or broadcasting; it will not be necessary to have Public Telecommunications Network Concession (RPT); consolidation of all RPT titles, which simplifies and ratifies the administrative procedures for compliance of the obligations; prior to commencing operations of any public telecommunication service that is technically feasible, it shall be requested to IFT the registration in the Public Concessions Registry; valid for 30 years and may be extended for equal terms; and savings of an economic nature, for example: payments of rights, payments for bonds, etc.

The following is a summary of the concessions:

TYPE OF CONCESSION	COVERAGE	TERM	GRANT	EXPIRATION
Concesión Única or Single Concession for Commercial Use	National	30 years	Jan 29, 2016	Jan 29, 2046
Provision of capacity for the establishment of point-to-multipoint microwave links.	Region 1-9	20 years	Apr 1, 1998 Sep 28, 1998	Apr 1, 2018 Sep 28, 2018
Fixed and mobile wireless access through the RPT	Region 1-9	20 years	Oct 7, 1998	Oct 7, 2018
Provision of capacity for the establishment of point-to-point microwave links	National	20 years	Jun 4, 1998 Jul 4, 1998 Aug 1, 2000	Jun 4, 2018 Jul 4, 2018 Aug 1, 2020
Concession to install, operate and exploit a public telecommunications network for the provision of basic national and international long distance telephone service	National	30 years	Sep 15, 1995 Dec 6, 1995 Nov 8, 2000	Sep 15, 2025 Dec 6, 2025 Nov 8, 2024
Concession to install, operate and exploit a public telecommunications network for the provision of basic local telephone service	National	30 years	Apr 12, 1999	Apr 12, 2029
Concession to install, operate and exploit a public telecommunications network for the provision of point-to-multipoint links	National	20 years	Apr 1, 1998	Apr 1, 2018
Provision of capacity for the establishment of point-to-point microwave links	Reg. 1, 3, 4, 6, 9	20 years	Jan 25, 2000	Jan 25, 2020

2.5.2) Main Trademarks

Axtel is the owner of several registered trademarks used to commercialize the products and services that the Company renders. Among others, Axtel holds the following relevant trademarks:

TRADEMARK	REGISTRY NUMBER	EXPIRATION	HOLDER
AXTEL (Red design)	1,662,027 1,668,825 1,661,624	Apr 7, 2026	Axtel S.A.B. de C.V
AXTEL (Blue design)	1,662,025 1,668,824 1,662,026	Apr 7, 2026	Axtel S.A.B. de C.V
Alestra	511,656	Nov 1, 2025	Alestra S. de R.L. de C.V.
Alestra SmartIP	1,113,027	June 18, 2019	Alestra S. de R.L. de C.V.
Alestra SmartIPComm	1,113,029	June 18, 2019	Alestra S. de R.L. de C.V.
Alestra Smart Email	1,113,026	June 18, 2019	Alestra S. de R.L. de C.V.
Alestra SmartBusiness	1,112,259	June 18, 2019	Alestra S. de R.L. de C.V.

Axtel	584,421	July 13, 2018	Axtel, S.A.B. de C.V.
Axtel. Su Acceso a las Telecomunicaciones	17,076	March 4, 2019	Axtel, S.A.B. de C.V.
Soluciones Axtel	625,940	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL	871,511	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL.NET	638,715	Nov 30, 2019	Axtel, S.A.B. de C.V.
AXTEL PUNTO NET	638,713	Nov 30, 2019	Axtel, S.A.B. de C.V.
Unified Communications	44,352	Sept 13, 2017	Axtel, S.A.B. de C.V.
Comunicaciones Unificadas	44,353	Sept 13, 2017	Axtel, S.A.B. de C.V.
Axtel TV	1,361,372	Jan 23, 2023	Axtel, S.A.B. de C.V.
Axtel Unico	1,147,431	Dec 2, 2019	Axtel S.A.B. de C.V
Axtel Conmigo	1,130,301	Oct 29, 2019	Axtel S.A.B. de C.V
Axtel Comunícate Mejor	55,994	Dec 2, 2019	Axtel S.A.B. de C.V
Acceso Universal	1,188,054	Oct 29, 2019	Axtel S.A.B. de C.V
AXTEL X-TREMO	1,195,317	Oct 15, 2020	Axtel S.A.B. de C.V
Axtel Acceso Universal Axtel X-tremo	1,195,315	Oct 15, 2020	Axtel S.A.B. de C.V
Axtel Único Oficina Virtural	1,204,031	Nov 3, 2020	Axtel S.A.B. de C.V
Mejor Comunicación, Mejores Negocios	62,437	Nov 17, 2020	Axtel S.A.B. de C.V
AXTEL SOPHTPHONE	1,245,261	May 27, 2021	Axtel S.A.B. de C.V
ZONA AXTEL	1,250,250	July 13, 2021	Axtel S.A.B. de C.V
EXPERIMENTA EL FUTURO	87,685	Feb 17, 2025	Axtel S.A.B. de C.V
CONTACTO IP	1,642,058 1,642,057	Jan 18, 2026	Axtel S.A.B. de C.V

2.5.3) Interconnection

The Company has established interconnection agreements necessary for the exchange of different types of traffic, which are:

a. Fix-to-fix local traffic;
b. Fix-to-mobile local traffic;
c. Mobile-to-fix local traffic;
d. Long distance traffic which includes different models such as the 800 collect calls.

Applicable rates.

Rates and conditions for interconnection, according to current regulations, are determined as follows:

a. Agreement between the parties;
b. Determined by IFT as a result of a process of Disagreement; or,
c. Through the application of Non-Discriminatory Treatment, foreseen in the *Ley Federal de Telecomunicaciones y Radiodifusión* (LFTR)

The Company has established the best conditions for each scenario with different operators with which there is a significant interconnection traffic relationship.

For 2017, IFT has established the following interconnection rates for non-dominant operators:

a. Traffic termination:
   i. In fixed networks: Ps. 0.003094

    ii. In mobile networks: Ps. 0.1906

b. Origination: Ps. 0.004386

c. Transit: Ps. 0.004550

Most interconnection agreements that have been signed are in force, and they are updated based on the resolutions passed by the IFT, or across direct negotiations between operators, either because its term has not finalized yet or by the application of the conditions of continuous application, always ensuring the best tariff for the Company based on the exchange of calls.

Preponderance

Derived from the telecommunications reform, since 2015, the preponderant operators (Telmex, Telnor and Telcel) are obliged to make available to the other dealers the following:

a. Sharing fix and mobile passive infrastructure (e.g. poles, ducts, rights of way and towers);
b. Leasing of dedicated links;
c. Resale and unbundling of all the services provided through Telmex's local network;
d. Resale of mobile services, voice, data and SMS, as a Mobile Virtual Network Operator (MVNO); and
e. The agreements of national and international visiting user (roaming) that Telcel has signed with other operators.

As of the end of 2016, the Company had signed the following agreements with Telmex and Telcel respectively:

a. Agreement for sharing passive infrastructure of Telmex's network;
b. Agreement for the unbundling of the local loop of Telmex's network; and
c. Agreement for leasing dedicated links from Telmex.

The prices and conditions for these services are the ones established by Telmex and Telcel respectively, but may be modified by IFT by filing disagreements under the Preponderant Guidelines and the LFTR, using the cost methodology such as "avoided costs" or "long-term incremental costs", depending on the type of service.

2.5.4) Technological Certifications

- Blue Coat Partner Premier Security Solutions
- CompTIA Security + CE
- ISO 9001:2008
- ISO/IEC 27001:2013
- ISO 20000-1:2011
- MGCIC
- ICREA Level 3,4 and 5
- Tier III Diseño - Uptime Institute
- CEEDA Bronze Level
- CISCO, Gold Certified Partner
- CISCO, Advanced Collaboration Architecture Specialization
- CISCO, Advanced Enterprise Networks Architecture Specialization
- CISCO, Advanced Security Architecture Specialization
- CISCO, Advanced Data Center Architecture Specialization
- CISCO, Cloud and Managed Services Master
- CISCO, Cloud Services Reseller
- CISCO, Telepresence Video Master Authorized Technology Provider (ATP)
- CISCO, Identity Services Engine Authorized Technology Provider (ATP)
- Certified Partner Antispam in the Cloud
- Specialized Partner in HP solutions
- EMC Silver Partner
- MCaaS Partner with SAP
- Pure Advantage Partner specialized in CCSP solutions
- Avaya Platinum Partner
- Avaya DevConnect
- Primer Managed Security Service Provider (MSSP).
- Platinum Partner in Mexico with Fortinet Managed Services.
- Microsoft Hosting Partner Certification
- Trustwave Authorized Partner
- Nestlé Responsible Sourcing Audit Program

In 2016, 410 of our collaborators were certified in several tools of institutions such as Cisco, ITIL, Avaya, Microsoft, Isaca, EC-Council, ICREA, Fortinet, Check Point, Cobit, DCDynamics, Sourcefire, Blue Coat, PMI, Sonus, EMC Symantec, VmWire, Sun, Red Hat, Qualys, Polycom, ISO, TetraMap, 6 Sigma, TIA, ACME and Oracle.

2.6) Main Customers

Banamex and affiliated companies in Mexico represented 6% of our total revenues for 2016, while AT&T Global Services de Mexico ("AGNS Mexico") also represented 6%. The top five costumers of the Company in 2016 represented 19% of total revenues.

In this regard, in 2011 the Company entered into a five-year agreement with Banamex, renewable for another five years, to provide products and services for all their telecommunications needs in existing and new operations. Additionally, in May 2013, Axtel signed a new five-year agreement with Banamex to provide managed cloud-based voice services and collaboration applications to its branches and offices in Mexico. Previously AGNS Mexico was a shareholder of Alestra and currently only leases links to provide its multinational clients services in Mexico and also acquired several Mexican companies from what was previously Grupo Iusacell and NII Digital (formerly Nextel) that have concessions that allow AGNS to provide both fixed and mobile services.

On the other hand, Axtel terminates volume of Verizon's international traffic in Mexico, and also provides services to Verizon's global customers; these services represented 1% of total revenues in 2016.

2.7) Human Resources

During the year ended December 31, 2016, Axtel had 7,584 employees, of whom 511 were temporary employees. For the years ended December 31, 2015 and 2014, Axtel had 7 thousand and 6 thousand 900 employees, respectively.

As of December 31, 2016, certain employees, excluding executives and managers, were members of the Sindicato Nacional de Trabajadores de la Industria de Telecomunicaciones de la República Mexicana (the Workers' National Union for the Telecommunications Industry in Mexico), representing 12% of total employees. There are no other workers or employees of the Company assigned to other unions. The Company believes it has a good relationship with its employees and the aforementioned union.

2.8) Description of Main Assets – The Company's Network

2.8.1) Facilities

All of the Company's properties are located in Mexico. Its headquarters are located in San Pedro Garza Garcia, Nuevo León, Mexico. The Company's corporate office has 39,779 square meters. The lease of this property expires in 2023. Additionally, the Company owns and leases properties in different cities of the country which are used for offices, workcenters or warehouses, switches, data centers, call centers, etc. The buildings of more than 3 thousand square meters of surface, excluding base stations, are detailed as follows:

Name	Use	Location	Area in m2	Property	Contract Ending Date	Contract Start Date
Corporativo Monterrey	Administrative	Monterrey	39,779	Lease	10/31/2023	05/26/2000
CIC, CDA and Voice Center Apodaca	Operating Center	Monterrey	16,423	Lease	03/30/2019	11/02/2009
Switch 1	Technology Facility	Guadalajara	5,550	Axtel	-	-
Reforma Building	Administrative	Mexico	4,162 502	Lease	07/31/2017 09/30/2018	03/01/2008 06/01/2013

Call Center Culiacán	Operating Center	Culiacan	3,067	Lease	08/31/2019	09/01/2010

2.8.2) Telecommunications Network

The Company provides network transport using a national fiber optic network combined with local access hybrid designed to optimize capital investment through the deployment of equipment to access the network, based on the specific needs of each client. Access options for the Company include fixed wireless, fiber optic last mile access point-to-point, point-to-multipoint, and copper, all connected through 11 thousand kilometers of fiber optic metro rings. Our options for last mile access include wireless access technologies such as proximity and symmetry, such as WiMAX 802.16e mobile, wireless technologies point-to-point and point-to-multipoint, and fiber to the customer's home or office (FTTx). The Company switched traffic DMS services using equipment that interconnect with Telmex and other local service providers and long distance in each of the cities we serve.

The Company's wireless network uses microwave radios, switches TDM and next generation (Softswitch) and other infrastructure provided by recognized providers including Motorola, Nokia-Siemens Networks, Ericsson, Genband, among others. The internet platform of the Company is based on Cisco routers with Hewlett Packard servers and software applications developed by Microsoft Corporation. Local fiber networks or metropolitan fiber optic rings of the Company use OFS Optical Fibers of Mexico, Samsung, Huawei and AFL and optical transmission equipment Ciena, Alcatel-Lucent, Nokia-Siemens Networks and Huawei. The combination of these components allows the Company to offer network reliability, which is superior to the network used by other providers. Through the current use of fixed wireless access technology, including Symmetry and WiMAX technology, the Company is able to provide services of high quality voice and data at speeds of up to 2 megabits per second for our customers. With the network of last mile fiber optic (FTTx), Axtel provides converged data, voice and video at speeds up to 200 megabits per second in symmetric mode. Axtel believes that fixed wireless access technology is ideal for covering large areas of cities offering services to residential customers as micro-enterprises and small businesses. Basic voice services and data are delivered through all of our access technologies.

The last mile fiber optic network (FTTx) is ideal for residential areas of medium and high socioeconomic level who demand high-speed broadband and also in areas of high concentration of businesses and offices since it has a more focused coverage area.

Axtel's new generation services are provided using world-class Data Centers built in accordance with international standards including the TIA-942 standard. Axtel currently owns six Data Centers.

In general, the ability to access advanced technologies directly increases the cost of the solutions. The capacity of our local hybrid access allows the Company to:

- Provide a variety of voice, internet and data services;
- Meet demand quickly;
- Penetrate specific markets, and
- Size the deployed infrastructure to meet the market demand and the individual needs of customers.

This network infrastructure enables Axtel to meet the needs of various market segments while maintaining a low cost solution relative to those of competitors.

Network Deployment Strategy

While we continue to maintain a wireless model that allows us great flexibility in the network, our focus today is the deployment of the fiber optic network. In this regard, the Company has concentrated its efforts on those areas where our high-speed internet services, television and other services, create value for our customers.

Access Connectivity

The last-mile connectivity portion of our network is comprised of a mix of wireless technologies as well as fiber optics for customers within our metropolitan fiber optic rings.

Our access technology to be used is determined based on a cost-benefit analysis, depending on customer needs and service availability. We use fixed wireless access to serve customers requiring between one to nine lines (plain old telephony service "POTS") and internet access of up to 4 Mbps in a single point of service.

With the GPON technology of Zhone used in the last mile fiber optic network (FTTx), Axtel provides converging services of data, voice and TV with speeds of up to 200 megabits per second in symmetric mode to residential customers and to small and medium sized businesses. Using the FOM technology with last mile fiber optic services, Axtel provides advanced data and voice services with high security standards to large companies and financial institutions.

Point-to-multipoint technology is used for customers that require between 10 and 30 POTS and/or require low-speed (below 2,048 Kbps) dedicated private line accesses. Our point-to-point access, like fiber optic access, is used for customers requiring digital trunks or dedicated private lines over 2Mbps. The Company also uses hybrid solutions or combines multiple technologies to reach more customers by expanding service using digital fiber solutions and specific technologies for building apartments.

We have contracts with Telefonica Data de Mexico, a subsidiary of Telefonica, pursuant to which we acquired the right to use capacity in Telefonica's long haul fiber infrastructure which is located between the northern border of Mexico and Mexico City. Pursuant to such contracts, Telefónica Data de Mexico has the right to use a pair of dark fibers in a portion of our metropolitan fiber rings. We also maintain a similar agreement with Telereunión to use approximately 600 kilometers of long distance fiber optic network in the Gulf of Mexico region.

Local Network

As of December 31, 2016, the transportation infrastructure of the network was 7,096 kilometers of metropolitan fiber optic rings in the cities where it operates. The network is made up of a variety of technologies, including fixed wireless access, WiMAX, point-to-point, point-to-multipoint and copper and fiber optic technologies to connect residential and business customers.

The following table summarizes our local infrastructure as of December 31, 2016:

City	FWA Sites	Symmetry	WiMAX	PMP Sites	PTP Links	Switches	FTTx (km)
Monterrey	63	19	90	37	2074	9	1,575
Guadalajara	65	8	52	27	1309	9	895
México	153	34	170	70	4139	16	2,012
Puebla	21	5	41	8	516	3	282
Toluca	9	3	25	7	525	1	167
León	13	5	28	6	351	1	195
Querétaro	7	5	18	7	481	-	276
San Luis Potosí	12	5	32	6	431	-	232
Saltillo	7	5	22	8	341	-	-
Aguascalientes	9	5	27	5	280	-	180
Cd. Juárez	10	5	27	7	210	1	165
Tijuana	9	-	25	10	299	2	-
Torreón	7	5	31	6	258	2	-
Otros	42	50	457	86	3387	21	-
TOTAL	**427**	**154**	**1,045**	**290**	**14,601**	**65**	**5,979**

Long Distance Network

Axtel's long-distance transport network is approximately 23,092 kilometers in length, comprising 12,100 kilometers of its own infrastructure and the rest are used through irrevocable rights-of-use contracts that support digital hierarchical synchronization ("SDH") and shipping technology through simultaneous channels across different wavelengths ("DWDM - dense wavelength division multiplexing"). SDH allows us to implement bi-directional ring architecture, a system that allows instantaneous redirection of traffic in case of equipment failure or a fiber cut. DWDM technology allows a large transmission capacity in the same physical infrastructure by the installation of additional electronic equipment. Our transport network connects 52 cities through our own infrastructure and 148 additional cities through leased infrastructure.

Switching

The Company uses 14 Genband digital switching centers called the DMS-100, of which ten are to route traffic in 14 cities, four of which specialize in receiving and sending long-distance traffic from the country's 397 service areas and International traffic from the United States and the rest of the world, and six Genband Call Server 2000 Next Generation (Softswitchs) switches to route traffic from the rest of the cities (43 cities). It also has four Ericsson AXE TL4 Digital Switching Centers for local service, two located in Mexico, one in Monterrey and one in Guadalajara covering 21 cities. The Company uses a new generation digital switching equipment (Softswitch) A5020 Alcatel-Lucent to offer dial-up Internet service. Finally, the Company has two new generation digital switches (Softswitchs) SoftX3000 Huawei Softswitches that provide local services to 3 Cities and commute all international voice over IP traffic. The Company also has 4 5ESS stations that provide Local service to 7 cities, in addition to LD interconnections with 50 cities including CTIs, as well as 4 Sonus SoftSwitch that route traffic from 35 cities and 6 additional cities under the Scheme of all Origin All Destination, also has the Brodsoft platform that gives local service to the 34 cities for the average market SIP Lines.

DMS switches have the capacity to handle approximately up to 110,000 lines and the CS 2000 handles up to 180,000 lines. Both models work on modular bases and provide analog lines, E1 digital lines, high-speed digital data services, centrex services and operator assistance services. In addition, the CS 2000 model can provide multimedia capabilities by supporting multiple Next Generation Protocols. Both switch models can provide clear-channel digital private lines, data transmission and value-added services such as four-digit dialing, tripartite conferences, caller ID, call waiting, automatic dialing and smart lines, among others. Sonus SoftSwitch provides voice over IP services.

Data Centers

Axtel's new generation services are provided using the world-class Data Centers built in accordance with international standards including the TIA-942 standard. Axtel currently owns six Data Centers with more than 7,000 m^2 of capacity nationwide with ICREA (International Computer Room Experts Association) level 3 through 5 certifications; 3,000 m^2 in Monterrey, 100 m^2 in Guadalajara, 665 m^2 in Mexico City and 3,250 m^2 in Queretaro where 600 m^2 will be added in 2017. The Data Center in Querétaro is the first in Latin America with an energy cogeneration system, and has obtained the ICREA 5 certification.

Network Administration

We have three centers of monitoring and administration of national network, called Network Operating Centers (CORE), two located in Monterrey and another one in Guadalajara. Our CORE centers supervise the correct operation of connections and equipment. The monitoring occurs 24 hours a day, seven days a week. When there is an inappropriate performance of the network, the CORE initiates the process to correct any fault and notifies the affected areas of such fault.

Information Technology Systems

We have an information technology architecture that is based upon Siebel, a customer relationship management system, SAP software for enterprise resource planning, Comverse Technology Inc. software for billing and Net Boss for network management and monitoring. These systems enable us to perform on-line sales and service provisioning, manage customer requests, generate accurate bills and produce timely financial statements. These systems allow us to respond to customer requests with speed, quality and accuracy.

2.8.3) Other topics related to the Company's assets

At the date of this report, Axtel's assets are free of encumbrances.

Axtel's main assets comply with the industry's own environmental and maintenance safety standards. The telecommunications network was built and operated based on international standards of reliability, redundancy and restoration.

Axtel is insured against three categories of risks: (i) assets; (Ii) transportation and (iii) civil liability. The all-risk policy ensures assets from hurricanes and other weather conditions, earthquakes, equipment failures and other disasters. Transportation policies provide coverage for all import and export equipment, whether shipped by air, land and / or sea. There are also liability policies, which provide coverage for damages to third parties and insure assets, products and people, including counselors and managers. In addition, as required, insurance policies are contracted to comply with local regulations or specific needs, such as commercial automobiles, workers' compensation and employee practices. Axtel considers that the coverage of the insurance with which it is counted is reasonable in its amount and consistent with the standards of the industry in which it participates. No difficulties are foreseen to renew the insurance policies when they expire.

2.9) Applicable Legislation and Tax Situation

2.9.1) Applicable Law in the Telecommunications Industry

General

In June 2013, major changes to the Mexican Constitution to reform the telecommunications industry entered into force; these reforms are detailed in section 2.11.4) Recent reforms in the Mexican telecommunications industry. The telecommunications industry in Mexico is primarily regulated by the LFTR which became effective on August 13, 2014, and the preponderance measures dictated by the IFT. In addition, there are several administrative provisions governing the industry.

Under the LFTR, the Mexican telecommunications industry is regulated for regulatory, administrative and operating matters by IFT. IFT is an independent public entity intended to regulate and promote competition and the efficient development of the telecommunications and broadcasting industry in Mexico. The IFT is responsible for, among other things, the regulation, promotion and supervision of the use, development and exploitation of the radio spectrum, orbital resources, satellite services, public telecommunications networks, the provision of broadcasting and telecommunication services, as well as access to active and passive infrastructure and other essential resources.

The IFT is the highest authority in telecommunications and has the authority to grant and revoke concessions and permits, including the allocation of spectrum frequencies, granting, transferring, renewing or revoking concessions and applying penalties for law and concession infringements. The IFT makes the final decision on these issues, and once a final decision is taken, its resolutions can only be revoked under constitutional trial (*amparo indirecto),* without the possibility of provisional suspension. (See "Risk Factors").

Notwithstanding the aforesaid, and by virtue of changes in the legal framework, the attributions previously granted to the COFETEL are now attributions granted to the IFT.

Concessions

The LFTR oversees the Single Concession entity, which has **advantages** like:

- Confers the right to provide all kinds of public telecommunications or broadcast services. If the use of the radio spectrum or orbital resources is required, it shall be obtained in accordance with the LFTR;
- It is not necessary to have a Public Telecommunication Network concession (RPT);
- Consolidation of all titles under the RPT, thereby simplifying administrative procedures for the fulfillment of obligations;
- Registration of Services: Before starting operations on any feasible public telecommunication services, we must solicit its inscription in the Public Registry of Concessions. If case any additional frequency band not open to public use is needed, we would obtain them through the LFTR (Bidding).
- Term: 30 years, with the option to be extended by equal installments.
- Economic savings, for example: royalty payments, payments for bonds, etc.

Under the applicable law, there is a possibility to lien assets that form part of a public telecommunications network that has been installed and operated by Axtel, in the context of an execution it may be limited.

In addition to concessions, the IFT (or the SCT) may also grant permits and authorizations for the following:

- Installing, operating or exploiting transmission-ground stations; and
- Providing telecommunications services as a reseller.

Legally, there is no statutory maximum term mandated for these permits unless specifically stated in the permit.

Transfer. Concessions are transferable three years after the concession is granted. The IFT needs to approve the transfer of the concession title if the assignee agrees to comply with the terms of the concession and such a transfer does not violate the foreign ownership requirements of the LFTR and the Mexican Foreign Investment Law.

Termination. A concession or a permit may be terminated pursuant to the LFTR upon the following events:

- Expiration of its term;
- Resignation by the concession holder or the permit holder;
- Dissolution or bankruptcy of the concession holder or the permit holder; or
- Concessions may be revoked by either of the following events:
    - I. Failure to exercise the rights of the concession within the established time limit.
    - II. Perform acts contrary to the law.
    - III. Failure to fulfill the obligations or conditions established in the concession would result in revocation;
    - IV. Refusal to interconnect other concessionaires, partially or totally disrupting or hindering interconnection traffic, without justifiable cause;

V. Failure to comply with the obligation to retransmit the broadcast television signal, free of charge and in a non-discriminatory basis;

VI. Refusing to retransmit broadcast content;

VII. Change nationality or solicit protection from a foreign government;

VIII. Assign, lease, or transfer concession or authorizations, the rights conferred on them, or the assets assigned to them in any way that violates the Law;

IX. Not appraising the Federal Treasury any rights or compensation that would be owed to the Federal Government;

X. Failure to comply with the basic obligations for the granting of the concession;

XI. Not providing the guarantees that the IFT had established;

XII. Change the location of the broadcast station without prior authorization from IFT;

XIII. Change the assigned bandwidth frequencies without authorization from IFT;

XIV. Suspend, in whole or part, telecommunication services in more than fifty percent of the covered area, without justification and without authorization from the IFT for more than 24 hours or up to three calendar days in the case of broadcasting;

XV. Failure to comply with resolutions of IFT that have been firmly established in cases of behaviors related to monopolistic practices;

XVI. Any case of dominant or preponderant agencies that benefit directly or indirectly from the free retransmission rule of television signals through other operators, as well as revocation the concession to the latter;

XVII. Failure to comply with resolutions or determinations of IFT relative to the accounting, functional or structural separation;

XVIII. Failing to comply with the resolutions or determinations of IFT relative to the local network unbundling, divestiture of assets, rights or necessary equipment, or asymmetric regulation;

XIX. Use the concession granted by IFT in the terms of this Law, for purposes other than those requested, or profit from acts prohibited from this type of concession or

XX. Any other foreseen in the Constitution, in the Law and any other applicable provisions.

The Institute shall immediately revoke the licenses and authorization in the cases of sections I, III, IV, VII, VIII, X, XII, XIII, XVI, and XX above. In other cases, IFT may revoke the license or authorization if it had previously sanctioned the respective dealer at least twice by the any of the grounds provided in these sections, except in the case provided in section IX, in which case the revocation may proceed in the same case foreseen in that section. In these cases determining the monetary amount of the sanction will be provided in subsection E) of article 298 of the LFTR.

Rescue. The Mexican government has the statutory right to permanently rescue any telecommunications concession and claim any related assets for reasons of public interest. Under Mexican law, the Mexican government is obligated to compensate the owner of such assets in the case of a statutory rescue occurs. The amount of the compensation is to be determined by appraisers. If the party affected by the rescue disagrees with the appraisal amount, such party may initiate judicial action against the government. In such a case, the relevant judicial authority will determine the appropriate amount of compensation to be paid. We are not aware of any instance in which the Mexican Government has exercised its rescue rights in connection with a telecommunications company.

Temporary seizure. The Mexican State, may also temporarily seize all assets related to a telecommunications concession or permit in the event of a natural disaster, war, significant public disturbance, threats to internal peace or for economic reasons or for other reasons related to national security. If the State temporarily seizes such assets, except in the event of war, it must indemnify the concession holder for all losses and damages, including lost accrued revenues. We are not aware of any instance in which the State has exercised its temporary seizure attributions in connection with a fixed or mobile telecommunications services company.

Rates for telecommunications services. Under the LFT, rates for telecommunications services (including fixed, local and mobile services) are now freely determined by the providers of such services, in terms that allow the provision of services in satisfactory conditions of quality, competitiveness, security, retention and non-discrimination.

In accordance with the LFTR, a company must register through the IFT's Registration of Electronic Systems and Tariffs, prior to the provision of services.

In case of disagreement over interconnection tariffs or conditions, the IFT will resolve rates, quality and service requirements. Additionally, asymmetric measures will be applied to those companies declared as Preponderant Economic Agents and/or substantial market power in accordance with the LFTR and other applicable regulations. All rates for telecommunications services (other than value-added services) must be registered with the IFT prior to becoming effective.

In 2014, the IFT declared América Móvil (Telmex and Telcel) as a Preponderant Economic Agent, imposing them asymmetric regulation such as not charging interconnection fees for traffic terminating on their networks, as well as the obligation to allow other service providers to use their infrastructure, lease administrative links and unbundling of Telmex local network, to name the most important.

Tax Laws. The Congress approved an addition to the Special Tax on Production and Services Act (IEPS), which came into force on January 1, 2010, such addition increased the tax rate applicable to telecommunications services to 3%, with the exception of interconnection services of public telecommunications networks, internet services, public telephone services, as well as the fixed rural telephony services.

As of the date of this Annual Report, the Company has substantially complied with its obligations under the legislation applicable to the telecommunications industry.

