INTEGRATED ANNUAL REPORT 2017

axtel

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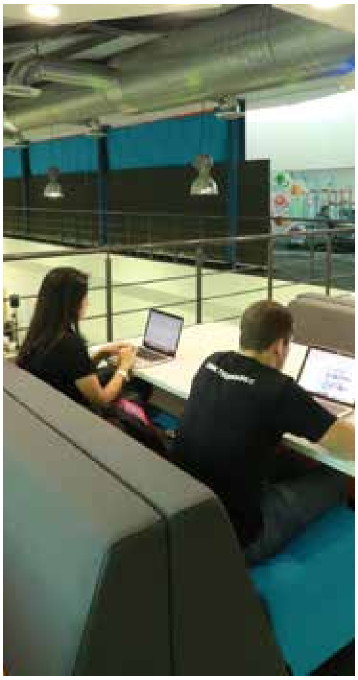

MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

102-14

In 2017 we continued taking actions to realize the benefits of the merger between Axtel and Alestra in a value proposition for all our stakeholders, backed by the new company's human capacity and technological infrastructure.

The results seen in 2017 were consistent with our strategy, focusing on providing value-added Information and Communication Technology (ICT) services to business and government clients, which generate 83 percent of our total revenue, as well as offering Triple Play services to the mass market.

Today we have become a leader in providing Information Technology (IT) solutions and managed Telecommunication services for private and public organizations in all of Mexico's economic segments. We cultivate lasting relationships with clients as their technological partners and promoters of their digital transformation.

Furthermore, we are pioneers in IT services in Mexico. We align ourselves with the major technological trends that are disrupting the economic, commercial and administrative workings of business.

We have the most innovative and sustainable Data Centers in Latin America. During 2017 we significantly strengthened our position in the market by opening the second Alestra Green Data Center, located in the Querétaro Technology Innovation Park.

With this addition, we now operate six world-class data centers in Mexico City, Guadalajara, Monterrey and Querétaro.

In 2017 our business and government divisions posted positive results with an 8 percent increase in revenue. This contributed to a 5 percent increase in total company revenue in 2017 when compared pro forma to 2016, as if the merger between Axtel and Alestra had occurred at the start of 2016. Furthermore, we achieved operational efficiencies which have optimized resources and have reduced operational costs by 5 percent.

The Company's operating cash flow, or EBITDA, was 5,451,000,000 pesos, a 48 percent increase with respect to the previous year. It should be noted that non-recurring expenses related to the merger in the amount of 428,000,000 pesos were incurred during the year.

In terms of significant actions taken during 2017, for purposes of improving the Company's financial structure, we divested non-strategic assets through a 56,000,0000 dollar sale of 142 telecommunication towers to MATC Digital, S. de R.L. de C.V., a subsidiary of American Tower Corporation.

Furthermore, at the end of 2017 we successfully issued bonds in the amount of 500,000,000 dollars and obtained a line of bank credit for approximately 6,000,000,000 pesos. These resources were used to refinance existing debt and extend its average life by more than five years.

The success of those operations demonstrates that international investors and the financial community holds confidence in Axtel's performance and its outlook for future development.

An important initiative in 2017 was our agreement with ALTÁN Redes to supply metropolitan fiber optic infrastructure and data center services to support the winning consortium of the Wholesale Shared Network project in its initial population coverage for March 2018. In turn, ALTÁN's efficient operation will enable us to strengthen our portfolio of mobility solutions for business clients.

Furthermore, our business accelerator NAVE, the first of an ITC corporation in Mexico, successfully concluded the second generation of accelerated companies. Through NAVE, our company is taking on an active role in the entrepreneurial ecosystem in Mexico and Latin America, promoting innovation within participating companies and the digitalization of organizations.

Consistent with our business philosophy, in 2017 we continued launching sustainability initiatives that allow us to mitigate our environmental impact, enrich our dialogue with communities and launch programs within our value chain in accordance with international standards and practices.

For the seventh year we affirm our commitment to the United Nations Global Compact, and for the tenth consecutive year we have received the distinction of being a Socially Responsible Company. Likewise, for five years we have been one of the 30 companies comprising the Sustainability Index of the Mexican Stock Exchange. As of 2017, we are one of 42 companies from the Latin American Integrated Market (MILA for its Spanish acronym) of Chile, Colombia, Mexico and Peru that form the Dow Jones Sustainability Index MILA Pacific Alliance (DJSI MILA), Axtel being one of 12 Mexican companies recognized for implementing the best practices for the environment, social responsibility and corporate governance.

We expect that 2018, just like 2017, will be an uncertain year due to the Country's economic situation and the political environment surrounding upcoming elections. Nevertheless, I am confident that Axtel has the technological components, human talent and necessary experience to convert challenges into opportunities and will continue delivering value to our shareholders and to all our stakeholders.

In the name of the Board of Directors and Senior Management, we express our gratitude for your confidence and support. We also recognize our clients for their loyalty, as well as our suppliers and our family of employees: with their contribution we are certain we shall continue to be the best option for ITC services in Mexico.

San Pedro Garza García, Nuevo León, Mexico, February 27, 2018.

Rolando Zubirán Shetler,
CHIEF EXECUTIVE OFFICER

2017 IN NUMBERS

1,231,879 RGUs (Revenue Generating Units)	+51,000,000 dollars invested in infrastructure
	18,000 medium, large and corporate clients
265,000 broadband subscribers	
	+7,000 employees
29 training hours per employee on average	
	9,818 tons of CO_2e emissions to the atmosphere avoided
+6 tons of humanitarian aid delivered in Mexico	
	52 innovation initiatives launched

OUR NETWORK

+42,000 kilometers of network

23,117 kilometers of transportation (LD)

12,771 kilometers of metropolitan loops

6,200 kilometers of FTTx network (optical fiber direct to homes or business)

8 operational centers

7,200 m^2 of white floor in 6 data centers

10 cities with FTTx

45 cities with local service

Microwaves for last-mile connections and metropolitan coverage

7, 10.5 and 23 GHz for business divisions. 3.5 GHz for mass market division

53 locations with data service

AXTEL SUSTAINABILITY MODEL

Sustainability must be managed in all the company's divisions and throughout our entire value chain. For this reason we have the **Axtel Sustainability Model**, a synergetic tool that enables us to comprehensively coordinate our performance with regard to ethics, operations, innovation, social, environmental and labor.

AXTEL PROFILE

102-3, 102-6

At Axtel, being a sustainable company is a commitment we make to the clients that choose us for Information and Communication Technology (ICT) services, as well as to our more than 7,000 employees, our suppliers and the communities in which we operate.

Holding the conviction that sustainability must be aligned with business strategy, for the last few years we have been working to integrate best social, environmental and corporate governancepractices into our daily operations. This has enabled us to enter important indexes such as the Mexican Stock Exchange Sustainability Index and the Dow Jones Sustainability MILA Pacific Alliance.

This report reflects our sustainable performance pursuant to the guidelines of ALFA, which we became part of two years ago, and which holds 53 percent of Axtel's capital.

ALFA is made up of the companies Alpek, Nemak, Sigma and Newpek, in addition to Axtel, and operates in 26 countries throughout the Americas, Europe and Asia, with 126 production facilities.

Since 2016, Axtel and Alestra form one same entity, with headquarters located in San Pedro Garza García, Nuevo León, Mexico, for purposes of offering more robust domestic ITC services to the corporate sector, government, small and medium companies and private homes in our Country.

PHILOSOPHY

102-16

At Axtel we have a clear Mission and Vision for our future. We share the values that our employees carry out on a daily basis, offering products and services to our clients from a trustworthy and socially-committed company.

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

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

Values[1] :

Teamwork... *Our strength*
Respect... *Our commitment*
Customer Focus... *Our differentiator*
Innovation... *Our passion*
Quality... *Our standard*
Integrity... *Our pillar*

[1] Learn more about Axtel's Values: *www.axtelcorp.mx/sustentabilidad*

SUSTAINABILITY

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

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

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

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

The Sustainability Department, a branch of the Executive Human Resources Department, handles Axtel's sustainable management and is obliged to report to the Board of Directors on the progress of economic, social and environmental topics with respect to our yearly goals. The division participates in the Sustainability and Environmental Committees formed by ALFA companies and in the Environmental Committee of the Working Group on Sustainability made up of companies belonging to the Sustainability Index of the Mexican Stock Exchange.

Materiality

102-21, 102-46, 102-47, 103-1, 103-2, 103-3

Since Axtel exists in a corporate environment where our stakeholders are extremely important to our long-term operations, for 2017 we updated the materiality assessment that we conducted in 2016.

The material topics, according to definitions given by international organizations, are those aspects or topics which can impact our operations, profitability, market position, reputation and value creation for investors and society in general.

Taking this into account, we surveyed more than 13,000 external participants, made up of clients, suppliers, civil society organizations and academics, among others. Internally, more than 1,200 employees and executives participated.

The methodology we used follows recommendations from the Global Reporting Initiative and requirements from various agencies that request information from us on the basis of our status as a public corporation. Additionally, global trends in the telecommunications sector were analyzed.

With the information gathered, we identified the material topics that were validated by the Sustainability Department.

New topics incorporated since the exercises of 2014, 2016 and the final semester of 2017, include Data Security, promoting the respect for human rights, and ensuring continuity and quality of telephone and internet services. Customer satisfaction, ethical behavior, and innovation are still considered to be among the most relevant topics for business sustainability.

To carry out the materiality assessment, the principles set forth by the Global Reporting Initiative were taken into consideration.

Stakeholder inclusiveness: the surveys conducted on the most representative stakeholders received broad participation, which ensures their opinion and expectations of Axtel's sustainability topics are included. This report responds to those material topics, and regarding the newly updated topics, work will be done during 2018 to provide more detailed information in the next report.

Sustainability context: topics that are relevant for our industry on a global scale and the latest trends were considered, including those that go beyond topics given in the GRI guidelines.

Materiality: the most relevant topics for Axtel stakeholders are reflected in this report.

Completeness: we have presented the achievements attained in 2017 for each material topic.

Estos temas se abordan en el desarrollo del Informe para comunicar las acciones, iniciativas y proyectos que estamos haciendo relacionado con cada uno de ellos; al ser éste un ejercicio que se hizo en el último trimestre de 2017, trabajaremos en analizar la forma en la que estamos abordando nuestras prioridades para atender todos los temas importantes para la empresa y para los grupos de interés con los que interactuamos.

MATERIAL TOPICS FOR AXTEL ARE:

- ▼▲ Data Security: access to the network, safeguarding information, protection and privacy of personal information.
- ▲ Customer satisfaction.
- ▼ Ensuring the continuity and quality of telephone, television and internet services.
- ▼▲ Ethical behavior and compliance with standards and laws: transparency, anti-corruption and anti-bribery.
- ▼ Innovation related to connectivity and mobility of products and services.
- ▲ Customer safety and health: at Axtel facilities, near its infrastructure or when using its services.
- ▼▲ Compliance with environmental laws.
- ▼▲ Respect for human rights: respect for indigenous rights, no discrimination, prevention of forced and child labor, and prevention of harassment.
- ▲ Biodiversity: preserve plants, animals and ecosystems, protect habitats when installing fiber optic and during other operational processes.
- ▼ Innovation related to environmental care by products and services: sustainable mobility, energy efficiency, waste reduction and natural resource conservation.
- ▼ Employee professional development, education and training.

These topics are addressed within this report to disclose the actions, initiatives and projects we implement relating to each of them. Since this is an exercise that was conducted in the last trimester of 2017, we will attempt to analyze the way in which we are prioritizing all important topics for the company and for the stakeholders with whom we interact.

The significant economic, social and environmental impacts are addressed within this report.

In addition to surveying stakeholders, we have analyzed topics of global concern, using the United Nations Sustainable Development Goals for 2030 as a reference, to which Mexico is signatory.

Regarding those topics, we believe that at Axtel, due to the nature of the industry to which we belong and to our operations, we can positively impact through actions and projects on goals such as: health and wellbeing of our employees, by promoting self-care campaigns; affordable clean energy, by incorporating renewable energy sources in a portion of our operations; decent jobs and economic growth, by providing employment to more than 7,000 people; industry, innovation and infrastructure, by making technology available so that millions of Mexicans can communicate and connect to each other, while generating progress for our Country.

▼ Covered within the organization.
▲ Covered outside the organization.

Global Compact

We contribute to a more sustainable future with the Axtel Sustainability Strategy, which permeates all of our activities, but we also contribute by adhering to and committing ourselves to global initiatives such as the Global Compact, which, like the Sustainable Development Goals, is driven by the United Nations.

The Global Compact consists of 10 Principles that advocate respect for human, labor and environmental rights and avoiding corruption. At Axtel we live these principles and work in line with them.

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

2020 commitments

Innovation and Digital Culture

We create value for our clients and employees, ensuring the best Data Security practices and seeking innovative options to constantly improve the Information Technology market.

Employee Wellbeing

We work to improve the Work Environment, promote training and development for our employees, and ensure safe and healthy operational surroundings.

Social Outreach

We seek to establish positive relationships with our community that allow us to collaborate on its social development and create connections that facilitate interactions between our company and the society.

Environmental Concern

Our commitment is focused on mitigating our environmental impact by decreasing the consumption of energy, waste and water, in addition to reducing greenhouse gas emissions.

Operational Efficiency

We aim to guarantee a singular experience for our clients, offering the highest standards of quality and driven by new technologies.

STAKEHOLDERS

102-40, 102-42, 102-43, 102-44

The sustainability of our business depends largely on the relationships we form with individuals, organizations and institutions that make an impact, or who we make an impact on through our activities at Axtel.

For this reason, our relationships are based on constant and open communication, taking the opinions of our stakeholders into account in order to fulfill their needs and encourage the development and wellbeing of both parties.

The most frequently used forms of communication include email, the company intranet, meetings and sessions with employees, surveys, social media, advertising, supplier websites, the company website and press releases, among others

As mentioned above, a representative sample of Axtel's principal stakeholders was surveyed in order to discover the topics they consider most important regarding sustainability. The results were then taken into account for the creation of this report.

Stakeholder	Key topics and concerns mentioned	Actions from Axtel with respect to the key topics and concerns
Employees	Relationship with unions, comfort and leisure at places of work, working environment, fairness and equality of opportunities, work-family balance, promotion of home office schemes, boss-employee relations, training, energy savings, recovery of electronic equipment, sustainable innovation.	We offer workspaces where our employees can develop themselves, we conduct working environment surveys to identify opportunities for improvement and good practices, we advocate for time with family, we aim to reconcile work and family life, we offer different training options and promote sustainable innovation.
Shareholders and Investors	Quality service, communicating information in a timely manner.	We hold the Annual Shareholder Meeting, we organize strategic planning meetings, we order external audits and various exercises for identifying the possible risks Axtel faces, our actions are guided by the Code of Ethics that governs us, and we possess a solid Corporate Governance structure.
Customers	Failures in different services, greater Internet coverage and speed, price-quality relationship, responsible marketing, customer service, rewards for loyalty, energy savings, pollution from wires, recovery of electronic equipment, data security.	We strive to improve solutions to failures in our services through new technological tools, we train the staff who assist clients directly on the basis of a satisfaction model, we recover obsolete and unused electronic equipment from our clients to properly dispose of them. We have been ISO 27001 certified in Data Security to guarantee data confidentiality of our clients and to secure our network.
Suppliers	Complying with payments, development of suppliers.	We have a website for direct service to suppliers, we inform them of our policies and Code of Ethics, every year we involve them in a social and environmental assessment and with the Declaration of Transparency.
Government and regulatory agencies	Compliance with standards set forth by different governmental agencies.	We collaborate with requests from authorities. We participate in intermediary bodies and make available our information for stakeholders in a transparent manner on our website, as done in our Annual Reports.
Communities	Pollution from wires, recovery of electronic equipment, providing service in remote communities.	We promote volunteer activities among our employees, some in conjunction with civil society organizations. We also aim to broaden our telecommunications service network to provide service to more and more homes in Mexico.

RISK MANAGEMENT

102-11, 102-15, 102-29, 102-30, 102-31

All organizations are exposed to risks that arise from our settings as well as macroeconomic events. For this reason, and to ensure the well-being and continuity of our business, we believe it is crucial to identify potential internal and external risks.

This process is led by the General Management with support from various strategic divisions able to identify risks. They incorporate the results of their analysis into the annual plan in order to implement mitigation and prevention measures. These risks are also analyzed by the Board of Directors during their meetings.

Additionally, we have a Risk Management Program through which we periodically evaluate risks to keep them updated and oriented towards Axtel's goals.

We have identified financial and market risks, regulatory and legal risks, infrastructure and technology risks, and environmental and social risks. Our auditing department continuously reviews these risks through an exercise for identifying new issues that could affect the business.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

102-18, 102-19, 102-20, 102-22, 102-23, 102-24, 102-25, 102-26, 102-27, 102-28, 102-35, 102-36, 102-37

The main functions of corporate governance at Axtel are to direct and control the company's development, as well as to distribute rights and responsibilities among the organization's decision makers, define the goals and corporate strategy in order to improve the company's financial, social and environmental performance.

The maximum body of governance at Axtel is the Board of Directors, whose priority is to create long-term sustainable value for our stakeholders by means of approving transparent guidelines, procedures and policies that favor accountability, integrity, responsibility, fulfillment of the corporate values and adherence to business ethics.