2.9.2) Limitation on Capital Stock Investments by Foreign Shareholders (Foreign Investment Law)

The holding of stock by non-Mexicans in Mexican Companies that participate in certain sectors, is regulated by the Foreign Investment Law (*Ley de Inversión Extranjera*) published in 1993, and by the Rules that Apply to the Foreign Investment Law and the National Registrar of Foreign Investment (*Reglamento de la Ley de Inversión Extranjera y del Registro Nacional de Inversiones Extranjeras*) published in 1998. The National Commission for Foreign Investments applies the regulations prescribed by the Foreign Investment Law and the Rules that Apply to the Foreign Investment Law. Mexican Companies must comply with the restrictions regarding foreign possession of their equity. Before the reforms mentioned hereunder in the following paragraph, this regulation included companies in the telecommunications sector. Mexican companies, normally restrict possession of certain classes of their stock, exclusively to Mexicans. It is an administrative usage of the National Commission for Foreign Investments, to consider as Mexican a trust created for the benefit of foreign investors, that meet certain requirements that neutralizes foreign vote, and that is approved by the National Commission for Foreign Investments, and such is the case of the CPOs Trust.

In virtue of the legal and constitutional amendments to the telecommunication sector published in: (i) *"El Decreto por el que se reforman y adicionan diversas disposiciones de los artículos 6o., 7o., 27, 28, 73, 78, 94 y 105 de la Constitución Política de los Estados Unidos Mexicanos, en materia de telecomunicaciones de fecha 11 de junio de 2013"*, and (ii) "*el Decreto por el que se expiden la Ley Federal de Telecomunicaciones y Radiodifusión, y la Ley del Sistema Público de Radiodifusión del Estado Mexicano*"; in addition with the amendments, additions and repealing of certain provisions in the matter of telecommunication and broadcasting, dated July 14, 2014, the restriction for the companies in the telecommunication sector to allow participation of non-Mexicans in their social capital was lifted.

Notwithstanding the above, because of several provisions in the By-Laws of the Company, as well as in the CPOs Trust, foreigners cannot directly or indirectly own more than 49% of the total equity with voting rights in Axtel. Any Investor that acquires stock in violation of these statutory restrictions will lose its rights regarding such stock.

Besides limitation on the possession of equity, it establishes that Mexican stockholders must control the Company and appoint its management.

In accordance with the Company's By-laws, foreign countries shall not, directly or indirectly own or be in possession of stocks or CPOs issued by the Company. Notwithstanding the above, the terms and conditions established in the concession to operate a telecommunications network, mention that the companies owned by foreign governments that are incorporated as independent companies in possession and control of its own assets, may be stockholders of a minority interest in the Company, or may hold any amount of stock with limited voting rights in the Company. Possession of Series B shares by companies owned by foreign governments, or by pension plans incorporated specifically for the benefit of government employees, municipal and other governmental institutions, will not be considered directly or indirectly as in possession of foreign governments, in accordance with the contents of the Company's By-laws, the LFTR or the Foreign Investment Law.

In accordance with Mexican regulations, the Company's By-laws and the CPOs Trust, the foreign holders of CPOs and ADSs are bound to disclaim to the protection of their government. This obligation, also prescribes that those foreign holders of CPOs and ADSs, could not ask their government to file a complaint again the Mexican government regarding their rights as stockholders. If the foreign stockholders violate this condition, they will lose for the benefit of the country, all Series B shares underlying in the CPOs or ADSs in their possession. Mexican law prescribes that all Mexican companies, with the exception of those that have a foreigners exclusion clause, must include in its By-laws this prohibition.

The Company's By-laws mention that the interpretation and/or compliance of such By-laws shall be subject to the competent jurisdiction of the courts located in the city of Monterrey, Nuevo Leon.

2.9.3) Income tax (IT)

The Company is subject to the applicable law to corporations. As of this date the Company is in compliance with all tax obligations and it does not enjoy any special tax benefit, being contributor of federal and local taxes under the tax regimes provided for by the applicable legal provisions. The Company was subject to ISR or IT in 2016, 2015, and 2014, the rate was 30% for the aforementioned years.

2.10) Environmental Performance and Social Responsibility

Operating under a sustainability framework means continuously attending to and improving the social, environmental and financial aspects of the company. After a few years of working in key areas in favor of sustainable development, Axtel defined a business approach that allowed it to take actions, establish indicators and evaluate its performance on an annual basis, adopting the best practices to continuously address and improve social, Labor, environmental and financial aspects of the company.

Axtel's operations are subject to local, state and federal environmental protection regulations in force in Mexico. We comply with the provisions of the General Law on Environmental Protection, General Law on Climate Change, General Law for the Prevention and Management of Waste, Federal Law on Environmental Responsibility and National Water Law, as well as their respective regulations, as part of our Sustainable commitment by acting beyond compliance with legal requirements and other environmental requirements that we voluntarily adopt.

For the ninth consecutive year we received the Socially Responsible Company Award from the Mexican Center for Philanthropy (CEMEFI), we continue to join the UN Global Compact, the largest Social Responsibility initiative in the world, and are part of the Sustainable IPC of the BMV for the fourth consecutive year.

This focus is defined in our global sustainability strategy:
Contribute to a more sustainable future with our labor and environmental practices by proposing, in an honest, ethical and responsible way, innovating solutions to make information and communication technologies available to the society, ensuring the profitability of the Company.

This strategy is the framework for all the efforts to continuously improve the performance of the company and is reflected in the Sustainability Model, which is based on five fundamental themes:

- Operative Efficiency
- Innovation and Digital Culture
- Social Investment

- Labor Welfare
- Environment

2.10.1) Operation Efficiency

We integrate the best practices of corporate governance to ensure adequate financial management that guarantees the sustainability of Axtel and allows us to generate economic development in our society and country. The behavior of Axtel's collaborators is based on the highest standards of personal and professional integrity, complying with the policies, procedures, guidelines and laws that underpin its operation.

The current Code of Ethics is governed by 16 principles that include the behavior that is expected by Axtel from its employees, suppliers and allies, seeking a productive work environment with respect for human rights, diversity and harmony, avoiding situations of conflict of interests, bribery, corruption, discrimination and harassment; as well as defining the guidelines of conduct in our relationships with investors, clients, creditors, suppliers, competitors, government and authorities.

The Alfa Transparency Mailbox is the reporting tool that is permanently available to employees, customers, suppliers, shareholders, investors, community and other stakeholders to ensure the correct application of the Code of Ethics. It is possible to report on issues related to accounting, finance, internal control, conflict of interest and corruption or bribery, with which we seek to promote a climate of transparency, integrity and ethics within and outside the company. Complaints can be made anonymously and confidentially via email and a toll-free telephone line and are reviewed by the Alfa Audit Department.

2.10.2) Innovation and Digital Culture

Axtel has always worked to innovate since it is the only way to stay in a constant state of evolution and at the forefront of the market. We connect our community through innovative products and services in the Information and Communication Technologies, which foster a digital culture, reduces the technological gap and promotes progress towards a more knowledgeable society.

In 2007 we started the Innovation Program, a methodological program that has been successful thanks to the participation of all the employees in the company. Its objectives are to generate value through technology and innovation, to strengthen the capabilities of our clients, and to enhance creativity and collaboration.

In order to guarantee Axtel's place in the market, we innovate through the creation of new products, services, processes, and strategies. During 2016 we introduced the Lean Startup method, and from this we launched four prototypes; FIA Axtel Intelligent Fiber, Smart Metering, Skype for Business + Telephony and Entrepreneurship Pilot Program.

We monitor the technological megatrends that impact our environment such as Big Data, Internet of Things, Virtualization, Social Networks and Mobility; and we added Data Security, given its importance in the field of telecommunications.

We launched the Axtel Synergy Challenge, which seeks to make the company more efficient through the voluntary participation of our employees, who are invited to participate in multidisciplinary teams to propose ideas focused on four areas: savings in expenses and costs, savings in investment (CAPEX), increasing revenues, and processes with impact to our clients.

In 2016, 788 employees were trained in the use of this platform to facilitate participation and over 400 new ideas were received during the year. Of these, five initiatives were selected and implemented and have generated saving of $2.6 million over 10 months.

Our most important project in this area is the Incubator *NAVE*, the first and only business acceleration program for Information and Communication Technologies businesses designed and driven by a Mexican company. This initiative is aimed at identifying and developing Startups and Scaleups with potential. Six projects were selected out of a total of 400 projects received, receiving support for 16 weeks in preparation for a final Demo Day. Of the six projects, Axtel signed alliances and collaboration agreements with three of them to collaborate in a commercial alliance.

2.10.3) Social Investment

In accordance with Axtel´s mission to "enable organizations to be more productive and bring people together to improve their quality of life", in 2016 *Fundación Axtel* launched the Service Donation Contact Center Contest that supported winning institutions in their events, projects, campaigns, updating their databases, or survey applications. The purpose was to facilitate access to telephone services that would make their operation more efficient.

Fundación Axtel continued to work with institutions such as Alianza Educativa Ciudadana de Nuevo León, SumaRSE Network, Young Power, Instituto Nuevo Amanecer, Andares, Ser and Crecer and Casa Paterna La Gran Familia, which seek to promote education, promote social behavior, strengthen family, individual development and community participation, in the state of Nuevo León, benefiting over 4,600 people.

During the year, two volunteer events were held at the CONALEP High School "Raúl Rangel Frías" where the *Purpose of Life* program was given, and at the "1 de Mayo" Primary School, where *Mentor Friend* program was offered, which benefited more than 3 thousand students.

We received the recognition of Social Investment, granted by CEMEFI, by allocating 1 percent of pre-tax profits to these causes.

As part of the Alfa Group, our volunteers participated in the *Escuela para Padres*, an initiative that is part of the Alfa Foundation Educational Project. Volunteers approach the parents of high school students to help with different issues facing their teenagers, seeking to foster the development of a healthy and understanding family that helps improve their psychological well-being and quality of life.

2.10.4) Labor Welfare

One of Axtel's basic premises is to provide optimal conditions for health, safety and well-being in order to offer an optimum quality of life for its collaborators, as well as offer the tools for their personal and professional growth.

Due to the merger, 2016 was a year of transformation for Axtel in which we established a process of definition and change management with which we homologate the organizational culture based on the best of both companies. In this process we focus on promoting the qualities of the leader at all organizational levels, as well as building an open attitude towards new ways of working and continuous improvement, to boost the Company's evolution, increase our efficiency and, with it, our productivity.

All of this generated cost efficiencies and elimination of redundancy of functions, which maximized the efficiency and productivity of the work teams, as well as retaining the best talent of the organization.

Other activities include the Family Day, which was attended by 2 thousand 300 employees and their families, in addition, more than 7 thousand 541 people participated in the health campaigns.

In the area of Industrial Safety, our accident record fell by 4% compared to 2015 and is below the industry average according to the statistical report of the Ministry of Labor and Social Security (STPS), while the indicator of accident severity was 12.7% lower than the national average. In 2016 we did not register cases of occupational diseases, however, 120 employees had accidents at work which presented an average of 22.7 days lost by accident and one fatality.

2.10.5) Environment

The conservation of the environment is a fundamental part of Axtel's business strategy and the sustainable development of society. Axtel has institutionalized its actions in an Environmental Management System, which includes an environmental policy, energy saving, efficient use of water and management and final disposal of waste, which govern our operations to reduce our environmental impacts. We continue to join the Clean Transportation Program and GEI Mexico Program, and report to Carbon Disclosure Project (CDP), as a demonstration of our commitment to reduce our gas emissions.

In 2016 we began measuring our environmental performance as a new company, identifying the environmental aspects derived from our operations, from which we have implemented different initiatives to reduce their impacts. Of these, the consumption of electrical energy and the generation of electronic waste are a priority because of their magnitude. Complementary to the high energy efficiency of our processes, we supply wind generated energy to 18 different buildings, geothermal energy in 69 sites and an efficient cogeneration system in our Data Center in Queretaro, which represents 22% of the total energy consumed from clean sources. In addition, we developed a plan for the proper disposal of wastes.

We continue with the Electronic Invoicing program that started in 2011. To date, 61% of our billing is made in this format, which is equivalent to 3 million 810 thousand 890 invoices or 30.6 tons of paper.

At the end of 2016 we implemented the *Time of Arrival* tool, which digitally manages service requests to our installers' phones, scheduling the visit automatically. This initiative has eliminated 700 thousand orders printed on paper, equivalent to 18 tons, which in turn accounted for 70% of all impressions of the Service Delivery area.

The Workshop on Environmental Leadership for Competitiveness was held, which involved 21 employees from different areas and some suppliers, developing 14 eco-efficiency projects. Implementing these initiatives will generate approximate annual savings of $7.2 million pesos.

2.10.6) Environmental and Sustainability Certifications

- Transporte Limpio
- Liderazgo Ambiental para la Competitividad
- Empresa Socialmente Responsable
- IPC Sustentable BMV

2.11) Market Information – Mexican Telecommunications Industry

2.11.1) Markets

The Company's commercial operations began in June 1999 in the City of Monterrey, Nuevo Leon. Axtel offers voice, data, internet, managed networks and information technology services for the enterprise, corporate and government segments. In addition to telephone, internet and television services for the mass market. It has a long distance telecom network with which it can offer services in more than 200 cities in Mexico. Additionally, Axtel has fiber optic technology for the mass market in 10 of the country's main cities: Monterrey, Guadalajara, Mexico City, Queretaro, San Luis Potosi, Puebla, Aguascalientes, Leon, Juarez and Toluca. Axtel's coverage and capacity is located in the largest metropolitan areas, the Company believes that these cities represent the largest revenue opportunity in the telecommunications industry in Mexico.

Axtel is a company focused on the Mexican ICT market with emphasis on the corporate, business and government segments. Approximately 80% of the company's revenues come from these sectors. With a high focus on managed Data Center services, it has positioned itself as a brand that has the experience, infrastructure and leading services to energize the ICT industry, and contribute to the birth of a new generation of more innovative, efficient and competitive companies. This is backed by strong partnerships with leading technology partners and a service philosophy based on excellence.

The Company has experience and recognition in the market that allows to ensure the highest standards of service required by corporations and companies in the most relevant sectors of the Mexican economy. All financial groups in the country have services contracted with Axtel, which speaks of an important positioning of the company within the financial sector, as in many others. Approximately half of the Company's customers are multinational companies.

Axtel has a very broad Data Center strategy, designed to the highest standards, represent the best and most complete alternative in the market, by positioning itself as the most advanced and reliable in Mexico and Latin America. The offer of solutions includes six world-class Data Centers, with a capacity of 7 thousand square meters, which enable

Mexican companies with the best technology and maximum availability. They are supported by best practices in security, power, communication and cooling systems, which give customers the certainty that their operations will not be interrupted.

As part of the strategy for residential market, Axtel has triple-play offers that include high speed internet, telephony and television. The offers are aligned to the entertainment and security needs of the customers. In addition, it has a special focus for small businesses that helps professionalize their communication platforms and information technologies to be more productive.

Enterprise market penetration by service

Service	Market Penetration (%)
Telecom	**18%**
Managed Networks	12%
Data and Internet	21%
Voice	19%
Information Technologies	**8%**
Data Centers and Cloud Services	14%
Security	13%
System Integration	5%

** Company estimates with information from third parties including industry analysts, such as Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research.*

2.11.2) Market Size and Projected Growth

According to industry analysts, including Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research, the Mexican telecommunications market generated $ 445 billion pesos in 2016, with an annual growth of 2.1%. 2017 should be more optimistic with annual growth of 4%.

In relation to 2015, in 2016 we saw a positive performance in the enterprise segment (key focus of the Company). The services generated $76,598 million pesos with a 6% growth and an annual 10% growth is expected for the next 5 years.

In the Telecom Enterprise market services such as Long Distance, Private Lines and Frame Relay that are in their exit stage, according to analysts and declined around 16% in 2016, which had a negative impact on the total market. However, value-added services such as Dedicated Internet, Ethernet, Managed Services and Unified Communications, are in their mature stage and are having accelerated growth of around 7%, reaching a total of $50,224 million pesos in 2016.

According to these industry analysts, the Enterprise Information Technology market reached a total of $26 billion pesos in 2016, which represents a 13% growth compared to 2015. The services with the highest growth in this market are Cloud Services with 26% growth, Data Center Services with 15%, Security with 14%, as well as Application Management with 12% and Systems Integration with 10%. Approximately a 17% annual growth rate is expected for the next 5 years.

In the fixed segment, a positive performance is expected derived from the stabilization of prices of fixed telephony and the significant increase in the number of accesses and, consequently, of fixed broadband (BAF) revenues. This despite a 2.1% drop in fixed telephone lines. In this way, this market will reach an annual growth in revenue equivalent to 1.2%. Analysts expect that in 2017 the sector will continue its upward momentum, driven by the hiring of BAF. Regarding mobile services, analysts estimate a slight decline in terms of income of 2.4% due to the continued decline in prices still not being compensated by the increase in users and traffic.

The cable and satellite television segment is the one that will present a higher rate of growth, reaching a 21% increase in revenues with respect to the previous year, thus becoming the engine of revenue growth of the sector as a whole in Mexico. This dynamic is attributable to the accelerated addition of satellite television subscribers, as well as to the continuous increase in the user base of packaged services, as a result of prices. "The forecast for 2017 results in a rate of 17.3%, due to continued growth in the customer base," according to analysts.

Analysts predict a favorable 2017 outlook based on the benefits of the downward price ramp experienced by Mexican telecoms, the injection of greater infrastructure resources, the reconfiguration of the competitive ecosystem, as well as increased consumption and supply of services.

2.11.3) Competition

The main competitors in the telecommunications sector are: Telmex, Grupo Televisa (Cablevisión, Cablevisión MTY, Cablemás, Cablecom and Bestel), Grupo Salinas (Enlace TP and TotalPlay), Megacable and Maxcom. In the area of Managed services in data centers and cloud we find: Telmex (Triara), KIO, Cloud Magna as players in Mexico and Amazon Web Services, Rackspace as international players.

Telmex. Identified as Axtel's main competitor due to the former state-owned telecommunications monopoly. Starting in 2015, it is classified as a preponderant economic agent under the new telecommunications reform due to its penetration in local telephony and internet services. It offers services OTT (Over The Top) since 2012 with its service of Claro video which transmitted the Olympics, mainly focused on the residential market. This year, it sought to have the television concession which was denied with the aim of offering triple-play packages. It has a fiber optic network (FTTX) and ADSL2 + services to offer Internet services throughout Mexico which has expanded in recent years.

Televisa Telecom. Televisa, the largest Spanish-speaking media company in the world, is the majority owner of Cablevisión, TVI or Cablevisión MTY, Cablemás and Cablecom. By taking advantage of its position in the media and its solid financial situation, Televisa has been able to enter the telecommunications industry and has quickly become the second most dominant operator. Televisa is also the majority owner of SKY (58.7%), a restricted television service using DTH (Direct to Home) technology, being the leader in restricted television in the country. The offers of Cablevisión, Cablevisión MTY and Cablemás focus on video complementing with broadband internet and/or telephony service, creating double and triple-play packages. They have also improved their TV offering by incorporating high-definition content, on-demand video and value-added services as a DVR. In November 2014, Televisa continued with the positioning of its cable service brand "Izzi Telecom". Televisa is a major competitor in telephony services and related services packages, such as the internet, which we currently offer or could offer in the future. Televisa also currently offers its "Blim" service, an OTT that enters the market to compete with content, mostly national, with Claro Video and Netflix. Recently, the Federal Communications Commission (FCC) authorized Televisa to acquire 40% of Univisión.

Bestel. Company with more than 15 years of experience and part of Grupo Televisa since 2007, it provides voice, network, Internet, information technology, managed services for the business segment and government.

Megacable. The company provides Internet services, pay television and fixed telephony to the residential and business segments. In addition, it owns Metrocarrier, MCM, Ho1a and PCTV providing value-added services, including managed services, equipment and content. Megacable made an agreement with Maxcom to keep the voice, data and video business of mass market clients in Querétaro, Tehuacán and Puebla.

Maxcom. Maxcom began operations in 1999 focused on residential and small business customers in the cities of Puebla, Mexico, Querétaro, San Luis Potosí and Tehuacán. Maxcom provides local and long distance voice services, data, public telephony, IP-based television. It also provides mobile services through resale and capacity leasing. Maxcom, leaves the residential triple play business in 3 cities to focus on the enterprise market.

Group Salinas. In January 2015, AT&T completed the acquisition of Iusacell, the third mobile operator in Mexico, from Grupo Salinas for US $2.5 billion. As a result of this acquisition, Grupo Salinas will continue to offer fixed telephony services using FTTx technology under the Totalplay brand for the residential segment and Enlace TP for the enterprise segment. In that same year, it changes its name to Enlace TP (Total Play), it begins to expand its network offering Internet, Fixed Telephony and Networks services.

2.11.4) Recent Reforms in Mexico's Telecommunication Sector

In June 2013, important amendments to the Mexican Constitution aimed at reforming Mexico's telecommunications sector became effective (collectively, the "Reforms"). The purposes of the Reforms were: (i) to guarantee the right to access information by establishing that telecommunications and broadcasting services are to be considered as a public service; and (ii) to promote a legal framework capable of stimulating competition in both sectors. The Reforms created a new industry regulator known as *Instituto Federal de Telecomunicaciones* (IFT) which regulates the telecommunications and broadcasting sectors and has enforcement powers. IFT serves as the exclusive antitrust authority in the telecommunications and broadcasting sectors pursuant to Article 28 of the Mexican Constitution and has authority to grant and revoke all forms of concessions and licenses, as well as to impose fines and sanctions and ensure greater competition in the industry.

On August 13, 2014, the *Ley Federal de Telecomunicaciones y Radiodifusión (LFTR)* became effective. The LFTR implements the Reforms, recognizes the IFT as the competent authority in the field of unfair competition in both the telecommunications and broadcasting sectors, with the responsibility to promote and regulate competition in order to provide for efficient development of these sectors, and empowers the IFT to undertake any and all duties and responsibilities set forth in the Federal Law of Economic Competition (*Ley Federal de Competencia Económica*) (LFCE) in respect to the telecommunications and broadcasting sectors, including, among others: (i) analysis of concentrations; (ii) opinions in tenders; (iii) investigation of anticompetitive or monopolistic practices; and (iv) application of sanctions.

The LFTR authorizes the IFT to regulate competition in the telecommunications and broadcasting sectors using a variety of regulatory mechanisms, including:

Determination of the Existence of Preponderant Economic Agents. The IFT may declare, at any time, the existence of a "preponderant agent" in the telecommunications and broadcasting sectors. The LFTR considers a preponderant agent to be anyone who, directly or indirectly, owns more than fifty percent of the subscribers, users, audience, traffic on their networks, or capacity used on such networks, measured on a national basis, in the provision of broadcasting or telecommunications services.

Asymmetric Regulation. The IFT may impose "asymmetric regulation." Any economic agents that are declared by the IFT to be preponderant agents shall be subject to asymmetrical regulation as determined by the IFT, which could be applied in respect to rates, information, quality of services, exclusivity, divestiture of assets, among others. The IFT must verify, on a quarterly basis, compliance with any asymmetric regulation that was issued, and apply any appropriate sanctions. In such process, the IFT may be aided by an external auditor. If the IFT determines that the conditions of effective competition have been restored in a market where an entity was declared as a preponderant agent, the provisions of the asymmetric regulation shall cease to apply. Similarly, if the IFT determines that an entity no longer accounts for more than fifty percent of the subscribers, users, audience, and traffic on their networks, or capacity used on such networks, considering the national participation of such entity, such entity shall be deemed to no longer be a preponderant agent. The LFTR also provides that any entity declared a preponderant agent may submit to the IFT a plan with actions it proposes to take in order to stop being considered a preponderant agent.

The LFTR sets forth the following asymmetric regulations which are applicable to Telmex and Telcel, the current preponderant agents in the telecommunications sector:

- To provide annually, and for the approval of the IFT, a public offer in connection with interconnection matters, including a proposed form of agreement to be entered with other operators, disaggregation of its network and share of infrastructure matters, roaming and resale of wholesale services.
- To submit for approval of the IFT, the rates offered to the public.
- To allow other operators, disaggregated access to its network and infrastructure on a basis of non-discriminatory rates, and which do not exceed those rated authorized by the IFT.
- To allow other operators to resell its services.

Determination of the Existence of Dominant Agents. The IFT may declare, at any time, the existence of a "dominant agent" in the telecommunications and broadcasting sectors and, similarly to the asymmetric regulations which may be imposed on preponderant agents in order to avoid any distortion to the process of free competition, the IFT has the authority to impose specific obligations in order to limit dominant agents, with respect to information, quality of services, rates, commercial offers and billing.

Consolidation without Notice. Consolidation between economic agents which are holders of concessions may occur without the need to notify the IFT provided that, among other requirements, there is a preponderant economic agent in the market where such transaction takes place and such preponderant agent is not one of the parties to the consolidation.

Interconnection Rates. While there is a service provider that is considered a preponderant agent, the preponderant agent shall not charge the other service providers for the interconnection services rendered. The other service providers (excluding the preponderant agent) shall freely negotiate among themselves the applicable rates and, if they do not reach an agreement, the tariffs shall be determined by the IFT in accordance with the costing methodology determined by the IFT. When there is no longer a service provider considered as a preponderant agent, the service providers shall maintain mandatory reciprocal compensation agreements, by means of which payments for termination of calls shall be avoided.

Must Carry and Must Offer. The LFTR recognizes the "must carry" and "must offer" rules set forth in the Reforms, under which, the television broadcasters must offer their signals free of any charge, to the pay television service providers, and, the pay television service providers must transmit such signal; in each case with the limitation that pay television service providers shall not charge their subscribers for these benefits. These obligations shall also apply to DTH service providers.

Competitive Neutrality. Public entities shall be authorized to obtain titles or concessions for commercial purposes. Therefore, and in order to protect the dynamics of competition, the LFTR determines that the state owned service providers shall act as private enterprises and shall not create distortions to the market because of the fact that they are public entities.

Sanctions. The IFT is empowered to sanction entities and individuals involved in practices that violate the LFCE in the telecommunications and broadcasting sectors. In this regard, the IFT may apply, among others, the following sanctions: (i) fines on the sanctioned operators of up to 10% of their accrued income; (ii) fines on individuals who participated in monopolistic practices; and (iii) prohibitions on individuals who participated in monopolistic practices, restraining them from serving as directors or business managers.

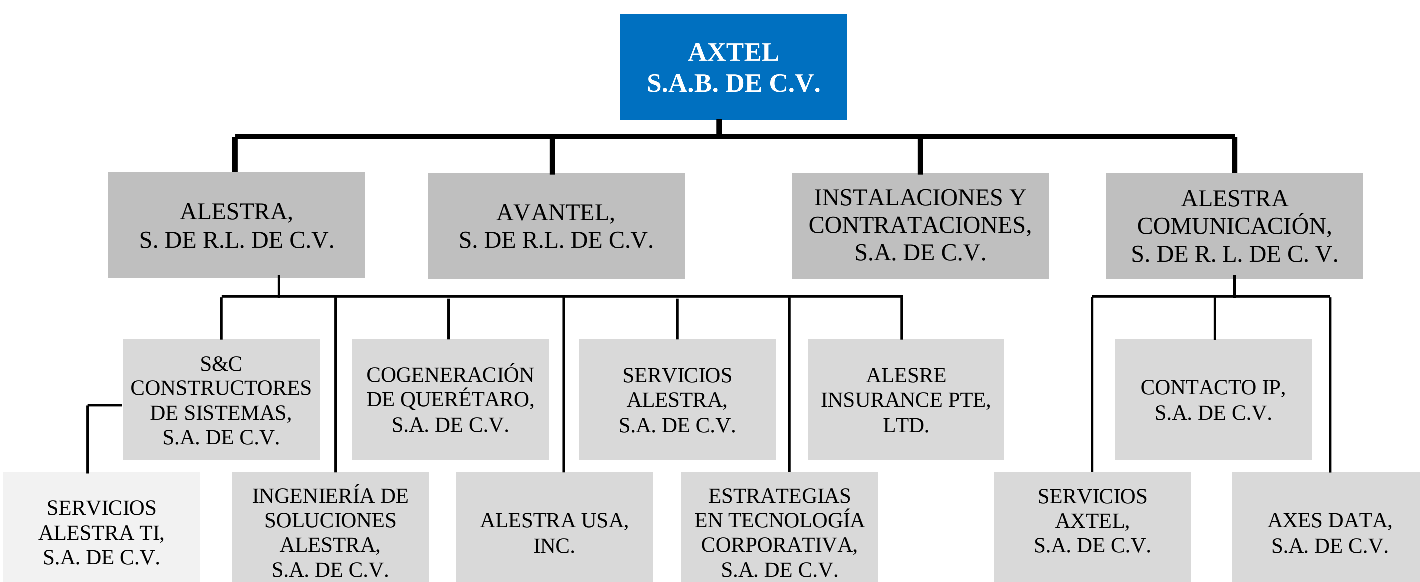
Other. In addition to the above, the LFTR effects the following important changes:

- Elimination of charges for national long distance calls, effective January 1, 2015.
- Opening of the market of mobile telephony to new service providers, through the Mobile Virtual Network Operator figure.
- Opening of the industry to foreign investment of up to 100% in telecommunications and 49% in broadcasting activities.
- Access to advertising in an equitable and non-discriminatory basis.
- Introduction of certain rights to the users through the participation of the *Procuraduria Federal del* Consumidor (Federal Consumers Agency) as authority.
- Confers rights to disabled users to access telecommunications services.
- Confers rights to audiences;
- Introduction of rules to cooperate with the authorities in the field of justice;
- Introduction of the National Single Emergency Number 9-1-1.

2.12) Corporate Structure

As of December 31, 2016, in the proportion indicated below, the Company directly or indirectly owns the following companies incorporated in Mexico with the exception of Alestra USA, Inc., a subsidiary incorporated in the United States, and Alesre Insurance Pte, Ltd., a subsidiary incorporated in Singapore.