The Board is made up of 15 recognized businessmen with vast experience, careers within diverse industries, and high levels of business expertise. They were selected in accordance with the Securities Market Act, the company bylaws, the Axtel Code of Ethics, the Code of Best Corporate Practices of the Business Coordinating Council, the OECD Principles of Corporate Governance, and the Principles of the United Nations Global Compact, and named and approved at the General Shareholders Meeting on May 10, 2017.

Two of the members are Co-Chairmen, seven are Board members, six are Independent members, and four are Alternate members.

IN 2017 THE BOARD OF DIRECTORS HELD FOUR MEETINGS:

January 27
100% attendance

April 24
87% attendance

August 1
100% attendance

November 1
87% attendance

To guarantee sufficient strategic management of the company, we have an Audit and Corporate Practices Committee in charge of monitoring and guiding the company's administration and recommending actions to carry out by Internal and External Auditing divisions concerning important financial matters. This committee is made up of three independent regular board members, one independent alternate member, and a non-member secretary. It is also in charge of maintaining communication between executives and the Board of Directors and preventing conflicts of interest. This committee is made up of the members Bernardo Guerra Treviño (Chair), Salvador Alva Gómez, Enrique Meyer Guzmán, Mauricio Morales Sada (alternate) and Carlos Jiménez Barrera (non-member secretary).

The functions of the Board of Directors include the following: monitor compliance with current laws, including the Securities Market Act; identify, administer and mitigate potential internal and external risks to which Axtel may be exposed; name the CEO and set forth his or her powers, responsibilities, working conditions and compensation; appoint and remove the company's external auditors; establish the Corporate Practices Committee, as well as the Audit Committee; and define guidelines for control and auditing.

Furthermore, the Board of Directors shares other functions with the CEO, such as defining Axtel's goals and strategy in economic, social and environmental areas, managing, directing and executing the company's business; and reviewing the accounting principles, financial statements and presentation of reports to the General Shareholder Meeting.

The compensation of Board members is defined based on a market analysis and internal equality, and in accordance with our Salary Administration Policy, we do not offer bonuses or hiring incentives. In the event of dismissal, the corresponding severance is made as stipulated by the Federal Work Act, just as for redemptions.

We publicly share information about the Board of Directors and Executive Team of Axtel on our website: *http://axtelcorp.mx/inversionistas/gobierno-corporativo/consejo-deadministracion http://axtelcorp.mx/nuestra-empresa/equipo-directivo*

Operational Structure

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PRINCIPAL SUBSIDIARIES OF AXTEL AS OF DECEMBER 31, 2017

Subsidiary	Country	Percentage ownership, 2017
Axtel, S. A. B. de C. V. (Parent company) [3]	Mexico	100
Servicios Axtel, S. A. de C.V. [1]	Mexico	100
Alestra Comunicación, S. de R. L. de C. V. [3] [a]	Mexico	100
Avantel, S. de R. L. de C.V. ("Avantel")[3]	Mexico	100
Axes Data, S. A. de C. V. [1]	Mexico	100
Contacto IP, S. A. de C. V. [1]	Mexico	100
Instalaciones y Contrataciones, S. A. de C. V. [1]	Mexico	100
Alestra, S. de R. L. de C. V. ("Alestra") [3] [c]	Mexico	-
Servicios Alestra, S. A. de C. V. [1]	Mexico	99.98
Ingeniería de Soluciones Alestra, S. A. de C. V. [1]	Mexico	100
Alestra USA, Inc. [2]	USA	100
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100
Alesre Insurance Pte, Ltd. [4]	Singapore	100
Cogeneración de Querétaro, S. A. de C. V. [1] [b]	Mexico	-
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel") [3]	Mexico	100
Servicios Alestra TI, S. A. de C. V. [1]	Mexico	100

[a] On July 25, 2016 a merger was agreed between G-Tel Comunicación, S. A. P. I. de C. V., as the acquired company, and Alestra Comunicación, S. de R. L. de C. V. (previously Avantel Infraestructura, S. de R. L. de C. V.), as the acquiring company. This merger took effect on August 1, 2016.
[b] Company liquidated during November 2017.
[c] On April 27, 2017, a merger by acquisition was executed between Alestra, S de R.L. de C.V. and Axtel, S.A.B. de C.V., taking effect on May 1, 2017, and does not have an impact on the consolidated operations of the company.
[1] Business management service suppliers.
[2] Telecommunication equipment and infrastructure leasing.
[3] Telecommunications service provider.
[4] Company without primary operational activities.

Board Members

Álvaro Fernández Garza[1] March 27, 1968	Member and Co-Chair of the Board of Directors of Axtel since February 2016. CEO of ALFA, S.A.B. de C.V. Board member of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, and the Monterrey Contemporary Museum of Art. Chair of the Board of Directors of Universidad de Monterrey (UDEM).	*Degree in Economics from the University of Notre Dame, Master's Degree in Administration from ITESM, and MBA from Georgetown University.*
Tomás Milmo Santos[1] November 3, 1964	Member and Co-Chair of the Board of Directors of Axtel since February 2016. He was CEO of the company from 1994 to February 2016, has been a Board member since 1994 and was Chair of the Board of Directors from 2003 to February 2016. Member of the Board of Directors of CEMEX, ITESM and Promotora Ambiental. He is also Chair of the Board of Tec Salud and the Citizen Educational Alliance for Nuevo Leon.	*Degree in Business Economics from Stanford University.*
Salvador Alva Gómez[2] June 4, 1951	Board member of Axtel since February 2016. President of Tecnológico de Monterrey since 2011. Worked at PepsiCo for 24 years as member of the Executive Committee and President for Latin America. Active Board member of Proeza, Endevor and the Monterrey Contemporary Museum of Art.	*Degree in Chemical Engineering from Universidad Nacional Autónoma de México (UNAM), Master's Degree in Administration from Universidad de las Américas.*
Alejandro Miguel Elizondo Barragán October 14, 1953	Board member of Axtel since February 2016. Director of Development of ALFA. Member of the Board of Directors of Arca Continental, Banregio Grupo Financiero, Indelpro, and Polioles.	*Degree in Electrical Mechanical Engineering from ITESM, Master's Degree of Administration from Harvard University..*
Francisco Garza Egloff[2] September 5, 1954	Board member of Axtel since February 2016. CEO of Arca Continental. Member of the Board of Directors of Grupo Industrial Saltillo, Grupo Alen, Banco Banregio and Banco Holandés Rabobank, as well as the Engineering and Architecture Department of ITESM, and Fundación UANL.	*Degree in Chemical Engineering Administration ITESM, with courses in Upper Management at IPADE.*

Juan Ignacio Garza Herrera[2] November 26, 1966	Board member of Axtel since February 2016. CEO of Xignux. Was President of the Northeast COMCE and has participated as a Board member of Xignux, Mexican Council of Businessmen (CMHN), BBVA Bancomer (Northeast Region), UDEM, ICONN, Cleber, and Instituto Nuevo Amanecer, A.B.P.	*Degree in Chemical Engineering Administration from ITESM, Master's Degree in Administration from the University of San Francisco.*
Armando Garza Sada June 29, 1957	Board member of Axtel since February 2016. Chair of the Board of Directors of ALFA, S.A.B. de C.V. Chair of the Board of Directors of ALFA, Alpek, and Nemak. Board member of CEMEX, FEMSA, Grupo Lamosa, Liverpool, Proeza, and ITESM.	*Graduate of the Massachusetts Institute of Technology, Master's Degree in Administration from Stanford University.*
Fernando Ángel González Olivieri October 2, 1954	Board member of Axtel since February 2016. Executive Vice President of Finance and Administration and CEO of CEMEX.	*Degree and postgraduate studies in Administration ITESM.*
Bernardo Guerra Treviño[2,3] February 24, 1965	Board member of Axtel since February 2016. Founding partner of Morales y Guerra Capital Asesores (MG Capital). Member of the Board of Directors of Promotora Ambiental and Banco Ahorro Famsa.	*Degree in Industrial and Systems Engineering from ITESM.*
Ramón Alberto Leal Chapa June 4, 1969	Board member of Axtel since February 2016. CFO of ALFA. Member of the Executive Board of UDEM.	*Degree in Public Accounting from UDEM, with an MBA from Harvard Business School.*
Enrique Meyer Guzmán[2] January 7, 1960	Board member of Axtel since February 2016. Board Chair and CEO of Grupo CEMIX. Board member of UDEM, Bancomer, Banamex, Vinoteca, Silica Desarrollo, S.A., Fondo Emblem, Neoalimentos, S.A., Beliveo, S.A., and Chair of the Board of Club Industrial.	*Degree in Industrial and Systems Engineering from ITESM, with an MBA from Stanford University.*

Thomas Lorenzo Milmo Zambrano July 9, 1935	Board member of Axtel since February 2016. Was Co-Founder and Chair of the Board of Directors of Grupo Javer and Incasa. Was Chair of the Board of Directors and CEO of Carbonífera San Patricio and Carbón Industrial, as well as Board member of CEMEX until 1996	
Paulino José Rodríguez Mendivil April 21, 1951	Board member of Axtel since February 2016. Human Resources Director of ALFA. Member of the Board of Directors of Campofrío Food Group, COPARMEX and the Business Coordinating Councill.	*Degree in Industrial and Systems Engineering from Universidad del País Vasco, Spain, Master's Degree in Energy Technologies from the same institution.*
Ricardo Saldívar Escajadillo[2] November 20, 1952	Board member of Axtel since February 2016. Private investor. Board member of FEMSA and ITESM. Was president and CEO of The Home Depot México for eighteen years until retiring in June 2017. Previously worked at different companies within the ALFA Group for around 20 years.	*Degree in Mechanical Engineering Administration from ITESM, Master's Degree in Science in Systems Engineering from Georgia Tech, and postgraduate studies in Upper Management at IPADE.*
Alberto Santos Boesch August 26, 1971	Board member of Axtel since February 2016. President and CEO of Ingenios Santos, S.A. de C.V. Board member of GRUMA, Interpuerto de Monterrey, the Development Committee of ITESM, Instituto Nuevo Amanecer, Renace, Red de Filantroía de Egresados y Amigos del Tec, Museo Nacional de Energía y Tecnología, A.C., Advisory Board Committee of the Department of Political Science and Public Administration of UANL, and Unidos por el Arte contra el Cáncer Infantil (UNAC).	*Degree in International Studies from UDEM, with International Studies at Cushing Academy.*

Alternate Board members

José Antonio González Flores May 5, 1970	Alternate Board member of Axtel since February 2016. CFO of CEMEX.	*Degree in Industrial and Systems Engineering from ITESM, with an MBA from Stanford University.*
Patricio Jiménez Barrera October 29, 1965	Alternate Board member of Axtel since February 2016. Board member of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega.	*Degree in Public Accounting from ITESM..*
Mauricio Morales Sada[2] September 6, 1961	Alternate Board member of Axtel since February 2016. President and founding member of MG Capital. Executive Committee member of the Business Development Program of ITESM.	*Degree in Chemical Engineering Administration from ITESM.*
Mario Humberto Páez González October 28, 1950	Alternate Board member of Axtel since February 2016. CEO of Sigma Alimentos. Board member of Campofrío Food Group.	*Degree in Public Accounting from ITESM, Master's Degree in Administration from the same institution and another from Tulane University.*

Secretary of the Board of Directors

Carlos Jiménez Barrera	Named in the General Annual Shareholder Meeting.

[1]Co-chairmen. [2]Independent Board members. [3]Chair of the Audit and Corporate Practices Committee.

Executive Team

Rolando Zubirán Shetler
65 years old

CHIEF EXECUTIVE OFFICER

Is the CEO of Axtel, subsidiary of ALFA, since February 2016. He was previously CEO of Alestra from January 1999 to 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 Universidad Nacional Autónoma de México and holds a Master's of Science in Operations Research from the University of Southern California and a PhD in Philosophy specialized in Administration from Universidad Autónoma de Nuevo León.

Carlos Guillermo Buchanan Ortega
58 years old

EXECUTIVE DIRECTOR OF HUMAN CAPITAL

Is Executive Director of Human Capital. He was Managing Partner of B&S Consultores and Director of Human Resources of Alestra. He has worked in Human Resources at Telefónica Movistar, Banca Comercial de Grupo Financiero Bancomer, Bimbo, Black & Decker, and Prolec G.E. He is Executive President of ERIAC Capital Humano, Curricular Advisor at UDEM, Employability Advisor at Tec Milenio, member of the Guest Monitor and Study Group for D1, D2 and Medex programs at IPADE. He has experience as a lecturer and professor at UDEM, ITESM and ITESO. Degree in Psychology and a Master's in Organizational Development and Administration from UDEM, as well as postgraduate studies in IPADE and the University of Kellogg.

Andrés Eduardo Cordovez Ferretto
49 years old

EXECUTIVE DIRECTOR OF INFRASTRUCTURE AND OPERATIONS

Is Executive Director of Infrastructure and Operations. He was Director of Technology and Operations at Axtel from October 2013 to January 2016. Prior to that position he was Director of Information and Process Technology. Throughout 24 years of professional experience, he has held executive positions in various multinational and national companies in telecommunications, finance and services, responsible for fields such as technology, innovation, operations, customer service and sales. Degree in Computational System Engineering from ITESM and postgraduate studies in Upper Management from IPADE.

Adrián Cuadros Gutiérrez
47 years old

EXECUTIVE DIRECTOR OF GOVERNMENT DIVISION

Is Executive Director of the Government Division. He previously was Executive Director of IT Solutions. He joined Alestra in February 1996, where he held positions of Director of Engineering, Chief Technology Officer, Director of Governmental Sales and Director of IT Service Sales. He held various positions at AT&T México from June 1993 to January 1996. Degree in Communications and Electronic Engineering from ITESM, with a Master's Degree in Administration from the same institution, and took an Executive Program at IPADE and Stanford University.

Adrián de los Santos Escobedo
49 years old

CHIEF FINANCIAL OFFICER

Is Chief Financial Officer. He was previously Interim Finance Director. He held the position of Director of Corporate Finance and Investor Relations at Axtel until February 15, 2017. Prior to joining Axtel in April 2006, he worked at Operadora de Bolsa y Banca Serfin (today Santander México) and Standard Chartered Bank, where he occupied positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York. Degree in Business Administration from ITESM, with a Master's Degree in Finance from the Carroll School of Management at Boston College.

Antonio de Nigris Sada
52 years old

EXECUTIVE DIRECTOR OF MASS MARKET

Is Executive Director of Mass Market. He previously held various positions within Axtel as Director of Consumer Market, North Regional Director of Mass Market Division, Director of Operations and Director of Service Delivery at the national level since September 1999. Prior to joining Axtel, he was Director of Business Banking at BITAL (now HSBC) and in financial leasing institutions (Prime International). Degree in Industrial Engineering from Anahuac University.

Bernardo García Reynoso
59 years old

EXECUTIVE DIRECTOR OF PLANNING AND DEVELOPMENT

Is Executive Director of Planning and Development. Coming from ALFA, which he joined in July 1985, he joined Alestra in January 1996 holding positions such as Director of Business Sales and Director of the Residential Business Unit, Director of Sales to Large Companies and Affiliates, Director of Sales Administration and Commercial Strategy, Director of Strategic Alliances, Assistant Director of Human Resource Planning and Director of Administration and Human Resources. Degree in Industrial and Systems Engineering from ITESM and holds a Master's Degree in Business Administration from IMD International in Lausanne, Switzerland.

Ricardo J. Hinojosa González
51 years old

EXECUTIVE DIRECTOR OF BUSINESS MARKET

Is Executive Director of Business Market. He was part of ALFA, which he joined in August 1988. In February 1997 he joined Alestra, where he held the position of Commercial and Marketing Director, as well as various executive positions in the areas of Marketing, Corporate Sales, and Planning and Control. Degree in Computational Systems Administration from ITESM, with an MBA with a marketing specialty from the University of California at Los Angeles. He also took executive specialization courses at IPADE and Wharton University.

Raúl Ortega Ibarra
61 years old

EXECUTIVE DIRECTOR OF LEGAL AND REGULATORY AFFAIRS

Is Executive Director of Legal and Regulatory Affairs. He was Director of Regulatory Affairs at AT&T México and joined Alestra in January 1996, where he has held responsibilities in various departments, such as the International Business and Communications Unit. Degree in Public Accounting from Universidad Iberoamericana, with courses in Political Economy and Management at Stanford University.

COMPENSATION PLAN FOR THE EXECUTIVE TEAM

Component	Objective and alignment with strategy	Description
Alignment with Business Strategy	Comply with social, environmental and economic objectives.	Compensation awarded based on compliance with department objectives.
Base salary	Attract and retain talent.	Salaries are reviewed every year on the basis of company results, the macroeconomic environment, salary surveys and performance.
Fixed compensation (benefits)	Comply with legal framework and stay competitive compared to competing employers.	Year-end bonus, vacation bonus and food coupons.
Variable compensation	Compensate fulfillment of individual and group goals; reinforce the executive team's alignment with shareholder interests, and stay competitive.	Annual bonus plan in accordance with the fulfillment of operational and strategic goals.
Social benefits	Provide financial stability for executives and prepare for contingencies, retain talent.	Insurance for major medical expenses, life insurance, insurance for medical emergencies and regular medical checkups.

ACHIEVEMENTS IN 2017

- **Putting executive-level metrics in place using objectives and behaviors according to ALFA methodology.**
- **Leadership education and training through the Transformational Leadership program for executive personnel.**

BUSINESS ETHICS

102-16, 102-17, 102-25, 102-33, 102-34, 103-1, 103-2, 103-3, 205-1, 205-2, 205-3, 406-1, 418-1

A company that does not operate according to strict ethical principles puts its operation, credibility and existence at risk. For this reason, at Axtel we work in adherence to our business philosophy and based on the highest standards of personal and professional integrity. We comply with the policies, procedures, guidelines and laws that back our operation, as well as the applicable laws in locations where we operate.

We promote an ethical culture in the relationships we form with our stakeholders and in all that we do. The current Code of Ethics[3] that governs us, which entered into force in January 2017, underpins our actions.

The new Code of Ethics sets forth the behavior that Axtel expects from its employees, directors, managers, leaders, division heads, coordinators, consultants, outsourced staff, contractors and the company's professional service suppliers. The Code also contains the guidelines for conduct in relation to investors, clients, creditors, suppliers, competitors, government, authorities, and other stakeholders.

Furthermore, its sets forth the principles that should guide the actions and behaviors carried out within the company, seeking a productive working environment that respects and advocates for human rights, equality and diversity, and the prevention of conflicts of interest, bribery, corruption, discrimination and harassment.

We also have an Anti-corruption Policy that defines the basic standards for preventing, fixing, and when applicable, sanctioning those who commit acts of corruption in all its forms. This is publically available for all employees through electronic media.

Aware that fulfilling and applying the principles set forth in the Code of Ethics represent both a right and an obligation for our employees, each year they are required to take a course to reinforce their understanding of its content. They must also sign a letter of acceptance and commitment. In 2017 we designed an infographic that contains the document's 16 general points, which is available on our website[4].

In 2017, the Code of Ethics refresher course was given to 6,925 employees, 4,617 training hours during the year. Our employees also participated in the Culture of Integrity course, which reinforced themes such as anti-corruption, bribery and extortion, among others. 5,608 employees took the course, representing 80% of our labor force.

In the same manner, we expect external contractors to work ethically and within the law, which is why we developed a permanent inspection program to ensure that their workers comply with age requirements, do not use child labor, and wear their personal protective equipment within facilities.

[3 and 4] Axtel Code of Ethics, available at: http://axtelcorp.mx/inversionistas/gobierno-corporativo/codigo-de-etica

Through ALFA Transparency Mailbox we promote working relationships that are open, transparent, honest, and ethical with the individuals who we interact with inside and outside of Axtel.

To guarantee that the Code of Ethics is applied correctly at all times and with all stakeholders, we make the ALFA Transparency Mailbox available to employees, customers, suppliers, shareholders, investors and the community. This tool is available at all times for reporting complaints concerning accounting, finances, internal control, conflict of interests, corruption, bribery, or the failure to comply with policies and standards.

Complaints can be made anonymously if the reporting party desires, and are kept confidential in all cases. The Internal Auditing Department of ALFA is the division in charge of following up on the complaints and ensuring solutions for cases when appropriate.

Reports can be submitted by:

Email:
buzon@alfa.com.mx

Telephone lines without cost:
01 800 265 2532, 1 866 482 1957 (United States) and 1 866 238 2860 (Canada)

WhatsApp/SMS:
+52 1 81 2353 9583

Website:
www.alfa.com.mx/buzon.html

COMPLAINTS RECEPTION AND HANDLING PROCESS

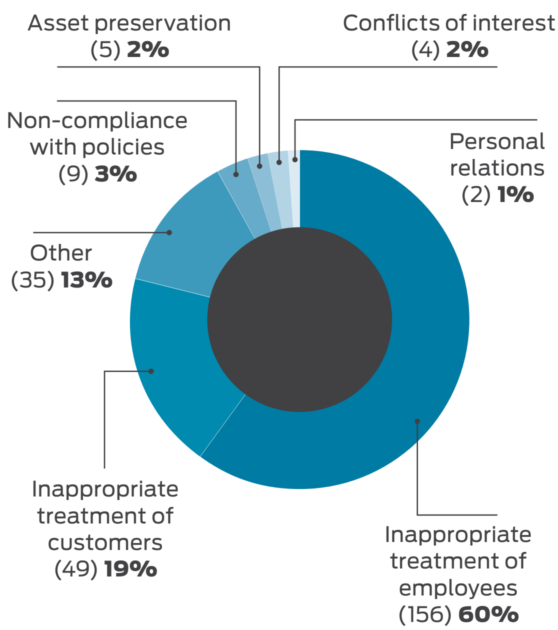
We also set up a direct channel of communication between our employees and Executive Management on the corporate website under **Comments to the CEO,** where any comment can be sent anonymously or personally.

During 2017 we received 175 complaints which were all reviewed and resolved, along with other 85 complaints from 2016 and one from 2015. We reviewed possible situations of corruption, concluding that acts of corruption as such did not occur. We also received possible cases of discrimination, which were prevented with actions to reinforce the values of Axtel.

Nor did we receive any complaints concerning human rights abuses, breaches of privacy or leaks of client data during the year.

To prevent situations of conflicts of interest, we identify, evaluate and make opportune rulings regarding risk situations. A section in our Code of Ethics covers this issue and informs our employees of situations considered to belong to this category.

COMPLAINTS RECEIVED 2017



The 260 complaints were attended during 2017.

Out of the total number of complaints, 175 were received in 2017, 85 in 2016 and one in 2015

HUMAN RIGHTS

103-1, 103-2, 103-3, 407-1, 408-1, 409-1, 410-1, 411-1, 412-1, 412-2

As a company committed to sustainable development, the wellbeing of its employees and community social development, Axtel understands that respecting human rights and individual liberties is fundamental and must be reflected in all of its activities.

AXTEL HUMAN RIGHTS POLICY

At Axtel we reject any act of discrimination, child exploitation and forced labor. At the same time, we commit ourselves to protect all individuals we have relationship with against any abuse, coercion and threats.

We back this position with the Code of Ethics, the Supplier Code of Conduct, the Transparency Mailbox, and our policies[5] on Human Rights, Diversity and Inclusion, Hiring and Staff Selection. Furthermore, since 2011 we are signatories to the United Nations Global Compact, and are committed to fulfilling its 10 principles that tackle issues of Human Rights, the Environment, Labor Practices and Anti-Corruption[6].

This year, 6,598 employees took the human rights course we gave online. The course explains and defines universal human rights, their history, how they are applicable in the modern world, and the Axtel Human Rights Policy. We have also submitted 100% of our operations[7] to a human rights assessment.

Throughout 2017 we did not receive any cases of indigenous rights violations.

[5] Axtel's policies can be consulted on our website: *http://axtelcorp.mx/sustentabilidad/grupos-de-interes*

[6] To learn about the 10 Principles of the United Nations Global Compact, visit the website: *http://www.pactomundial.org.mx/site/*

[7] We took 2,143 operations into account, consisting of administrative offices, call centers, MAPs, CeDis, Hubs and CPOPs, Work Centers, VPOPs, MiniPOP, Switch, Data Centers and Radio Bases.

OPERATIONAL EFFICIENCY

103-1, 103-2, 103-3

Manufacturing Capital. At Axtel we are migrating our portfolio towards Digital Transformation. With a vision of growing our company and offering services that suit client needs, we will make available cutting edge, trustworthy and secure ICT tools, services and solutions to all markets. At the same time, we will facilitate access to technology and telecommunications to a great number of communities in Mexico, reducing the digital divide.

SHARED NETWORK

Through the ALTÁN Redes consortium, we are part of the largest telecommunications project in the history of Mexico, the **Shared Wholesale Network**, whose objective is to offer more efficient infrastructure for the service of all operators in Mexico, which will benefit final users.

In 2017 we contributed infrastructure and capacity under a contract as a supplier of ALTÁN Redes. We supplied connectivity to metropolitan loops, fiber optic capacity, and installation services and data centers.

The Shared Network allows us to implement our mobility strategy in an efficient manner. This consists of having our own mobile service for business clients and becoming an aggregator and facilitator of mobile virtual operators.

Availability and access to broadband mobile services will now increase throughout the entire country, making these services available to remote populations that do not currently have Internet or mobile telephone access.

The Network is expected to start operating in March 2018.

PRODUCTS AND SERVICES

102-2, 102-6

We possess two commercial brands: Alestra for business and government services, and Axtel for residential and small business services.

To satisfy the needs of the markets we attend, we offer solutions by families of services: Industry, Cloud and Data Centers, Collaboration, Systems Integration and Administration of Applications, Security and Connectivity, as well as services such as Telephony, Internet and Subscription Television.

Industry

We focus on a series of services for our clients belonging to specific segments within the public and private sectors.

- **Digital Government.** We integrate communication and information systems to support the effectiveness at different levels of public administration.
- **Digital Education.** We provide resources to strengthen learning processes.
- **Digital Health.** We offer hospitals and clinics solutions for security within their facilities, communication between staff and digitalization of medical files.

Cloud and Data Centers

For our business clients we have Cloud services with unlimited capacity, universal accessibility by means of applications, flexibility and technical support, all backed by the security and availability of our six world-class data centers in Monterrey, Apodaca, Querétaro and Guadalajara, with 7,200 square meters of white floor.

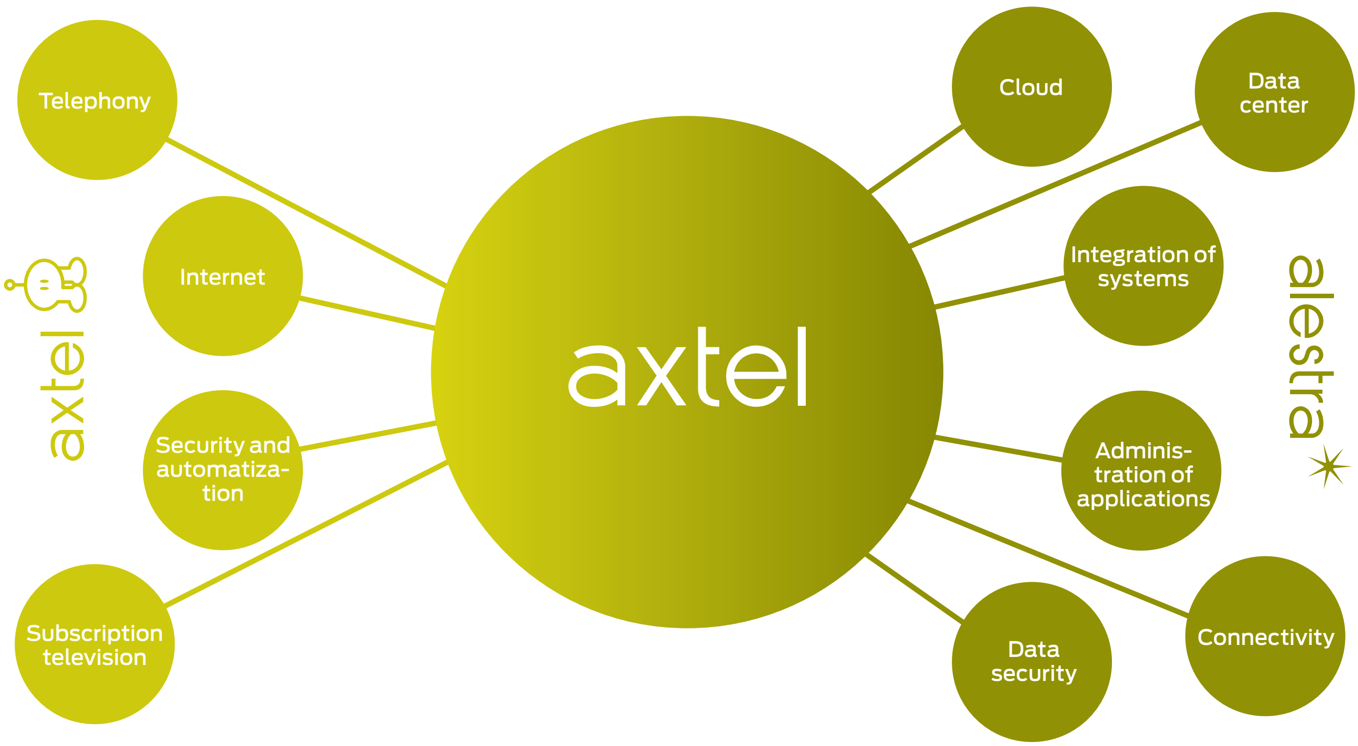
Our Data Centers are closed, secure spaces, equipped with robust, redundant electromechanical infrastructure, administered with the best practices in terms of safety, energy efficiency, communication and cooling. They are certified by the International Computer Room Experts Association, Uptime Institute, CEED and the highest international standards such as TIA-942, ICREA-Std-132, BICSI-002, ASHRAE, The Green Grid Guidelines, and NFPA. The Alestra Data Center in Querétaro was the first in Latin America with a Cogeneration Energy System.

- **Sperto Centers.** Created nine years ago to question and experiment the most recent technological solutions our clients demand by means of demonstrations, discussions and tours. In 2017 we offered 2,526 experiences to visitors in the centers located in Guadalajara, Monterrey and Mexico City.
- **Holistic Operation Center.** The center that joins the best practices, processes, security tools and experts from our Network Operations Center (NOC), Security Operations Center (SOC), Managed Services Operations Center (MS NOC), IT Services Administration Center (CASTI), Help Desk and Systems Support (HD), and Business Service Center (CAE). The operational practice of offering managed services to our clients is one of our principal strengths.

Collaboration

We facilitate the administration of channels for voice, data, video, networks, business applications and systems with services located in the Cloud, so our clients do not have to invest in specialized equipment, and can be utilized from any place and in any device.

These services are video conferences, telepresence, instant messaging and voice and applications for Contact Centers.



Systems integration and administration of applications

We deliver complete solutions in accordance with the client's needs:

- **Systems integration of infrastructure:** computer equipment, storage, back-ups, monitoring, administration, disaster recovery plans, high availability platforms, private and hybrid Clouds and data migration.

- **Administration of Applications:** operations outsourcing, monitoring, management of incidents, problems and business application changes such as ERPS, CRM and databases.

Security

With the vulnerabilities faced by our clients and their systems at present, we offer solutions to protect their computer equipment, networks and systems against threats or attacks on data. We do this through the supply, operation, administration and monitoring of all the information security infrastructure required by the client.

Our offer includes: vulnerability analysis, security consulting, managed intrusion detection and prevention services, and managed web filter and firewall services.

Connectivity

Our business is to connect our clients and users by means of comprehensive and highly efficient services.

For the residential market we have high-speed, symmetrical Internet (same download and upload velocity) up to 200 Megabytes, Triple Play (voice, broadband and television) and Internet.

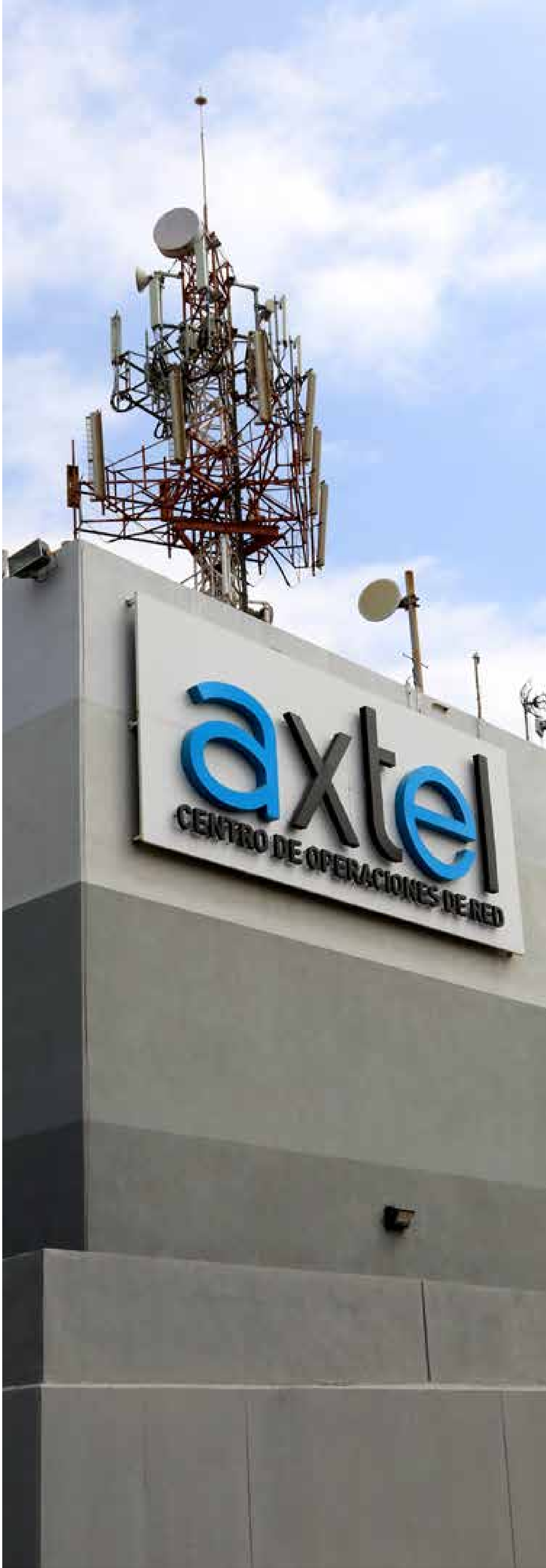
We offer our business clients point-to-point or point-to-multipoint communication, VPN services, Ethernet and private lines with secure, simultaneous transmission of voice, data, and video. We protect the Internet connection against cyber-attacks with our Clean Pipes service.