NAME	PRICNIPAL ACTIVITY	%
Axtel, S. A. B. de C. V. (Controlling)	Telecommunication Services	
Servicios Axtel, S.A. de C.V.	Administration Services	100%
Alestra Comunicación, S. de R. L. de C. V.	Telecommunication Services	100%
Avantel, S. de R.L. de C.V.	Telecommunication Services	100%
Axes Data, S.A. de C.V.	Administration Services / No operations	100%
Contacto IP, S.A. de C.V.	Administration Services / Call Center	100%
Instalaciones y Contrataciones, S.A. de C.V.	Administration Services	100%
Alestra, S. de R.L. de C.V.	Telecommunication Services	100%
Servicios Alestra, S.A. de C.V.	Administration Services	99.98%
Ingeniería de Soluciones Alestra, S.A. de C.V.	Administration Services	100%
Alestra USA, Inc.	Leasing of equipment and infrastructure / No operations	100%
S&C Constructores de Sistemas, S.A. de C.V.	Telecommunication Services	100%
Alesre Insurance Pte, Ltd.	No operations	100%
Cogeneración de Querétaro, S.A. de C.V.	Administration Services	99.99%
Estrategias en Tecnología Corporativa, S. A. de C. V.	Telecommunication Services	100%
Servicios Alestra TI, S. A. de C. V.	Administration Services	99.90%



2.13) Judicial, Administrative and other Legal Proceedings

Interconnection Disagreements 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) Grupo Telefónica.

   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) resolved interconnection disagreements with the Company, reducing 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 Grupo Telefónica 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 the payment of compensation for said period are those resolved by the IFT in other cases, and based on the results of the litigation processes, 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) Grupo Iusacell (today AT&T).

   i. For 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements with the Company, reducing 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 in 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. Grupo Iusacell contested the IFT's resolution for 2015 and in July 2016, the Company (Axtel) obtained a favorable first 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 with ATT for 2015 and 2016, for which noruling has yet been handed down.

Therefore, as of 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 period 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 contestes 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 Law of 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 challenged 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 of $ 290.6 million pesos, for a resulting balance at December 31, 2016 of $ 153.0 million.

vii. As from April 2012, Alestra and Telmex resumed negotiations and given the most recent and reliable information and 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, the IFT began a process for review of the measures of preponderance imposed on América Móvil as a holding company of Telmex and Telcel. A number or different scenarios can arise from this review, such as: i) that the measures imposed on Telmex and Telcel be either entirely or partially eliminated; (iii) 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 of the resolutions of the IFT and Cofetel will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on said rates and there are no book provisions associated with this contingency. Likewise, the process of revision of the preponderance measures continues in process.

Other Contingencies

The Company is involved in a number of lawsuits and claims arising from the normal course of its operations, which are expected to have no material effect on its financial position and future results and provisions associated with these contingencies have been recorded.

2.14) Capital Stock

Subscribed and Paid in Capital

In accordance with the provisions of the LMV, Axtel may issue different series of non-voting shares, limited voting shares and other restricted corporate rights. The shareholders' meeting that decides on the issuance of said series of shares shall determine the rights that will correspond to the new series of shares.

Since the Company is a stock company with variable capital stock, its social capital must consist of a fixed part and may have a variable portion. To date, the capital stock of Axtel is comprised of 19,229,939,531 ordinary shares, with no par value, of Class "I" Series "B" shares fully subscribed and paid; and does not have shares issued or subscribed in its variable part. Axtel and its subsidiaries may not own shares representing Axtel's capital stock, notwithstanding the foregoing, in certain cases, the Company may repurchase its own Shares. (See "Share Buyback" below).

Capital Stock Variations, Preference Rights and Stock Amortization

The fixed portion of Axtel’s capital stock can be increased or decreased by means of a resolution issued by Axtel’s Shareholders in a General Extraordinary Meeting. The variable portion of Axtel’s capital stock could be increased or decreased by means of a resolution issued by Axtel’s Shareholders in a General Ordinary Meeting. Increase or decrease in the capital stock, must be registered in the Company’s capital stock variation book. According to the terms of the LGSM, Axtel’s By-laws state that modifications to the variable portion of Axtel’s capital stock do not require an amendment to the By-laws or to be registered at the Public Commerce Registry to be valid. It is not possible to issue new stock until the previously issued stocks are fully paid.

For the case of an increase in capital (in the fixed or variable part), stockholders have certain preferential rights to subscribe stocks issued by the Company, pro rata to the number of stock they own, unless:

- Stocks are issued in relation to the capitalization of subscription premiums, retained profits and other capital reserves and accounts in favor of stockholders, pro rata to their stock holding;
- Stocks issued by means of a public offering, when this issuance is approved by the shareholders in a general extraordinary meeting, and only if such offering complies with the requirements mentioned in article 81 of the LMV, including previous authorization in writing issued by the CNBV (amendments to the LMV made as of December 2006, eliminate the right of preference for the case of stocks issued for a public offering);
- Stocks issued due to a merger;
- Stocks issued as treasury stocks related to the issuance of convertible bonds in accordance with the terms of article 210 bis of the "*LGTOC"; and*
- The sale of stock owned by the company as a result of a re-acquisition of stock through the BMV.

The period of time at which the preferential rights must be enforced, must be determined by the stockholders meeting in which the capital increase is approved, nonetheless, such period of time could never be shorter than 15 days from the publication of the corresponding notice at the Official Gazette corresponding to the Company's corporate domicile, and in one of the widely distributed newspapers of the Company's domicile. In accordance with applicable law, preference rights cannot be waived in advance, transferred or represented by a third person via a title that can be negotiated independently, separated from the title.

The Shares, which represent the Company's capital stock, could be amortized in the case of (1) capital stock reductions and (ii) the amortization of retained earnings that should be approved by the shareholders. In terms of the reduction of capital stock, the amortization should be pro rata among all the shareholders, or if, it is related to the variable portion of capital stock, the amortization will be done according to what was established in the corresponding shareholders meeting. In any case, the amortization of the shares will be for an inferior book value of the shares, in accordance with the last approved balance at the general shareholders meeting. In the case of the amortizations against retained earnings, the amortization will take place by (i) a purchase offer through the BMV, in accordance with the LGSM and the bylaws of the Company, o (ii) a pro rata among the shareholders.

Variable Capital

In accordance with the LGSM and the bylaws of the Company, if the Company issues Shares representative of the variable portion of the capital stock, these shares could be reimbursed to the shareholders who decide to exert their right of withdrawal with respect to these Shares and so they express it in a written request to the Company. The price of the reimbursement should be equivalent to the lesser amount between (i) 95% of the average price, during which the Shares traded in the BMV for the last 30 days prior to the amortization, or (II) the book value of these Shares at the end of the fiscal year in which the amortization has its effects. The reimbursement of the Shares will be paid once the financial statements of the previous year are approved by the ordinary general meeting of shareholders. In accordance with the LMV, the representative stockholders of the variable capital will not have the rights of withdrawal before described.

Repurchase of Shares

Pursuant to what is established in the LMV, the bylaws of the Company establish the possibility that Axtel may acquire its own Shares in the BMV at the market price of that moment. The Repurchase of Shares will be on the account of the capital stock of the Company if the Shares stay in the possession of Axtel, or on the account of the social capital, if the repurchased Shares become treasury stock. The ordinary general meeting of shareholders will have to approve the total amount destined for the purchasing of own Shares for each exercise, amount which shall not exceed the total amount of net income of the Company, including the retained earnings. The Board of Directors will have to designate the responsible people to carry out this repurchase of Shares, as well as their sale. The repurchased Shares shall not be represented in the meetings of shareholders. The repurchase of Shares will be carried out, and will be reported and disclosed in accordance with what the CNBV establishes. In July 2008 the Company started a share repurchase program which was approved at the Ordinary Meeting held on April 23, 2008 for an amount of $ 440 million. As of December 31, 2016 the Company has not entered into acquisition operations to repurchase its own shares.

Cancellation of the Registry in the RNV

In case Axtel decides to cancel the registry of its Shares in the RNV or in case the CNBV orders the cancellation of this registry, the shareholders who are considered the shareholders of "control" will have, prior to the date the cancellation is effective, to carry out a public purchase offer with respect to the Shares owned by the minority stockholders at a price equivalent to the amount that is superior between (i) the average price in the market of these Shares in the BMV for the 30 days prior to the public purchase offer, during which the Shares have traded, or (II) the book value of these Shares according to the last presented quarterly financial information to the CNBV and the BMV. In agreement with the applicable legislation and the bylaws of Axtel, in case the shareholders cannot acquire these Shares through the public purchase offer, they will have to form a trust to which they will contribute the amount necessary to acquire, at a price equivalent to the offered one by the Shares in the public purchase offer, the Shares that have not been acquired in this offer. This trust will have to be maintained for at least 6 months. The control shareholders will not have to do this public purchase offer in case of the cancellation of the registry of the Shares is approved by at least 95% of the shareholders, and the number of Shares that will be bought by the general investor is equivalent to less than to 300,000 Units of Investment, or UDIS. In agreement with rules of the CNBV, control shareholders are considered those who own the majority of Series B shares, and have the ability to impose decisions in the meetings of shareholders or have the ability to designate the majority of the members of the Board of Administration.

The LMV establishes that in case of cancellation of the registration of the Shares in the RNV and the BMV (or by the Company's decision or by order of the CNBV), the Company (and not the shareholders that exerts the control of) will have to carry out a public offer to acquire the Shares which are property of the minority stockholders, and will have to constitute a trust with a maturity of six months and to contribute to this trust the necessary amount to acquire the full amount of the Shares not acquired through the said offer. In accordance with the LMV, the shareholders who exert the control of the Company will be shared in common responsibility for these obligations. The purchase price of these Shares is the same price established in the LMV.

In the event the CNBV orders the cancellation of the registration of the Shares, the offer indicated above will have to take place within the 180 days following the cancellation. In accordance with the LMV, the cancellation of the registration of the Shares by decision of the Company must be approved by at least 95% of his shareholders.

Registry of Shares and Transmission of Shares

The Shares of Axtel are registered in the Special and Securities Sections of the RNV maintained by the CNBV. The Shares of Axtel are represented by securities of registered stock. The shareholders of the Company can hold their Shares directly, as titles, or indirectly, by means of registries in stock broker houses, banks and other intermediary financial organizations or authorized by the CNBV that maintains accounts in Indeval ("Depositary of Indeval"). Indeval will send confirmations under the shareholder name who therefore asks for it. Axtel maintains a record book of Shares. Only the shareholders who appear registered in this book as stockholders, or directly or through an Indeval Depositary will be recognized as shareholders by the Company. The transferring of Shares will have to be confirmed in a registry book that will be maintained for such effect. The transferring of Shares deposited with Indeval will be registered in accordance with the established in the LMV.

In accordance with our bylaws and the title of concession of public telecommunications network to offer basic telephony services at nationwide, in case of any assumption of subscription or transfer of shares in one or several events, that represent the ten (10%) percent or more of the amount of the capital stock of the Company, must observe the following regime:

(i) The Company will have to give a notice to the SCT of the intention of the interested ones in carrying out the subscription or transfer of Shares, having to accompany the warning notice with the information of the people interested in acquiring the Shares;

(ii) The SCT will have a term of 90 calendar days, from the presentation of the warning, to object in writing and by justified cause the operation in question

(iii) If the term to object the operation by the SCT expires, it will be understood as approved

Only the operations that have not been objected by the SCT will be, where appropriate, recorded in the book of shareholders of Axtel, notwithstanding the authorizations from other authorities which may be required according to the applicable provisions. Axtel shall not be required to present the notice referred to in this paragraph, when the subscription or transfer refers to representative Shares of neutral investment in terms of the Law of Foreign Investment, or when it makes reference to capital stock increases to be subscribed by the same shareholders, as long as the pro rata portion of the participation of each of them in the capital stock is not modified. In case the interested one in subscribing or acquiring the Shares is a legal entity, the notice referred in this paragraph, will include, the necessary information so that the SCT knows the identity of the people who have patrimonial interests larger than the ten percent of the capital of this legal entity.

Variations in the Capital Stock of the Company in the last three years

Pursuant to the resolutions adopted by the Extraordinary General Shareholders' Meeting held on March 10, 2017, the Company made a reduction in its social capital in its fixed portion remaining in the amount of Ps. 464'367,927.49 represented by 20,249,227,481 Class "I" Series "B" common shares, with no par value, of which 19,229,939,531 Class "I" Series "B" common nominative shares, with no par value, are entirely subscribed and paid; and the remaining number of shares are issued but not subscribed shares held in the Company's treasury.

At December 31, 2016, the Company's capital stock was Ps. 10,233.8 million 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, the following, among others, were approved: a) the issuance of 97,750,656 Class "I" Series "A" shares and 9,571,214,832 Class "I" Series "B" shares, for Ps. 3,464 million that were subscribed by ALFA, to be subscribed by the shareholders of Onexa, S.A. de C.V. according to their shareholding interest in said company, as part of the price for the merger, when the merger went into effect, and b) the issuance of 4,279,126 Class "I" Series "A" shares and 1,015,008,824 Class "I" Series "B" shares, to be held in the treasury of the Company, free of preemptive 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. Shares held in the treasury of the Company can not be represented or voted in shareholders' meetings, nor confer corporate or economic rights.

The following is an analysis of the effect of the merger on the company’s shareholders' equity:

(In thousands of pesos)

	Capital Stock	Merger reserve	Total
Issuance of Shares	$ 3,464,252	$ 3,385,870	$ 6,850,122 (*)
Difference between fair value and the Shareholders’ equity of Onexa		(3,482,023)	(3,482,023)
Transfer to the reserve	(128,491)	128,491	-
Indemnification		(983,747)	(983,747)
Financial Liability		(246,396)	(246,396)
	$ 3,335,761	($1,197,805)	$ 2,137,956

(*) Corresponds to the fair value of shares issued for merger, considering the estimated unit price of the shares at the date of the merger, which amounted to Ps. 6,850 million.

During 2016, the Ps. 90 million reserve set up for the repurchase of shares was canceled. Moreover, during 2016, 2015 and 2014, conversion options were exercised for a total of Ps. 36.1 million equivalent to 104,833,887 shares and Ps. 133.6 million equivalent to 388,180,282 shares and Ps. 100.5 million equivalent to 291,767,672 shares, respectively.

In light of the above, through ageements adopted at an extraordinary general shareholders’ meeting held on July 21, 2016, the following matters, among others, were approved: (i) the pertinent changes in capital stock arising from 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 into Series "B" shares, with the same characteristics as those current outstanding.

At December 31, 2015, the Company's capital stock was Ps. 6,862.0 million 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 difference being those rights that can be conferred as per the applicable law, to the holders of shares that form part of the variable capital publicly Traded Stock Company. Each of the classes had two series: Series "A" and "B"; both indistinct and provided 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 "I" Series "B". At December 31, 2015, the Company had not issued 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 December 31, 2016, 2015 and 2014, the Company suffered a net loss of Ps. 3,599.3 million, Ps. 1,732.3 million and Ps. 1,918.6 million, respectively. At December 31, 2016, 2015 and 2014, there was an accumulated deficit of Ps. 8,486.6 million, Ps. 3,719.5 million and Ps. 1,757.3 million respectively, and short-term liabilities in excess of current assets of Ps. 1,532.5 million 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 major shareholder has expressed their intention to support the Company so as to allow it to continue in existence as a going-concern.

2.15) Dividends

The determination, amount and payment of dividends shall be determined by the majority vote of the Series B shares in a shareholders meeting. In accordance with the Mexican legislation, the Company can solely pay dividends at the expense of retained profits when the losses of previous exercises have been covered.

The shareholders meeting of Axtel has not determined a specific policy of dividends, since the Company is restricted to pay dividends in accordance with its bylaws and pursuant to certain loan and debt issuance currently in place. The Company has the intention to retain future profits to finance the development and expansion of the business and therefore there is no intention of paying dividends in cash or in ADSs or CPOS in the near future and while the above mentioned restrictions continue. Any declaration or payment of dividends in the future will be carried out in accordance with the Mexican legislation and will depend on various factors, including the results of operation, the financial situation, the needs of cash, future considerations of tax nature, projects and any other factors that the advice of management and the shareholders consider important, including the terms and conditions of loan agreements currently in place.

3) FINANCIAL INFORMATION

3.1) Selected Financial Information

On January 1, 2012, the Company adopted International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") as its accounting framework to prepare and present its financial statements.

Some of the figures included in this Report were rounded to facilitate their presentation. The percentages included in this Report are not necessarily calculated based on rounded figures, but in some cases are based on non-rounded figures. For this reason, it is possible that some of the percentages included in this Report are different from those that would be obtained in the corresponding calculation based on the figures included in the financial statements. In addition, it is possible that some of the figures included in this Report do not equal the arithmetic sum of the corresponding items due to rounding.

The following table contains a summary of the consolidated financial information as of December 31, 2016, 2015 and 2014 and for the years then ended, derived from the information contained in the audited consolidated financial statements attached to this annual report.

The merger between Axtel and Alestra took effect on February 15, 2016, the date from which Alestra is incorporated in Axtel's financial statements. For information and comparison purposes, unaudited pro forma figures are included for the year 2015, that is, consolidating Alestra's results as of February 15, 2015.

The information presented below should be read in conjunction with "Management's Comments and Analysis on the Financial Situation and Results of Operations" and the Financial Statements and notes attached to the Annual Report.

	Years ended December 31,			
	2016	2015	2015 Pro forma(1)	2014
(in million pesos)				
Income Statement				
Revenues	13,937.3	10,150.4	15,602.1	10,597.0
Operating costs and expenses (2)	(14,146.7)	(9,561.1)	(13,536.0)	(11,096.7)
Operating (loss) profit	(209.4)	589.3	2,066.1	(499.7)
Interest expenses, net	(1,781.3)	(1,199.4)	(1,289.9)	(859.1)
Exchange (loss) , net	(2,778.7)	(1,659.1)	(2,259.3)	(1,073.2)
Change in fair value of financial assets, net	(296.4)	163.7	163.7	(21.3)
Share of results in associates, net	(5.2)	—	(0.1)	(3.4)
(Loss) before taxes	(5,071.0)	(2,105.5)	(1,319.5)	(2,456.7)
Income taxes	1,471.7	373.2	153.7	538.1
Net Loss	(3,599.3)	(1,732.3)	(1,165.8)	(1,918.6)
(Loss) per share:				
(Loss) per basic and diluted share	(0.2)	(0.2)	(0.1)	(0.2)
Weighted average of common outstanding shares (millions)	18,415.9	9,185.2	9,185.2	8,871.2
Dividends decreed per share	—	—	—	—
Other Financial information				
Depreciation, amortization and impairment of assets	3,882.4	2,618.6	3,517.2	3,435.1
EBITDA (3)	3,673.0	3,207.8	5,583.3	2,935.4
EBITDA as percentage of revenues	26.4%	31.6%	35.8%	27.7%

1) The merger between Axtel and Alestra took effect on February 15, 2016, the date from which Alestra is incorporated in Axtel's financial statements. For information and comparison purposes, unaudited pro forma figures are included for the year 2015, that is, consolidating Alestra's results as of February 15, 2015.
2) Means cost of sale and services, plus administrative and selling expenses, plus depreciation and amortization, plus other operating income (expenses).
3) For the purposes of the Company, it has been defined as the result of adding to the operating (loss) profit, the depreciation and amortization and impairment of assets.

	Years ended December 31,		
	2016	2015	2014
(in million pesos)			
Statement of Cash Flows			
Net Cash Flow from			
Operating Activities	3,897.7	3,120.3	3,125.9
Investing Activities	(3,527.1)	(1,925.4)	(2,847.2)
Financing Activities	(1,675.0)	(1,565.0)	970.0
Net increases (Net decreases) in cash or cash equivalents	(1,304.5)	(370.1)	1,248.7
Mass Market Operational Data (in thousands)			
Lines in service	507.7	567.4	666.1
Internet subscribers	400.5	429.8	494.3
Video subscribers	124.5	108.6	93.5
Monthly disconnection average	2.8%	2.5%	1.9%

	As of December 31,		
	2016	2015	2014
(in million pesos)			
Balance Sheet			
Cash and equivalents	1,447.2	2,575.2	2,697.8
Net working capital (1)	421.0	284.7	299.9
Total assets	32,175.7	22,199.2	20,985.1
Total debt	21,514.4	13,526.8	11,454.8
Total liabilities	29,775.5	18,325.8	15,279.4
Total stockholder's equity	2,400.2	3,873.4	5,705.7
Net assets (2)	20,040.5	13,500.9	13,261.4
Capital common stock	10,233.8	6,862.0	6,728.3
Shares outstanding (in millions)	19,229.9	9,456.1	9,068.0

1) Net Working Capital is calculated by subtracting Cash and Equivalents, Accounts Payable and Accumulated Liabilities, Payable taxes and other accounts payable from Current Assets.
2) Net Assets is calculated by adding Net Working Capital to Property, plant and equipment, net.

3.2) Financial Information per Line of Business

The Board of Directors and the CEO, evaluate the performance of the Company by tracking the following indicators:

	2016				2015			
(millions of pesos)	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**1 Q**	**2 Q**	**3 Q**	**4 Q**
TOTAL REVENUE	**2,839.6**	**3,478.2**	**3,836.2**	**3,783.3**	**2,416.1**	**2,542.0**	**2,360.4**	**2,831.9**
ENTERPRISE:	**1,630.9**	**2,271.7**	**2,430.6**	**2,450.6**	**928.1**	**1,012.5**	**1,098.8**	**1,202.8**
Telecom	1,511.8	2,051.2	2,209.3	2,207.3	908.5	991.7	1,075.6	1,163.4
Voice	*538.5*	*660.3*	*685.1*	*627.5*	*489.2*	*421.2*	*471.2*	*395.5*
Data and Internet	*476.1*	*760.1*	*769.8*	*832.5*	*157.6*	*165.1*	*172.1*	*174.1*
Managed Networks	*497.1*	*630.8*	*754.4*	*747.3*	*261.6*	*405.4*	*432.3*	*593.8*
IT	119.1	220.5	221.3	243.3	19.7	20.8	23.2	39.3
GOVERNMENT:	**438.2**	**400.1**	**628.1**	**557.5**	**632.0**	**695.2**	**439.9**	**825.1**
Telecom	244.3	150.0	281.4	246.8	521.2	505.4	261.8	439.9
Voice	*41.2*	*46.6*	*32.0*	*35.9*	*37.1*	*44.1*	*47.7*	*74.7*
Data and Internet	*72.5*	*89.3*	*88.2*	*100.1*	*56.3*	*66.1*	*59.8*	*59.7*
Managed Networks	*130.6*	*14.1*	*161.2*	*110.7*	*427.8*	*395.3*	*154.2*	*305.5*
IT	193.8	250.1	346.7	310.8	110.7	189.7	178.2	385.2
MASS MARKET:	**770.5**	**806.4**	**777.5**	**775.2**	**856.0**	**834.3**	**821.7**	**804.1**
FTTx	446.6	493.6	498.7	520.4	391.5	415.4	427.3	437.3
Wireless	323.9	312.8	278.8	254.7	464.5	418.9	394.3	366.8
COST OF REVENUES AND OPERATING EXPENSES (1)	**(1,986.4)**	**(2,314.0)**	**(2,512.2)**	**(2,602.4)**	**(1,632.7)**	**(1,738.8)**	**(1,579.7)**	**(2,088.3)**
OTHER INCOME (EXPENSE)	**(494.2)**	**(24.9)**	**(59.4)**	**(270.8)**	**730.4**	**(332.2)**	**26.0**	**(327.3)**
Merger expenses (2)	*(471.6)*	*(28.2)*	*(59.4)*	*(278.4)*	-	-	-	*(303.9)*

MASS MARKET								
Lines in service (3)	546	532	529	508	637	612	592	567
Internet subscribers (3)	418	408	406	401	474	456	444	430
Video subscribers (3)	116	119	123	124	98	99	103	109
Clients (3)	494	476	467	440	581	556	537	514
ARPU (4)	558	602	597	612	526	537	549	559

(1) Does not include depreciation and amortization.
(2) Non recurring expenses derived from the merger between Axtel and Alestra
(3) Figures in thousands as of the end of each period.
(4) Average revenue per user. Amounts in Pesos.

Revenues

The Company obtains its revenues from the following categories:

(i) *Enterprise and Government Segment*: The Company provides Telecom and IT services to the corporate segment, including medium and large companies, corporations, financial institutions, carriers, and federal, state and municipal government entities.

a. *Telecom*: The Company generates revenues providing telecommunications services to the Enterprise segment, including medium and large companies, corporations, financial institutions, and government entities. The main services offered are:

- *Voice:* Local and international long distance calls to fixed and mobile telephones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP, among others.
- *Data and Internet:* Private lines, dedicated links and dedicated internet.
- *Managed Networks:* Includes managed services, VPN, Ethernet and collaboration, among others.

b. *Information Technologies ("IT"):* The Company generates revenues providing IT services to the Enterprise segment, such as system integration, hosting, managed applications, security and cloud services, among others.

(ii) *Mass Market:* The Company generates revenues by providing connectivity to residential and small business customers through its infrastructure, either fiber network or wireless network, through which voice, data and video services can be offered. The services are offered in commercial packages or, in some cases, as independent or complimentary services.

a. *Fiber to the home or business ("FTTx"):* Voice, data and video services offered through the fiber network, with symmetrical speeds from 20 Mbps up to 200 Mbps.

b. *Wireless:* Voice and data services offered through the wireless network, primarily WiMax, with speeds from 0.5Mbps to 2Mbps. Given the low competitiveness of this technology, clients connected with WiMax and similar technologies have been decreasing and it is expected that these clients will voluntary or involuntary disconnect within the next few years.

The following table summarizes the income and percentage of income from these categories:

	Revenues			**% of Revenues**		
(in million pesos)	**Years ended December 31**					
Revenues	**2016**	**2015**	**2015 Pro forma[(1)]**	**2016**	**2015**	**2015 Pro forma[(1)]**
Enterprise:	**8,783.8**	**4,242.2**	**9,042.4**	**63%**	**42%**	**58%**
Telecom	7,979.6	4,139.2	8,375.6	57%	41%	54%
Voice	*2,511.5*	*1,777.1*	*3,007.1*	*18%*	*18%*	*19%*
Data and Internet	*2,838.5*	*668.9*	*2,532.1*	*20%*	*7%*	*16%*
Managed Netwroks	*2,629.7*	*1,693.2*	*2,836.4*	*19%*	*17%*	*18%*
IT	804.2	103.1	666.8	6%	1%	4%
Government:	**2,023.9**	**2,592.1**	**3,243.6**	**15%**	**26%**	**21%**
Telecom	922.5	1,728.3	1,881.2	7%	17%	12%
Voice	*155.8*	*203.6*	*234.5*	*1%*	*2%*	*2%*
Data and Internet	*350.0*	*241.9*	*307.6*	*3%*	*2%*	*2%*

Managed Networks	*416.7*	*1,282.8*	*1,339.2*	*3%*	*13%*	*9%*
IT	1,101.4	863.8	1,362.3	8%	9%	9%
Mass Market:	**3,129.6**	**3,316.1**	**3,316.1**	**22%**	**33%**	**21%**
FTTx	1,959.3	1,671.5	1,671.5	14%	16%	11%
Wireless	1,170.3	1,644.6	1,644.6	8%	16%	11%
TOTAL	**13,937.3**	**10,150.4**	**15,602.1**	**100%**	**100%**	**100%**

1) The merger between Axtel and Alestra took effect on February 15, 2016, the date from which Alestra is incorporated in Axtel's financial statements. For information and comparison purposes, unaudited pro forma figures are included for the year 2015, that is, consolidating Alestra's results as of February 15, 2015.

Before the merger with Alestra, revenues were recorded in the following categories:

(i) *Rent:* The Company generates revenues by providing connectivity to customers to its infrastructure, through which voice, data and video services can be provided. The services are offered through commercial packages or, in some cases, as independent or complementary services.

(ii) *Voice Services:* The Company may charge its customers a per-call rate for local calls ("measured service"), a per-minute rate for mobile calls, a per-minute rate for international long distance completed calls generated in an Axtel lines and for services related to 800s numbers for business customers.

(iii) *Internet & video.* The Company generates revenues by providing "on demand" Internet access and video (Pay-TV) services.

(iv) *Data & network.* The Company generates revenues by providing data, dedicated Internet and network services, like virtual private networks and private lines, to the enterprise and government segment.

(v) *Integrated Services & equipment sale.* Revenues from managed telecommunications services provided to corporate customers, financial institutions and government entities and the sale of customer premises equipment ("CPE") necessary to provide these services.

(vi) *International traffic.* Revenues for the transport and/or termination of international traffic from foreign carriers.

(vii) *Other services.* Include, among others, memberships, late payment charges, spectrum, interconnection, activation and wiring and presubscription.

The following summarizes Axtel's revenues and percentage of revenues from operations from these sources:

	Revenues		**% of Revenues**	
(in million pesos)	**Years ended Dec 31**			
Revenues	**2015**	**2014**	**2015**	**2014**
Rents	2,204.1	2,398.5	22%	23%
Voice	1,135.3	1,586.5	11%	15%
Internet & video	1,482.2	1,337.4	15%	13%
Data & networks	2,018.0	1,897.7	20%	18%
Integrated services	2,374.4	1,568.6	23%	15%
Equipment sales	425.3	210.3	4%	2%
International traffic	274.3	1,234.0	3%	12%
Other services	237.0	363.9	2%	3%
TOTAL	**10,150.4**	**10,597.0**	**100%**	**100%**

Costs and Operating Expenses

The costs of the Company are classified of the following form:

- Cost of sales includes expenses related to the completion of calls of our clients to mobile telephones and long distance calls on other suppliers' networks, as well as expenses related to invoicing, reception of payments, services of operators and private leased links.
- Operating Expenses include expenses related to general and administrative items that include compensations and benefits, the expense of leasing properties and towers required for our operations and expenses associated with sales and marketing and the maintenance of our network.
- Depreciation and amortization include the depreciation of all the infrastructure and equipment of our network and the amortization of pre-operative expenses, as well as the cost of the concessions and the licenses of use of radio-electric spectrum. Additionally, for 2016, it includes the impairment of long-lived assets.