Additionally, we offer a portfolio of managed network solutions such as Managed Routers, Managed LAN and WLAN switches, which includes providing benefits for monthly equipment rentals such as the design, implementation, support, maintenance, operation and administration of the equipment.

For small and medium businesses, aside from telephone services, we offer services and tools to professionalize your ICT platforms.

To guarantee satisfaction of our clients and service excellence, we have three Operational Centers:

- **Video Operation Center (VOC),** a place for receiving and monitoring the video programming that makes up the Axtel subscription television services.
- **National Repair Center (CNR),** which attends to the technical requirements of our residential clients, 24 hours a day, 365 days a year.
- **Work Center (WC),** an operations center for the Installation and Repair (I&R) crews.



CUSTOMER EXPERIENCE

102-9, 102-44, 204-1, 308-1, 308-2, 407-1, 408-1, 409-1, 414-1, 414-2

To fulfill the needs of our customers and to be at the forefront of the solutions we offer them, we are supported by great infrastructure and the best-qualified suppliers on the market.

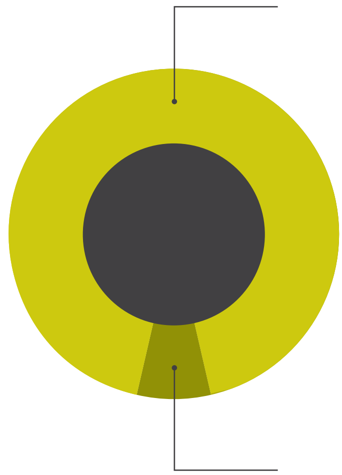
Our **technological infrastructure** is deployed and operated in a tactical and strategic manner, which allows us to continue growing and developing the network we operate.

Furthermore, we have two large challenges to fulfill in the upcoming years in terms of productivity and growth, which is why we are implementing cost reduction and efficiency initiatives. An example of this is the sale of 142 towers with 40 percent non-productive space to American Towers, in order to reduce our operational costs.

In addition to infrastructure, we require other supplies in order to provide solutions to the diverse client base we serve. We acquire these from suppliers that form part of our supply chain, and whom we request to align with our concept of sustainability and avoid generating negative social impacts. We aim to guarantee that the products and services we acquire comply with the highest standards of quality, while at the same time we create awareness of our responsibility to contribute value to society and the environment.

This relationship is based on our **Supplier Selection Policy** in the **Supplier Code of Conduct**, and through assessments of the material we acquire in warehouses and in the field. There we stress that, in order to report inappropriate conduct or situations from either parties, the ALFA Transparency Mailbox should be used. This year we did not see a situation that caused negative social impacts due to our suppliers' activities.

AXTEL SUPPLIERS



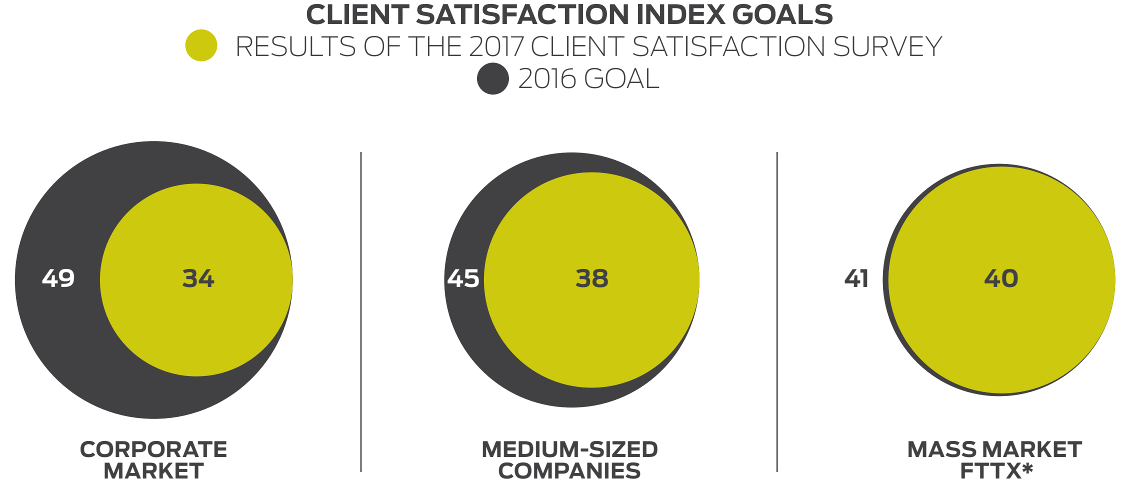
In 2017 we conducted transactions with 4,881 suppliers, which represented a cost of 4,000,000,000 pesos[8].

Once we have established a base of robust infrastructure and qualified suppliers, at Axtel, we seek to create the best **client experience** as a key distinguishing feature of the business.

We first maintain contact with clients in all the markets we service by means of satisfaction surveys that utilize the New Promoter Score (NPS) tool.

[8] For payments in dollars to suppliers, an exchange rate of 19.2 Mexican pesos per U.S. dollar was used.

CLIENT SATISFACTION INDEX GOALS



Additionally, since 2016 we have the Right Now tool from Oracle, which allows us to unify our clients' experience from all communication channels. This generates a client history, strengthens outreach, makes the interactions more efficient and timely, improves the resolution indices, and therefore, offers a better experience.

Right Now has three objectives:

1. Possess a universal database of Axtel clients for internal use.

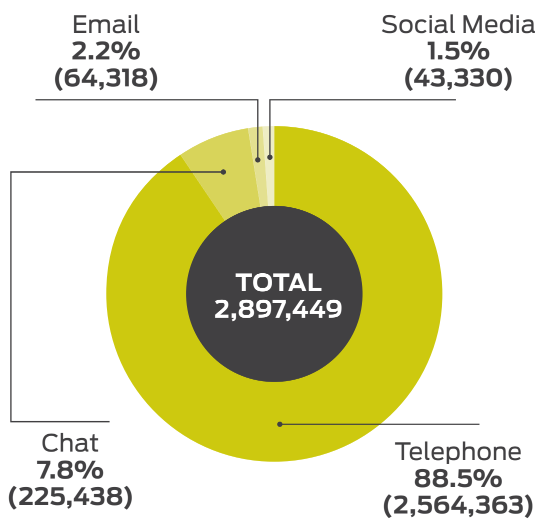
2. Speed up and establish a life cycle of the information so it is consistent, effective and precise.

3. Attain customer service interactions from the different channels below.

As part of the 2017 improvements, we implemented Right Now in Personalized Assistance Modules, thereby eliminating communication by email, where continuity was lost. This will allow us to follow-up in a timely fashion for each specific case.

In 2017 the Service and Help website received a monthly average of 140,000 visits. Likewise, we had more than 2,000,000 interactions with our clients through different communication methods.

INTERACTION WITH CLIENTS IN 2017



MARKETS SERVED

102-4, 102-6, 102-7

Axtel's technological capacity allows us to offer tailor-made products and services to customers with specific needs, whom we serve through our Business Market, Government Sector Market, and Mass Market areas.

For Axtel, 2017 was an important year in consolidating new technological trends such as the Internet of Things, Artificial Intelligence, Big Data, and Analytics, which are joined with stronger and expanded services on the Cloud, the great enabler of the rest of the trends.

Axtel was the first service provider to launch Cloud services on the Mexican market. Currently, as part of the evolution of its portfolio, the company is launching a Multi Cloud strategy that will allow us to offer any type of service (private, public, or hybrid) according to the customer's needs, thanks to partnerships with leading providers around the world.

Having integrated design, delivery, and operation processes allows our clients to have a comprehensive experience from the procurement of the services to their subsequent operation.

In turn, our extensive family of Information and Communication Technology (ICT) services makes us one of the few providers in Mexico that can offer comprehensive end-to-end solutions. In Axtel, businesses and the government sector have a single point of contact that offers

and guarantees them a certain level of service for a complete solution, which is a great market differentiator.

In this regard, our broad service portfolio, our vast presence in business and government accounts, having Innovation in our DNA, and our offer of security products position Axtel as a leading ICT service company in Mexico.

Business Market

102-4, 102-6, 102-7

Axtel is an enabler of digital transformation that accelerates the Country's economy by improving the domestic market's productivity and efficiency.

Our customers in the business segment are immersed in a digital transformation that the market demands of them. For that reason, Axtel is a technological partner helping them to integrate these new technological trends into their business to improve their production processes.

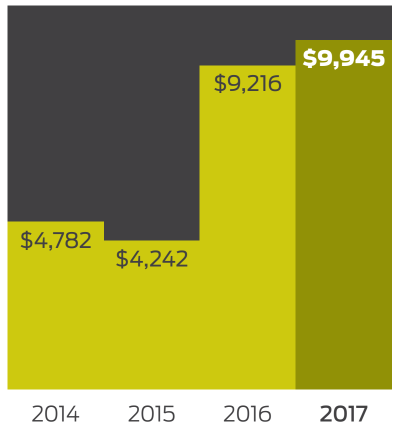
The Business Market's focus is to ensure a unique experience for our customers according to the highest operating standards.

We achieve this thanks to the cutting-edge technology we adopt and to our well-trained, professional work team.

- We standardize our practices, processes, and operations, making sure to provide a comprehensive, streamlined, and secure service.
- Developing and training our human capital, mainly in our product and service portfolio, have allowed us to meet the needs of the business market with a formidable range of services.
- We work in synergy with all areas of the organization.
- We integrate innovation as a core part of Axtel's practices, focusing on addressing business opportunities in technological megatrends.

In the Business Market, Information Technology (IT), Cloud, and Network Security solutions have become more widely adopted. This represents an important achievement within the competitive environment because, despite GDP growth below expectations and an ICT industry beset by a slowdown in traditional telecom services, Axtel remains one of the ICT market leaders in Mexico thanks to our range of value, innovation, and cutting-edge technology.

BUSINESS MARKET REVENUE
MILLIONS OF PESOS



Strategic alliances with technological partners, which allow us to offer our customers a more robust portfolio and better solutions, are a fundamental element within the business market.

Alestra Summit

Since 2010, Alestra Summit has been characterized as the most important technological forum in Mexico. It is attended by various decision makers, leaders, businesspeople, and entrepreneurs in the IT field.

This forum, called Alestra NOW in 2017, took place in five Mexican cities: Guadalajara, Mexico City, Monterrey, Querétaro, and Tijuana. Its theme was ***Unidos por la Tecnología***, and its main goal was to disseminate the most innovative and cutting-edge technology for companies and businesses.

Government Sector Market

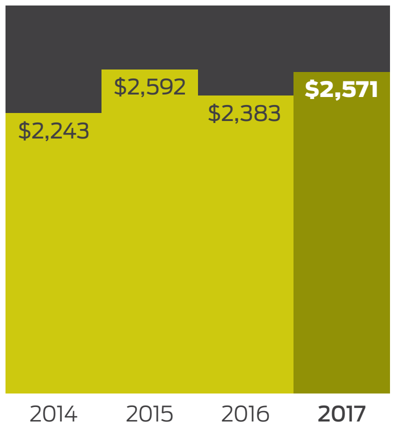
102-4, 102-6, 102-7

At Axtel, our Government Sector Executive Office contributes consulting capabilities and experience in order to understand the needs of our customers, offering them disruptive technologies and solutions to help them to improve their communication experience while promoting our company's leadership at the same time.

In 2017, we took important actions to achieve the goals we set for ourselves:

- We redefined processes to put the customer first in order to guarantee that our promises would be kept.
- We were close to our customers to listen to them and take their recommendations into account.
- We formed new strategic alliances to guarantee that the best technologies would be included in our service portfolio.
- We released new services and conducted concept and market tests on new technologies to bring the latest trends closer to our customers.
- We adopted new technologies by training and certifying personnel throughout the value chain.
- We built new onboarding platforms for newly hired commercial personnel.

GOVERNMENT MARKET REVENUE
MILLIONS OF PESOS



In this sector, we observed the trend of seeking IT solutions aligned with transformation, good practices, and use of components in service, a trend that will continue in 2018.

At Axtel, we believe that we contribute value to the community with the solutions we offer to the government sector, as they are mostly used by the population, thereby providing high-performance and secure solutions, and guaranteeing availability and scalability.

Mass Market

102-4, 102-6, 102-7

Our commitment to the Mexican homes and small businesses that give preference to Axtel is to provide excellent customer service by continuously integrating the best technology and personalized attention to solve their concerns and needs efficiently and quickly.

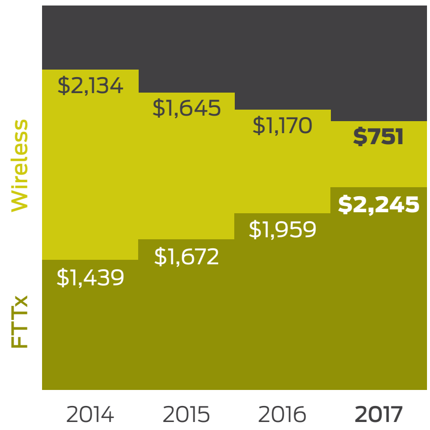
The Mass Market area supplements the offer of the Business Market and Government Sector Market with broadband solutions for small towns. It offers sustained and sustainable organic growth that leverages the central network's growth and strengthening processes.

At the same time, it offers the Mexican population first-world connectivity so that anyone can grow in a digital environment, which fosters employment and the development of the local economy.

We serve home and SME customers with the following packages of tailor-made solutions:

- **Axtel X-tremo:** high-speed Internet and telephone service.
- **Axtel TV:** interactive contract television.
- **Axtel *Mi Negocio*:** trunk line and virtual switchboard packages geared toward small business.
- **Axtel Smart Home & Business:** alarm, video and automation service for home and businesses.
- **Axtel Lifesaver:** computer backup on the Cloud.

MASS MARKET REVENUE
MILLIONS OF PESOS



- **Axtel Experto:** online advice and technical assistance for computers, smartphones, and other devices.
- **Specialized Support:** on-site technical advisory service for homes and businesses.
- **Axtel *Conmigo*:** an application that enables use of home or business telephone lines on cell phones.
- **Axtel Membership/SME Assistance:** home and business assistance service.
- ***Soluciones* Axtel:** value-added telephone-line services.
- **WiFi Xtremo:** public high-speed WiFi network.
- **Axtelplay:** OTT Television services via marketing of content provider packages.
- **Equipos WiFi:** sale of WiFi network devices.

On-site fiber optic services for homes and businesses are offered in Aguascalientes, Ciudad Juárez, Mexico City, Guadalajara, León, Monterrey, Puebla, Querétaro, San Luis Potosí, and Toluca.

The competitive environment we face within our industry in Mexico and the opening of the mass market have created a challenging environment for Axtel, which has driven us to improve our operating efficiency.

We are currently ranked as the best Internet service provider because of the high speed and stability with which we bring fiber optic technology directly to homes and businesses.

As part of our improved delivery of service, we digitized our service sale and delivery processes in 2017 by incorporating two IT tools on the Cloud.

We integrated the Convertia / Inconcert tool into our sales, allowing us to connect the world of digital marketing to the Contact Center to offer integrated management of efforts to generate demand and sales, more assertively optimized efforts, and a reduction in the costs of customer acquisition.

For delivery of service, we incorporated Oracle Field Services (formerly known as Time of Arrival, or TOA), which has allowed us to be more efficient in planning and coordinating service orders and field crews, as well as in automating activities conducted by the installing technician via smartphone. This has enabled us to reduce operating and logistics costs, as well as to improve our execution in fulfilling promises to customers.

In 2017, synergies with the Business Market area were enhanced to strengthen the portfolio for small business solutions, thereby building upon the relationship with our Axtel Experto service provider to incorporate security procedures for our group of companies, as well as with our content providers to offer the following services: Over The Top by HBO Go Broadband, Fox Premium, and Crackle.

The 2018 plan envisions an increase in current coverage to reach a penetration of more than 21% by the end of the year, as well as extending FTTx coverage in current and new cities, in order to strengthen our growth by 2019.

INNOVATION AND DIGITAL CULTURE

103-1, 103-2, 103-3

Intellectual Capital. Our business requires us to maintain high standards of quality and efficiency in Information and Communication Technologies, as well as to guarantee information security for Axtel and our customers. To ensure this, and to strengthen our offer of products and services, we developed a culture of innovation within the company, analyzed megatrends, and developed programs and initiatives for continuous improvement.

Since we started operations, innovation has been part of our DNA. However, it was not until 2007 that we started a formal, methodological process linked to our business strategy: the Axtel Innovation Program. It is based on a **Model of Innovation** with four elements of special note on which we have focused our efforts: Foresight, Innovation HUB, Innsight, and NAVE Accelerator.

AXTEL INNOVATION MODEL

CORE OF OUR INNOVATION PROGRAM

ACHIEVEMENTS OF THE INNOVATION PROGRAM IN 2017

- 40% of our employees participated in the Program, which generated a culture of innovation throughout the company. The contributors fomented ideas or strengthened them on the **Innsight** Platform, participated in strategic initiatives with Design Thinking that were prepared in the **Innovation HUB**, or offered support as mentors within the **NAVE Accelerator.**

- Based on the continuous improvement ideas recorded and implemented on our Innsight platform, we achieved an economic gain for Axtel of 315,000,000 pesos. The ideas generated were 47, which increased EBITDA by 241,000,000 pesos, and 10 ideas contributed 74,000,000 pesos to CAPEX.

- We generated a revenue of about 4,000,000 pesos from **Innovation as a Service**, which includes the components of the Innovation Strategy, the Culture and Tools of Innovation, Strategic Foresight, and the Innovation Platform for our customers; this revenue is used to cover part of the investments in the Innovation program in order to make it self-sustaining.

- The yield of the NAVE Accelerator in 2017 represented more than 3,800,000 pesos in earnings. Furthermore, three new business alliances were formed that will commence in 2018 in topics related to Artificial Intelligence, Big Data, and the Internet of Things.

Innsight. The Innsight Platform is one of the world's main technological tools of innovation adopted by Axtel, which we offer to the Mexican market under the commercial brand Spigit.

We drive incremental innovation through this platform, where we invite employees to participate voluntarily, form multidisciplinary teams, and propose ideas in four areas: expense and cost savings, investment savings, increased revenue and processes with impact for our customers.

When the ideas are consolidated, they are published on the **Innsight Platform**, where a team of expert evaluators, promoters, the innovation committee, and the continuous improvement subcommittee review the proposals to determine which ones will be implemented.

Foresight

Foresight is a methodology we use to define priorities among the different innovation initiatives that we undertake at Axtel. With it, we anticipate change by identifying global technological trends and systematizing future scenarios, allowing us to visualize opportunities to innovate and create value for our stakeholders.

In 2017, as part of our innovation service portfolio, we developed the **Foresight Workshop** in order to build strategic prospect capacities to explore methodology-based opportunities and action-oriented tools.

Additionally, we created the **Foresight Observatory**, an internal intelligence base to become acquainted with and monitor different initiatives worldwide on the megatrends that we at Axtel are exploring: Mobility, Cybersecurity, Internet of Things, Artificial Intelligence, Big Data, and Blockchain.

Axtel Labs, Axtel's technological development team, constantly prototypes and tests these new technologies monitored by Foresight. In 2017, it developed the first prototype of retail Mobility and Artificial Intelligence by integrating elements such as computer vision, recommendation systems, and device detection to explore internal capacities towards these new trends.

Innovation HUB

It is an enabling space exceeding 900 m^2 on the Monterrey Campus of Innovation and Technology (CIT by its name in Spanish) where two centers are housed: Business Innovation, to motivate creativity, cooperation, and generation of ideas; and Technology Innovation, where the ideas are turned into prototypes and solutions that will become part of our portfolio.

In 2017, we received 54 visits from customers to learn about Axtel's Innovation Program, its services, and ways of cooperating; we also held 14

external events such as Lean Startup Week, HUB Nights, Demo Day NAVE, and Semana I del Tec de Monterrey, among others, where customers, universities, foundations, entrepreneurs, technological partners, and other relevant stakeholders in innovation and entrepreneurship participated.

Likewise, we held 35 internal events as training sessions in Design Thinking and other innovation methodologies, idea-building sessions, and workshops. These events reinforce our position as an innovative company that also promotes a culture of innovation among employees, partners, and customers.

In 2017, nine strategic initiatives were developed in multidisciplinary teams using innovation methodologies that resulted in proposals for new working models, new business models, and new processes in areas of impact for the company. These proposals will be implemented in 2018 to generate value for Axtel.

NAVE Accelerator

Just as we encourage internal innovation, we also work on open innovation while connecting with organizations and institutions to obtain inputs from abroad that contribute to the generation of new ideas.

An example of this is the first and only ICT business acceleration program designed and promoted by a Mexican corporation, **NAVE Accelerator**, which was created to promote startups and scaleups related to the mega trends that we are exploring in Axtel: Mobility, Cybersecurity, Internet of Things, Artificial Intelligence, Big Data, and Blockchain.

In 2017, NAVE expanded to Latin America and Asia, with stronger and uniform enrollment requirements. It received more than 150 applications in response to the call for applications, among which six projects were chosen to accelerate (two from Mexico, two from Chile, one from Argentina, and one from Malaysia).

Also, the second edition was completed this year with six accelerated startups, which include three commercial alliances to be formalized in 2018 to contribute to digital transformation:

- **Internet of Things** to contribute to efficiency in the industry.
- **Mobility and Big Data** for detailed knowledge of customers, data segmentation, and improved decision-making.
- **Artificial intelligence** to increase business productivity.

EMPLOYEE WELLBEING

Human Capital. We seek to be an option for professional development for all our employees by contributing to the betterment of their quality of life, promoting personal and professional development through training, fostering work-family balance, and providing suitable workspaces for them to conduct their activities with excellence.

In 2017, the Human Capital area was in charge of consolidating Axtel's new organizational culture, evolving into a more efficient and productive company that attracts and retains talent while also establishing trusting relationships with its stakeholders.

OUR EMPLOYEES

102-7, 102-8, 102-41, 202-1, 401-1, 401-2, 401-3, 405-1

Our workforce consists of 7,044 employees (5,195 men and 1,849 women), 6,472 of whom are permanent employees and 572 are temporary employees.

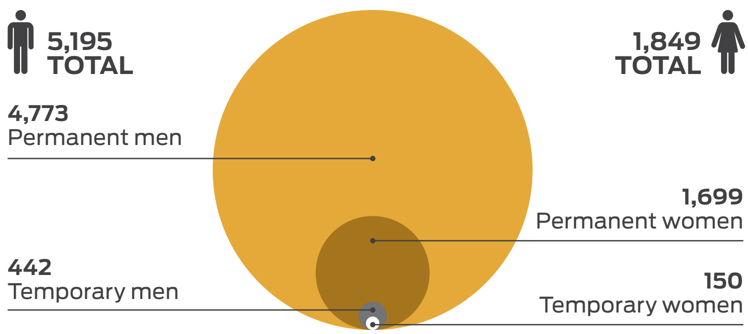
We offer our employees a benefit plan that includes a bonus worth twice the number of days required by law, major medical insurance, life insurance, a savings account, maternity and paternity leave, as well as disability or invalidity coverage as set forth by law. In this respect, in 2017, we provided maternity leave to 138 employees and paternity leave to one, 94% and 100%, respectively, of whom returned to their positions at the end of their leave, and 82% and 100%, respectively, of whom continue to work at Axtel one year after having requested parental leave.

For those employees who are in the company's lower range of salaries, we offer 360% more than what the law sets as the minimum wage in Mexico.

ACHIEVEMENTS IN 2017:

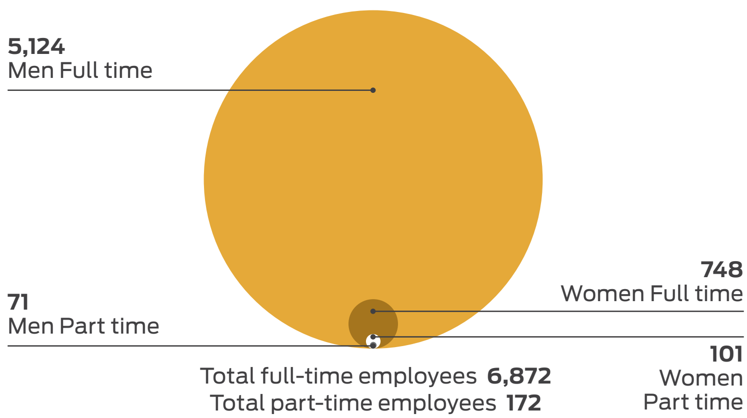
- Payrolls migrated.
- SAP consolidated in a single system.
- All personnel moved from SAL to SAX[1].
- Sales induction program (Welcome Kit) developed.
- All personnel integrated into a single savings system.
- Key and high-potential personnel identified for succession plans.

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER



Total employees on a permanent contract **6,472**
Total employees on a temporary contract **572**

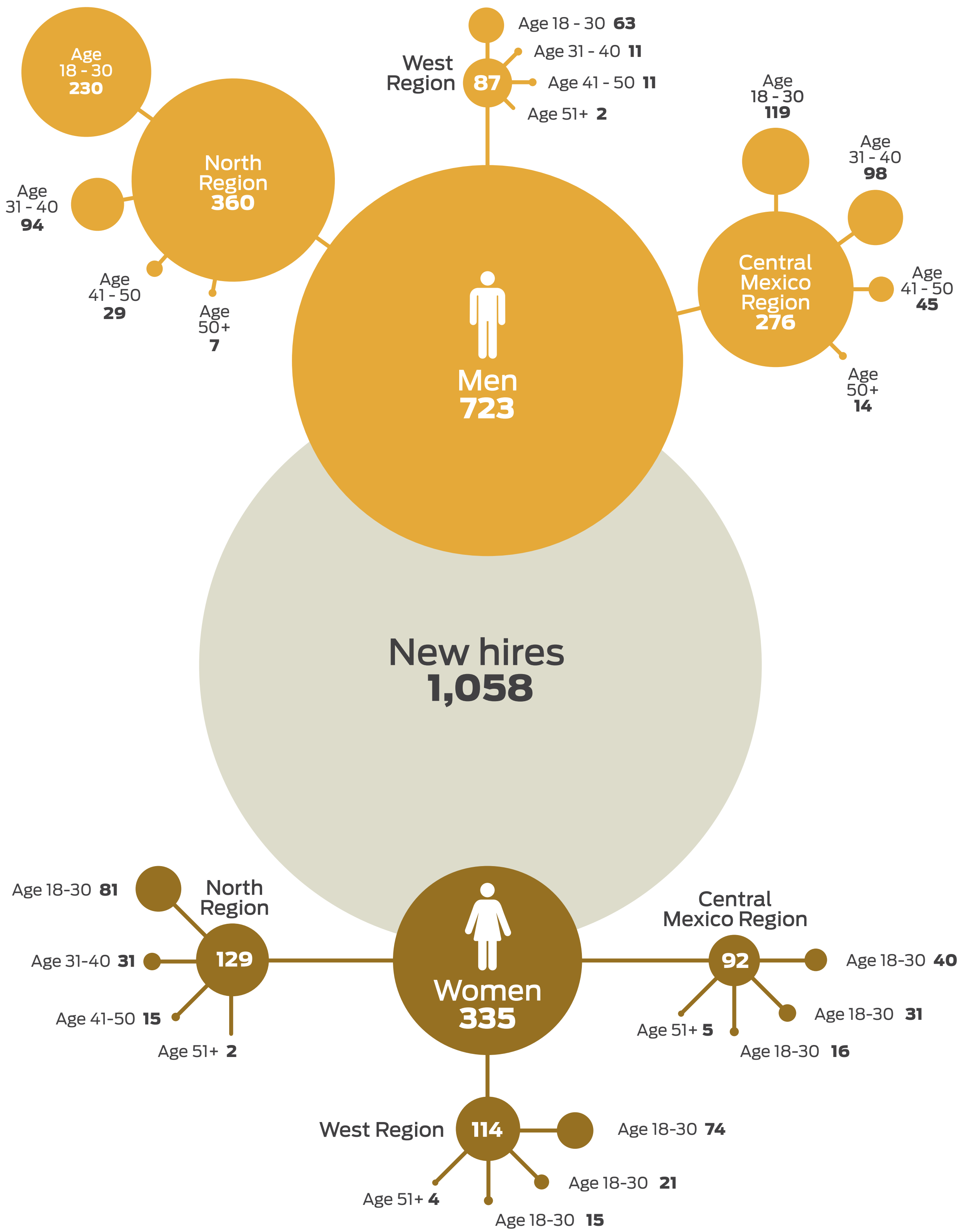
NUMBER OF EMPLOYEES BY WORKDAY AND GENDER



Total full-time employees **6,872**
Total part-time employees **172**

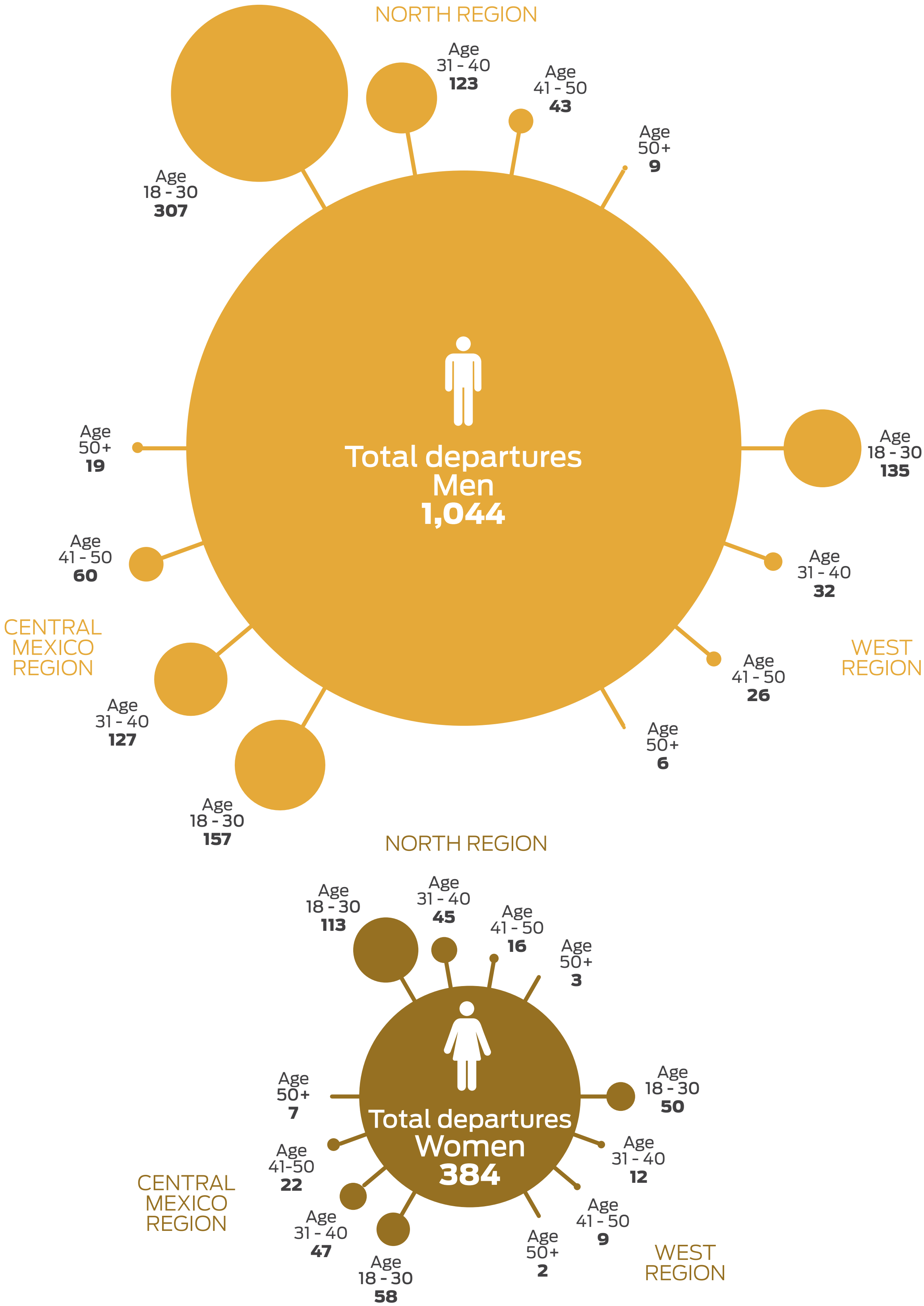
[1]SAL: Servicios Alestra S.A. de C.V., SAX: Servicios Axtel, S.A. de C.V.

NEW HIRES BY REGION, GENDER AND AGE



Of the total new hires, 46% are from the North region, 19% from the West region, and 35% from the Central Mexico region.

TURNOVER RATES BY REGION, GENDER AND AGE



The annual turnover rate in 2017 was 20.2%.

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

Region	Unionized		Non-unionized				TOTAL
	Full time		Part time		Full time		
	Men	Women	Men	Women	Men	Women	
North	298	0	42	64	2,584	1,134	**4,122**
West	195	0	29	37	493	193	**947**
Central Mexico	404	0	0	0	1,150	421	**1,975**
TOTAL	**897**	**0**	**71**	**101**	**4,227**	**1,748**	**7,044**

PERCENTAGE OF EMPLOYEES BY EMPLOYMENT AND DIVERSITY CATEGORIES

Employment Category	Diversity Category					
	Women under 30 years old	Men under 30 years old	Women from 30 to 50 years old	Men from 30 to 50 years old	Women older than 50 years old	Men older than 50 years old
Analysts	0.92%	0.99%	1.79%	3.39%	0.06%	0.18%
Assistants	0.18%	0.00%	0.27%	0.00%	0.03%	0.00%
Directors	0.00%	0.00%	0.03%	0.34%	0.00%	0.16%
Executive Directors	0.00%	0.00%	0.00%	0.04%	0.00%	0.09%
Employees	7.14%	11.88%	12.90%	32.07%	0.81%	2.73%
Managers	0.03%	0.00%	0.24%	1.80%	0.04%	0.33%
Division heads	0.17%	0.26%	1.56%	6.22%	0.04%	0.44%
Mid-Level Managers	0.00%	0.00%	0.03%	0.07%	0.00%	0.03%
Unionized	0.00%	6.35%	0.00%	6.27%	0.00%	0.12%
TOTAL	**8.44%**	**19.48%**	**16.82%**	**50.20%**	**0.98%**	**4.08%**

MANAGEMENT TEAM BY AGE AND GENDER

Age	Executive Directors		Directors		Managers		TOTAL
	Men	Women	Men	Women	Men	Women	
18-30	0	0	0	0	0	2	**2**
31-40	0	0	0	0	23	3	**26**
41-50	3	0	24	2	104	14	**147**
50 +	6	0	11	0	23	3	**43**
TOTAL	**9**	**0**	**35**	**2**	**150**	**22**	**218**

One member of the management team is a foreign national and the rest are Mexican.