Merger-related expenses

In 2015 and 2016, non-recurring expenses were incurred associated with the merger between Axtel and Alestra previously mentioned. These expenses are broken down to analyze their impact on the Company's results.

Average Revenue per User (ARPU)

The average revenue per user is used as a standard industry measure that shows the ability of a telecommunications company to maximize the amount of revenue that comes from each customer, including voice, internet and/or video services. This measurement allows the Company to calculate the return on investment in comparison with its national competitors, as well as, with other providers of telecommunication services abroad.

3.3) Relevant Credit Agreements

As of December 31, 2016 and 2015, the balance of Axtel's relevant credits was $ 21,514.5 million and $ 13,526.8 million, respectively. The following table shows the integration of in million Pesos:

Description of Credits	As of December 31, 2016	As of December 31, de 2015
Bank loan with Bancomext at Libor + 3% maturing in 2024. Interests payable quarterly.	3,867.3	--
Unsecured Syndicated Loan Tranche A in pesos due January 15, 2019. Interests payable monthly at an initial rate of TIIE + 2%, TIIE + 2.25% as of January 15, 2017 and TIIE + 2.5% from January 15, 2018.	4,759.8	--
Unsecured Syndicated Loan Tranche B in pesos maturing on January 15, 2021. Interests payable monthly at an initial rate of TIIE + 2.25%, TIIE + 2.5% as of January 15, 2017 and TIIE + 2.75% from January 15, 2018.	1,499.8	--
Unsecured Syndicated Loan Tranche B in dollars maturing on January 15, 2021. Interests payable quarterly at a rate of Libor + 2.5%, Libor + 2.75% as of January 15, 2017 and Libor + 3% from January 15, 2018.	10,332.0	--
Bank loan with BBVA Bancomer, at an interest rate of 6.92%.	400.0	--
Unsecured Notes for a principal amount of US $50.4 million at an interest rate of 7 5/8 % and due in 2017. Interests payable semi-annually in February and August of each year.	--	867.2

Unsecured notes for a principal amount of US $101.7 million at an interest rate of 9% and maturing in 2019. Interests payable semi-annually in March and September of each year.	--	1,750.4
Secured Notes for a principal amount of US $544.6 million at an initial interest rate of 7%, increased to 9% as of January 31, 2015 and due in 2020. Interests payable semi-annually in February and August every year.	--	9,371.6
Secured Convertible Notes for a principal amount of US $22.2 million at an initial interest rate of 7%, increased to 9% as of January 31, 2015 and maturing in 2020. Interests payable semi-annually in February and August every year.	--	45.9
Discount on the issuance of notes, arising from unsecured notes payable at an initial interest rate of 7%, increasing to 9% as of January 31, 2015 and expire in 2020.	--	(19.5)
Premium on issuance of debentures arising from unsecured notes payable at an interest rate of 9% and maturing in 2019.	--	8.6
Indefeasible Rights of Use (IRU) capacity lease entered into with Teléfonos de México, S.A.B. Of C.V. For an approximate original amount of Ps. 708,041 expiring in 2019.	400.1	386.0
Financial leases entered into with various banking institutions at approximate rates of 6% for those denominated in US dollars, and TIIE plus 3% and 5.5% for those denominated in pesos, with maturities ranging from 1 to 3 years.	303.4	535.4
Bank loan with Banco Nacional de México, S.A. For a principal amount of $130 million pesos at an interest rate of TIIE plus 3.5% annually. The original maturity of the loan was in June 2015. During the month of April 2015, it was renewed until February 2016.	--	130.0
Accrued interests	132.8	545.2
Issuance costs	(180.8)	(93.9)
TOTAL	**$21,514.5**	**$13,526.8**

In addition to short-term and long-term financial liabilities that are reflected in the Financial Statements, the Company does not have any tax debts and the principal and interest payments have been made on time. There is no priority in the payment of the credits mentioned above.

The most restrictive obligations to do and not to do of the debt are described next. The Company settled its debt in Notes at December 31, 2015 in February 2016, so 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 amount of US$500 million and Ps.4,787 million. Subsequently, on April 13, an additional draw down was made in the amount of Ps. 1,500 million.

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 applicable laws, rules and provisions. Failure to comply with said requirements within a specific term to the satisfaction of the creditors could be considered as cause for early termination.

The financial ratios to be complied with include the following:

a. Interest hedge ratio (to be calculated in US 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 Merger) by the interest expense (excluding interest expense related to "adjustment events") for the last four quarters of the period under review. This factor cannot be less than 2.75 times during the first 18 months after the contract execution date and no less than 3.0 times from that point on.

b. Leverage ratio (to be calculated in dollars at the average exchange rate of the year, except for the net debt which is at the year-end exchange rate): which is defined as the result of dividing the consolidated net debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) by the operating income (loss) before depreciation, amortization and expenses related to "adjustment events" (such as merger) for each quarter. At December 31, 2016 and up until December 31, 2017, this factor cannot exceed 4.25 times. From March 31, 2018 to June 30, 2018 this factor should not exceed 3.75 times from September 30, 2018 to the end of the contract this factor should 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 this report, the Company had duly complied with the obligations set down in the loan agreements.

3.4) Management's Discussion and Analysis on the Company's Operating Results and Financial Situation

3.4.1) 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.

Results of Operation for years ended December 31, 2015 and 2014

Revenues.

For the twelve-month period ended December 31, 2015, total revenues were Ps. 10,150 million, compared to Ps. 10,597 million in the same period of 2014, a decrease of Ps. 447 million or 4%.

Axtel's revenues derive from the following services:

Rents. Income from rents for the year 2015 totaled Ps. 2,204 million, compared to Ps. 2,399 million registered in 2014; a decrease of Ps. 194 million or 8% explained mainly by a 10% decrease in the number of average customers derived from a greater number of disconnections from customers with wireless technologies.

Voice. For the year 2015, voice revenues totaled Ps. 1,135 million compared to Ps. 1,587 million recorded in 2014, a decrease of Ps. 451 million, or 28%. More than half of this decrease is due to the drop in prices of mobile phone calls and the fall in revenues from national calls to landlines and mobiles due to the elimination of domestic long distance charges in 2015.

Internet and Video. For the year 2015, Internet and video revenues totaled Ps. 1,482 million, an increase of 11% compared to Ps. 1,337 million recorded in 2014, explained by the 2% increase in internet service revenues to the mass market and 47% in the pay television service, due to the good performance of Axtel X-tremo offered through the FTTx network.

Data and Networks. For the year 2015, revenues from data and networks amounted to Ps. 2,018 million, compared to Ps. 1,898 million in the same period of 2014, an increase of Ps. 120 million or 6%, mainly explained by a 15% increase in private line revenues due to the greater participation from existing customers.

Integrated Services and Equipment Sales. Revenues amounted to Ps. 2,800 million in the year 2015, compared to Ps. 1,779 million for 2014, representing an increase of Ps. 1,021 million or 57%. This is explained by a higher level of revenues from existing and new projects closed during 2015 with business and government entities, as well as a greater sale of equipment in 2015.

International Traffic. The revenues from termination of international traffic totaled Ps. 274 million in 2015, a decrease of 78% compared to Ps. 1,234 million in 2014, mainly explained by the elimination of transit traffic, or traffic that does not end in Mexico, which has a higher price and also due to the drop in volume and rates of calls to mobile phones.

Other services. Revenues from other services for the year 2015 totaled Ps. 237 million, a decrease of 35% against Ps. 364 million recorded in the same period of 2014.

Mass Market Operating Metrics

Customers: As of December 31, 2015, the number of clients totaled 514 thousand, a decrease of 95 thousand or 16% at the same date in 2014 due to the continuous drop in customers with wireless technologies, mainly WiMAX. The ARPU for FTTx and Wireless clients was Ps. 820 and Ps. 415, respectively.

RGUs. As of December 31, 2015, RGUs (Cash Generating Units) amounted to 1 million 106 thousand, compared to 1 million 254 thousand at the end of 2014. During 2015, net disconnections totaled 148 thousand, compared to 4 thousand net disconnections in 2014, due to a greater number of disconnections of customers with wireless technologies.

> ***Voice RGU's (Lines in Service).*** As of December 31, 2015, lines in service totaled 567 thousand, representing a decrease of 99 thousand lines, or 15%, compared to December 31, 2014 due to the continued decline of wireless subscribers. During 2014, the lines decreased 37 thousand.
>
> ***Broadband RGU's (Subscribers).*** Broadband subscribers totaled 430 thousand as of December 31, 2015. During the year, there were 64 thousand broadband subscribers' disconnections compared to less than one thousand additions the previous year. At the end of December 2015, total wireless broadband subscribers reached 235 thousand, compared to 323 thousand a year ago, while total customers of AXTEL X-tremo, or FTTx, amounted to 195 thousand compared with 172 thousand in 2014. Broadband disconnections are mainly attributable to the acceleration in WiMAX disconnections during 2015 that were not fully offset by the additions of FTTx subscribers. Broadband penetration increased from 74% in 2014 to 76% in 2015.
>
> ***Video RGU's (Subscribers).*** As of December 31, 2015, video subscribers reached 109 thousand, compared with 94 thousand subscribers as of December 31, 2014. The penetration out of the total FTTx subscribers base increased from 54% in 2014 to 56% in 2015.

Cost of Revenues, Expenses, EBITDA and Operating Profit

Cost of Revenues. For 2015, the cost of sales was Ps. 2,300 million, a decrease of 26% compared to Ps. 3,097 million in 2014, mainly due to the decrease in costs related to the international traffic service due to the elimination of transit traffic, or traffic that does not end in Mexico, which has a higher price and, likewise, a greater cost, and also the decrease in interconnection rates as the preponderant operator can no longer charge interconnection rates.

Gross profit. Gross profit is defined as revenues minus cost of sales. For the year 2015, gross profit was Ps. 7,851 million, compared to Ps. 7,500 million recorded in 2014, an increase of 5%. This is mainly due to the increase in the contribution of integrated services, mitigated by the fall in rents and voice.

Operating expenses. For the year 2015, operating expenses were Ps. 4,740 million, coming from Ps. 4,477 million in the same period of 2014, a 6% increase due to a 5% increase in personnel expenses and an increase in maintenance and rent expenses. Personnel expenses accounted for 41% of total operating expenses in 2015.

Other income (expenses). For the year 2015, other income was recorded for Ps. 97 million, compared to other expenses for Ps. 88 million in 2014. 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 interconnection disputes for the 2005-2011 period.

EBITDA. The EBITDA defined as operating income plus depreciation and amortization and impairment of assets amounted to Ps. 3,208 million in 2015, compared to Ps. 2,935 million in 2014. As a percentage of revenues, the margin was 31.6% for 2015, 390 basis points higher than in 2014, mainly due to an improvement in margins in voice services due to the elimination of the payment of interconnection rates to the preponderant operator and a decrease in international traffic revenues, which has little margin. The EBITDA in 2015 benefited from other income described previously.

Depreciation and amortization. The depreciation and amortization for 2015 was Ps. 2,619 million, compared to Ps. 3,435 million in 2014, a decrease of Ps. 817 million or 24% due to lower investment in recent years and the higher proportion of fiber investment, which increases the average life of our assets.

Operating Income (Loss). For 2015, operating income was Ps. 589 million compared to an operating loss recorded in 2014 of Ps. 500 million, a variation of Ps. 1,089 million mainly due to the agreement with América Móvil during the first quarter of 2015 and a lower level of depreciation and amortization during 2015.

Comprehensive Financial Result, net

The net financial result recorded a total cost of Ps. 2,695 million in 2015 compared to a cost of Ps. 1,954 million in 2014, explained mainly by the increase in interest expense related to the increase in the interest rate of the 2020 Secured Notes and a greater exchange loss due to the 14% devaluation of the peso against the dollar in 2015.

Taxes

During 2015, the income tax was a benefit of Ps. 373 million, compared to a benefit of Ps. 538 million from the previous year. This variation is mainly due to a decrease in deferred tax benefit in 2015.

Net Income (Loss)

The Company recorded a net loss of Ps. 1,732 million in 2015, compared to a net loss of Ps. 1,919 million recorded in 2014. The aforementioned variations, considering the financial costs, explain this loss.

Capital Investments

For the twelve-month period ended December 31, 2015, the capital investment totaled Ps. 2,011 million, compared to Ps. 2,837 million in 2014. This decrease is due to the company's corporate strategy of focusing exclusively on those projects of greater value to customers, mainly the deployment of fiber and the ICT cloud-based products for the enterprise and government segment.

3.4.2) 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.

Financial Position as of December 31, 2015, compared to the financial position as of December 31, 2014

Assets

As of December 31, 2015, total assets totaled Ps. 22,199 million compared to Ps. 20,985 million as of December 31, 2014, an increase of Ps. 1,214 million, or 6%.

Cash and cash equivalents. As of December 31, 2015, cash and cash equivalents amounted to Ps. 2,575 million compared to Ps. 2,698 million as of December 31, 2014, a decrease of Ps. 123 million, or 5%.

Accounts Receivable. As of December 31, 2015, accounts receivable amounted to Ps. 2,455 million compared to Ps. 2,426 million as of December 31, 2014, an increase of Ps. 28 million or 1%.

Property, systems and equipment, net. As of December 31, 2015, property, systems and equipment, net, were Ps. 13,216 million compared to Ps. 12,962 million as of December 31, 2014, an increase of Ps. 255 million or 2%. Property, systems and equipment without deducting accumulated depreciation amounted to Ps. 43,657 million and Ps. 40,885 million as of December 31, 2015 and 2014, respectively.

Liabilities

As of December 31, 2015, total liabilities amounted to Ps. 18,326 million compared to Ps. 15,279 million as of December 31, 2014, an increase of Ps. 3,046 million, or 20%, mainly due to the 14% 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, 2015, the accounts payable and accumulated liabilities amounted to Ps. 2,677 million compared to Ps. 2,347 million as of December 31, 2014, an increase of Ps. 330 million, or 14%.

Debt. As of December 31, 2015, total debt increased Ps. 1,994 million compared to 2014, explained by (i) a decrease of Ps. 154 million related to the conversion of Secured Notes due 2020, (ii) an increase of Ps. 261 million in lease agreements and other financial obligations mainly due to the increase of Ps. 386 million in a capacity agreement, (iii) an increase of Ps. 86 million in accrued interest and (iv) an increase of Ps. 1,801 million (accounting impact) caused by the 14% depreciation of the Mexican peso.

Stockholders' Equity

As of December 31, 2015, the Company's stockholders' equity totaled Ps. 3,873 million compared to Ps. 5,706 million as of December 31, 2014, a decrease of Ps. 1,832 million, or 32%. The capital stock was recorded in Ps. 6,862 million as of December 31, 2015 and Ps. 6,728 million as of December 31, 2014, a slight increase mainly due to the conversion of some of the Company's Secured Convertible Notes due 2020.

Cash flow

As of December 31, 2015 and 2014, cash flow from operating activities was Ps. 3,120 million and Ps. 3,126 million, respectively.

As of December 31, 2015, the cash flow (used in) generated by investing activities was Ps. (1,925) million, compared to Ps. (2,847) million in the same period of 2014. The above amounts reflect investments in property, systems and equipment for the amounts of Ps. 2,011 million and Ps. 2,837 million as of December 31, 2015 and 2014, respectively.

At December 31, 2015, the cash flow (used in) generated by financing activities was Ps. (1,565) million, compared to Ps. 970 million in 2014 due to the reopening of the Secured Notes due 2020 in 2014.

At December 31, 2015, the ratio of net debt to EBITDA and the interest coverage ratio of the Company stood at 3.1x and 2.7x, respectively. Likewise, as of December 31, 2014, the ratio of net debt to EBITDA and interest coverage stood at 2.8x and 3.4x, respectively.

Liquidity and Capital Resources applicable for years 2016, 2015 and 2014

The Company has relied mainly on financing of suppliers, capital contributions, cash from internal operations, funds obtained from issuing debt in international markets, bank loans and financial leases to finance the Company's operations, capital investments and working capital requirements.

At the end of 2015, Axtel had Senior Secured Notes for US$544.7 million due January 31, 2020, Senior Unsecured Notes for US$50.4 million due February 1, 2017 and for US$101.7 million due September 22, 2019. Such Senior Notes could be redeemed starting the period and at the price indicated in the following table:

	Redemption Price of Senior Notes		
Period	**Secured Notes due 2020 (as of January 31,)**	**Unsecured Notes due 2019 (As of Sept. 22,)**	**Unsecured Notes due 2017 (as of February 1,)**
2016	106.75%	101.50%	100.00%
2017	104.50%	100.00%	100.00%
2018	102.25%	100.00%	--
2019 and on	100.00%	100.00%	--

On January 15, 2016, a contract was signed for a syndicated loan used to redeem, on February 19, 2016, all such Secured and Unsecured Notes and to pay other short-term loans. The loan is divided into three portions: portion "A" in pesos (equivalent to US$250 million) with an amortization in month 36; Portion "B" in dollars (US$500 million) and in pesos (equivalent to US$85 million) with nine quarterly amortizations starting month 36. This syndicated loan may be amortized early due to, among other things, non-payment of the principal or interest; the breach of obligations to do and not to do and a change of control.

Although the Company believes that it will be able to meet its debt obligations and finance its operating needs in the future with the operating cash flow, the Company may periodically seek to obtain additional financing in the capital market depending on the market conditions and its financial needs. The Company will continue to focus its investments in fixed assets and manage its working capital, including the collection of its accounts receivable and the management of its accounts payable.

Financial Instruments

a) Financial Instruments per Category

The book values of financial instruments per category are as follows:

(thousands of pesos)

	At December 31, 2016		
	Accounts Receivable and Payable at amortized cost	Financial Assets and liabilities at fair value with changes in 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 accounts 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 liabilities	$ 26,786,582	$ 246,396	$ 27,032,978

(thousands of pesos)

	At December 31, 2015		
	Accounts Receivable and Payable at amortized cost	Financial Assets and liabilities at fair value with changes in 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 accounts 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 liabilities	$ 16,315,973	$ 65,222	$ 16,381,195

(thousands of pesos)

	As of December 31, 2014		
	Accounts Receivable and Payable at amortized cost	Financial Assets and liabilities at fair value with changes in income	Total categories
Financial Assets:			
Cash and cash equivalents	$ 2,697,835		$ 2,697,835
Trade receivables and other accounts receivable, net	2,426,167		2,426,167
Financial instruments (zero strike call)		$ 121,999	121,999
Non-current accounts receivable	230,752		230,752
Total financial assets	$ 5,352,754	$ 121,999	$ 5,476,753
Financial Liabilities:			
Current debt	$ 809,376		$ 809,376
Suppliers, related parties and sundry creditors	2,443,320		2,443,320
Non-current debt	10,645,447		10,645,447
Derivative instruments (convertible debt)	-	46,952	46,952
Other non-current accounts payable	216,039		216,039
Total financial liabilities	$ 14,114,182	$ 46,952	$ 14,161,134

b) Fair value of financial assets and liabilities

The amount of 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 value and estimated fair value of financial assets and liabilities valued at their amortized cost:

(in thousands of pesos)	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	-	-

(in thousands of pesos)	At December 31, 2014	
	Book Value	Fair Value
Financial assets:		
Non-current receivables	$ 230,752	$ 223,829
Financial liabilities:		
Bank loans	130,000	130,000
Unsecured notes	10,255,223	10,014,513
Other liabilities	602,582	664,440

Estimated fair values were determined based on a discounted cash flow basis, and are considered Level 2. These fair values do not consider the current portion of financial assets and liabilities, as the current portion approximates its fair value.

(*) The fair value of the indemnification closely resembles its book value due to the term and interest rate terms.

c) Financial instruments and derivative financial instruments

Financial Instruments

At December 31, 2016, 2015 and 2014, 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 to zero. The asset underlying these instruments is the market value of Axtel 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 settlement was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as opted by the Company. 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 case of opting for the cash payment, 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, share defined 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.
Price of exercise = 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, 2015 and 2014 the lending position of the options represents the maximum amount of their credit exposure, as shown below:

(thousands of pesos)

Counterparty	Notional amount	Contract start date	Type of Underlying Asset	Fair value 2016	2015	2014
Bank of America Merrill Lynch	30,384,700	2010 and 2009	CPO's Axtel	106,954	264,348	102,700
Corporativo GBM, S.A.B. de C. V.	13,074,982	2015 and 2014	CPO's Axtel	46,024	113,751	19,299
Total				$152,978	$378,099	$121,999

For the year ended December 31, 2016, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of Ps. 225,121 thousand (unrealized profit of Ps. 221,182 thousand at December 31, 2015) recognized in the comprehensive financing income, in the changes in fair value of financial instruments line item, net. During 2015, the Company paid a premium of Ps. 34,918 thousand.

The following is a summary of the fair value hierarchy by which financial instruments and derivative financial instruments are classified:

(thousands of pesos)	As of 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	$ -	$ 246,396	$ -	$ 246,396

	As of 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

	As of December 31 2014			
	Level 1	Level 2	Level 3	Total
Financial Assets:				
Zero strike calls	$ 121,999	$	$ -	$121,999
Financial Liabilities:				
Convertible bonds	-	$ 46,952	-	$ 46,952

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 significant data used in valuation thereof. Following is a description of the three levels of the hierarchy:

- Level 1 - Prices quoted for identical instruments in active markets.

  The fair value of financial instruments negotiatied 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 these prices currently reflect the market transactions in conditions of independence.

- Level 2 - Prices quoted for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets; and valuations through models where all the 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 observable information in the market when available and based as little as possible on specific estimates of the Company. If all the significant data entered and required to measure the fair value of an instrument 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 valuation 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 classified in Level 3.

Financial Risk Management

Financial risk factors

The Company's activities expose it to a number of financial risks; market risks (including exchange rate risk, 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), comprised of the Chairman of the Board, the Managing Director, ALFA's Chief Financial 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 the Company intends to conclude, as well as the 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 operations	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 the exposure of its currency, mainly with respect to the US dollar. Axtel's indebtedness and part of its accounts payable are expressed in US 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 flucturations in the exchange rate involves changes in the value of the peso to the US dollar.

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

The Company records foreign exchange gains or losses when the peso appreciates or depreciates against the US 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 the same currency, depreciation of the peso to the US dollar will give rise to exchange losses.

Based on 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 income statement of (Ps. 541,790) thousand and Ps. 515,990 thousand, respectively.

Following is an analysis of the Company's exposure to exchange rate risk at December 31, 2016, 2015 and 2014. The accompanying tables reflect the book value of the Company's monetary assets and liabilities denominated in foreign currency:

(in thousands)		December 31,	
	2016	2015	2014
Monetary Assets	US $62,311	US$124,523	US$130,803
Monetary Liabilities	(586,793)	(837,503)	(829,223)
Net Position	(US$524,482)	(US$712,980)	(US$698,420)

i. Interest rate and cash flow risk

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, while 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 relative to the Company's current conditions.

As of December 31, 2016, if interest rates on variable rate loans were increased/decreased by 1%, interest expense would be modified by Ps. 203,056 thousand and Ps. 203,828 thousand respectively.

b) Credit risk

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

Accounts receivables

The Company is responsible for managing and analyzing the credit risk for each of its new customers before establishing 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 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 account receivable increases in age.

Axtel determined its provision for impairment of accounts receivable, considering 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 market customers are completely reserved when those accounts are past due by over 270 days, and business customers, carriers and government over 360 days. In addition, collection problems such as bankruptcy or catastrophes are also taken into account. The analysis of accounts receivable is made 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 Company A and B, which are the Company's principal 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 concentration of credit risk of companies A and B should not exceed 20% of the gross amount of monetary assets at any moment during the year. The credit risk concentration of any other customer should not exceed 5% of the gross amount of the monetary assets at any given moment during the year.

Company A represents 5%, 12% and 2% of the total accounts receivable of the Company as of December 31, 2016, 2015 and 2014, respectively. In addition, revenues associated with Company A for the years ended December 31, 2016, 2015 and 2014 were 7%, 4% and 6%, respectively.

Company B represents 1% of the total accounts receivable of the Company as of December 31, 2016, 2015 and 2014, respectively. Additionally, revenues associated with Company B for the years ended December 31, 2016, 2015 and 2014 were 7%, 3% and 2%, respectively.

At December 31, 2016, 2015 and 2014, the provision for impairment totaled Ps. 1,920,753 thousand, Ps. 3,178,325 thousand and Ps. 2,582,769 thousand, respectively. Axtel considers this reserve to be sufficient to cover the probable loss of accounts receivable; however, it cannot ensure that it will not need to be increased. A 10% change in amounts estimated as uncollectible would result in a change in the uncollectible expenses of approximately Ps. 118,000 thousand.

Investments

The Company's policies for managing cash and temporary cash investments are conservative, which minimizes the risk in this type of financial assets, considering also that operations are only conducted with financial institutions that have 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 continuously monitors cash flow projections and the 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 the Company's financing plans, compliance with covenants, compliance with internal minimum 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 risk, 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.

(in thousands of pesos)

	Less than 1 year	1 to 2 years	2 to 3years	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	-	-

	Less than 1 year	Between 1 and 2 years	Between 2 and 3years	Between 3 and 4 years	Between 4 and 5 years	5+ years
December 31, 2015						
Current debt	$1,203,000	-	-	-	-	
Suppliers, related parties and creditors	3,254,257	-	-	-		

Non-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	-	-		-	-

December 31, 2014	Menos de 1 año	Entre 1 y 2 años	Entre 2 y 3 años	Entre 3 y 4 años	Entre 4 y 5 años	5+ años
Current debt	$1,025,226	-	-	-	-	-
Suppliers, related parties and creditors	3,139,188	-	-	-		
Non-current debt	-	837,508	1,645,024	874,987	2,372,249	8,594,932
Other non-current accounts payable	103,699	112,340	-	-	-	-
Financial leases	263,798	233,569	146,408	31,165	584	-
Convertible debt derivative instruments	46,952	-	-		-	-

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

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 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 stockholders' 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 capital based on the degree of leverage. This percentage is calculated by dividing the total debt minus cash and cash equivalents (net debt) by total stockholders' equity and net debt.

3.4.3) Treasury Policies

Establishes the general framework of the Treasury that allows planning and adequate management of the necessary financial resources so that the Company can develop its operating and expansion plans and maintain effective relations with financial institutions and investors.

General Guidelines

- Cash Reserves. - The Treasury Department will be responsible for having sufficient Cash Reserves to ensure the liquidity and solvency necessary to comply with the commitments related to the normal development of operations, those derived from capital investments and the financial obligations.

- Risk-to-return ratio. - Treasury activities should be focused on optimizing the risk-return ratio of the company's financial assets, in compliance with the guidelines defined in Alfa's Corporate Cash Management Policy and the obligations established in the financing agreements.

- Risk Management. - The Treasury Department will be responsible for managing the insurance and sureties as well as the financial derivative instruments covering the financial position of the company in accordance with the Alfa Risk Management policy.

- Cash flow planning. - The Treasury department will have the responsibility to plan and regulate the available financial cash flow, based on the analysis of Cash Flow, the scheduling of expenditures, projected revenues, and available financing alternatives.

- Payment to suppliers. - The Treasury Department will be responsible for planning and managing the Company's Cash Reserves, in order to honor the payment terms agreed with suppliers, subject to receipt of the invoice with the established requirements by the company and according to the financial resources available.

- Contingency Measures. - In the event that Cash Reserves do not ensure the minimum level of liquidity required to comply with the company's commitments, the Investor Relations and Corporate Finance Division will be responsible for submitting a plan to the Finance Executive Department to restore the minimum level.

- Financing. - The Corporate Finance area will have the responsibility to anticipate, analyze, obtain when applicable and manage the lines of credit or financing required for the development of the company's operation and expansion plans, looking to optimize terms, conditions and obligations established in the financing contracts. In compliance with the Alfa Financing policy, it is the responsibility of Alfa's Treasury and Planning Department to authorize and negotiate the financing of the corporation in a centralized manner. Axtel's Executive Finance Director, through the Investor Relations and Corporate Finance Division, will be responsible for (i) contracting short-term financing, (ii) contracting operating loans such as leases, factoring lines and vendor financing and (iii) manage long-term credit lines.

- Financing Administration. - The Corporate Finance area will be responsible for managing the administration of all financing, which includes monitoring compliance with the obligations stipulated in the credit agreements, ensuring the timely payment of principal and interest, to process and send the periodic Certificates of Compliance, as well as the proper control of the balances and documentation related to the financing.

- Waiver. - In the event that a waiver for non-compliance is required, the Corporate Financing area, with authorization from the Investor Relations and Corporate Finance Department and the Executive Finance Department, must initiate the application process in coordination with Alfa's Treasury and Planning Department and Legal Department.

- Relationships with Financial Institutions and Investors. - The Investor Relations and Corporate Finance Department, in coordination with the Finance Executive Department and Alfa's Treasury and Planning and Investor Relations, must develop and maintain an effective relationship with institutions, investors and financial authorities to facilitate access to external financial resources and ensure timely compliance with regulatory reporting requirements.

- Authorizations. - Only those officers of the company appointed by the General Shareholders' Meeting, filed through a Notary Public, or persons empowered in the Treasury Department by said attorneys, may perform the following operations in the name of the company:
    - Grant or subscribe for credit instruments
    - Guarantee, negotiate, or discount credit securities
    - Open, operate and close checking and/or investment accounts in the normal course of business operations
    - Grant bonds, mortgages or any other general or specific guarantee, or constitute any kind of right for third parties.

General Guidelines for Expense Control and Cash Management

- Minimum Cash Reserves. - The company must have the Cash Reserves necessary to ensure the daily financial operation of the company, considering contingencies. The Cash Reserves must maintain an established minimum daily balance.

- Concentration of collection. - The Treasury Department will be responsible for transferring to the concentrating accounts, daily or whenever deemed necessary, the income received in the accounts receivable, in order to optimize the use of available financial resources.