EMPLOYEE DEVELOPMENT

103-1, 103-2, 103-3, 404-1, 404-2

We have invested more than 4,000,000 pesos in training our employees.

As we are immersed in a new cycle of digital transformation, it is crucial to have employees capable of dealing with the technological megatrends that are changing how we understand and interact with our environment.

To meet this need for professionalization, we invested 4,328,902 pesos in different options for training for all our employees in organizational culture, onboarding, specializations, leadership, and coaching. Some of the most notable training programs in 2017 were:

- **Axtel DNA** for institutional skills development, which was attended by 7,140 employees.
- **Annual Certification for Working at Heights** for climbing towers, in which 303 engineers participated.
- **Welcome Kit Sales Program** to facilitate new employees' process of assimilating and adapting to their positions within Axtel, which was given to 73 new hires.
- **Transformational Leadership** for the development of leadership skills and emotional intelligence, in which 170 managers participated.
- **From Supervisor to Coach** for the development of coaching skills, in which 83 mid-level managers were certified.

AVERAGE TRAINING HOURS BY EMPLOYMENT CATEGORY

Total male employees	Total training hours	Average training hours per year	Employment category	Total female employees	Total training hours	Average training hours per year
324	4,369	13.48	Analysts	196	2,281	14.70
0	0	0	Assistants	34	463	13.62
35	1,109	31.69	Directors	2	74	37.25
9	56	6.28	Executive Directors	0	0	0
3,315	127,436	38.44	Employees	1,480	48,769	32.95
149	4,440	29.8	Managers	22	585	26.62
489	7,990	16.34	Mid-Level Managers	127	1,993	15.89
922	11,711	12.7	Unionized	0	0	0
5,243	**157,111**	**29.96**	TOTAL	**1,861**	**54,165**	**29.10**

In addition, for employees who retire or have been laid off by the organization, we offer a Development Workshop on Personal Resilience Skills. During the year, we trained five people with the **Grow for the Future** program, which was focused on developing actions that facilitate effective coping and developing a life and career plan.

We are a company that seeks to integrate sustainability and social responsibility throughout all our operations and with the stakeholders with whom we interact, so we invited our employees and their families to participate in **ALFA Sustainability Week**, which takes place every year within the companies of the Group.

This event seeks to disseminate environmental, solidarity-oriented, financial, and socially responsible practices applicable in daily life through messages, posters, social network publications, talks, workshops, and film screenings. In 2017, the event was held nationwide, with approximately 600 attendees in Mexico City, Guadalajara and Monterrey. The following themes were addressed: **green**, in which care for nature was promoted and 300 trees were donated to the participating employees; **health**, in which talks on work stress were given; **sensitivity**, in which the employees were made aware of the experience of living with disabilities; **organic**, in which they had the chance to participate in a Medicinal Garden Workshop; and **popcorn**, in which the documentaries From the Ashes and Before the Flood were shown.

We donated 40 huamúchil trees to the America Institute in Guadalajara as part of ALFA Sustainability Week.

Another activity undertaken for the first time was the **Axtel Summer Camp** in Monterrey, a weekly space for our employees' children between six and 11 years old where they were able to learn and have fun from experts in environment, safety, health, hygiene, citizenship, and social outreach, as well as partake in recreational activities such as music, yoga, dance, and cooking, with a view to instilling in them a responsible culture toward their family, school, and community.

- 47 girls and 45 boys participated.
- 38 employees served as volunteers.
- 40 children and their parents volunteered for the organization *Niños en Acción* and painted fences and a pedestrian crossing on the second Saturday of the camp.

At the end of the camp, we asked our employees to answer a brief survey to determine their opinion of the value of this event:

89%
of respondents said they would probably recommend the Axtel Summer Camp to their peers.

93%
said that their children were very satisfied with the camp.

67%
said that they thought the parent-child activity was excellent.

As in every year, in 2017, we celebrated Family Day with 4,713 employees and 10,183 of their relatives. This event was held nationwide in all the cities where Axtel is present.

We also contributed to the well-being and health of our employees with **sporting activities** that allow them to develop in a healthy manner and come together with their colleagues in healthy coexistence while always keeping in mind the organizational values that define us.

In 2017, we organized two soccer tournaments in which more than 900 employees participated (488 in the opening tournament and 443 in the closing tournament), with an average of 33 teams. We also sponsored t-shirts and the marathon for the Runners Club with 140 participants in Monterrey and 23 in Mexico.

We promote typical Mexican customs, as we consider them an essential part of our culture and traditions. In 2017, we organized two contests, one for *calaveritas* (poetic compositions associated with the Day of the Dead) and another for altars to commemorate the Day of the Dead. The *calaveritas* contest was held in all the areas of Axtel, with 117 participants divided into 39 teams. The *calaveritas* received were published on our internal platform, *Experiencia Axtel.* The altar contest was held in Monterrey, Mexico City, and Guadalajara with 224 participants.

HEALTH AND HYGIENE

403-1, 403-2, 403-3, 403-4

We guarantee that the workspaces and facilities where Axtel's operations are carried out are safe so that our employees, as well as any visitors, can fulfill their tasks without putting themselves at risk.

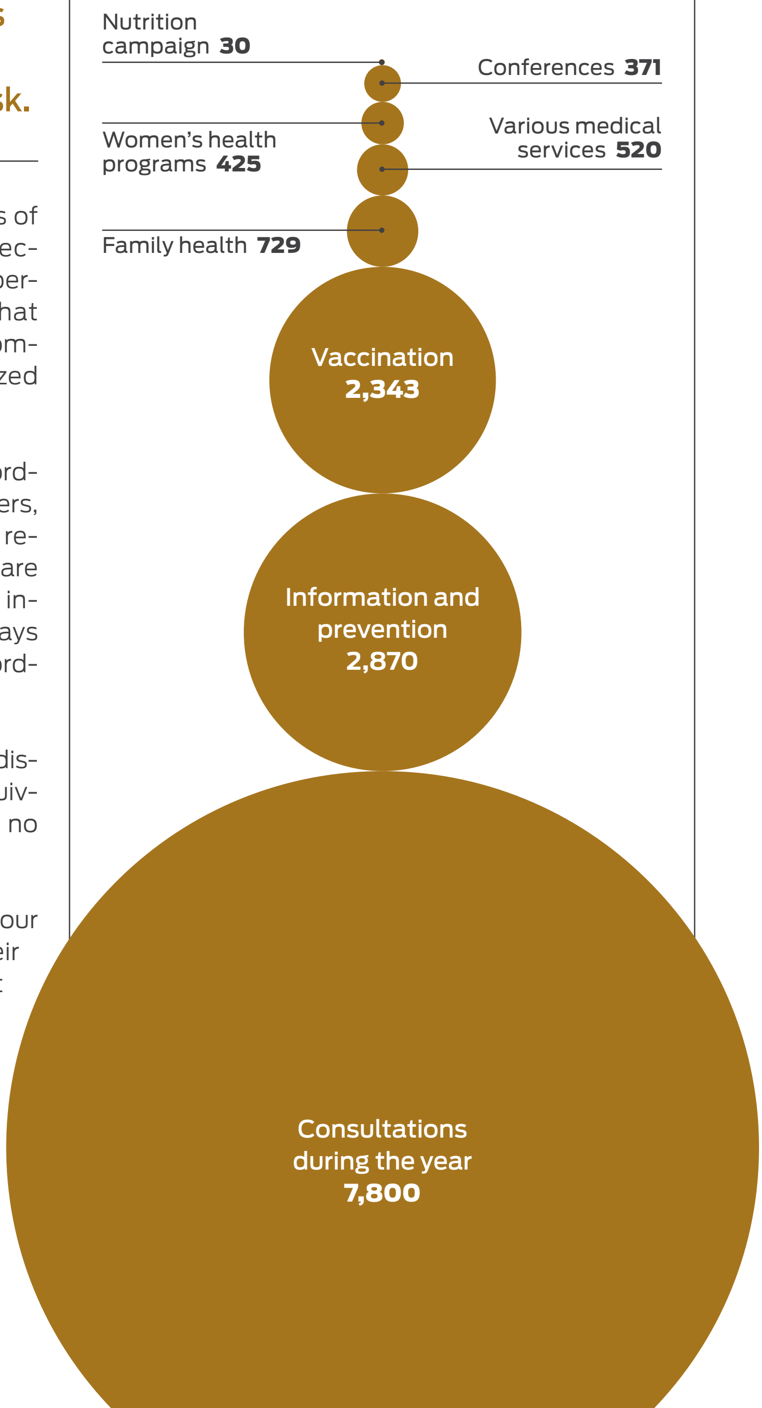
We do this by implementing a series of measures such as physical inspections, audits, training, and use of personal protective equipment in activities that require it, as well as 79 Health and Safety committees that represent 100% of our unionized employees (897 people).

As part of the accident index, in 2017, we recorded a rate of 1.75 accidents for every 100 workers, which is below the national average of 2.17 as recorded the Ministry of Labor and Social Welfare (STPS). Moreover, according to the severity index, the national average is 57 subsidized days for every 100 workers, while the average recorded at Axtel is 40 days.

In 2017, there were no cases of occupational disease; 123 employees had work accidents, equivalent to 23 days lost due to an accident, and no fatalities occurred.

In addition to the actions taken to safeguard our employees' safety, we also take care of their health with our activities and campaigns that promote self-care. One of the areas was the nutrition campaign, for which we implemented 12 programs in 2017 that benefited 5,036 employees, whom we offered guidance on how to maintain a balanced diet and provided information for disease prevention.

PROMOTION OF HEALTH FOR EMPLOYEES AND FAMILY MEMBERS 2017
PARTICIPANTS PER CAMPAIGN



In April, in line with the campaign by the International Labour Organization (ILO) for the 2017 World Day for Safety and Health at Work, we celebrated the **Week of Health, Safety, and Hygiene** in order to put options, tools, and information within the reach of our employees that would help them to prevent emergencies or activities that would represent a risk to their health and physical integrity, as well as to that of their family.

The subjects addressed during this week were first aid to save lives, good posture habits, home firefighting, road safety education, civil defense at home, and a health fair.

The ILO campaign is aligned with Goal 8 of the UN Sustainable Development Goals: decent work and economic growth.

Furthermore, as part of a culture of health and prevention, in May, a group of Axtel employees who have suffered from breast cancer provided their first-hand accounts to raise awareness of the importance of timely detection, treatments, and recovery. These talks were given at the Monterrey buildings. Additionally, we disseminated the **Pink October: Understand to Overcome** campaign during the month of October in order to inform the women and men we employ of the importance of timely detection of breast cancer. With this campaign, we addressed Goal 3 of the UN Sustainable Development Goals: good health and wellbeing.

SOCIAL OUTREACH

413-1

Social and Relational Capital. Through our products and services, the business area of Axtel gives our customers and the communities in which we operate the chance to generate economic development by providing them with access and tools to stay connected and informed.

In addition to this, we remain attentive to the needs of our environment by getting involved in activities and initiatives that go beyond business to contribute to solving problems and generating social value.

The year 2017 was marked by natural disasters that struck Mexico. The most important of these were two earthquakes in September that significantly affected populations in Central Mexico.

In the face of this emergency, we at Axtel held various drives at our centers of operations:

- We commenced the Campaign for Collection of Food Provisions and Hygiene Products at the different Axtel facilities, where are we invited our employees and the general public to deliver foodstuffs, hygiene products, and construction materials based on the lists of the Red Cross, Civil Protection, the Ministry of Social Development (SEDESOL), and the Ministry of the Interior (SEGOB) to send the aid to Chiapas, Oaxaca, Mexico City, Morelos, and Puebla. During the weeks following the disaster, we collected and delivered more than six tons of aid.

- We implemented a transfer operation among the collection centers from Mexico City to Puebla and Morelos, using the Service Delivery trucks to transport approximately two tons of aid.

- After the earthquake of September 19, we launched the **#1pe$ovale2** ("one peso is worth two") campaign as an option for our employees interested in making volunteer contributions to do so through the payroll. For each peso that they donated, ALFA Foundation delivered the same amount to support Axtel employees affected by the earthquakes. The campaign ended on October 21 with the contributions of 854 employees, who managed to raise 470,000 pesos, which were combined with the amount donated by ALFA Foundation for a total of 940,000 pesos. These were distributed among 21 employees.

- We invited employees from Monterrey and any members of their family over 16 years of age to work as volunteers in the Mexican Red Cross facilities, helping to classify and pack the aid received.

- We conducted a social media campaign (through Facebook and Twitter) with the hashtag #AxtelConMexico to disseminate information about the donations that we transported and the opening hours of our collection centers.

We also sought to contribute to the communities near our facilities in an ongoing manner with solidarity-based, humanitarian efforts in which we invited our employees to volunteer.

In December, we ran the **Christmas Campaign 2017, Christmas is Sharing** at all our offices. It involved several drives to raise funds and to collect clothing and toys to be given to children with cancer at Specialty Children's Hospital, Clinic 25, in Monterrey and in the community of El Carmen, Nuevo León, as well as at 21st Century Medical Center in Mexico City.

- **Solidarity Market:** employees were invited to prepare empanadas, sweets, cakes, tacos, and cookies and donate proceeds from the sales. 600 toys were bought with the funds raised.

- **Don't throw it out, donate it:** Axtel employees donated used and new clothing and toys to be given away in the rural communities of El Carmen, Nuevo León.

- **Heart In Motion:** each employee who delivered a new toy was given a heart-shaped anti-stress ball.

- **Take a photo with Santa:** Santa toured our offices for our employees to take a photo with him. The proceeds from photo sales were used to purchase toys.

- **Let's Build a Team:** clothing and toys were delivered by a group of employees on December 16 in the communities of El Carmen and García, Nuevo León, and they delivered new toys to children at Clinic 25 of the Mexican Social Security Institute (IMSS).

- **Draw smiles by donating a toy:** Axtel's Mexico City employees participated in collecting toys that were delivered to the child patients at 21st Century Medical Center on December 15.

Thanks to the efforts and cooperation of 106 of our employees, we managed to collect and deliver 1,093 new toys and 300 used toys, as well as around 80 kilos of clothing in good condition to the marginalized settlements of El Carmen, La Isla, and Arroyo el Obispo in Nuevo León, and to the Children's Oncology patients at IMSS Specialty Clinic 25.

We collected 431 new toys in Mexico City thanks to the support of our employees from all our sites. These were delivered to Children's Oncology patients at the IMSS 21st Century Medical Center.

We also volunteered 736 hours to various initiatives that benefited more than 1,000 people.

Six of the Axtel volunteers also participated by giving classes at the **School for Parents** program of ALFA Foundation Educational Project. This program is focused on parents of high school students, to whom the volunteers promote healthy, comprehensive family development to help them to improve their psychological wellbeing and quality of life.

Activities	Volunteers	Hours volunteered	Beneficiaries
An ALFA Work Day. A group of ALFA high school students visited Axtel's facilities to listen to the heads of different divisions of the company speak about day-to-day work activities.	32	128	111
Bottle Refills. Axtel volunteers worked refilling plastic bottles with sand to be used to build a library at the 1 de Mayo Primary School in Santa Catarina, Nuevo León.	10	40	260
Big Day of Cleaning. Volunteers visited Humberto Lobo Secondary School in Santa Catarina, Nuevo León to perform cleaning and maintenance work in coordination with the Citizens' Educational Alliance for Nuevo León.	9	36	450
Red Cross. To address the needs of the earthquake victims of Mexico City, Puebla, Oaxaca, and Morelos, volunteers visited the headquarters of the Mexican Red Cross in Monterrey to assist in selecting, classifying, and packaging foodstuffs.	25	125	ND
Culture of Legality. The course was given at three elementary schools, one in Guadalajara, another in Culiacán, and a third one in San Nicolas de los Garza, Nuevo León, as well as two middle schools in Santa Catarina, Nuevo León.	31	372	351
A Work Day in Veracruz. A group of students studying engineering visited Axtel's facilities to get to know the technological areas and to acquire a broader vision of their work outlook.	5	20	35
Christmas campaigns for clothing and joy collection and delivery	106	15	ND
TOTAL	**218**	**736**	**1,207**

Since 2010, we have been part of **Red SumaRSE Nuevo León**, an organization with the involvement of 27 Mexican companies with a presence in the state of Nuevo León in which we work with operating partners and government agencies to improve the quality of life of six communities in the municipalities of Santa Catarina, Guadalupe, San Nicolás de los Garza, García, and Monterrey.

We do this by developing citizen skills in self-management for community problem solving and in social prevention of crime and violence.

As part of the 4th Forum on Corporate Social Responsibility held in May 2017 by Fundación del Empresariado Sonorense, Vía Educación and Axtel, along with other representatives of Red SumaRSE Nuevo León, we presented the agenda for continuity of the community involvement model of **Red SumaRSE Nuevo León Initiative 2.0,** a joint global development partnership with the United States Agency for International Development (USAID), which has a five-year duration (2015-2020).

In Initiative 2.0 we shared financial responsibility with USAID and implementation actions to transform communities with Vía Educación.

This model seeks to socially transform six vulnerable communities by implementing 20 participative projects based on a methodology that builds individual and collective capacities for organization, social cohesion, and participation.

Some of the activities that arose from the Initiative included recovery of public space in certain neighborhoods through actions for reforestation, remodeling, artistic recreation, film screenings, and fundraising, as well as social inclusion all the way from elementary schools to elderly care centers.

In 2018, due to the merger with ALFA, we will conduct an analysis and evaluation of the activities undertaken as part of our Social Outreach in order to maximize our impact on society.

ENVIRONMENTAL AWARENESS

103-1, 103-2, 103-3

Natural Capital. An essential component for the sustainability of our business is the conscious, rational, and efficient use of natural resources, as well as the construction of an environmental culture within Axtel and with our stakeholders.

We focus on improving energy efficiency and decreasing water consumption, greenhouse gas emissions, and waste generation.

Our **Environmental Policy**, which isaligned with Axtel's Sustainability Strategy, is the document containing the guidelines to prevent and reduce the environmental impact of our activities. In particular, we have three policies: Waste and Residues, Energy Savings, and Water Consumption, which govern our actions on these matters.

As part of ALFA, we participate in the meetings of the **Environmental Committee**, where matters related to legislation and regulations in force are discussed and reviewed, along with the pro-environment initiatives that we drive within each subsidiary. At the end of each year, the progress and results of the sustainability initiatives undertaken are presented in order to analyze the possibility of replicating them.

ACHIEVEMENTS IN 2017

304-2

- The Querétaro Data Center has received international recognition from the **International Computer Room Experts Association (ICREA)** as one of the best in the world due to having the best practices in operating efficiency and environmental commitment. At Axtel, we continue to drive different medium- and long-term initiatives to help to significantly mitigate the Center's impact and improve the conditions of its surroundings, benefiting the neighboring communities.

- In 2017, as part of our environmental initiatives, the construction of a greenhouse within the facilities of the Querétaro Data Center was planned and developed. Around 950 species native to the region, such as mezquite, cuajiote, burseras, and cardenche, are grown in the greenhouse with the intention of reforesting around 13,500 m^2 in the future. Along with helping to minimize environmental degradation, these actions will promote the involvement of our employees and the community in activities that stimulate their interest in resource conservation.

ENERGY USE

302-1, 302-3, 302-4

As Axtel is an ICT company, energy is indubitably an essential resource to provide the wide range of services and solutions that we offer our customers. In awareness of the global need to be more energy-efficient, along with the need to prioritize the consumption of energy from renewable sources, we are committed to reducing our energy consumption by 2% by 2020 and to using renewable energy whenever possible.

Axtel's **Energy Savings** Policy describes the actions expected from our employees to use electrical energy more efficiently while we also decrease Greenhouse Gas (GHG) emissions.

In 2017, we consumed 185,905 GJ of fuel from mobile sources, stationary sources, and cogeneration sources. With respect to 2016, we recorded a 36% decrease in consumption of mobile sources thanks to fuel savings initiatives and a reduction in the units of our vehicle fleet.

DIRECT CONSUMPTION BY SOURCE (MOBILE AND FIXED)

Type		Liters	GJ
Vehicle fleet (mobile sources	Diesel	66,128	2,476
	Gasoline	3,468,173	120,889
TOTAL		**3,534,301**	**123,365**
Power plants (fixed sources)	Diesel	91,648	3,430
	Gasoline	6,107	212
	LP Gas	9,318	249
TOTAL		**107,073**	**3,891**

DIRECT CONSUMPTION BY SOURCE (COGENERATION)

Type		MWh	GJ
Cogeneration	Natural Gas	16,291	58,649
TOTAL		**16,291**	**58,649**

The increase in the consumption of natural gas with respect to 2016 was generated by the energy demand of a new building.
The data were obtained from the electricity and fuel bills, as well as from the fuel purchase orders for the power plants. Energy from the cogeneration system is recorded independently.

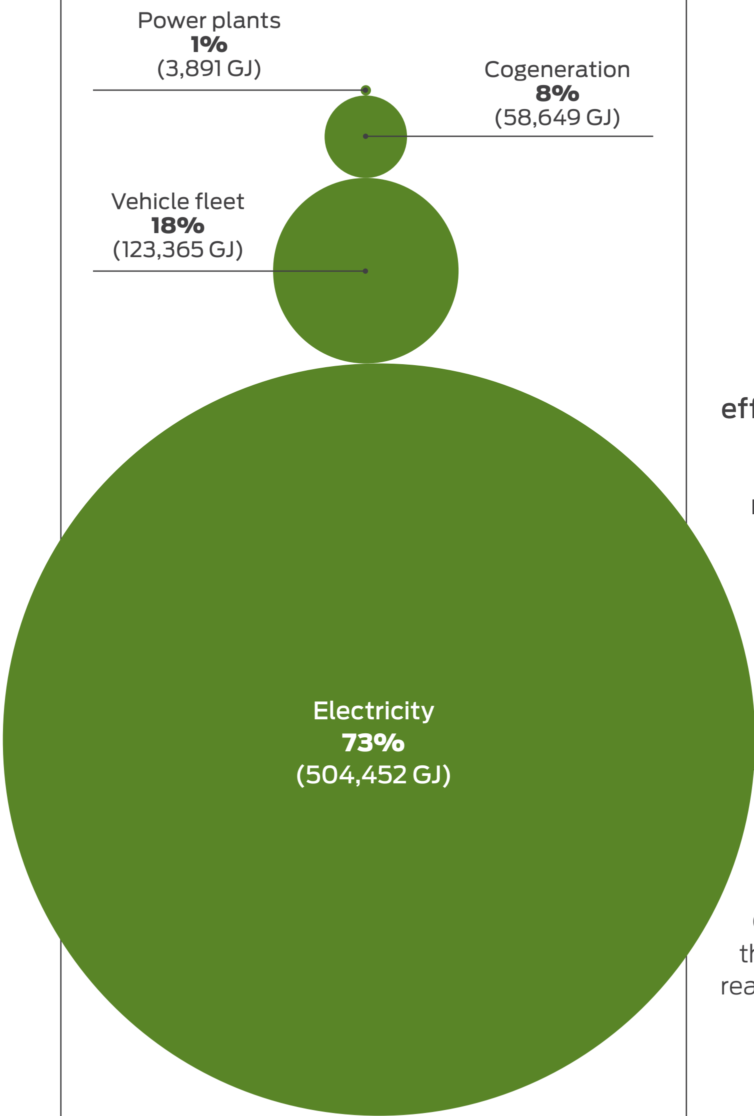
INDIRECT CONSUMPTION BY SOURCE

Type		MWh	GJ
Electricity	Conventional	118,688	427,277
	Wind-generated	20,597	74,150
	Geothermal	840	3,025
TOTAL		**140,125**	**504,452**

2020 COMMITMENT

- Reduce electricity consumption by 2%.
- Reduce vehicle fleet fuel consumption by 5%.

TOTAL ENERGY CONSUMPTION 2017



In November 2017, the Solar Parking Project began at the Querétaro Data Center. It has 90 solar panels that generate 24 kW that supply 10% of the administrative building consumption.

ENERGY INTENSITY[1]

.560 GJ/Subscriber

1,231,879 subscribers

690,357 GJ total consumption

The energy intensity reflects the efficiency in the provision of our services; in 2017, with the use of our vehicle fleet, we provided 572,441 services, representing an efficiency of 1.42 GJ/service with respect to total energy consumption.

[1] The types of energy included are fuel, electricity, heating, and refrigeration, and the parameter used for the calculation was the number of subscribers. The ratio only covers energy consumption within Axtel.

We measure the Energy Efficiency of our Data Centers using Power Usage Effectiveness **(PUE)**, a metric defined by The Green Grid that compares total energy consumed by their operations with the amount that actually reaches the devices.

1.91
Monterrey

1.90
Apodaca

2.02
Guadalajara

2.22
Querétaro

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

Three of our six Data Centers have received awards for their energy efficiency. The Querétaro Data Center is classified as the most efficient in the world according to the ICREA, as it has the best energy and cooling practices, thereby creating a balance between operating efficiency and environmental commitment. Likewise, it along with the Data Center of Apodaca were certified by the Certified Energy Efficient Datacenter Award (CEEDA) for their energy efficiency, sustainability, and underlying performance.

In 2017, the fuel consumption of our vehicle fleet, power plants, and electricity decreased by 10% due to our savings initiatives, facility improvements, and replacement of obsolete equipment.

Source	2016 (GJ)	2017 (GJ)	Progress
Vehicle fleet	192,128	123,365	36% ↑
Power plants	5,128	3,891	24% ↑
Cogeneration	16,830	58,649	248% ↓
Electricity	554,251	504,451	9% ↑
Total energy consumption	**768,337**	**690,356**	**10%** ↑

Notes on the energy consumption calculation:

- The base year we used for the energy consumption calculation was 2016, when Axtel and Alestra were merged.
- All information for the energy calculation was compiled by the company.
- The conversion factors used are those established by the Official Federal Gazette (DOF by its name in Spanish).

GREENHOUSE GAS EMISSIONS

305-1, 305-2, 305-3, 305-4, 305-5

The electric and fuel energy consumed to operate and provide our services releases Greenhouse Gas (GHG) emissions into the atmosphere. Therefore, we undertake various actions and initiatives to mitigate their negative impact.

For the fourth year in a row, we participated in the **Mexican GHG Program**, where we submitted a GHG Protocol Report to the Ministry of Environment and Natural Resources (SEMARNAT) with the measurement of the greenhouse gases we emitted. Additionally, we reported our GHG emissions inventory and the initiatives that we are undertaking to reduce our emissions to the **Carbon Disclosure Project** (CDP) under the categories of climate change and providers, and we reported the performance of our vehicle fleet to the **Clean Transportation Program** of SEMARNAT and the Ministry of Communications and Transportation (SCT).

As we do each year, we measured our direct emissions as Scope 1 emissions, our indirect emissions due to electric consumption as Scope 2 emissions, and our other indirect emissions released outside the organization as Scope 3 emissions.

SCOPE 1[2]

SCOPE 1 EMISSIONS BY SOURCE (MOBILE AND FIXED)

Type		Liters	CO_2	CH_4	N_2O	Tons CO_2e
Vehicle fleet (mobile sources)	Gasoline	3,468,173	8,072	0.30	0.16	8,123
	Diesel	66,128	177	0.00	0.00	177
TOTAL		**3,534,302**	**8,249**	**0.30**	**0.16**	**8,301**
Power plants (fixed sources)	Gasoline	6,107	14	0.00	0.00	14
	Diesel	91,648	245	0.01	0.00	246
	LP Gas	9,318	15	0.00	0.00	15
TOTAL		**107,073**	**274**	**0.01**	**0.00**	**275**

SCOPE 1 EMISSIONS BY SOURCE (COGENERATION)

Type		m^3	CO_2	CH_4	N_2O	Ton CO_2e
Cogeneration	Natural Gas	5,008,724	9,441	0.17	0.02	9,450
TOTAL		**5,008,724**	**9,441**	**0.17**	**0.02**	**9,450**

[2] Scope 1: Emissions from sources that the organization controls.

18,026 tons of CO_2e
Total **Scope 1** emissions

SCOPE 2[3]

As we are committed to being a sustainable company, the energy demand of 3.5% of the buildings that we operate is covered by renewable energy; this is 77 buildings of the 2,143 that make up Axtel.

With this measure, we prevented the emission of 9,818 tons of CO_2e into the atmosphere during this period.

SCOPE 2 EMISSIONS BY TYPE

Type		MWh	Tons CO_2e
Electricity	Conventional	118,688	54,359
	Wind-generated	20,597	-
	Geothermal	840	-
TOTAL		**140,125**	**54,359**

54,359 tons of CO_2e
Total **Scope 2** emissions

Intensity of emissions:

- For every GJ of electricity consumed, 0.106 Tons CO_2e/GJ were emitted and .060 Tons CO_2e/Subscriber were emitted, with a total electric consumption of 73,519 tons of CO_2e and 1,231,879 subscribers for all markets.

SCOPE 3[4]

In 2017, as a result of our environmental awareness campaigns, along with our efforts to decrease operating costs, we succeeded in decreasing executives' trips, thereby reducing CO_2e emissions by 17 tons; this is a 7% decrease with respect to the previous year.

In 2017, our executives made 4,239 business trips, both national and international, which totaled 2,960,042 km and emissions of 508 tons of CO_2e.

In order to improve and specify how we report our information on emissions, as of 2017, we began to count the gas vouchers that we provide to our directors in order to calculate the emissions generated by their usage.

SCOPE 3 EMISSIONS (TRIPS)

Type	Km	Number of trips	Tons CO_2e
National	2,747,950	4,132	508
International	212,092	107	
TOTAL	**2,960,042**	**4,239**	**508**

SCOPE 3 EMISSIONS (GASOLINE VOUCHERS)

	Liters	Tons CO_2e
Gasoline vouchers for directors	269,353	627
TOTAL	**269,353**	**627**

1,135 tons of CO_2e
Total **Scope 2** emissions

[3]Scope 2: Emissions from consumption of acquired energy.
[4]Scope 3: Emissions from organizational activities based on sources that the company neither controls nor possesses.

TOTAL EMISSIONS BY SCOPE

Scope	2016 (Tons CO_2e)	2017 (Tons CO_2e)	Progress
Direct (Scope 1)	14,875	18,026	21% ↓
Indirect (Scope 2)	57,081	54,359	5% ↑
Other indirect (Scope 3)	548	1,135	107% ↓
	72,504	**73,520**	**1%** ↓

The increase in direct emissions was caused by the use of power plants in the new building; in turn, the increase in Scope 3 indirect emissions was because gasoline consumption connected to the vouchers provided to directors was added to the calculation in 2017.

Notes on the emissions calculation:

- The base year we used for the emissions reduction calculation was 2016, when Axtel and Alestra were merged.
- We used the GHG Protocol tool to obtain the emission factors and global warming potentials (GWPs), as well as to calculate the emissions.
- The consolidation approach used for the emissions was operational control.
- To calculate the emissions of the three Scopes (1, 2, and 3), the information was compiled by the company.

WATER CONSUMPTION

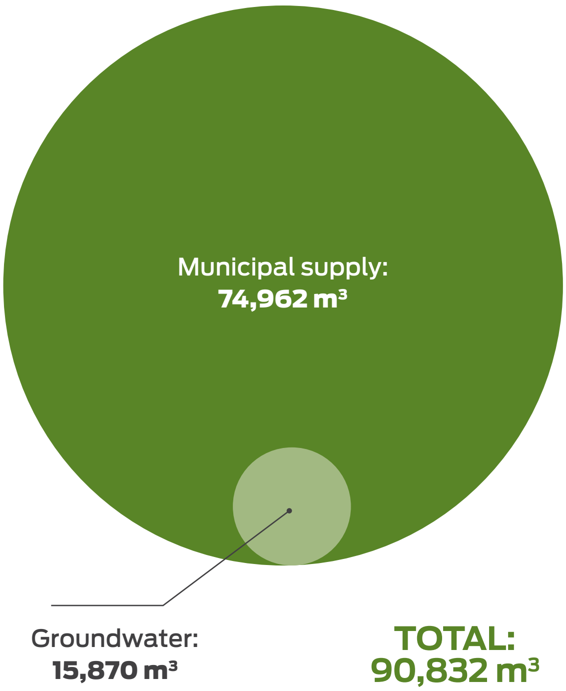
303-1, 303-2, 303-3

Although our business activity does not depend directly on water as an essential supply, as we only use it for sanitation services and to water green areas, we address the global issue surrounding its use through our **Efficient Water Use Policy** with which we promote care and responsible use of water.

At our Data Center in Querétaro, we have a wastewater treatment plant that processes 620 liters per day and purifies 0.48 kg per day of organic matter, consuming 0.13 kWh of energy in the process. Water used for sanitary purposes is filtered to separate out the solids, and the liquid is re-injected into the water canals and into the state drainage system. Because this plant has only been operating for a short time, we are working on measuring the indicators connected with its use, as well as on using the generated bio solids as fertilizer and the treated water for our green areas.

For our operations, the majority of the water we consume comes from the municipal supply and the rest from groundwater.

WATER SUPPLY BY SOURCES



In 2017, we recorded no impacts on water sources based on groundwater consumption at our Campus, which is the only Axtel facility that uses water from the mentioned water source.