- Dispersion of funds. - The Treasury Department will be responsible for efficiently managing the Cash Flow available in the accounts, timely dispersing the required funds to fulfill the company's paying commitments to the paying accounts.

- Payment to suppliers. - The Treasury Department will be responsible for planning and managing the Company's Cash Reserves, in order to honor the agreed payment terms with suppliers according to the liquidity situation. That is to say, maintaining adequate liquidity that avoids any situation that jeopardizes the continuity of the operation of the company will be a priority of the Treasury even when dealing with terms of payment agreed to with suppliers. The minimum standard payment condition will be 90 calendar days after the date of receipt of the invoice, in justified situations the term will be based on the date of the invoice.

- Special conditions of payment to suppliers. - The options of prompt payment, via factoring or extended payments proposed by suppliers will be evaluated jointly by the Treasury and Supply Departments. Any modification to the standard payment terms or term agreed upon with suppliers, as well as the payment of advances, must be authorized by the Corporate Finance and Investor Relations Director as well as the Supply Director and documented in the record of the purchase.

- Investment of Surplus. - The Treasury will be responsible for the investment of surplus resources, optimizing the risk-return ratio and evaluating characteristics of term, qualification and securities trading, as well as taking care of reciprocity with the counterparts that support the relationship with the company. The investment of the surplus resources must be in compliance with the guidelines defined in Alfa's Corporate Cash Management Policy and the obligations established in the current financing agreements (Covenants).

- Foreign exchanges. - Operations in the purchase or sale of foreign currency should first be attempted with Alfa subsidiaries. If there is no subsidiary to operate as a counterparty then it will proceed with whichever financial institution offers the best available alternative in terms of price, security and timely delivery of resources. Before closing a foreign exchange purchase or sale operation, it must be listed with at least two financial institutions that comply with the current requirements established by the Corporate Cash Management Policy of Alfa, as well as document the transaction in the Sale-Purchase of Currency format.

- General Funds. - The Treasury Department will be responsible for regulating the management of the cash funds or other securities held and managed in the general savings accounts of the company through appropriate internal controls. This will allow the funds to be properly insured and the disbursements made in accordance with the established limits accounted for in a clear and timely manner by the Accounts Payable area.

- Operation of petty cash fund or fixed funds. - The Treasury Department will have the responsibility to review the proper use, apply periodic bills and endorsements in the areas where the treasury has authority; in the places where the treasury has no authority, the responsible will be the administrative coordinator of said area or of the Internal Audit Department of the company. Treasury will have the power to authorize, reject or cancel the petty funds or fixed funds assigned to employees of the company, in order to ensure optimal use of resources.

- Bank commissions. - The Treasury Department will have the responsibility to keep control of the bank fees charged to the company derived from the administration of the cash, establishing a continuous monitoring and seeking to optimize the costs generated by the banking services with the exception of commissions which will be the responsibility of the area of income assurance and payment application.

- Bank Accounts. - The Treasury Department will be responsible for controlling the opening of bank accounts and administering its management, in order to maintain the structure of accounts more adequate to the needs of the financial operation of the company and seeking the optimization of the available monetary resources.

- Authorizations. - Only those officers of the company appointed by the General Shareholders' Meeting, filed through a Notary Public, or persons empowered in the Treasury Department by said attorneys, may perform banking or management operations Cash in the name of the company.

3.4.4) Controls and Procedures applicable to years 2016, 2015 and 2014

The Company, through its internal control department, has established adequate control policies and procedures that provide reasonable assure that all operations are carried out, accounted for and reported in accordance with the guidelines established by its management, in accordance with IFRS and its application criteria. The Company considers that it's leading technology platform, along with its organizational structure, provide the necessary tools to apply such policies and procedures correctly. Likewise, the Company has established and periodically applies internal auditing procedures to its different operating processes.

The Company's internal control is governed by several policies, procedures and locks (automated and manual), ranging from the delivery of services provided by the Company, to the way in which goods and services required by the Company are acquired. The following describe some of the Company's internal policies:

- ***Expenses and Procurement Policies***. The objective of this policy is to ensure that all costs or expenses incurred are consistent with the Company's interest and strategies, and delegates its authorization to the executive level. This policy includes from the budget allocation that contemplates the delivery in any concept, until the delivery of the good or service to be acquired, passing through a series of filters such as: the selection of a determined supplier, payment term agreed upon, the form of payment and its execution. The expense and investment budget is authorized in the corporate offices of the Company. The expense budget considers the concept of expenses, the form of requesting for authorization, as well as the levels of the executive personnel that should authorize. In the case of purchase of fixed assets, regardless of the amount, this amount will be authorized upon delivery of a capital investment authorization request (SAICs for its Spanish translation). Any project that is not within the original budget will have to be authorized by Executive management level of the Company.

- ***Accounting Policy.*** It contemplates the classification and description of the Catalogue of accounts, which include the classification by account number, and describes the use of each account which comprises the verification balance sheet, in accordance with the IFRS.

- ***Uncollectable Reserve Accounts Policy.*** The objective of this policy is to supervise the collection of the portfolio of accounts to acquire and to establish the provisions required accurately. This policy establishes the necessary requirements for the determination of the provision of uncollectable accounts, and informs the accounting records to be carried out by means of certain provisions and the tax treatment to be applied at the time of the cancellation of the uncollectable accounts.

- ***Treasury Policy.*** Policy previously described intended to provide a guide and framework for action to the Treasury of the Company, which includes policies regarding cash, investments, financing, derivatives, among others.

3.5) Estimates, Provisions and Critical Accounting Policies

Estimates and judgments are reviewed on a regular basis and are based on historical experience and other factors, including expectations 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:

a) Useful lives of property, systems, and equipment

The Company reviews the estimated useful life 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.

b) Allowance for impairment of goodwill

Identification and measurement of impairment of goodwill involves the 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 such charge. The Company conducts a valuation analysis with the assistance of third-parties and considers relevant internal information, as well as other public market information.

Fair value estimates are primarily 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 in future cash flows, perpetual growth rates, determination of appropriate 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 in the estimates and assumptions that the Company believes to have considered in its valuations. However, if current/future results differ from estimates, a possible impairment charge may be recognized in future periods in connection with the decrease in the book value of goodwill, in addition to the amounts previously recognized.

c) Income taxes

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 determining the global provision for income taxes. There are many transactions and calculations due to which the final 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. Where the final tax result for these purposes differs from the amounts initially recognized, such differences will impact both current-payable and deferred income tax assets and liabilities in the period in which the determination was carried out.

As part of the process for preparation of the financial statements, the Company is required to calculate its income taxes. This process involves estimating the current exposure to current-payable taxes, as well as evaluating the temporary differences resulting from treating 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 those deductible temporary differences. The most recent projections of available earnings are used to determine future tax benefits.

d) 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 may 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 ss regulators, both in terms of probability of loss and estimates of said loss.

4) MANAGEMENT

4.1) External Auditors

The Company's independent auditors as of March 1, 2016 are PricewaterhouseCoopers, S.C. whose offices are located at Avenida Rufino Tamayo 100, Colonia Valle Oriente, C.P. 66269, San Pedro Garza Garcia, Nuevo León, Mexico. The Company's external auditors were appointed by the Company's Board of Directors exercising its powers of legal representation.

From 1999 until February 29, 2016, KPMG Cárdenas Dosal, S.C. served as the Company's external auditor.

In the last three years the external auditors have not issued a negative opinion, nor have they abstained from expressing an opinion on the Financial Statements.

Historically the Certified Public Accountants who, as partners of KPMG Cárdenas Dosal, S.C. for 2014 and 2015 and PricewaterhouseCoopers, S.C. for 2016, have signed the opinion issued by the auditor are:

Years	**Certified Public Accountant**
2014 - 2015	R. Sergio López Lara
2016	Ricardo Noriega Navarro

The Audit and Corporate Practices Committee approves the annual hiring of the independent external auditor. The external auditor presents the Company each year a work plan that is reviewed and approved by the Company, and sometimes complemented with specific activities that Management or the Board require. The Company evaluates annually that its external auditor is among the four largest audit firms, that is not part of a situation that could question its impartiality, prestige or experience of their activities and that its economic requirements are within the market, among others. Once the Company has performed this evaluation and knows the work plan, the proposal is then submitted to the Audit and Corporate Practices Committee for their final approval.

Fees paid by other professional services during 2016 reached Ps. 11.8 million. The total amount paid to the external auditors has been in market terms and do not exceed 10% of the Company's total revenue.

4.2) Certain Relationships and Related Transactions

The transactions with related parties for the years ended December 31, 2016, conducted at market values were the following:

(in thousands of pesos)

	December 31, 2016						
			Loans received from related parties				
	Accounts receivable	Accounts payable	Principal	Interest	Currency	Date of expiration DD/MM/YY	Interest rate
Holding (2)	$	$ 246,396			MXN	14/07/17	N/A
Holding	$	$	$ 413,280	$ 12,605	USD	15/07/17	3%
Holding (1)		$ 287,300			MXN	28/02/18	TIIE +2.25%
Holding (1)		$ 287,300			MXN	28/02/19	TIIE +2.25%
Holding (1)		$ 204,574			USD	28/02/18	TIIE +2.25%
Holding (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

(2) Merger-related financial liabilities

Income from sales and other to related parties
(in thousands of pesos)

	Year ended December 31, 2016			
	Services	Interests	Dividends	Others
Holding	$	$	$	$
Affiliates	131,060			
Associates				
Total	$ 131,060	$	$	$

Cost of sales and other expenses with related parties
(in thousands of pesos)

	Year ended December 31, 2016			
	Interest	Administrative services	Other costs and expenses	Dividends paid
Holdings	$ 10,093	$ 2,317	$	$
Affiliates	1,458		31,287	
Associates				
Total	$ 11,551	$ 2,317	$ 31,287	$

In addition, during 2016 Ps. 809,793 thousand 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 Ps. 245,506 thousand (Ps. 259,368 thousand in 2015 and Ps. 72,094 thousand in 2014), 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 December 31, 2015 and 2014 are as follows:
(in thousands of pesos)

	2015	2014
Rent expense	$ 34,860	$ 29,698
Installation service expenses	18,020	30,225
Other	2,705	5,369

Salaries payable to related parties at December 31, 2015 and 2014, included in the Accounts payable line item, are as follows:
(in thousands of pesos)

	2015	2014
Short term accounts payable:		
GEN Industrial, S.A. de C.V. *	$ 131	$ 52
Neoris de México, S.A. de C.V. *	598	505
Total	$ 729	$ 557

**Principally administrative services.*

Banamex Agreements

- At the end of 2014, Banamex was no longer considered as related party, since it has disposed of its shares held in the Company, and not meet any other requirement to be considered as such, according to IFRS.

4.3) Senior Management and Shareholders

Pursuant to the Company's bylaws and Mexican law, the Board of Directors is composed of 15 regular members and 4 alternate directors, since the date of the merger. Six board members and one alternate director are independent pursuant to Mexican Securities Market Law. The Audit and Corporate Practices Committee is currently comprised of three regular independent members and one alternate independent director. Pursuant to the Company's bylaws and Mexican law, the members of the Board of Directors remain in office for thirty days after their resignation or conclusion of the term to which they were appointed unless replaced.

The following presents updated information regarding the members of the Board of Directors and executive officers:

Name	Position
Álvaro Fernández Garza(2)	Co-Chairman
Tomás Milmo Santos(2)	Co-Chairman
Sergio Rolando Zubirán Shetler	Chief Executive Officer
Adrián Cuadros Gutiérrez	Executive Director IT Solutions
Adrián G. de los Santos Escobedo	Director of the Office of Finance
Andrés E. Cordovez Ferretto	Executive Director Infrastructure and Operations
Antonio De Nigris Sada	Executive Director Mass Market Segment
Bernardo García Reynoso	Executive Director Planning and Development
Ricardo J. Hinojosa González	Executive Director Enterprise Segment
Raúl Ortega Ibarra	Executive Director Legal and Regulatory
José Eloy Valerio Treviño	Executive Director Human Resources
Arturo Vázquez Silveyra	Executive Director Government Segment
Salvador Alva Gómez(1)	Board member
Alejandro Miguel Elizondo Barragán(2)	Board member
Francisco Garza Egloff(1)	Board member
Juan Ignacio Garza Herrera(1A)	Board member
Armando Garza Sada(2)	Board member
Fernando Ángel González Olivieri(2)	Board member
Bernardo Guerra Treviño(1A)	Board member
Ramón Alberto Leal Chapa(2)	Board member
Enrique Meyer Guzmán (1A)	Board member
Thomas Lorenzo Milmo Zambrano(2)	Board member
Paulino José Rodríguez Mendívil(2)	Board member
Ricardo Saldívar Escajadillo(1)	Board member
Alberto Santos Boesch(2)	Board member
José Antonio González Flores(2)	Alternate Director
Patricio Jiménez Barrera(2)	Alternate Director
Mauricio Morales Sada(1)	Alternate Director
Mario Humberto Páez González (2)	Alternate Director

(1) Independent Director.
(2) Related Patrimonial Director.
(A) Member of Audit and Corporate Practices Committee.

The aforementioned directors were appointed as members of the Board of Directors at the Annual General Shareholders Meeting held on March 10, 2017.

Set forth below is a summary of the experience, functions and areas of expertise of the main officers, current directors and alternate directors of Axtel. The business address for each of our current directors, alternate directors and senior management is Blvd. Díaz Ordaz km. 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, 66215.

Álvaro Fernández Garza . Co-Chairman of the Board of Directors of Axtel since February 2016. CEO of ALFA since 2010 and Director of the same company since April 2005. Member of the Board of Directors of ALFA, Alpek, Nemak, Cydsa, Grupo Aeroportuario del Pacífico, Vitro , UDEM, Georgetown University (Latin American Board) and Museo de Arte Contemporáneo de Monterrey. He is also Chairman of the Consultative Council of the Roberto Garza Sada Center of the UDEM and was Chairman of the Chamber of the Industry of the Transformation of Nuevo Leon (CAINTRA). He holds a Bachelor's degree in Economics from the University of Notre Dame, an MBA from the Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM) and an MBA from Georgetown University.

Tomás Milmo Santos . Co-Chairman of the Board of Directors of Axtel since February 2016. He was Axtel's CEO from 1994 to February 2016, was Director since 1994 and Chairman from 2003 to February 2016. Member of the Board of Directors of Cemex, ITESM and Promotora Ambiental. He is also Chairman of the Board of Tec Salud and Alianza Educativa Ciudadana por Nuevo Leon. Bachelor in Business Economics from Stanford University.

Sergio Rolando Zubirán Shetler. Chief Executive Officer. CEO of Alestra from 1999 through February 2016. With more than 30 years of experience in the Latin American telecommunications market, he has held various executive positions in Mexico, Brazil and Argentina. He is an Industrial Engineer from the Universidad Nacional Autónoma de México, he has a Master’s of Science in Operations Research from the University of Southern California and a Doctorate in Philosophy, specialized in Management, by the Universidad Autónoma de Nuevo León.

Adrián Cuadros Gutiérrez. Executive Director IT Solutions. Before joining this company, he worked for Alestra since 1996, where he was Director of IT Sales and Director of Sales for Institutional Accounts. Electronics and Communications Engineer from the Instituto Tecnológico de Estudios Superiores de Monterrey, and holds an MBA from the Instituto Tecnológico de Estudios Superiores de Monterrey, as well as having completed the Executive Program at IPADE.

Adrián de los Santos Escobedo. Director of the Office of Finance. He served as Director of Corporate Finance and Investor Relations for Axtel until February 15, 2017 when he was temporarily appointed Executive Director of Finance. Prior to joining Axtel in April 2006, he worked for Operadora de Bolsa and Banca Serfin (now Santander México) and Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York. Graduated in Business Administration from the Instituto Tecnológico de Estudios Superiores de Monterrey, with a Master's in Finance from the Carroll School of Management at Boston College.

Andrés Eduardo Cordovez Ferretto. Executive Director Infrastructure and Operations. Acted as Executive Director of Technology and Operations at Axtel from 2013 through January 2016. Before, he was Director of Information Technology and Processes. During his 25 years of professional experience, he has held various executive positions in diverse national and multinational telecommunications, financial, and service companies. Computer Systems Engineer from the Instituto Tecnológico de Estudios Superiores de Monterrey, and completed the Executive Program at IPADE.

Antonio De Nigris Sada. Executive Director Mass Market Segment. Held various positions within Axtel sin 1999, such as Executive Director of Mass Market, Director of Operations and Director of Service Delivery at a national level. Before joining Axtel, he acted as Director of Business Banking at BITAL (now HSBC) and in Financial Leasing Institutions (Prime Internacional). Industrial Engineer from Anáhuac University.

Bernardo García Reynoso. Executive Director Planning and Development. Joined Alfa in 1985 and Alestra in 1996, where he performed roles such as Director of Business Sales, Director of Residential Business Unit, Director of Sales to Large Businesses and Affiliates, Director of Sales Management and Commercial Strategy, Director of Strategic Alliances, Sub-Director of Human Resource Planning, and Director of Management and Human Resources. Industrial and Systems Engineer from the Instituto Tecnológico de Estudios Superiores de Monterrey, and has an MBA from the IMD Business School in Lausanne, Switzerland.

Ricardo J. Hinojosa González. Executive Director Enterprise Segment. Joined Alfa in 1988 and Alestra in 1997, where he acted as Commercial and Marketing Director and held various executive positions in the areas of Marketing, Corporate Sales and Planning. Computer Systems Engineer from the Instituto Tecnológico de Estudios Superiores de Monterrey, and has an MBA specializing in Marketing from the University of California.

Raúl Ortega Ibarra. Executive Director Legal and Regulatory. Acted as Director of Regulatory for AT&T in Mexico and joined Alestra in 1996, where he had responsibility in various areas such as the International Business Unit and Communications. Public Accountant from the Universidad Iberoamericana, with studies in Political Economy and Management at Stanford University.

José Eloy Valerio Treviño. Executive Director Human Resources. Within Axtel, he was Director of Human Resources Director, Executive Director of Administration and Human Resources and Executive Director of Talent and Organizational Culture. He was Chairman of the Executive Association of Human Resources (ERIAC), Board Secretary for the North American Human Resource Management Association (NAHRMA), and Board Member for academic, governmental and non-governmental organizations. Bachelor's in Management from the Universidad Autónoma de Nuevo León and an MBA from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Arturo Vázquez Silveyra. Executive Director Government Segment. In Axtel he acted as Director of Sales and Service of Monterrey, Business and Government Sales and Service for the North region, and Federal, State, and Municipal Government Sales and Service. During a 16-year career at Axtel he held various executive positions in Corporate Sales and Service in the Northwest region. He is a Board Member for COPARMEX, Cámara Americana de Comercio de N.L., CANIETI, CIAPEM and CUDI. Computer Systems Engineer from the Universidad Regiomontana, and has an MBA from the Instituto Tecnológico y de Estudios Superiores de Monterrey.

Salvador Alva Gómez. Axtel board member as of February 2016. Chairman of Sistema ITESM. Board member of Endeavor and Proeza.

Alejandro Miguel Elizondo Barragán. Axtel board member as of February 2016. Director of Development at Alfa. Board member for Arca Continental, Banregio Grupo Financiero, Indelpro and Polioles.

Francisco Garza Egloff. Axtel board member as of February 2016. CEO of Arca Continental. Board Member for Grupo Industrial Saltillo, Grupo Alen, Banregio and Banco Holandés Rabobank, as well as the Engineering and Architecture Division at ITESM and Fundación UANL.

Juan Ignacio Garza Herrera. Axtel board member as of February 2016. CEO of Xignux. Board member for BBVA Bancomer (North-east region), Consejo Mexicano de Hombres de Negocios (CMHN), UDEM, ICONN, Cleber and Instituto Nuevo Amanecer.

Armando Garza Sada. Axtel board member as of February 2016. Chairman of the board for Alfa, Alpek and Nemak. Board member for CEMEX, FEMSA, Frisa Industrias, Grupo Financiero Banorte, Grupo Lamosa, Liverpool, Proeza and ITESM.

Fernando Ángel González Olivieri. Axtel board member as of February 2016. CEO of CEMEX.

Bernardo Guerra Treviño. Axtel board member as of February 2016. Founding member of Morales y Guerra Capital Asesores (MG Capital). Board member for Promotora Ambiental and Banco Ahorro Famsa.

Ramón Alberto Leal Chapa. Axtel board member since February 2016. Director of Finance at ALFA. Board member of UDEM.

Enrique Meyer Guzmán. Axtel board member since February 2016. CEO of Cemix and of Ovniver. Board member for UDEM, Bancomer, Banamex, ITESM, EGADE, Farmacias Benavides and CAINTRA.

Thomas Lorenzo Milmo Zambrano. Axtel board member since February 2016. Co-Founder and Chairman of Javer and Incasa Group; Chairman and CEO of Carbonífera San Patricio and Carbón Industrial.

Paulino José Rodríguez Mendívil. Axtel board member since February 2016. Director of Human Resources at Alfa. Board member of Campofrío Food Group, COPARMEX and of Consejo Coordinador Empresarial.

Ricardo Saldívar Escajadillo. Axtel board member since February 2016. President and CEO of The Home Depot México. Board member of FEMSA, Cluster de Vivienda Monterrey, Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD), American Chamber of Commerce (Monterrey) and Talent and Culture Committee of ITESM.

Alberto Santos Boesch. Axtel board member since February 2016. CEO of Empresas Santos. Board member of Grupo Tres Vidas Acapulco, Grupo Maseca, Interpuerto de Monterrey, Fundación Santos y de la Garza Evia, Instituto Nuevo Amanecer, UDIA A.C. and En Nuestras Manos.

José Antonio González Flores. Alternate Director of Axtel since February 2016. Executive Vice President of Finance for CEMEX.

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

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

Mario Humberto Páez González. Alternate Director of Axtel since February 2016. CEO of Sigma Alimentos. Board Member of Campofrío Food Group.

A description of the relationship of some of the members of the Board of Directors and some of the Executive officers of the Company is presented as follows:

- Alvaro Fernandez Garza and Armando Garza Sada are cousins.
- Tomás Milmo Santos is the son of Thomas Lorenzo Milmo Zambrano, cousin of Alberto Santos Boesch and Patricio Jiménez Barrera’s brother-in-law.

Axtel declares that, to the best of its knowledge, no director or senior officer of the Company owns more than 1% of its capital, except for directors Tomás Milmo Santos and Thomas Lorenzo Milmo Zambrano.

Additionally, Axtel declares that ALFA is its principal shareholder, which exercises control, as of February 15, 2016, date on which the merger between Axtel and Alestra became effective.

The beneficiary shareholders with more than 10% of the capital stock of the Company, which exercise significant influence, control or power of command are ALFA, which has an equity interest of approximately 51%, and a group of shareholders holding approximately 21% of the Capital stock of Axtel (the "Obligated Shareholders"), which entered into an agreement between shareholders for the purpose of regulating their relationship as shareholders of the Company, as well as the transfer of shares by ALFA and such shareholders. This agreement between shareholders includes, among other provisions, rules for the appointment of Axtel's board of directors, qualified majority matters at general shareholders' meetings, preemptive rights in the case of share transfers, joint selling rights and forced sales rights (The "Shareholder Agreement"). In order to implement the agreements established in the Agreement between Shareholders, ALFA and the Obligated Shareholders entered into a management trust agreement, to which all the shares of the Obligated Shareholders and of ALFA were deposited, which together represent approximately 70% of the total shares of Axtel.

It is not known to the Issuer of any commitment that could mean a change of control.

Powers of the Board of Directors

The following are the main functions of the Board of Directors and its Committees:

The Board of directors is responsible for the legal representation of the Company and is authorized to perform any act which is not expressly reserved to the Shareholders’ meetings. Under the LMV, some of the main matters that must be approved by the Board of Directors include:

- transactions with related persons that arise from the regular course of operations of the Company;
- acquisitions or transfers of a substantial part of the assets of the Company;

- the granting of guarantees with respect to third party obligations, and
- other relevant transactions.

The meetings of the Board of Directors are deemed legally convened when the majority of its members are present and its resolutions are valid when adopted by vote of a majority of Directors present whose personal interests with respect to a particular case are not contrary to the Company. The Chairman of the Board of Directors has the casting vote in case of a tie.

Under the LMV, the board of directors must resolve on the following matters, among others:

- Establish the overall strategy of the Company;
- Approve, subject to prior review of the audit committee, (i) the policies and guidelines for the use of the property the Company by related persons, and (ii) each individual transaction with related persons the Company might intend to carry out, subject to certain restrictions, and any transaction or series of unusual or nonrecurring transactions involving the acquisition or disposition of property, the granting of guarantees or assumption of liabilities totaling not less than 5% in the consolidated assets of the Company;
- The appointment and dismissal of the CEO of the Company, and policies for the appointment of other key officers;
- The financial statements, accounting policies and guidelines on internal control of the Company;
- The hiring of external auditors; and
- Approve the disclosure policies of relevant events.

The LMV requires the board members to have duties of care and loyalty.

The duty of care means that the directors of the Company must act in good faith and in the best interest of it. The directors of the Company are required to ask the CEO, managers and external auditors for any relevant information reasonably required for decision making. Board members meet their duty of care primarily through attendance at meetings of the Board and its committees, and the disclosure during such sessions, of any important information obtained by them. The directors who fail in their duty of care may be jointly liable for the damages caused to the Company or its subsidiaries.

The duty of loyalty means that directors of the Company must maintain confidentiality regarding information which they acquire by reason of their positions and should not participate in the deliberation and vote on any matter in which they have a conflict of interest. Directors will incur disloyalty against the Company when they obtain economic benefits for themselves, when knowingly promote a particular shareholder or group of shareholders, or take advantage of business opportunities without a waiver from the board. The duty of loyalty also means that directors must (i) inform the audit committee and external auditors all the irregularities of acquiring knowledge during the performance of their duties, and (ii) to refrain from spreading false information and order or cause it to skip the registration of transactions by the Company, affecting any concept of its financial statements. The directors who fail in their duty of loyalty may be subject to liability for damages caused to the Company or its subsidiaries as a result of acts or omissions described above.

Board members can be subject to criminal penalties consisting of up to 12 years imprisonment for committing acts of bad faith involving the Company, including the alteration of its financial statements and reports.

Responsibility for damages resulting from the violation of the duties of care and loyalty of directors may be exercised by the Company or for the benefit of it by shareholders who individually or collectively, hold shares representing 5% or more of its capital stock. Criminal proceedings may only be brought by the *Secretaría de Hacienda y Crédito Público* ("SHCP") after hearing the opinion of the CNVB.

Board members will not incur in the responsibilities described above (including criminal liability) if, acting in good faith, they: (i) observe the requirements established by applicable laws for the approval of matters concerning the board of directors or its committees, (ii) make decisions based on information provided by relevant officers or others whose capacity and credibility are not subject to reasonable doubt, and (iii) select the most suitable alternative to the best of their knowledge and belief, or the negative economic effects of the alternative selected were not foreseeable.

Audit and Corporate Practices Committee

Under the LMV, the Board of Directors may be assisted by one or more committees in their oversight functions.

For purposes of corporate practices, the committee must (i) provide feedback to the Governing Board on matters within its competence, (ii) seek the advice of independent experts whenever it sees fit, (iii) convene shareholders' meetings, (iv) support the Board of Directors in preparing annual reports and compliance with the obligations of information delivery, and (v) prepare and submit to the Governing Board an annual report on its activities.

In its audit functions in accordance with the LMV, the authority of the committee includes, among others, (i) evaluate the performance of external auditors, (ii) to discuss the financial statements of the Company, (iii) overseeing internal control systems (iv) evaluate the conclusion of transactions with related persons, (v) request reports to relevant officers as it deems necessary, (vi) report to the board all the irregularities of acquiring knowledge, (vii) receive and analyze comments and observations made by the shareholders, directors and key officers, and perform certain acts that to their best judgment become pertinent in connection with such observations, (viii) convene shareholders' meetings, (ix) evaluate the performance of the CEO of the Company and (x) prepare and submit an annual report of its activities to the Governing Board.

In accordance with the LMV and the bylaws of the company, the Audit and Corporate Practices Committee should be composed solely of independent directors and at least three members of the Board of Directors.

To date, the Company's Audit and Corporate Practices Committee members are Bernardo Guerra Treviño, Juan Ignacio Garza Herrera and Enrique Meyer Guzmán as proprietary members. At the Ordinary General Shareholders' Meeting of March 10, 2017, the appointment of Mr. Bernardo Guerra Treviño as Chairman of said Committee was ratified.

Compensation

During the fiscal year concluded on December 31, 2016, the compensation that the Company paid its board members and executive officers approximately totaled Ps. 246 million.

4.4) Company's Bylaws and Other Agreements

Shareholders Meetings and Voting Rights

The general shareholders meetings may be ordinary or extraordinary. At each general shareholder meeting every shareholder shall be entitled to one vote per share.

The extraordinary general shareholders meetings shall be those convened to decide on the following issues:

- Extending the term of the Company or early dissolution;
- Increases or reductions to the fixed part of the capital stock;
- Amendment to the Company's purpose and changes of nationality;
- Mergers or transformations;
- Issuance of bonds and preferred stock;
- Any amendment to the bylaws;
- Spin offs;
- Cancellation of shares by retained earnings and
- Cancellation of the registration of shares in the RNV or any other stock market (except for automatic trading systems).

Ordinary shareholders' meetings are those convened to decide on any matter not reserved for extraordinary meetings. The ordinary general meeting of shareholders shall meet at least once a year within the first four months after the end of the fiscal year, to address, among other things, the following:

- Discussion and approval of the reports of the Board of Directors and the General Director referred by LMV and discussion about the use of the results of the immediately preceding year.
- Appointment of members of the Board of Directors and the Audit and Corporate Practices Committee, and any other committee that is created, as well as the determination of their compensation;
- Determine the maximum amount that may be used to repurchase shares, and
- Discussion and approval of the annual report made by the Chairman of the Audit and Corporate Practices Committee to the Board of Directors.

In accordance with the provisions of the LMV, the general ordinary shareholders meeting shall deal, in addition to the matters described above, to approve any operation involving 20% or more of the consolidated assets of the Company within one year.

To attend the shareholders meeting, holders of shares must be registered in the Company's stock registration book or provide sufficient proof of the ownership of their stocks.

For an ordinary shareholders' meeting to be legally gathered by virtue of a first call, at least half the Company's capital must be represented, and its resolutions will be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. In the case of second or subsequent call, annual shareholder meetings may be held valid irrespective of the number of shares represented and its resolutions shall be valid when taken by a majority vote of the shares entitled to vote represented in the meeting. For an extraordinary shareholders meeting to be legally under the first call, there must be represented at least three-quarters of the capital stock, and its resolutions will be valid when taken by the affirmative vote of at least more than half of the stock with voting rights. In case of second or subsequent call, the extraordinary shareholders' meetings may be held valid if they are represented at least fifty-one percent of the Company's stock, and its resolutions shall be valid if taken by the affirmative vote of at least half of such stock.

Notices to call for shareholders' meetings must be made by the Board of Directors, its Chairman, its Secretary, or by one or more committees that carry out the functions of corporate and audit practices. Shareholders holding shares entitled to vote, including limited or restricted vote, that individually or jointly hold at least 10% (ten percent) of the Company's stock shall be entitled to request from the Chairman of the Board of Directors or the Chairmen of the committees that carry out the functions of audit and corporate practices, to gather the general meeting of shareholders on the terms set out in Article 184 of the Ley General de Sociedades Mercantiles, this, notwithstanding the applicable percentage specified in such Article. Any shareholder shall have the right referred to in both cases specified in Article 185 of the Ley General de Sociedades Mercantiles. If the notice for the shareholders meeting is not done within 15 (fifteen) days from the date of the request, a Civil Judge or District of domicile of the Company, will, at the request of any interested shareholder who must prove ownership of shares for this purpose issue such notice. Notices for ordinary, extraordinary, general or special meetings, ought to be published in the Official Paper of the State of the Company's domicile, or on any of the major newspapers in such domicile, at least 15 (fifteen) calendar days in advance to the date set for the meeting (the day in which the publication of the call is made, will be computed within the 15 (fifteen) day period). When the quorum has not been sufficient for a meeting, record shall be taken in the respective book, stating that fact, along with the signatures in such records of the President and Secretary and the appointed Examiners, in which the date of issuance of the paper on which such call for shareholders meeting was published must be mentioned. In a second or subsequent call, the publication referred to above, must be made with no less than seven (7) calendar days prior to the date set for the new meeting. Calls to express the place, date and time that the Meeting should be held, shall contain the agenda which may not include matters under the rubric of general affairs or equivalent, and shall be signed by the person or persons who make them. With at least fifteen (15) calendar days prior to the date in which a shareholders' meeting shall be hold, all the appropriate information and documents related to each of the points contained in the agenda of the meeting must be available to shareholders at the offices of the Company, free of charge. In accordance with the second paragraph of Article 178 of the General Corporations Law, decisions taken outside the shareholders meeting, by the unanimous vote of the shareholders representing all of the shares entitled to vote, or in the case of a special meeting, the holders of such special series of actions involved, shall for all legal purposes be deemed as valid as if they were adopted at a general or special shareholders meeting, provided that such decisions are confirmed in writing by the shareholders.

Only persons registered as shareholders in the Stock Record, as well as those holding certificates stating the amount of such securities held by such person, issued by the institution for the deposit of securities, along with the list of holders of such securities issued by such institution, shall be entitled to appear or be represented at the shareholders meeting, in which case, the content of the LMV shall be applied.

The records of the shareholders' meetings shall be prepared by the Secretary of the Board, or the person who had acted as Secretary of the shareholders meeting to be entered in the respective book, and will be signed by the Chaiman, Secretary and the appointed examiners.

Dividend Payment and Settlement

Prior to the payment of any dividend, the Company shall relegate 5% of their net profits to integrate the legal reserve fund referred to in Article 20 of the *Ley General de Sociedades Mercantiles*, until such fund reaches the equivalent to 20% of the subscribed capital paid by the Company. Shareholders may agree to allocate additional amounts to the legal reserve fund, including the amounts destined for repurchase of stock. The remainder, if any, may be paid as a dividend to shareholders. Where appropriate, the payment of cash dividends to shares that are not deposited in Indeval will be made against delivery of the applicable coupon, if any.

To the extent that dividends are declared and paid to shareholders, holders of shares purchased in the U.S. or any other country other than Mexico are entitled to receive such dividends in Pesos. Currently there is no tax or withholding tax in accordance with Mexican law on shares acquired outside of Mexico or the dividends declared on such shares.

At the time of dissolution and liquidation of the Company, the ordinary general shareholders meeting shall designate one or more liquidators, who must liquidate the Company. In case of liquidation, all shares fully subscribed and paid shall be entitled to receive its proportionate share in the distribution of the Company's assets.

Purchase of Shares by Subsidiaries of Axtel

Any company in which Axtel is the majority shareholder may not, directly or indirectly, acquire shares of the Company or companies who hold a majority of share of the Company. Under the LMV this restriction does not apply to the acquisition of shares representing the Company's capital, through mutual funds.

Foreign Investors Vote CPO holders

Holders of CPOs that are considered foreign investors for purposes of the Foreign Investment Act, may instruct the Trustee to exercise voting rights with respect to the shares underlying the CPOs held only for the discussion and voting on the following matters: (i) transformation of the Issuer, excluding capital transformation fixed to floating or vice versa, (ii) merger with another company, where the Issuer is the merged, and (iii) the cancellation of the registration of the Shares or other instruments issued based on in Section Shares Securities and / or Special Section of the National Registry of Securities of the CNBV. In all other cases of voting, or in assumption that foreign investors do not emit the respective instruction up to 3 days prior to the respective Shareholders, the Trustee will vote in the same direction as that in which most of the holders of Series B Shares are considered Mexican investors.

Measures to prevent the change of control in Axtel

General

The Company's bylaws provide, subject to certain exceptions, that: (i) Any person who individually, or together with one or more Related Parties, seeking to acquire Shares or rights over Shares, by any means or title, directly or indirectly, either in an act or a succession of acts without a time limit between each other, and as a result of such acquisition its stock holdings as an individual and / or in conjunction with the Related Party(ies) represent a participation of 5% (five percent) or more of all Shares Series "B", shall require prior written consent of the Board of Directors and / or the Shareholders meeting, likewise, (B) any person who individually or together with one or more Related Parties, which holds 5% (five percent) or more of the Series "B" Shares, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and / or in conjunction with the Related Party(ies) represent a participation of 15% (fifteen percent) or more of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the shareholders meeting as provided below (C) any person who individually or together with one or more Related Parties, which maintain a 15% (fifteen percent) or more of the Series "B" shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result, its shares holding as an individual and / or in conjunction with the Related Party(ies) represent a participation of 25% (twenty percent) or more of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below; (D) any person who individually or together with one or more Related Parties, which maintaining a 25% (twenty percent) or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in an act or a succession of acts without a time limit between each other, and as a result, its shareholding as an individual and / or in conjunction with the Related Party(ies) represent 35% (thirty five percent) or more, of all Series "B" Shares, as applicable, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as provided below, (E) any person who individually or in combination with one or more Related Parties, which maintained a 35% (thirty five percent) or more of the Series "B" Shares, intends to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result its shareholding as an individual and / or in conjunction with the Related Party(ies) represent 45% (forty-five percent) or more of all Series "B" Shares, as applicable, shall require prior permission in writing by the Board of Directors and / or the Shareholders Meeting, as provided below, (F) any person who is a competitor of the Company or of any Subsidiary of the Company, which individually or together with one or more Related Parties, intend to acquire Shares or rights over Shares, by any means or title, directly or indirectly, whether in one transaction or a series of events without a time limit between each other, and as a result their shareholding as an individual and / or in conjunction with the Related Party(ies) represent 3% (three percent) or more of all Series "B" Shares, as applicable, or multiples thereof, shall require prior written consent of the Board of Directors and / or the Shareholders Meeting, as applicable.

The person that acquired shares without having met any of the procedures, requirements, authorizations and other provisions stated in the bylaws, shall not be inscribed in the shares registry of the Company, and accordingly, such person may not exercise the corporate rights corresponding to such shares, specifically including the right to vote at shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. For Persons who already are shareholders of the Company and, therefore, the ownership of their shares has already been entered in the Company's shares registry, the shares acquired without having complied with the procedures, requirements, authorizations and other provisions of such clause of the bylaws will not be entered in the Company's registry of shares and, accordingly, such persons may not exercise the corporate rights that apply to such actions, specifically including the right to vote in shareholders' meetings, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. In cases in which the procedures, requirements, authorizations and other provisions stated in the bylaws, the certificates. or the listing of records referred to in the first paragraph of Article 290 of the LMV are not met, ownership of the Shares shall not be proved, neither the right to attend shareholders' meetings and the registration of shares of the Company shall be deemed as proved, nor the exercise of any actions, including those of a procedural nature, shall be deemed as legitimated, unless the Board of Directors or the general extraordinary shareholders meeting otherwise allows. Additionally, and in accordance with Article 2117 of the Federal Civil Code, any person who acquires shares in contravention of the provisions of the bylaws, shall be required to pay a penalty to the Company for an amount equivalent to the price paid for all the Shares that were wrongfully acquired. In the case of shares acquired in contravention of the provisions of the bylaws, free of charge, the penalty shall be for an amount equal to the market value of the wrongfully acquired Shares. Approvals granted by the Board of Directors or the Shareholders Meeting as provided in the bylaws, shall cease to have effect if the information and documentation based on which these approvals were granted is not or ceases to be true. Likewise, the person who acquires shares in contravention of the provisions of the bylaws, must transfer the wrongfully acquired Shares, to a third party approved by the Board of Directors or the Company's general extraordinary shareholders meeting, in which case, the provisions for such matters contained in the Company's bylaws must be followed and complied with in order to carry out such sale, including delivery to the Board of Directors of the Company, through its President and Secretary, of the information referred to in the bylaws.

Requirements and Approvals from the Board of Directors and Shareholders Meeting

To obtain the prior consent of the Board of Directors, the potential purchaser must submit an application for authorization, which should contain some specific information. During the authorization process, certain terms must be met. The Board of Directors may, without liability, submit the application for approval to the general extraordinary shareholders meeting for resolution. The determination of the Board of Directors to submit for the consideration of the Shareholders Meeting should consider various factors such as the potential conflict of interest, equity in the proposed price or when the Council is not capable of meeting having been convened more than two times, among other factors. The Board of Directors may reject any authorization previously granted before the date on which the transaction is concluded, in the event that the Board receives a better offer for the shareholders of the Company. If the Board of Directors or the Shareholders Meeting does not resolved, in a negative or positive way, on the term and form prescribed by Axtel's bylaws, it is understood that the request for authorization to acquire shares in question has been rejected.

Mandatory Public Offer to Purchase in Certain Acquisitions

In the case that the Board of Directors authorizes the requested acquisition of Shares, and such acquisition implies an acquisition of a participation of between 20% or 40% in the Company, or when such acquisition implies a Change of Control in the Company, and notwithstanding the approval, the person that intends to acquire such Shares must do a public offer to purchase, in cash, and a for a price determined in accordance with the procedure mentioned in the following paragraph, of an additional 10% (ten percent)of the Company's stock with voting rights.

In the case that the Board of Directors or the General Extraordinary Shareholder Meeting, as applicable, approves an acquisition that may result in a change of control, the purchaser must do a public offer to purchase 100% (one hundred percent) minus one, of the existing Shares of the Company, at a price in cash that shall not be under the highest of the following:

a) .- The book value of the shares, according to the latest quarterly income statement approved by the Board of Directors, or **b)** .- the highest closing price of listed shares during the three hundred sixty-five (365) days prior to the date of the authorization granted by the Board of Directors, **c)** .- The highest price paid in the purchase of Shares at any time by the person who individually or jointly, directly or indirectly, acquire Shares subject to the application authorized by the Board of Directors; o **d)** multiple of highest enterprise value of the Company for the last 36 months, multiplied by the operating cash flow or EBITDA (operating income before depreciation, interest and taxes) known for the last 12 months minus the net debt known more recently. The multiple of enterprise value referred to above, is the market value of the Company (the share or regular participation certificate or CPO closing price multiplied by the total number of shares or CPOs outstanding representative of 100% of the share capital of the Company) plus net debt known at that time, divided between the operating cash flow or EBITDA known for the past 12 months.

Any public offer to purchase that must be conducted in connection therewith, shall be subject to certain specific requirements. All shareholders of the Company's shares must receive the same price for their shares in the public tender offer. The provisions of the Company's bylaws summarized in this paragraph, related to the mandatory tender offer for certain acquisitions, is generally more rigid than the provisions of the LMV. Some of the provisions of the statutes relating to public offer to purchase in the case of certain acquisitions differ from the requirements contained in the LMV, this under the understanding that the provisions of the bylaws gives greater protection to minority shareholders than those provided by law. In these cases, the provisions contained in the bylaws, and relevant provisions of the LMV, apply to the acquisitions specified hereby.

Exceptions

The provisions of the Company's bylaws summarized above, do not apply to purchases or transfers of Shares to be made via inheritance or from an estate by means of a testamentary succession, those acquired by the person or persons who control the Company and those managed by Axtel, its subsidiaries or affiliates or by any trust created by the Company or any of its subsidiaries, among others.

Amendments to the Provisions on the Protection against hostile takeover

Any amendment to the provisions on protection against hostile takeover must be made in accordance with the terms contained in the LMV and registered in the Public Registry of Commerce from the Company's domicile.

Other provisions

Appraisal Rights and Other Minority Rights

If shareholders agree to modify the Company's purpose, nationality or agree to transform it into other type of corporation, any shareholder who voted against the amendment may exercise its withdrawal right, receiving the book value of shares (in accordance with the last balance sheet approved by the shareholders), provided that the withdrawal request is made within 15 days following the day in which such amendments were adopted.

Under the LMV, issuers are required to comply with certain minority rights, including rights that allow:

- shareholders representing at least 10% of the duly subscribed and paid stock of the Company, to call for a meeting in which they are entitled to vote;
- shareholders representing at least 15% of the Company's stock, to claim, subject to certain legal requirements, certain civil responsibilities against the members of the Board of Directors of the Company;
- shareholders representing at least 10% of the stock with voting rights who are present or represented at a shareholders meeting, may request to postpone the voting of issues on which there are not sufficiently informed; and
- shareholders representing at least 20% of the duly subscribed and paid capital stock, to oppose and stop any resolution adopted by the shareholders, subject to compliance with certain legal requirements.

Additionally, in accordance with the LMV, Axtel is subject to comply with certain corporate governance issues, including the requirement to maintain a committee performing the functions of Audit and corporate practices, and the election of independent directors.

The rights granted to minority shareholders, and the liabilities of directors of the Company under Mexican law are different from those given by law in the United States and other countries. Mexican courts have not deeply addressed the issues of responsibilities of directors, unlike the courts of different states of the United States, where court decisions in this area have identified some of the rights attributable to minority shareholders. Mexican procedural law does not contemplate the possibility of class actions and shareholder lawsuits, which allow U.S. shareholders to include in their demands to other shareholders or to exercise rights attributable to the Company. Mexican company's stockholders do not have the power to oppose resolutions adopted at shareholders' meetings unless they comply with strict procedural requirements. As a result of the foregoing, it is usually more complicated for the minority shareholders of Mexican corporations to bring lawsuits against the Company or its directors, in comparison with the shareholders of U.S. companies.

Responsibilities of Directors and Committee Members

Liability claims against directors and committee members will be subject under the provisions stated in the LMV. Under the LMV, shareholders representing at least 5% of the Company's stock may carry on liability claims against directors for breach of due diligence duties and loyalty from them, and obtain for the benefit of the Company, the payment of a compensation equivalent to the amount of damages and consequential damages to the Company. Such tort actions prescribe after five years and may not be exercised if the directors are protected by the exceptions stated in the LMV.

Conflicts of Interest

A shareholder who votes on any resolution in which there is a conflict of interest may incur in a responsibility for direct and consequential damages incurred to the Company, provided that the resolution could not have been approved without the affirmative vote of such shareholder. Additionally, a member of the Board of Directors or a committee member that performs audit and corporate governance functions, that have any conflict of interest should make it known to other members of such board or committee, or of the Company, and restrain from voting on any resolution regarding such matter. Failure to comply with these obligations by a director or committee member that performs audit and corporate governance functions may result in liability to such director or committee member that performs audit and corporate governance functions in question, and may also be accountable for the payment of direct and consequential damages.

Suspension of the Resolutions Adopted by Shareholders

Holders of shares entitled to vote, including limited or restricted vote, that individually or jointly hold 20% (twenty percent) or more of the Company's stock, may judicially oppose the resolutions of general shareholders' meetings in which they were entitled to vote. The above, subject to the terms and conditions set out in Article 201 of the General Corporations Law, not being applicable the percentage referred to in that article, but being applicable Article 202 of such law.

Regulation in the Field of Foreign Investment

Participation of foreign investors in the stock of Mexican companies is regulated by the Foreign Investment Law and its Regulations. The National Foreign Investment Commission and the National Registry of Foreign Investment are the entities responsible for implementing the Foreign Investment Law and its Regulations.

In general, the Foreign Investment Law allows the participation of foreign investors in up to 100% of the capital of Mexican companies, except for those companies engaged in restricted activities. Foreign investment in Axtel's capital is restricted.

Under the LFT and the Foreign Investment Law, local telephony concessions can only be granted to:

- Individuals of Mexican nationality, and
- Mexican corporations with less than 49% of participation of foreigners in its equity, and which are not under the control of foreigners.

Notwithstanding the foregoing, in the case of corporations holding concessions to provide mobile services, participation of foreigners may exceed 49% of the share capital with voting rights, provided that has the approval of the National Commission Foreign Investment of the Ministry of Economy.

According to the Foreign Investment Law *(Ley de inversion extranjera)*, the Ministry of Economy may authorize the issuance of shares without voting rights or limited voting rights, called neutral shares, which according to the Foreign Investment Law are not counted to determine the percentage of foreign investment in Mexican corporations. Any transfer of shares in contravention of the provisions of the Foreign Investment Act is null and void.

Admission of Foreigners

In accordance with applicable law, the Company's bylaws state that when purchasing Company's stock, foreign shareholders are compelled to: (i) be considered as Mexican in everything relating to their shares, properties, rights, concessions, participations or interests in which the Company is the holder, and the rights and obligations resulting from any contract between the Company and the federal government, and (ii) do not seek the protection of their government. If a shareholder seeks such protection, in contravention with the provisions of the statutes, it's bound to lose its Shares in the benefit of the Mexican Nation. This prohibition does not apply to proceedings in foreign courts.

Jurisdiction

The Company's bylaws show that any dispute between the shareholders and the Company, or between the shareholders on matters relating to the Company, the parties hereby agree to submit such matters to the jurisdiction of the courts located on the state of Nuevo Leon, Mexico.

5) STOCK MARKET

5.1) Shareholders Structure

The CPOs of the Company are conformed by Series "B" Class "I" Shares that represent 7 shares of the mentioned series and trade in the BMV.

Resulting from the merger with Alestra, since February 15, 2016, Alfa is owner of approximately 51% of Axtel's Capital.

5.2) Stock Performance in the Stock Market

The following table shows the maximum and minimum prices of the CPOs in the Mexican Stock Exchange (BMV) in each of the said periods. Prices are expressed in constant pesos.

	Max	Min	Volume
	(Pesos per CPO)		(in thousands)
Annual Maximum and Minimum:			
2012	5.45	1.91	1,139,481
2013	4.79	2.69	1,649,000
2014	5.43	3.18	837,644
2015	8.96	3.14	873,950
2016	8.77	3.45	745,863
2015:			
First Quarter	5.04	3.14	257,292
Second Quarter	5.06	4.22	141,808
Third Quarter	7.99	4.81	246,921
Fourth Quarter	8.96	6.81	227,929
2016:			
First Quarter	8.77	7.57	215,425
Second Quarter	8.49	6.15	212,744
Third Quarter	6.43	4.37	151,542
Fourth Quarter	5.27	3.45	166,151
Monthly Maximum and Minimums			
2016:			
January	8.77	7.82	100,430
February	7.97	7.57	35,358
March	8.48	7.67	79,637
April	8.49	7.63	64,311
May	7.58	6.45	73.954
June	6.97	6.15	74,480
July	6.43	5.59	37,419
August	5.64	5.00	66,753
September	5.05	4.37	47,371
October	5.27	4.40	42,829
November	4.84	3.98	78,122
December	4.21	3.45	45,200
2017:			
January	4.02	3.30	40,918
February	3.69	3.39	35,363
March	3.94	3.75	37,584

5.3) Market Maker

As of December 31, 2016, Axtel has not entered into a Market Maker contract with any intermediary. However, until June 16, 2016, Acciones y Valores Banamex, S.A. Of C.V., was acting as its market maker:

1. Type of Security: Ordinary Participation Certificates.
2. Ticker: Axtel CPO.
3. ISIN Code: MX01AX040009

The contracted services were aimed at increasing the liquidity of the issuer, as well as maintaining stability and continuity in prices. The contract was signed on November 8, 2010 and lasts six months from its execution. And it may be renewed for equal periods, unless the parties wish to terminate with 30 days' notice.

In consideration for services rendered under this contract, the Market Maker shall receive from the Issuer the amount of $ 20,000.00 (Thirty thousand pesos 00/100 National Currency) plus Value Added Tax, VAT, monthly.

The contract was terminated on June 16, 2016.

De conformidad con el Artículo 33 fracción I, inciso b), párrafo 1 de las "Disposiciones de Carácter General Aplicables a las Emisoras de Valores y otros Participantes del Mercado de Valores", emitidas por la Comisión Nacional Bancaria y de Valores y publicadas en el Diario Oficial de la Federación ("DOF"), el 19 de marzo de 2003, y sus respectivas actualizaciones, y con relación al Reporte Anual 2016 de Axtel, S.A.B. de C.V., hacemos constar que:

> "Los suscritos manifestamos bajo protesta de decir verdad que, en el ámbito de nuestras respectivas funciones, preparamos la información relativa a la emisora contenida en el presente reporte anual, la cual, a nuestro leal saber y entender, refleja razonablemente su situación. Asimismo, manifestamos que no tenemos conocimiento de información relevante que haya sido omitida o falseada en este reporte anual o que el mismo contenga información que pudiera inducir a error a los inversionistas."

Atentamente,

Dr. Sergio Rolando Zubirán Shetler

Director General

Lic. Adrián Gerardo de los Santos Escobedo

Director de Finanzas

Lic. Carlos Jiménez Barrera

Director Jurídico

Los suscritos manifestamos bajo protesta de decir verdad, que los estados financieros consolidados de Axtel, S. A. B. de C. V y subsidiarias, que comprenden el estado de situación financiera consolidado al 31 de diciembre de 2016 y los estados consolidados de resultados, de resultados integrales, de cambios en el capital contable y de flujos de efectivo que le son relativos por el año que terminó en esa fecha, que contiene el presente Reporte Anual, fueron dictaminados con fecha 21 de febrero de 2017; de conformidad con las Normas Internacionales de Auditoría.

Asimismo, manifestamos que hemos leído el presente reporte anual de fecha 27 de abril de 2017 y basados en nuestra lectura y dentro del alcance del trabajo de auditoría realizado, no tenemos conocimiento de errores relevantes o inconsistencias en la información financiera que se incluye y cuya fuente proviene de los estados financieros dictaminados señalados en el párrafo anterior, ni de información financiera que haya sido omitida o falseada en este reporte anual, o que el mismo contenga información financiera que pudiera inducir a error a los inversionistas.

No obstante, los suscritos no fuimos contratados, y no realizamos procedimientos adicionales con el objeto de expresar nuestra opinión respecto de la otra información, contenida en el presente reporte anual, que no provenga de los estados financieros por nosotros dictaminados.

C. P. C. Ricardo Noriega Navarro

Socio de auditoria

C. P. C. Felipe Córdova Otero

Representante Legal

EXHIBIT A

AUDITED FINANCIAL STATEMENTS

Axtel, S. A. B. de C. V. and subsidiaries
(a subsidiary of Alfa, S. A. B. de C. V.)
Consolidated Financial Statements
December 31, 2016 and 2015

Axtel, S. A. B. de C. V. and subsidiaries

(a subsidiary of Alfa, S. A. B. de C. V.)
Index
December 31, 2016 and 2015

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Impulsando lo extraordinario

Independent Auditors' Report

Monterrey, N. L., February 21, 2017

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

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 matter	How our audit addressed the matter
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.	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 error, 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

Axtel, S. A. B. de C. V. and subsidiaries

(a subsidiary of Alfa, S. A. B. de C. V.)
Consolidated Statements of Financial Position
At December 31, 2016 and 2015

Thousands of Mexican pesos

		December 31,	
Assets		2016	2015
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 an 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

Axtel, S. A. B. de C. V. and subsidiaries

(a subsidiary of Alfa, S. A. B. de C. V.)
Consolidated Statements of Income
For the years ended December 31, 2016 and 2015

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

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2016 and 2015

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

Axtel, S. A. B. de C. V. and subsidiaries
(a subsidiary of Alfa, S. A. B. de C. V.)
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2016 and 2015

Thousands of Mexican pesos
(Note 20)

		Controlling interest							
	Nota	Capital stock	Premium on the subscription of shares	Reserve for repurchase of shares	Retained earnings	Other reserves	Total controlling interest	Non controlling interest	Total shareholder's equity
Balances at January 1, 2015		$ 6,728,342	$ 644,710	$ 90,000	($ 1,753,543)	($ 3,791)	$ 5,705,718	$ -	$ 5,705,718
Transactions with shareholders:									
Capital stock increase from conversion of bonds	20	133,644	-	-	-	-	133,644		133,644
		6,861,986	644,710	90,000	(1,753,543)	(3,791)	5,839,362		5,839,362
Correction of provision for impairment of trade receivables	3				(232,477)		(232,477)		(232,477)
Net loss					(1,732,267)	-	(1,732,267)		(1,732,267)
Total other components of comprehensive income for the year					(1,182)		(1,182)		(1,182)
Comprehensive loss				-	(1,733,449)		(1,733,449)		(1,733,449)
Ending balances adjusted at December 31, 2015		6,861,986	644,710	90,000	(3,719,469)	(3,791)	3,873,436		3,873,436
Transactions with stockholders:									
Cancellation of the reserve for the repurchase of shares				(90,000)	90,000		-		-
Capital stock increase from conversion of bonds	20	36,094					36,094		36,094
Effect of merger	20	3,335,761			(1,197,805)		2,137,956		2,137,956
Other					(40,559)		(40,559)		(40,559)
Total transactions with shareholders		3,371,855	-	(90,000)	(1,148,364)		2,133,491		2,133,491
Net loss					(3,599,267)		(3,599,267)	5	(3,599,262)
Total other items from comprehensive income for the year					(17,617)	10,189	(7,428)	-	(7,428)
Comprehensive loss					(3,616,884)	10,189	(3,606,695)	5	(3,606,690)
Balances at December 31, 2016		$10,233,841	$ 644,710	$ -	($ 8,484,717)	$ 6,398	$ 2,400,232	$ 5	$ 2,400,237

The accompanying notes are an 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

Axtel, S. A. B. de C. V. and subsidiaries

(a subsidiary of Alfa, S. A. B. de C. V.)

Statements of Cash Flows

At December 31, 2016 and 2015

Thousands of Mexican pesos

	Note	Year ended December 31, 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.

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, 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:

The accompanying consolidated financial statements and notes thereto were authorized for issuance on February 21, 2017 by the undersigned officers.

Following is a summary of the most significant accounting policies followed by the Company and its subsidiaries, which have been applied consistently in preparing its financial information in the years presented, unless otherwise specified:

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	País	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)	Singapore	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. <u>Foreign currency conversion</u>

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			
	Exchange rate prevailing at the close of December 31,		Average annual exchange rate	
	2016	2015	2016	2015
US dollar United States	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:

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.

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	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	-	-

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5+ years
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:

	Depreciable assets						Non-depreciable assets		
	Buildings	Tele-communications network	Office equipment	Computer equipment	Transportation equipment	Lease-hold improvements	Land	Investments in process	Total
For the period ended Thursday, December 31, 2015									
Net book value	$ 113,289	$ 9,291,648	$ 61,835	$ 2,209,728	$ 29,589	$ 77,248	$ 167,331	$ 1,010,874	$ 12,961,542
Additions	-	846,170	42		2,410	-	-	1,985,452	2,834,074
Transfers	-	1,679,472	3,051	153,436	19,654	21,615	-	(1,877,228)	-
Disposals	-	(14,975)		(74)	(227)	-	-	(813)	(16,089)
Depreciation charges recognized in the year	(14,286)	(2,384,172)	(15,396)	(111,562)	(16,795)	(21,137)	-	-	(2,563,348)
Ending balance	$ 99,003	$ 9,418,143	$ 49,532	$ 2,251,528	$ 34,631	$ 77,726	$ 167,331	$ 1,118,285	$ 13,216,179
At December 31, 2015									
Cost	$ 263,659	$ 37,181,970	$ 260,627	$ 3,839,082	$ 374,327	$ 451,809	$ 167,331	$ 1,118,285	$ 43,657,091
Accumulated depreciation	(164,656)	(27,763,827)	(211,095)	(1,587,554)	(339,696)	(374,083)	-	-	(30,440,912)
Ending balance	$ 99,003	$ 9,418,143	$ 49,532	$ 2,251,528	$ 34,631	$ 77,726	$ 167,331	$ 1,118,285	$ 13,216,179
For the period at December 31, 2016									
Net book value	$ 99,003	$ 9,418,143	$ 49,532	$ 2,251,528	$ 34,631	$ 77,726	$ 167,331	$ 1,118,285	$ 13,216,179
Merger-related acquisitions (Note 2)	719,865	4,550,467	43,965	189,656	16,167	45,110	314,305	690,045	6,569,580
Effect of conversion		3,292							3,292
Additions		620,061	44	8,277	2,901			2,753,883	3,385,166
Transfers	179,201	2,104,885	4,210	198,424	13,151	8,060	6	(2,507,937)	-
Disposals	-	(100,405)	(2)	(665)	(2,486)	-	-	(34,492)	(138,050)
Depreciation charges recognized in the year	(30,500)	(3,059,965)	(22,095)	(257,039)	(20,850)	(26,267)	-	-	(3,416,716)
Ending balance	$ 967,569	$ 13,536,478	$ 75,654	$ 2,390,181	$ 43,514	$ 104,628	$ 481,642	$ 2,019,783	$ 19,619,451
At December 31, 2016									
Cost	$ 1,163,254	$ 53,627,218	$ 482,638	$ 4,665,963	$ 408,448	$ 587,635	$ 481,642	$ 2,019,783	$ 63,436,581
Accumulated depreciation	(195,685)	(40,090,739)	(406,984)	(2,275,782)	(364,934)	(483,006)	-	-	(43,817,130)
Ending balance	$ 967,569	$ 13,536,479	$ 75,654	$ 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).

Note 12 - Goodwill and intangible assets:

Movements of intangible assets for the period at December 31, 2016 and 2015 are analyzed as follows:

	Defined life					Indefinite life		
	Concessions	Defined-life trademarks	Relations with customers	Obligations to do and not to do	Software and licenses	Other defined life	Goodwill	Total
Opening balance at January 1, 2015	$ 144,022	$ -	$ -	$ -	$ -	$ 29,934	$ -	$ 173,956
Amortization charges recognized during the year	(40,321)	-	-	-	-	(8,636)	-	(48,957)
Ending balance at December 31, 2015	$ 103,701	$ -	$ -	$ -	$ -	$ 21,298	$ -	$ 124,999
Cost	$ 681,713	$	$	$	$	$ 183,226	$	$ 864,939
Accumulated amortization	(578,012)	-	-	-	-	(161,928)	-	(739,940)
Ending balance at December 31, 2015	$ 103,701	$ -	$ -	$ -	$ -	$ 21,298	$ -	$ 124,999
December 31, 2015								
Opening balance at January 1 2016	$ 103,701	$ -	$ -	$ -	$ -	$ 21,298	$ -	$ 124,999
Additions	6,858	40,000	-	809,793	99,791	3,592		960,034
Acquisition via merger (Note 2)	18,824	38,255	220,412		285,834	115,011	488,232	1,166,568
Disposals								
Amortization charges recognized during the year	(46,105)	(14,139)	(15,191)	(219,051)	(92,123)	(26,265)	-	(412,874)
Ending balance at December 31, 2016	$ 83,278	$ 64,116	$ 205,221	$ 590,742	$ 293,502	$ 113,636	$ 488,232	$ 1,838,727
Cost	$ 707,395	$ 78,255	$ 220,412	$ 809,793	$ 385,625	$ 301,829	$ 488,232	$ 2,991,541
Accumulated amortization	(624,117)	(14,139)	(15,191)	(219,051)	(92,123)	(188,193)	-	(1,152,814)
Ending balance at December 31, 2016	$ 83,278	$ 64,116	$ 205,221	$ 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	December 31, 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:

Current	December 31, 2016	December 31, 2015
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:

	Litigation	Restructuring [1]	Other	Total
At December 31, 2014	$ -	$ -	$ -	$ -
Additions	-	89,000	101,100	190,100
Payments	-	-		-
At December 31, 2015	$	$ 89,000	$ 101,100	$ 190,100
Addition	$ 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,	
Current:	2016	2015
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	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.
(a) Unsecured syndicated loan Tranche B MXP.
(a) 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.

The terms, conditions and book values of the non-current debt are as follows:

			Interest rate				At December 31,	
	Country	Currency	contractual	Effective	Periodicity of maturity	Payment of interest	2016	2015
Bancomext	México	USD	3.88%	4.43%	01/17/2024	Quarterly	$ 3,729,852	$ -
Syndicated loan Tranche A	Mexico	MXP	TIIE + 2%	7.03%	01/15/2019	Biweekly	4,759,800	-
Syndicated loan Tranche B	Mexico	MXP	TIIE + 2.25%	7.26%	01/15/2019	Semiannual	1,499,842	-
Syndicated loan Tranche B	Mexico	USD	EuroDollar rate+ 2.25	3.64%	01/15/2021	Biweekly	10,332,000	-
Unsecured notes	Mexico	MXP/USD	sundry	sundry	sundry	Semiannual	-	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 onwards	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.

	December 31,	
	2016	2015
Financial leasing obligations - minimum payments, gross		
- 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,	
	2016	2015
Obligations in the statement of financial position arising from:		
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.

The amounts recognized in the statement of financial position are determined 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 December 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 December 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 and later	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	Financial assets and liabilities at fair value with changes in 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	Financial assets and liabilities at fair value with changes in 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	Notional 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

	Year ended December 31,	
	2016	2015
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:

			December 31, 2016				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Monto	Interest	Currency	Date of expiration DD/MM/YY	Interest rate
Holding company (2)	$	$ 246,396			MXN	07/14/17	N/A
Holding company			$ 413,280	$ 12,605	USD	07/15/17	3%
Holding company (1)		287,300			MXN	02/28/18	TIIE +2.25%
Holding company (1)		287,300			MXN	02/28/19	TIIE +2.25%
Holding company (1)		204,574			USD	02/28/18	TIIE +2.25%
Holding company (1)		204,574			USD	02/28/19	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
Holding company	$ 10,093	$2,317	$	$
Affiliated companies	1,458		31,287	
Associated companies				
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	$ 762,194
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				2015			
	Mass	Business	Government	Total	Mass	Business	Government	Total
Sales per segment	$ 3,129,580	$ 8,783,843	$ 2,023,897	$13,937,320	$ 3,316,104	$ 4,242,215	$ 2,592,119	$ 10,150,438
Cost of service	(436,820)	(1,579,947)	(730,846)	(2,747,613)	(448,381)	(1,032,026)	(819,461)	(2,299,868)
Expenses	(1,098,137)	(905,408)	(242,768)	(2,246,313)	(1,103,005)	(292,033)	(137,390)	(1,532,428)
Business Unit Contribution (BUC)	$ 1,594,623	$ 6,298,488	$ 1,050,283	$ 8,943,394	$ 1,764,718	$ 2,918,156	$ 1,635,268	$ 6,318,142
	51%	72%	52%	64%	53%	69%	63%	62%
Unallocated expenses				(4,435,190)				(3,110,292)
Adjusted EBITDA				4,508,204				3,207,850
Impairment of non-current assets				(52,795)				-
Merger-related expenses				(835,200)				-
Depreciation and amortization				(3,829,589)				(2,618,567)
Operating (loss) profit				(209,380)				589,283
Financial gain (loss), net				(4,856,399)				(2,694,739)
Equity in the results of associated company				(5,189)				(5)
Income taxes				1,471,706				373,194
Net consolidated loss				(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

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

Consolidated Financial Statements

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

(Translation from Spanish Language Original)

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Independent Auditors' Report

(Translation from Spanish Language Original)

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

We have audited the accompanying consolidated financial statements of Axtel, S.A.B. de C.V., and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S.A.B. de C.V., and subsidiaries, as of December 31, 2015 and 2014 and the consolidated results of their operations and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

(a) As referred in note 22 a), on December 15, 2015 the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respectives Boards of Directors and Shareholders. In addition, on January 11, 2016 the Mexican Banking and Securities Comission (*Comisión Nacional Bancaria y de Valores*) ("CNBV") issued the exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016.

(b) As referred in note 22 a), on January 15, 2016, the Company signed a credit facility of U.S. 500 million and Ps.4,759 million to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in January 2019 for the portion in pesos and until February 2021 for the dollar portion.

(c) As referred in note 2 a), during 2015, the Company entered in several agreements about disputes held with other telecom carriers, as mentioned below:

    i. Through March 18 and May 27, 2015, the Company signed settlement with different mobile and long distance carriers by which it was agreed to terminate various disputes related to interconnection services. The benefit, net of legal fees and other incremental expenses, amounted Ps.534 million and is included in comprehensive income.

    ii. After agreements mentioned above, as described in notes 21 b) and 21 c), there are still contingencies related to interconnection costs rates for other exercises with mobile and long distance carriers. As of December 31, 2015, the difference between the amounts paid by the Company and the amounts billed by mobile carriers and one of their main suppliers amount to approximately Ps.257 million and Ps.468 million, respectively, before value added tax. At the date of this report, the Management of the Company and its legal advisor consider that they have enough elements to be favored in trials related to such contingencies.

(Continued)

(d) As referred in note 7 a), starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of certain types of assets from the network infrastructure. The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526 million in depreciation expense compared to 2014.

KPMG Cardenas Dosal, S. C.

R. Sergio López Lara

March 4, 2016
Monterrey, N. L., México

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Financial Position
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

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

Assets	**Note**		**2015**	**2014**
Current assets:				
Cash and cash equivalents	8	Ps	2,575,222	2,697,835
Accounts receivable, net	9		2,893,017	2,426,167
Refundable taxes			19,824	48,629
Advance to suppliers			52,648	112,763
Inventories			53,069	67,097
Financial instruments	8e		378,099	121,999
Other accounts receivable			103,699	104,562
Other current assets	12		151,511	225,331
Total current assets			6,227,089	5,804,383
Long-term accounts receivable			128,613	230,752
Property, systems and equipment, net	10		13,216,179	12,961,543
Intangible assets, net	11		124,999	173,962
Deferred income taxes, net	17		2,103,961	1,675,202
Investments in associate			8,212	8,217
Other assets	12		119,586	131,039
Total assets		Ps	21,928,639	20,985,098
Liabilities and Stockholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities		Ps	2,676,819	2,347,302
Accrued interest			545,208	458,822
Value Added Tax and other taxes payable			642,530	363,351
Short-term debt	8 and 13b		130,000	130,000
Current maturities of long-term debt	13a		375,656	220,554
Deferred revenue	16		509,415	695,868
Other current liabilities			57,343	96,018
Provisions	15		190,100	-
Total current liabilities			5,127,071	4,311,915
Long-term debt	13a		12,475,950	10,645,447
Derivative financial instruments	8d		65,222	46,952
Other long term liabilities			112,340	216,039
Employee benefits			28,231	25,127
Deferred revenue	16		-	33,900
Total liabilities			17,808,814	15,279,380
Stockholders' equity:				
Common stock	18		6,861,986	6,728,342
Additional paid-in capital	18		644,710	644,710
Reserve for repurchase of own shares	18		90,000	90,000
Retained comprehensive deficit	18		(3,476,871)	(1,757,334)
Total stockholders' equity			4,119,825	5,705,718
Commitments and contingencies	21			
Total liabilities and stockholders' equity		Ps	21,928,639	20,985,098

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos except for the basic loss per share)

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

	Note		2015	2014
Telephone services and related revenues	19	Ps	10,150,438	10,597,003
Operating costs and expenses:				
Cost of sales and services			(2,299,862)	(3,097,105)
Selling and administrative expenses	19		(4,719,771)	(4,476,849)
Depreciation and amortization	10 and 11		(2,618,567)	(3,435,082)
Effect of settlements with telecom carriers	2a		534,240	-
Other operating expenses			(437,321)	(87,670)
Operating income (loss)			609,157	(499,703)
Interest expense	10 and 13		(1,236,308)	(875,745)
Interest income			36,929	16,615
Foreign exchange loss, net			(1,659,066)	(1,073,210)
Change in the fair value of financial instruments, net	8		163,706	(21,272)
Net finance costs			(2,694,739)	(1,953,612)
Equity in loss of associated company			(5)	(3,423)
Loss before income taxes			(2,085,587)	(2,456,738)
Income taxes:				
Current	17		(61,305)	(34,459)
Deferred	17		428,537	572,596
Total income tax benefit			367,232	538,137
Net loss		Ps	(1,718,355)	(1,918,601)
Other comprehensive income items:				
Actuarial result	18c		(1,182)	(3,791)
Comprehensive loss		Ps	(1,719,537)	(1,922,392)
Weighted average number of common shares outstanding			9,185,204,571	8,871,168,855
Basic loss per share		Ps	(0.19)	(0.22)

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

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

		2015	2014
Cash flows from operating activities:			
Net loss	Ps	(1,718,355)	(1,918,601)
Adjustments for:			
Income taxes		(367,232)	(538,137)
Foreign exchange loss, net		1,659,066	1,073,210
Depreciation		2,563,348	3,380,966
Amortization		55,219	54,116
Impairment loss recognized on trade receivables		154,621	173,941
Gain on sale of property, system and equipment		(256,467)	(1,312)
Allowance for obsolete and slow-moving of inventories		12,047	1,967
Equity in loss of associated company		5	3,423
Interest expense		1,236,308	875,745
Amortization of premium on bond issuance		(2,213)	(1,601)
Fair value change and settlement of financial instruments		(163,706)	21,272
		3,172,641	3,124,989
Movements in working capital:			
(Increase) decrease in accounts receivable and other accounts receivable		(430,559)	393,665
Decrease in inventories		14,028	39,215
Increase (decrease) in accounts payable and other accounts payable		670,539	(491,729)
(Decrease) increase in deferred revenue		(220,352)	111,953
Cash generated from operating activities		3,206,297	3,178,093
Taxes paid		(85,964)	(52,205)
Net cash from operating activities		3,120,333	3,125,888
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,011,430)	(2,837,222)
Sale of property, systems and equipment		129,823	5,176
Increase in financial instruments		(34,918)	(19,924)
Other assets		(8,893)	4,752
Net cash used in investing activities		(1,925,418)	(2,847,218)
Cash flows from financing activities:			
Interest paid		(1,165,405)	(720,303)
Proceeds of notes		-	1,887,747
Proceeds of bank loans		-	460,000
Payments of bank loans		-	(330,000)
Other loans, net		(399,611)	(327,401)
Net cash flow (used in) generated by financing activities		(1,565,016)	970,043
Net (decrease) increase in cash and cash equivalents		(370,101)	1,248,713
Cash and cash equivalents at the beginning of the year		2,697,835	1,292,263
Effects of exchange rate fluctuations on cash and cash equivalents held		247,488	156,859
Cash and cash equivalents at the end of the year	Ps	2,575,222	2,697,835

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

AXTEL, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

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

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained comprehensive earnings (Deficit)	Total stockholders' equity
Balances as of December 31, 2013	Ps	6,627,890	644,710	162,334	92,724	7,527,658
Increase of capital stock (note 18a)		100,452	-	-	-	100,452
Change on reserves for repurchase of own shares		-	-	(72,334)	72,334	-
Comprehensive loss (note 18c)		-	-	-	(1,922,392)	(1,922,392)
Balances as of December 31, 2014		6,728,342	644,710	90,000	(1,757,334)	5,705,718
Increase of capital stock (note 18a)		133,644	-	-	-	133,644
Comprehensive loss (note 18c)		-	-	-	(1,719,537)	(1,719,537)
Balances as of December 31, 2015	Ps	6,861,986	644,710	90,000	(3,476,871)	4,119,825

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

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

(1) Reporting entity

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

The Company's consolidated financial statements for the years ended December 31, 2015 and 2014, includes The Company and subsidiaries (collectively referred as "the Company" and individually as "entities of the Company")

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

(2) Significant events

a) Agreements about disputes related to interconnection services

During 2015, the Company entered in several agreements about disputes held with other telecom operators, as mentioned below:

- On March 18, 2015 the Company signed a settlement with América Móvil, S.A.B. de C.V., ("AMX") and its subsidiary Radiomóvil Dipsa S.A. de C.V. ("Telcel"), in which the parties agreed to terminate disputes relating with interconnection services. As part of the agreement, Axtel and Telcel entered into interconnection agreements for the period 2005-2015. Also Axtel, Telcel and Telefonos de Mexico S.A.B. de C.V. ("Telmex") agreed to the withdrawal of several disputes on interconnection issues.

  Derived from these agreements and after settled in favor and against the various amounts that were in dispute and/or unpaid, the Company signed agreements for marketing or resale of telecommunications services and for access and use of some infrastructure with Telcel and Telmex, respectively.

- Another agreement was also held on the same day, the Company and Iusacell Group ("Iusacell") signed an agreement whereby both parties are terminated disputes relating to interconnection services for 2005-2010. During the agreement, the Company and Iusacell also signed several trade agreements for telecommunications infrastructure for mutual benefit.

- Finally, on May 27, 2015, the Company signed an agreement with Pegaso PCS, S.A. de C.V. ("Telefonica Mexico") in which the parties agreed to terminate disputes relating to interconnection services for the period of 2005 to 2011.

(Thousands of Mexican pesos)

Derived from these agreements and after settled in favor and against the several amounts that were in dispute and/or unpaid, the Company obtain a benefit, net of legal fees and other incremental expenses, of Ps. 534,240 included in the Statement of Comprehensive Income within operating costs and expenses, in the effect of agreements with telecom operators item.

b) Issuance of secured bonds

On September 17, 2014, The Company completed the reopening of the secured bonds issuance due in 2020 for 150 million United States dollars (U.S.) priced at 100.25% of the principal amount with initial interest rate of 8% which will be increase to 9% starting in the second year, and due in 2020. Interest is payable semi-annually in February and August of each year.

(3) Consolidation of financial statements

Based on IFRS 10, *"Consolidated Financial Statements"*, the consolidated financial statements include those of Axtel, and those of the entities over which it exercises control on the financial and operating policies. The subsidiaries included in the consolidated interim financial statements are presented as follows:

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

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

(4) Basis of preparation

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Company's Executive Administrative Director of Administration on March 4, 2016.

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of the consolidated statement of comprehensive income

The Company has elected to analyze expenses recognized in profit and loss based on functions, as the Company believes that in this way the information presented is reliable and more relevant. The Company presents the operating income (loss) since considers it as a significant performance measurement for users of financial information. According to IFRS, the inclusion of subtotals as "operating income (loss)" and the arrangement of the income statement differ significantly by industry and company, according to specific needs. Income and costs that are of an operational nature are presented in this item.

The "Other operating expenses" item in the income statement consists mainly of income and expenses that are not directly related to the main activities of the Company, or that are non-recurring nature, such as costs of settlement of staff and clean-up of old balances.

e) Presentation of the consolidated statement of cash flows

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

The statements of cash flows present cash inflows and outflows, excluding unrealized foreign exchange effects, and the following transactions that did not represent generation or use of cash:

- Increase in Property, systems and equipment during 2015 for approximately Ps.534,755, related to a capacity lease agreement (IRU), note 13 (a).

- Increase in Property, systems and equipment during 2015 and 2014 for approximately Ps.112,979 and Ps.287,084, respectively, related to financial leases note 13 (a).

- Swap of fiber optic, amounting to Ps.141,921 arising from agreement signed with Iusacell, as mentioned in note 2 (a).

- Increase in common stock for Ps.133,645 and Ps.100,452 during 2015 and 2014, respectively, related to the conversion option of bonds mentioned in notes 13 (a) and 18 (a).

(5) Significant accounting policies

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

a) Transactions eliminated in consolidation

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

b) Foreign currency transactions

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

c) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months. At December 31, 2015 and 2014, include cash equivalents consisting of money market for Ps. 2,324,527 and Ps. 1,560,804, respectively.

d) Financial assets

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

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

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

Financial assets are classified within the following specific categories: "financial assets at fair value with changes through profit or loss" and "accounts receivable and other accounts receivable". The classification depends on the nature and purpose thereof and is determined upon initial recognition.

Financial assets valued at fair value through profit or loss

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

Accounts receivable and other accounts receivable

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

Effective interest method

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

Write-off of financial assets and financial liabilities

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

e) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

f) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

If the hedging instrument matures or is sold, terminated or exercised without replacement or continuous financing, or if its designation as a hedge is revoked, any cumulative gain or loss recognized directly within other comprehensive income in stockholders' equity from the effective date of the hedge, remains separated from equity until the forecasted transaction occurs when it is recognized in income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in stockholders' equity is immediately carried to profit and loss. Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying. The derivative instrument is divided into a short-term portion and a long-term portion only if a reliable assignation can be performed. At December 31, 2015 and 2014, the Company has no open positions of cash flow hedges.

Embedded derivatives

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

g) *Fair value of financial instruments*

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

h) *Inventories and cost of sales*

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

Cost of integrated services consists in internal and external engineering services, as well as materials and equipment required to provide them.

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

i) Investments in associates and other equity investments

Investments in associates are initially valued at acquisition cost, and subsequently, using the equity method, when the Company exercise significant influence over the associate.

Among other factors, significant influence is evident when the Company: a) has, directly or through subsidiaries, more than 20% of the share capital of the entity; b) has the ability, directly or indirectly, to influence the administrative, financial and operating policies of an entity; or c) is the recipient of the risks and benefits of the investment.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost.

j) Property, systems and equipment

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

Depreciation

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

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

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

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

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

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

Useful lives and salvage values are reviewed at each year end and adjusted, if necessary (See note 7(a)).

Subsequent costs

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

Borrowing costs

Borrowing costs directly related to the acquisition, construction of production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. All other borrowing costs are recognized in profits and losses during the period in which they were incurred.

k) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight-line method during the period in which the economic benefits are expected to be obtained.

Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. As of December 31, 2015 and 2014, respectively, the Company had no intangible assets with an indefinite life registered in accounting. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

l) Impairment of non-financial assets

The Company reviews the carrying amounts of tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU).

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

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

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

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Provisions

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

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

o) Employee benefits

Short-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

p) Statutory employee profit sharing

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

q) Income taxes

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

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

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

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

r) Revenue recognition

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

- *Telephony, internet and pag – tv, Services* – Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services, according to the individual offer of each client.
- *Activation* – At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.
- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* – At the moment when the client receives the service.
- *Income from interconnection* – Based on the traffic of minutes and generated by approved rates by Federal Telecommunications Institute (*Instituto Federal de Telecomunicaciones* or "IFETEL") or private agreements.
- *Income from real estate construction* – Revenues and costs from contracts for long-term projects are recognized using the percent of completion method. If, during the term of the project, the Company estimates that incurred costs plus remaining costs to be incurred, exceed total revenue, the expected loss is recognized in results immediately.
- *Deferred revenue* – Advance payments or unearned revenue, are initially recorded on the balance sheet as a liability, until the services have been rendered or products have been delivered, it is recognized as revenue on the income statement, in this moment the liability decrease. In addition, the liability account is reduced by refunds made to customers.

s) Earnings per share

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

t) Segments

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

(6) Recently Issued Accounting Standards

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

- IFRS 9, *Financial instruments: classification and measurement* ("IFRS 9"). IFRS 9 sets forth the guidance relating to the classification and measurement of financial assets and liabilities, to the accounting for expected credit losses on an entity's financial assets and commitments to extend credits, as well as the requirements related to hedge accounting, and will replace IAS 39, *Financial instruments: recognition and measurement* ("IAS 39") in its entirety. IFRS 9 requires an entity to recognize a financial asset or a financial liability when, and only when, the entity becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and includes a category of financial assets at fair value through other comprehensive income for simple debt instruments. In respect to impairment requirements, IFRS 9 eliminates the threshold set forth in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized, instead, an entity always accounts for expected credit losses, and changes in those expected losses through profit or loss. In respect to hedging activities, the requirements of IFRS 9 align hedge accounting more closely with an entity's risk management through a principles-based approach. Nonetheless, the IASB provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 until the IASB completes its project on the accounting for macro hedging. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in this standard at the same time. The Company is currently evaluating the impact that IFRS 9 will have on the classification and measurement of its financial assets and financial liabilities, impairment of financial assets and hedging activities. Effects of the adoption of this standard have not been estimated with reasonability. Nonetheless, the Company is not considering an early application of IFRS 9.

- In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers (“IFRS 15”). The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1) Identify the contracts(s) with a customer, which is an agreement between two or more parties that creates enforceable rights and obligations; Step 2): Identify the performance obligations in the contract, considering that if a contract includes promises to transfer distinct goods or services to a customer, the promises are performance obligations and are accounted for separately; Step 3) Determine the transaction price, which is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer; Step 4): Allocate the transaction price to the performance obligations in the contract, on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and Step 5) Recognize revenue when (or as) the entity satisfies a performance obligation, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). IFRS 15 also includes disclosure requirements that would provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers. IFRS 15 will supersede all existing guidance on revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted considering certain additional disclosure requirements. The Company is currently evaluating the impact that IFRS 15 will have on its financial information. Effects of the adoption of this standard have not been estimated with reasonability. It is not considered the early adoption of IFRS 15.

- On January 13, 2016, the IASB issued IFRS 16, *Leases* (“IFRS 16”), which will supersede all current standards and interpretations related to lease accounting. IFRS 16, defines leases as any contract or part of a contract that conveys to the lessee the right to use an asset for a period of time in exchange for consideration and the lessee directs the use of the identified asset throughout that period. In summary, IFRS 16 introduces a single lessee accounting model, and requires a lessee to recognize, for all leases with a term of more than 12 months, unless the underlying asset is of low value, assets for the “right-of-use” the underlying asset against a corresponding financial liability, representing the net present value of estimated lease payments under the contract, with a single income statement model in which a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. A lessee shall present either in the balance sheet, or disclose in the notes, right-of-use assets separately from other assets, as well as, lease liabilities separately from other liabilities. IFRS 16 is effective beginning January 1, 2019, with early adoption permitted considering certain requirements. The Company is evaluating the impact that IFRS 16 will have on the recognition of its lease contracts. Effects of the adoption of this standard have not been estimated with reasonability. The Company is not considering the early application of IFRS 16.

(Thousands of Mexican pesos)

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

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the period. These assumptions are reviewed on an ongoing basis using available information. Actual results could differ from these estimates.

Underlying estimates and assumptions are reviewed regularly. Accounting estimates changes are prospectively recognized.

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

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

   Starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of network infrastructure mentioned below:

Type of Network equipment	Previous useful life	New useful life
Commutation	3 to 10 years	5 to 12 years
Power plant and A/C	3 years	5 years
External equipment	10 years	12 years
Transmission	3 to 10 years	5 to 12 years
Fiber optic	10 years	12 years

   The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526,675 in depreciation expense compared to 2014.

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

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

(Thousands of Mexican pesos)

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

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

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

g) Financial cost of debt – In cases where debt is contracted and within contractual conditions there are incremental interest rates according to term, The Company uses the weighted average interest rate method to calculate and recognize interest expense of any period, based on the assumption that debt will not be prepaid or renegotiated before maturity.

h) Income taxes effects from uncertain tax possitions are recognized when there is a high probability that the criteria will be based on its technical merit and assuming that authorities will review each possition and have complete knowledge of the relevant information. These possitions are valued on the basis of a cumulative probability model. Each possitions is considered individually, without considering its relationship with another tax procedure. The high probability indicator represents an affirmation of the administration that the Company is entitled to the economic benefits of the tax possition. If a tax possition is considered low probability of being supported, the benefits of the possition are not recognized. Interest and penalties associated with unrecognized tax benefits are part of income taxes expense in the consolidated statements of income.

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

(8) Financial instruments

Categories of financial instruments

		2015	2014
Financial assets			
Cash and cash equivalents	Ps.	2,575,222	2,697,835
Accounts receivable		5,632,981	5,008,936
Financial instruments		378,099	121,999
Advance to suppliers		52,648	112,763
Other current assets		151,511	225,331

Financial liabilities		2015	2014
Derivative financial instruments	Ps.	65,222	46,952
Accrued interest		545,208	458,822
Short-term debt		130,000	130,000
Current maturities of long-term debt and long-term debt		12,851,606	10,866,001
Accounts payable and accrued liabilities		2,676,819	2,347,302

(a) Financial risk management objectives

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

(b) Market and interest rate risk

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

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

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2015 and 2014 are as follows:

		(Thousands of US dollars)	
		2015	2014
Current assets	U.S.	124,523	130,803
Current liabilities		(127,022)	(102,231)
Non - current liabilities		(710,481)	(726,992)
Foreign currency liabilities, net	U.S.	(712,980)	(698,420)

The U.S. dollar exchange rates as of December 31, 2015 and 2014 were Ps. 17.20 and Ps. 14.71, respectively. As of March 4, 2016, the exchange rate was Ps. 17.85.

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

(c) Market sensitivity analysis

Exchange rate sensitivity analysis

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

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

If the peso strengthens 10% against the U.S. dollar, the profit for the year ended December 31, 2015 and equity would increase by Ps. 1,115,263.

If the peso weakens 10% against the U.S. dollar, profit for the year ended December 31, 2015 and equity would decrease by Ps. 1,226,789.

(d) Embedded derivatives

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

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

The following summarizes the accounting for the convertible notes and the embedded derivative arising from the conversion option:

	(Thousands of U.S. dollars)	
Convertible Notes – liability	**December 31, 2015**	**December 31, 2014**
Face value	22,189	22,189
Options converted (note 13a)	(18,475)	(8,016)
	3,714	14,173
Fair value of conversion option recognized as a derivative financial instrument	(9,738)	(9,738)
Accrued interest	8,689	5,015
Carrying amount of convertible notes	2,665	9,450

	(Thousands of U.S. dollars)	
Convertible Notes – Derivative financial instrument	**December 31, 2015**	**December 31, 2014**
Fair value of conversion option at initial balance	3,190	8,921
Loss (gain) in change of fair value for the period	601	(5,731)
Fair value of conversion option at year end	3,791	3,190

For the years ended December 31, 2015 and 2014 the change in fair value of derivative financial instruments resulted in an unrealized (loss) gain of (Ps.57,476) and Ps.18,929, respectively, recognized in the comprehensive financing within the change in the fair value and settlements of financial instruments, net.

(e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated "Zero Strike Calls" that have a notional of 26,096,700 CPOs of Axtel's shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. During the months of October, November and December of 2014, the Company acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. During 2015 additional Zero Strike Calls for 7,435,646 CPOs were acquired. The underlying of these instruments is the market value of the Axtel's CPOs. The premium paid was equivalent to the market value of the notional plus transaction costs. The strike price established was Ps.0.000001 per option. This instrument is redeemable only in cash and can be redeemed by the Company at any time (considered to be American options), for a six-month period and are extendable. The terms and fair value of the Zero Strike Calls is included in the following table:

(Thousands of Mexican pesos)

			Fair value Asset	
Counterparty	**Notional amount**	**Terms**	**2015**	**2014**
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	264,347	102,700
Corporativo GBM, S.A.B. de C.V.	13,074,982 CPOs	Receives in cash the market value of the notional amount	113,752	19,299
			378,099	121,999

For the years ended December 31, 2015 and 2014 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.221,182 and (Ps. 40,201), respectively, recognized in the net finance cost within the change in the fair value and settlements of financial instruments, net.

(f) Equity price risk sensitivity analysis

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

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

- Profit and equity for the year ended December 31, 2015 would increase by Ps.37,810.

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

- Profit and equity for the year ended December 31, 2015 would decrease by Ps.34,373.

(g) Credit risk management

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

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

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

- Company A represented 12%, and 5% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2015 and 2014 were 4% and 0%, respectively.

- Company B represented 2%, and 1% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2015 and 2014 were 4% and 1%, respectively.

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

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

(h) Liquidity risk management

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

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

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

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

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years
December 31, 2015						
Variable interest rate instruments	Ps	170,518	32,395	26,091	8,142	6
Fixed interest rate instruments		1,333,841	2,086,527	1,044,447	2,758,644	9,860,087
Capacity lease		141,187	117,562	117,562	88,172	-
	Ps	1,645,546	2,236,484	1,188,100	2,854,958	9,860,093

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2014							
Variable interest rate instruments	Ps	158,499	21,934	13,979	7,702	-	-
Fixed interest rate instruments		1,130,525	1,049,144	1,777,453	898,450	2,372,833	8,594,932
	Ps	1,289,024	1,071,078	1,791,432	906,152	2,372,833	8,594,932

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

Fair value of financial instruments

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

	December 31, 2015		**December 31, 2014**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Financial liabilities held at amortized cost:				
Senior Unsecured Notes with maturity in 2017	867,173	868,257	741,758	741,684
Senior Unsecured Notes with maturity in 2019	1,750,417	1,750,242	1,497,262	1,497,112
Senior Secured Notes with maturity in 2020	9,371,572	9,370,635	8,016,203	7,775,717
Financing leases	535,423	618,763	602,582	664,440
Capacity lease	385,968	326,943	-	-

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

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

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

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

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

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

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

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

The three levels of hierarchy are as follows:

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

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

(Thousands of Mexican pesos)

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

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	378,099	-	-	378,099
Financial liabilities				
Derivative financial liabilities	-	65,222	-	65,222

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

(9) Accounts receivable, net

Accounts receivable, net consist of the following:

		2015	**2014**
Accounts receivable	Ps	5,632,981	5,008,936
Less allowance for doubtful accounts		2,739,964	2,582,769
Accounts receivable, net	Ps	2,893,017	2,426,167

Given their short-term nature the carrying value of trade accounts receivable approximates the fair value as of December 31, 2015 and 2014.

Movement in the allowance for doubtful accounts.

		2015	**2014**
Opening balance	Ps	2,582,769	2,407,130
Allowance for the year		154,621	173,941
Effect of exchange rate		2,574	1,698
Balances at period end	Ps	2,739,964	2,582,769

(Thousands of Mexican pesos)

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

Aging of impaired trade receivables:

		2015	2014
60 – 90 days	Ps	13,350	17,786
90 - 120 days		15,988	28,591
120 + days		2,710,626	2,536,392
Total	Ps	2,739,964	2,582,769

Aging of past due but not impaired

		2015	2014
Current	Ps	1,232,136	949,172
1 – 30 days		135,311	139,937
30 – 60 days		83,486	183,037
60 – 90 days		54,194	37,523
90 + days		625,690	417,467
Total	Ps	2,130,817	1,727,136

(10) Property, systems and equipment, net

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2014	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071
Additions		-	152,125	4,465	6	458,514	-	2,548,101	3,163,211
Transfer of completed projects in progress		-	161,252	4,723	16,632	2,212,733	583	(2,395,923)	-
Disposals		-	(2,131)	(20,900)	(55)	(18,231)	-	-	(41,317)
Balance as of December 31, 2014	Ps	430,990	3,693,343	376,001	257,652	35,070,910	430,195	1,010,874	41,269,965
Additions		-	-	2411	42	846,169	-	1,985,452	2,834,074
Transfer of completed projects in progress		-	153,437	19,656	3,101	1,679,422	21,614	(1,877,230)	-
Disposals		-	(7,695)	(23,742)	(170)	(29,430)	-	(813)	(61,850)
Balance as of December 31, 2015	Ps	430,990	3,839,085	374,326	260,625	37,567,071	451,809	1,118,283	44,042,189

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

Depreciation and impairment		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2014	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Depreciation of the year		14,284	126,316	45,036	17,577	3,152,790	24,963	-	3,380,966
Disposals		-	(2,053)	(20,115)	(30)	(11,230)	-	-	(33,428)
Balance as of December 31, 2014	Ps	150,368	1,483,615	346,415	195,816	25,779,261	352,947	-	28,308,422
Depreciation of the year		14,287	111,562	16,796	15,397	2,384,169	21,137	-	2,563,348
Disposals		-	(7,623)	(23,513)	(119)	(14,505)	-	-	(45,760)
Balance as of December 31, 2015	Ps	164,655	1,587,554	339,698	211,094	28,148,925	374,084	-	30,826,010
Property, systems and equipment, net at December 31, 2014	Ps	280,622	2,209,728	29,586	61,836	9,291,649	77,248	1,010,874	12,961,543
Property, systems and equipment, net at December 31, 2015	Ps	266,335	2,251,531	34,628	49,531	9,418,146	77,725	1,118,283	13,216,179

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

During the year ended December 31, 2015 and 2014 the Company capitalized Ps.44,223 and Ps.36,847, respectively of borrowing costs in relation to Ps.831,303 and Ps.709,293 in qualifying assets. Amounts were capitalized based on a capitalization rate of 10.14% and 9.85%, respectively.

No impairment was recognized for tangible or intangible assets for the years ended December 31, 2015 and 2014. The main assumptions used in calculating use value are as follows:

a) The Company tests for impairment considering asset groups constituting the cash-generating unit (CGU).

b) The Company determines the use value of the CGU by discounting the estimated future cash flows to their present value.

c) Only assets in operation as of December 31, 2015 were considered.

d) The Company believes that it operates in a single operating segment, so evaluates all its operations as a single CGU (see Note 5 (l)).

e) The after tax discount rate used was 10.2%.

Regarding the growth of cash flows included in the model use value, the Company has considered a range of growth in the range from 4.24% to 18.15% for the first 5 years. Year 6 to 9, are no longer considered further growth.

(Thousands of Mexican pesos)

For the year ended December 31, 2015 and 2014 interest expenses are comprised as follows:

		2015	2014
Interest expense	Ps	(1,280,531)	(912,592)
Amount capitalized		44,223	36,847
Net amount in consolidated statements of comprehensive income	Ps	(1,236,308)	(875,745)

As of December 31, 2015, certain financial leases amounting to approximately Ps. 15 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2015 and 2014 amounts to Ps. 2,563,348 and Ps. 3,380,966, respectively (see note 7 a).

(11) Intangible assets, net (see note 7 a)

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2014 and 2015	Ps.	571,520	110,193	58,982	21,045	30,030	73,169	864,939
Depreciation and impairment								
Balances as of December 31, 2013	Ps.	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Amortization		30,307	10,018	4,080	1,672	2,886	867	49,830
Balances as of December 31, 2014	Ps.	457,545	80,142	42,658	14,354	23,109	73,169	690,977
Amortization		30,307	10,018	4,080	1,672	2,886	-	48,963
Balances as of December 31, 2015	Ps.	487,852	90,160	46,738	16,026	25,995	73,169	739,940
Intangible assets, net at December 31, 2014	Ps.	113,975	30,051	16,324	6,691	6,921	-	173,962
Intangible assets, net at December 31, 2015	Ps.	83,668	20,033	12,244	5,019	4,035	-	124,999

Concessions rights of the Company

The main concessions of the Company are as follows:

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

(Thousands of Mexican pesos)

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

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

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

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

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name “Avantel”, customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2014 the values of the trade name “Avantel” and of customer relationships were fully amortized.

(12) Other assets

Other assets consist of the following:

		2015	**2014**
Prepaid expenses	Ps	219,766	276,738
Guarantee deposits		48,307	48,307
Others		3,024	31,325
Other assets		271,097	356,370
Current portion of other assets		151,511	225,331
Other long-term assets	Ps	119,586	131,039

(Thousands of Mexican pesos)

(13) Long-term debt

a) Long-term debt as of December 31, 2015 and 2014 consist of the following:

		2015	2014
U.S. 275 million in aggregate principal amount of 7 $^5/_8$ % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S. 224.6 and U.S. 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.	Ps.	867,173	741,758
U.S. 490 million in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S. 224.6 and U.S.167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.		1,750,417	1,497,262
Senior Secured Notes in a principal amount of U.S. 544.6 and U.S. 394.6 million dollars as of 2014 and 2013, respectively, with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		9,371,572	8,016,203
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S. 22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		45,856	139,097
Discount on note caused by Senior Secured Notes payable in the amount of U.S. 36 million at an initial interest rate of 7% will increase to 9% due 2020.		(19,462)	(24,228)
Premium on Senior Unsecured Notes with an aggregate principal of U.S. 490 million with an interest rate of 9%, due in 2019.		8,604	10,817
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 534,755 million and expiring in 2019.		385,968	-
Finance leases with several credit institutions with interest rates around 6% for those denominated in dollars; and TIIE (Mexican average interbank rate) plus 3% and 5.5% basis points for those denominated in pesos, with maturities between 3 to 4 years.		535,423	602,582
Debt issuance and deferred financing costs		(93,945)	(117,490)
Total long-term debt		12,851,606	10,866,001
Less current maturities		375,656	220,554
Long-term debt, excluding current maturities	Ps.	12,475,950	10,645,447

(Thousands of Mexican pesos)

Annual installments of long-term debt are as follows:

Year		Amount
2017	Ps	1,154,853
2018		164,214
2019		1,844,258
2020		9,312,625
	Ps	12,475,950

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

For the year ended December 31, 2015 and 2014, the interest expense was Ps. 1,280,531 and Ps. 912,592 respectively. (See note 10).

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

b) Bank loans

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

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

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

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As mentioned in note 22 (a), the Company paid in full its debt as of December 31, 2015, during February 2016, so the restrictions described herein are exchanged by those set out in the new debt.

(14) Transactions and balances with related parties

The transactions carried out with related parties during the years ended as of December 31, 2015 and 2014 are as follows:

		2015	2014
Rent expense	Ps.	34,860	29,698
Installation service expense		18,020	30,225
Other		2,705	5,369

(Thousands of Mexican pesos)

At the end of 2014, Banamex was no longer considered as related party, since it has disposed of the shares held in the Company, and not meet any other requirement to be considered as such, according to IFRS.

The balances with related parties as of December 31, 2015 and 2014, included in accounts payable are as follows:

		2015	2014
Accounts payable short-term:			
GEN Industrial, S.A. de C.V. [(1)]	Ps	131	52
Neoris de México, S.A. de C.V.		598	505
Total	Ps	729	557

(1) Mainly administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2015 and 2014 were as follows:

		2015	2014
Short-term employee benefits paid	Ps	259,368	72,094

(15) Provisions

Provisions as of December 31, 2015 are as follows:

		2015
Payroll provisions	Ps.	101,100
Restructuring provisions		89,000
Total	Ps.	190,100

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

Provisions		2015
Initial balance	Ps.	-
Provisions for the year		190,100
Ending balance	Ps.	190,100

In order to comply with its strategic plans, the Company is conducting a restructuring in some of its operating areas. The cost of this restructuring consists of compensation and employee benefits and is presented within operating income in the statement of comprehensive income.

(Thousands of Mexican pesos)

(16) Deferred revenue

Deferred revenue as of December 31, 2015 and 2014 are as follows:

		2015	2014
Deferred revenue	Ps.	509,415	729,768
Current portion of deferred revenue		509,415	695,868
Long-term deferred revenue	Ps.	-	33,900

Changes in the balances of deferred revenue for the year are as follows:

		2015	2014
Initial balance	Ps.	729,768	617,815
Increases		616,466	901,482
Recognized in income for the year		(836,819)	(789,529)
Ending balance	Ps.	509,415	729,768

(17) Income tax (IT)

The IT Law effective from 1 January 2014 establishes an income tax rate of 30% for 2014 and beyond.

The income tax benefit is as follows:

		2015	2014
Current income tax	Ps	(61,305)	(34,459)
Deferred income tax		428,537	572,596
Income tax benefit	Ps	367,232	538,137

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

	2015	2014
Statutory income tax rate	(30%)	(30%)
Inflationary effects	-	(2%)
Non-deductible effects from allowance for doubtful accounts	4%	9%
Non-deductible expenses	8%	1%
Temporary unrecognized deferred tax assets	1%	-
Other	(1%)	-
Effective tax rate	(18%)	(22%)

(Thousands of Mexican pesos)

The main differences that gave rise to the deferred income tax assets as of December 31, 2015 and 2014 are presented below:

		2015	**2014**
Deferred tax assets:			
Net operating loss carry forwards	Ps.	1,682,858	1,257,927
Allowance for doubtful accounts		337,749	367,482
Accrued liabilities and others		384,861	362,947
Premium on bond issuance		2,582	3,245
Property, systems and equipment		295,775	312,239
Total deferred tax assets		2,703,825	2,303,840
Deferred tax liabilities:			
Telephone concession rights		28,554	40,466
Long-term debt		549,342	549,342
Fair value of derivative financial instruments		11,257	28,123
Intangible and other assets		10,711	10,707
Total deferred tax liabilities		599,864	628,638
Deferred tax assets, net	Ps.	2,103,961	1,675,202

The rollforward for the net deferred tax asset as of December 31, 2015 and 2014 are presented below:

		2014	**Effects on profit and loss**	**Effects on stockholders' equity**	**2015**
Net operating loss carry forwards	Ps.	1,257,927	424,931	-	1,682,858
Allowance for doubtful accounts		367,482	(29,733)	-	337,749
Accrued liabilities and others		362,947	21,692	222	384,861
Premium on bond issuance		3,245	(663)	-	2,582
Property, systems and equipment		312,239	(16,464)	-	295,775
Telephone concession rights		(40,466)	11,912	-	(28,554)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(28,123)	16,866	-	(11,257)
Intangible and other assets		(10,707)	(4)	-	(10,711)
	Ps.	1,675,202	428,537	222	2,103,961

(Thousands of Mexican pesos)

		2013	Effects on profit and loss	Effects on stockholders' equity	2014
Net operating loss carry forwards	Ps.	824,229	433,698	-	1,257,927
Allowance for doubtful accounts		522,188	(154,706)	-	367,482
Accrued liabilities and others		547,230	(184,952)	669	362,947
Premium on bond issuance		2,233	1,012	-	3,245
Property, systems and equipment		(69,526)	381,765	-	312,239
Telephone concession rights		(52,698)	12,232	-	(40,466)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(41,898)	13,775	-	(28,123)
Intangible and other assets		(80,479)	69,772	-	(10,707)
	Ps.	1,101,937	572,596	669	1,675,202

As of December 31, 2015, the tax loss carryforwards expire as follows:

Expiration year		Tax loss carry forwards
2016	Ps.	26,752
2018		368,693
2020		27,302
2021		1,965,011
2022		546,319
2023		558,678
2024		1,727,890
2025		1,520,934
	Ps.	6,741,579

As of December 31, 2015, the unrecognized deferred tax assets are Ps. 823,856, of which Ps. 339,616 relate to tax loss carryforwards and Ps. 484,240 relate to estimated doubtful accounts.

(18) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2015, the common stock of the Company is Ps. 6,861,986. The Company has 9,456,140,156 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide the holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a *Sociedad Anónima Bursátil de Capital Variable*). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 9,358,389,500 are Class "I" Series B. As of December 31, 2015 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

(Thousands of Mexican pesos)

	Shares			Amount	
	2014	2013		2015	2014
Authorized and issued common stock:					
Series A	97,750,656	97,750,656	Ps.	73,396	73,396
Series B	9,358,389,500	8,970,209,218		6,788,590	6,654,946

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

During 2015 and 2014 the conversion option was exercised for a total of 388,180,282 and 291,767,672 Class I, Series B shares, respectively, representing an increase of Ps 133,644 and Ps. 100,452 in the common stock of the Company.

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

(b) Stockholders’ equity restrictions

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

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

(c) Comprehensive loss

The balance of other comprehensive income items and its activity as of December 31, 2015 and 2014 is as follows:

		2015	2014
Net loss	Ps.	(1,718,355)	(1,918,601)
Other comprehensive income			
Actuarial result		(1,404)	(4,460)
Effect of income tax		222	669
Other comprehensive income net of deferred taxes		(1,182)	(3,791)
Net comprehensive (loss)	Ps.	(1,719,537)	(1,922,392)

(Thousands of Mexican pesos)

(19) Telephone services and related revenues, selling and administrative expenses

Revenues consist of the following:

		2015	**2014**
Local calling services	Ps.	2,676,097	2,969,459
Long distance services		663,308	1,015,593
Internet and video		1,482,165	1,337,391
Data and network		2,017,964	1,897,673
Integrated services		2,374,393	1,568,616
Equipment sales		425,296	210,314
International traffic		274,259	1,234,024
Other services		236,956	363,933
	Ps.	10,150,438	10,597,003

Selling and administrative expenses

Selling and administrative expenses are as follows:

		2015	**2014**
Payroll and related	Ps.	1,939,547	1,838,729
Rents		904,230	846,607
Maintenance		639,696	531,056
Consulting		475,288	458,036
Other		761,010	802,421
	Ps.	4,719,771	4,476,849

(20) Construction contract

During August 2014, the Company entered into a construction contract of a building, as well as the necessary equipment thereof according to the technical features described in the contract, amounting Ps. 540,328 plus value added tax.

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

As of December 31, 2015, income from the construction contract is comprised as follows:

		Income for the year	**Cumulative income**	**Balances of advances**	**Percent of completion (%)**
Construction contract	Ps.	506,031	540,328	-	100%

(21) Commitments and contingencies

As of December 31, 2015, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2011. In March and May 2015, Axtel signed transaction agreements with Telcel, Iusacell and Telefónica, respectively, in which the parties agreed to terminate disputes related with interconnection services, giving as liquidated and totally paid all amounts in dispute and/or still due for years 2005, 2006, 2007, 2008, 2009, 2010 and 2011. Therefore, there is no longer a contingency for that period, except in the case of Iusacell, in which case the agreement covers the contingencies between the parties until the year 2010.

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resulting amounts, applying the new interconnection rates. As of March 31, 2015, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps.1,240 million, not including value added tax.

Notwithstanding the foregoing, on March 8, 2013, Alestra S. de R.L. obtained a favorable resolution of the Thirteenth Collegiate Court in Administrative Matters of the First Circuit against Telmex, establishing interconnection rates for long distance termination for year 2009, resulting in better tariffs than those offered by Telmex to Axtel in its interconnection agreement. Consequently, and considering that in the interconnection service agreement celebrated by Axtel and Telmex, the Parties settled the obligation for Telmex to offer better conditions to the service provider when a final resolution or sentence from a Court or a competent authority has set interconnection tariffs which results in better conditions than the ones agreed by the Parties in the interconnection service agreement, additionally, the Parties also agreed that the new tariffs offering better conditions for the service provider shall be immediately applicable. Thus, the contingency established in the paragraph above, would be reduced by an estimate of Ps.772 million, resulting in an estimated amount of Ps.468 million.

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

In April 9, 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (*Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa*), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed an administrative legal process (Amparo directo) against the ruling issued within the annulment trial, which was resolved by the First Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Primer Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones), to the effect that the Federal Court of Fiscal and Administrative Justice issue a resolution duly founded and motivated, according with the studies of the forensic evidence.

Likewise, Telmex filed another administrative legal process (*Recurso de Revisión en Amparo Directo)* before the Supreme Court of Justice, which is yet to be resolved. By means of that Resource, Telmex claims some unconstitutional issues that were not studied by the First Circuit Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications, in the appeal for review, in which it was ruled that the Federal Court of Fiscal and Administrative Justice shall issue a new resolution duly founded and motivated.

Currently, the Federal Court of Fiscal and Administrative Justice has already issued favorable ruling for Axtel which was challenged by Telmex through an amparo directo again.

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

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

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

Therefore, Telmex has challenged the first instance judgment, which was sent to the Supreme Court of Justice, because of constitutional question, that favorably solved to the constitutionality of the challenged articles by Telmex.

So it is waiting that the file be send to the Collegial Court, to the effect that resolve the issues of legality.

At the date of issuance of the financial statements, the Company believes that the rates determined by Cofetel in the resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

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

(c) Interconnection Disagreements – Grupo Iusacell and Grupo Telefónica – 2012-2013. During October 2014 and May 2015, the Federal Telecommunications Institute "Ifetel", which replaced Cofetel, resolved interconnection disagreements to Iusacell and Telefonica with Axtel, respectively, setting interconnection rates for termination services commuted to mobile users under the modalities "calling party pays" and "nationwide calling party pays" for the period 2012-2013. In that resolution IFETEL determined tariffs per minute of Ps. 0.3214 pesos for 2012 and Ps. 0.3144 pesos for 2013.

These rulings were challenged by mobile operators. With regard to the issue of Iusacell the first instance decision it turned out favorable to the interests of the Company. Currently, the case is on appeal to the Collegial Court and is pending. At the date of issuance of these financial statements, the Company and its advisors believe that the rates of IFT resolutions prevail, so has recognized the cost based on these rates.

(d) Interconnection Disagreement. Rates for 2015 - Grupo Iusacell, Grupo Telefónica, and Nextel. In June 2015, IFT resolved disagreements of interconnection to Iusacell, Telefónica and NII Nigital S. de R.L. de C.V with Axtel setting interconnection tariffs for local services in mobile users and termination in fixed users for 2015, of Ps. 0.2505 for mobile and Ps. 0.004179 for fixed landline.

These resolutions were challenged by mobile operators and by Axtel in a Juicio de Amparo trial, which is pending for resolution. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

(e) Interconnection Disagreement. Rates 2015-2016 - Radio Mobile Dipsa. In August 2015, IFT setting the interconnection rates which Radio Mobile Dipsa, S.A. de C.V. (Telcel) shall pay to Axtel for fixed landline termination, for Ps. 0.004179 by 2015 and Ps. 0.003088 for 2016.

This resolution was challenged by Telcel in a Juicio de Amparo trial, which is pending for resolution in the first instance. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

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

(g) There is a contingent liability derived from employee benefits, mentioned in Note 5(o).

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

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

   (b) Collaboration with the Justice.

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

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

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

(i) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps. 24,000 and to other service providers amounting to Ps. 565,249.

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

(k) According to current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last income tax statement filed.

(l) According to the IT Law, companies carrying out transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these costs should be comparable to those that would be used with independent parties in comparable transactions.

In the event that the tax authorities will review prices and reject the determined amounts, may require, in addition to the collection of the tax and accessories that apply, fines on unpaid taxes, which could be up to 100% on the updated amount of contributions.

(m) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2015 and 2014 amounted to Ps. 904,230 and Ps. 846,608, respectively.

The annual payments under these leases as of December 31, 2015 are as follows:

		Leases contracts in:	
		Mexican Pesos (thousands)	**U.S. dollars (thousands)**
2016	Ps.	41,135	23,651
2017		30,126	22,480
2018		19,309	20,521
2019		12,516	20,014
2020		8,584	17,219
2021 and thereafter		38,867	120,435
	Ps.	150,537	224,320

(22) Subsequent events

a) On December 15, 2015, the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respective Boards of Directors and Shareholders. In addition, the January 11, 2016 the Mexican Banking and Securities Comission (*Comisión Nacional Bancaria y de Valores*) ("CNBV") issued the necessary exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016, date when ALFA became the majority stockholder of Axtel.

As a result of the merger described above, Alfa owns approximately 51% of shares representing the outstanding capital of Axtel.

Onexa was a holding company whose only asset was its participation in the capital stock of Alestra, which accounted for 99.98% of the capital stock of it. Alestra, meanwhile, is a leader in the market for IT services and telecommunications provider in Mexico. Alestra focuses on the business segment including multinational companies, institutional clients as well as small and medium enterprises. Through its extensive fiber optic network and data centers, Alestra provides managed network services, IT, data, internet and local telephone services and international long distance. In recent years, Alestra has refocused its business strategy, placing more emphasis on the segment of managed network services and IT services such as data centers, cloud services, systems integration and network security

Derived from the above, the Company made the following:

i. On January 15, 2016, the Company signed a credit facility of US 500 million and Ps. 4,759 million pesos to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in full in January 2019 for the portion in pesos and quarterly principal payments from April 2018 until February 2021 for the dollar portion, and has an interest rate of TIIE + 2% in the first year, TIIE + 2.25% in the second and TIIE + 2.5% in the third, for the portion in pesos; and initial interest rate of Libor + 2.25% which increased to Libor + 3.25% for the portion in dollars.
ii. On January 2016, a restructuring provision for Ps. 234 million was recognized.
iii. On January 2016, an allowance for employee benefits for Ps. 137 million was recognized.

b) On January 2016, the Company paid in full the promissory note with Banco Nacional de Mexico, S.A. whereby, he received a loan of Ps. 130.000 and which generated interest at a rate of TIIE plus 3.5 basis points annually.

c) On February 2016, Axtel signed settlement agreement with Telefonica, concluding disputes relating to interconnection services, liquidating the different amounts in favor and against that were in dispute and / or unpaid for 2012, 2013, 2014 and 2015, so there is no longer any contingency for that period.

EXHIBIT B

ANNUAL REPORT OF THE ACTIVITIES OF THE AUDIT AND CORPORATE PRACTICES COMMITTEE axtel

INFORME ANUAL DEL COMITÉ DE AUDITORÍA
Y PRÁCTICAS SOCIETARIAS

21 de febrero de 2017

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

En cumplimiento de lo dispuesto por el Artículo 43 de la Ley del Mercado de Valores y en nombre y representación de los consejeros integrantes del Comité de Auditoría y Prácticas Societarias de Axtel, S.A.B. de C.V. ("Axtel" o la "Sociedad"), nos permitimos presentarles un reporte sumario de las actividades desempeñadas por dicho Comité durante el ejercicio social terminado el 31 de diciembre de 2016 y eventos subsecuentes a la fecha.

Este informe se presenta, con base a información recibida por este órgano, y tomando en cuenta los informes, opiniones y /o comunicados de directivos relevantes y de los auditores externos e internos, todos ellos de la Sociedad, sobre los temas que le competen al Comité.

I. Actividades en relación con los Estados Financieros.

1. Se revisaron los estados financieros de Axtel y subsidiarias, por los ejercicios terminados el 31 de diciembre de 2015 y 2016, formulados en base a las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés) y se analizaron con los auditores externos de la Sociedad su dictamen sobre dichos estados financieros y las notas a los mismos, presentados al Consejo de Administración para su proposición a la Asamblea General Ordinaria anual de Accionistas;

2. Se analizó el proyecto de aplicación de resultados del ejercicio social 2016, presentado al Consejo de Administración para su proposición a la Asamblea General Ordinaria anual de accionistas correspondiente;

3. Se revisó y analizó con los auditores externos de la Sociedad el estado que guarda el sistema de control interno, siendo informados de los programas y desarrollo de los planes y programas de trabajo de auditoría interna y de auditoría externa. Se determinó que se cumple con la efectividad requerida para que la Sociedad y sus subsidiarias operen en un ambiente general de control, y no se detectaron deficiencias o desviaciones materiales; y

4. Se analizó el plan de auditoría, así como las políticas y prácticas de gobierno corporativo. Se conoció de los planes de la administración de la Sociedad para homologar las políticas, procedimientos y criterios de control interno.

II. **Actividades en relación a las operaciones de la Sociedad y sus subsidiarias, en materia de prácticas societarias.**

1. Se analizó y revisó el desempeño y la remuneración integral de los directivos relevantes; y

2. Se realizaron las investigaciones necesarias para estar en aptitud de informar respecto de: (i) la inexistencia de operaciones significativas con personas relacionadas; y (ii) la ausencia de dispensas para el aprovechamiento de negocios que correspondan a la sociedad y/o a sus subsidiarias, por parte de personas relacionadas.

3. Se dio seguimiento a la formalización de los acuerdos de las asambleas de accionistas y del Consejo de Administración en materia de prácticas societarias.

III. **<u>Actividades en relación a la auditoría externa e interna de las operaciones de la Sociedad y sus subsidiarias.</u>**

1. Se revisaron los honorarios del auditor externo PricewaterhouseCoppers;

2. Se analizaron los servicios adicionales o complementarios proporcionados por el despacho de auditoría externa, no encontrándose situaciones que comprometan su independencia;

3. Se evaluó el desempeño de la firma de auditoría externa, así como el de la persona responsable de la misma;

4. Se analizaron los avances y resultados de los programas de control y auditoría interna; incluyendo, la determinación de áreas de oportunidad para mejorar la efectividad de los sistemas de auditoría interna; y

5. Se analizaron las descripciones y efectos de las modificaciones a las políticas contables aprobadas.

Atentamente,

Bernardo Guerra Treviño

Comité de Auditoría y Prácticas Societarias