WASTE MANAGEMENT AND DISPOSAL

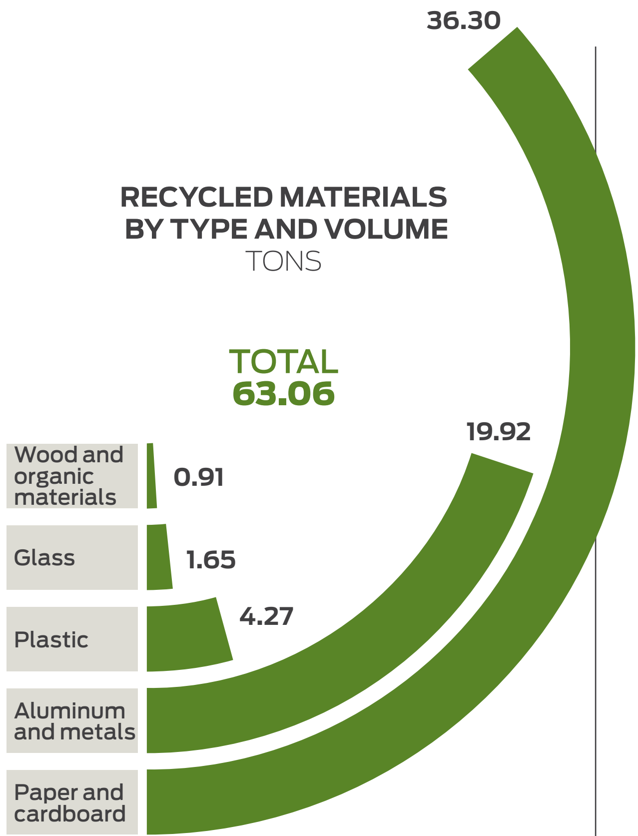
301-2, 301-3, 306-2, 306-4, 307-1

At Axtel, we offer services and technological solutions that are intangible. Therefore, the materials we use are, for the most part, in order to perform the operating functions of the business. With the Recycling Program carried out in the cities where we have the greatest presence, we recycled 63.06 tons of wood, paper, cardboard, glass, metals, and plastic.

We exported 10.19 tons of disused electronic devices and 36.30 tons of scrap batteries for reuse of their components.

In 2015, the **National FTTx Device Recovery Program** began in order to establish strategy to increase recovery of such devices to 90%, thereby prolonging their useful life and helping to decrease use of raw materials and save energy. In 2017, we recovered 32,982 optical network terminals (ONT) and 11,250 set-top boxes (STB), totaling 307,888 devices recovered since the program started.

The cities that participated in the program were Aguascalientes, Mexico City, Ciudad Juárez, Guadalajara, Monterrey, Puebla, San Luis Potosí, and Toluca.



Materials reused (tons)	
Batteries	36.30
Electronic devices	10.19
TOTAL	46.49

National FTTx Device Recovery Program (tons)	
ONT	32,982
STB	11,250
TOTAL	44,232

Due to our area of business, the main waste we regenerate comes from product packaging and the materials we use or our operations, as well as the waste we generate at our workplaces. We attempt to dispose of all hazardous waste, waste requiring special handling, or municipal solid waste in accordance with Mexican Official Standards, environmental legislation in force in Mexico, and with our **Waste and Residue Management Policy.**

In 2017, we generated 2,892 tons of waste, 306 tons of which were hazardous and 7.7 tons of which required special handling, which were sent to Mariano Escobedo Industrial Park in Nuevo León to be properly recycled, contained, or destroyed. During the year, 39 tons of fiber optics were sent to containment.

Likewise, since 2011, we have worked on reducing our consumption of paper via **electronic billing**, an option chosen by an ever increasing number of customers. In 2017, we delivered 3,327,697 electronic invoices, or 10,496 more invoices than in 2016, representing a total of 30.74 tons of unprinted pages or 430 trees saved from felling.

In 2017, we received no fines or non-monetary penalties for non-compliance with environmental standards.

WASTE GENERATED BY TYPE
TONELADAS

Elimination method for total waste (tons)	
Recycling	2,326
Dump	278
Destruction	114
Containment	68
Incineration	49
Reuse	48
Transportation to landfill	10
TOTAL	**2,893**

Our 2020 commitment			
Priority focuses	**What do we expect?**	**What are we doing to achieve it?**	**Progress**
Energy	- Reduce electric consumption by 2%. - Reduce vehicle fleet fuel consumption by 5%.	- Generate energy efficiency initiatives. - Replace obsolete equipment with other new equipment with more efficient technologies. - Improve performance of our vehicle fleet.	- In 2017, we succeeded in reproducing our energy demand by 1%. - As a result of our proposals to improve the performance of our vehicle fleet, we reduced its fuel consumption by 36%.
Emissions	- Reduce greenhouse gas emissions arising from our operations by 15%.	- Use renewable energy sources (wind, geothermal, and solar energy). - Generate energy with an efficient cogeneration system. - Have the best technologies currently available.	- This year, we prevented the emission of 9,818 tons of CO_2e by consuming wind and geothermal energy in more than 70 buildings. - We emitted 428.29 tons of CO_2e due to the increased energy Supply at our data centers to improve service for our customers.
Waste	- Recycle 10% of the waste generated.	- Promote a nationwide recycling program.	- 80% of the waste generated in our main cities of operation were sent to be recycled.
Water	- Reduce water consumption in our buildings by 2%.	- Measure water use to identify areas of improvement and implement savings measures.	- In 2017, we decrease our consumption by 18% and we will continue to promote actions for care of water.
Environmental culture	- Raise environmental awareness among our stakeholders.	- Disseminate information connected with environmental subjects both internally and externally.	- Through the activities undertaken during Axtel Sustainability Week, we made an impact on the attendees' awareness of the importance of natural resources and climate change.

PERSPECTIVA FINANCIERA

102-7, 103-1, 103-2, 103-3, 201-1

Financial Capital. At Axtel, we manage our resources, including economic and financial resources, in an honest, efficient, and balanced way in order to attract new business opportunities and drive growth in the markets we serve.

One year since the merger, we have successfully improved some business systems, met the needs of our customers, and made important changes that, taken together, have benefited the company and our stakeholders.

In 2017, we recorded a gross profit of 11,566,000,000 pesos, which is 3% higher than that of 2016. Our EBITDA was 5,451,000,000 pesos, representing growth of 48% with respect to 2016.

In the business market, we reported a revenue of 9,945,000,000 pesos. Additionally, we recorded a revenue of 2,571,000,000 pesos in the government market. These figures represent growth of 13% and 27%, respectively, in relation to 2016. In turn, in the mass market segment, we generated 2,996,000,000 pesos, or 5% less than in the previous year.

We totaled 1,321,879 Revenue Generating Units (RGUs)1 by the end of December 2017. We invested more than $51,000,000 USD in capacity-building projects for the mass, business, and government markets, as well as in strategic projects such as ALTÁN.

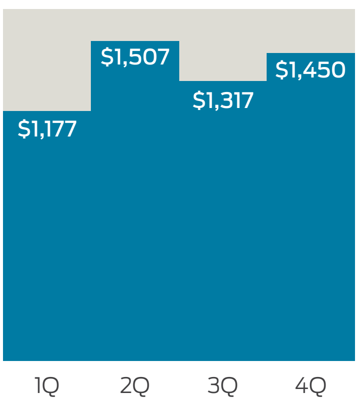
[1] RGUs: The sum of voice lines, broadband Internet subscribers, and video subscribers who generate recurring revenue for the company.

RELEVANT DATA

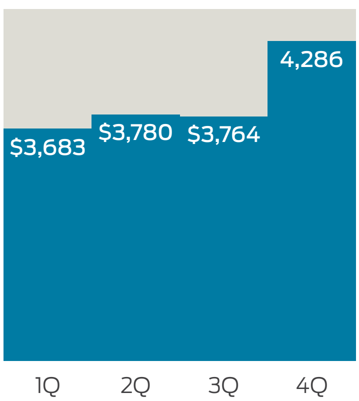
Results (millions of pesos)	2014	2015	2016	2017
Revenue	10,597	10,150	13,937	**15,513**
(Loss) Operating income	-500	589	-209	**1,406**
(Loss) Net income	-1,919	-1,732	-3,599	**62**
Financial situation (millions of pesos)				
Total assets	20,985	22,199	32,176	**30,754**
Total liabilities	15,279	18,326	29,775	**28,261**
Shareholders' equity	5,706	3,873	2,400	**2,492**
EBITDA (millions of pesos)				
EBITDA*	2,935	3,208	3,673	**5,451**
Indicators				
EBITDA / Revenues	27.6%	31.6%	26.4%	**35.1%**
(Loss) Operating income / Revenues	-4.7%	5.8%	-1.5%	**9.1%**
(Loss) Net income / Revenues	-18.1%	-17.1%	-25.8%	**0.4%**
Interest coverage	3.4	2.7	2.0	**3.3**
Liabilities / Shareholders' equity	2.7	4.7	12.4	**11.3**
Total staff	6,900	7,001	7,584	**7,044**

*The EBITDA without expenses related to the merger was 4,511,000,000 pesos and 3,512,000,000 pesos for 2016 and 2015, respectively. The EBITDA of 2013 does not include the extraordinary revenue of 3,112,000,000 pesos related to the sale of telecommunication towers.

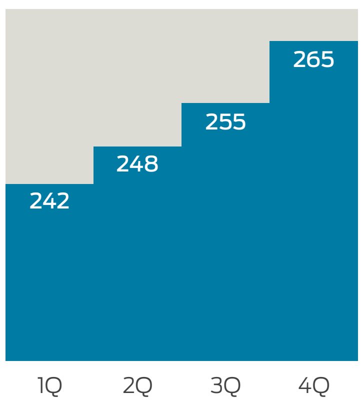
QUARTERLY EBITDA
MILLION PESOS



QUARTERLY SALES
MILLION PESOS



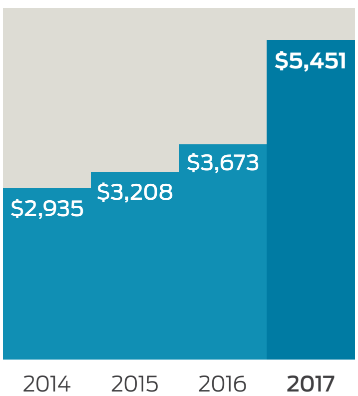
QUARTERLY FTTx BROADBAND SUBSCRIBERS
(THOUSANDS) RGUs



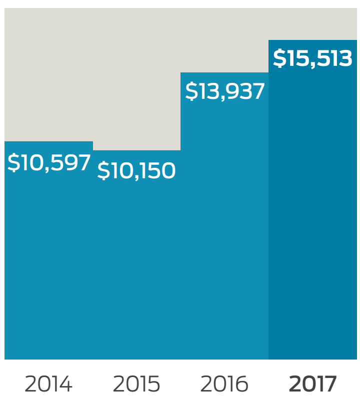
ECONOMIC PERFORMANCE
REPORTED UNDER MEXICAN FINANCIAL REPORTING STANDARDS
MILLION MEXICAN PESOS

Item		2014	2015	2016	2017
Economic Value Generated (EVG)	Income	10,597	10,150	13,937	**15,513**
	Interest income	17	37	24	**57**
	Other income		0		**841**
GEV		10,614	10,187	13,961	**16,411**
Distributed Economic Value (DEV)	Operating costs	-3,097	-1,766	-2,748	**-3,947**
	Acquired services (outsourcing)	-400	-416	-421	**-380**
	Social benefits (payroll and derivatives)	-1,839	-1,939	-3,226	**-3,353**
	Paid taxes	-52	-86	-234	**-66**
	Fund payment to suppliers	-720	-1,165	-712	**-710**
	Community investments (donations)	-13	-12	-1	**-4**
	Other expenses	-88	-437	-838	**-311**
DEV		-6,209	-5,821	-8,180	**-8,772**
Retained economic value	Economic Value Generated (-)	4,405	4,366	5,781	**7,639**

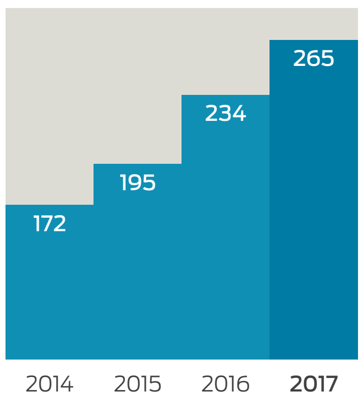
ANNUAL EBITDA
MILLION PESOS



ANNUAL SALES
MILLION PESOS



ANNUAL FTTx BROADBAND SUBSCRIBERS
(THOUSANDS) RGUs



* Without including any extraordinary expenses related to the merger, the EBITDA was 4,511 million pesos for 2016 and 3,512 million pesos for 2015.

REPORT PARAMETERS

102-10, 102-48, 102-49, 102-50, 102-51, 102-52, 102-54, 102-56

As we do every year, through the Axtel 2017 Integrated Annual Report, we ratified our commitment to our stakeholders to transparently report the results we obtained during the year on matters of economy, labor, corporate governance, environment, and finance.

The information presented pertains to the period from January 1 to December 31, 2017. During this period, we carried out a new materiality exercise, so the list and coverage of Axtel's material issues were updated with respect to the previous period, without this entailing significant changes in our manner or methodology of reporting.

The Report does not include information from other entities, companies, or institutions, or from shareholders, customers, or business partners. The important organizational changes during this period are specified throughout the report.

For the first time, the new methodology of the Global Reporting Initiative Standards has been used. This report has been prepared in accordance with the GRI Standards: Core Option.

This document was verified by e3 Consultora Ambiental, an entity unattached to Axtel whose verification letter is attached to this Report.

MANAGEMENT'S DISCUSSION AND ANALYSIS ON THE COMPANY'S OPERATING RESULTS AND FINANCIAL SITUATION

Operating results for the years ended December 31, 2017 and December 31, 2016

The figures include Alestra as of February 15, 2016. However, to explain variations, reference is made to pro forma figures for 2016, which include Alestra's results as of January 1, 2016. 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, 2017, total revenues were Ps. 15,513 million, compared to Ps. 13,937 million in the same period of 2016, an increase of Ps. 1,576 million or 11%. Revenues for 2017 increased Ps. 795 million or 5% compared to pro forma 2016 revenues of Ps. 14,718 million, mainly explained by an 8% increase in Enterprise and Government segment revenues.

The revenues of the Company come from the following segments:

Enterprise. For the year 2017, revenues amounted to Ps. 9,945 million, compared to Ps. 8,784 million in 2016, an increase of 13%. Revenues in 2017 were 5% higher than Ps. 9,508 million in 2016 pro forma derived from a 2% and 25% increase in Telecom and IT services, respectively.

Enterprise Telecom. For the year 2017, revenues amounted to Ps. 8,822 million, compared to Ps. 7,980 million in 2016, an 11% increase. Revenues in 2017 rose 2% compared to Ps. 8,611 million in 2016 pro forma due to increases in Data and Internet and Managed Networks revenues, partially mitigated by a decrease of 13% from Voice revenues due to a decrease in fixed to mobile revenues and 800s number and international traffic. Data and Internet revenues increased 12% due to the growing demand for dedicated internet from existing customers. Revenues from Managed Networks increased 7% due to the impressive performance of Ethernet revenue.

Enterprise IT. For the year 2017, revenues from the IT segment totaled Ps. 1,123 million, compared to Ps. 804 million in 2016, a 40% increase. Revenues in 2017 increased 25% compared to Ps. 897 million in 2016 pro forma, driven by growth in systems integration, hosting, cloud services and security.

Government. Revenues for 2017 totaled Ps. 2,571 million, compared to Ps. 2,024 million in 2016, an increase of 27%. Revenues in 2017 increased 24% compared to Ps. 2,080 million in pro forma 2016.

Telecom Government. For the year 2017, revenues amounted to Ps. 1,593 million, compared to Ps. 923 million in 2016, an increase of 73%. Revenues in 2017 were 70% higher than Ps. 937 million in 2016 pro forma mainly due to an increase in revenues from Managed Networks. Voice revenues increased 7% due to an increase in rents mitigated by drops in revenue from fixed to mobile and 800 numbers. Data and Internet revenues increased 5% due to growing demand for dedicated internet. Revenues from Managed Networks increased 147% due to the good performance of VPN sales and extraordinary revenues from managed services registered during the last quarter in 2017.

IT Government. For the year 2017, revenues from the IT segment totaled Ps. 979 million, compared to Ps. 1,101 million in 2016, an 11% decrease. Revenues in 2017 were 14% lower than the Ps. 1,143 million in proforma 2016, due to a 42% decrease in system integration due to a strong level of equipment sales in 2016 that was not repeated in 2017.

Mass Market. Revenues decreased 5% to Ps. 2,996 million in 2017 compared to Ps. 3,130 million in 2016.

FTTx. Income from FTTx totaled Ps. 2,245 million in 2017, compared to Ps. 1,959 million in 2016, representing an increase of 15% in line with the 13% increase in customers. Voice revenues rose 14% due to a 19% increase in monthly income mitigated by a drop in fixed to mobile revenues. Internet revenues rose 14% due to the increase in subscribers and video revenues rose 7% even with the 2% decrease in subscribers.

Wireless Technologies. Income totaled Ps. 751 million in 2017, compared to Ps. 1,170 million in 2016, a decrease of 36% compared to a reduction of 44% in customers.

Mass Market Operating Metrics

Customers. As of December 31, 2017, the number of customers reached 379 thousand, a decrease of 62 thousand during the year due to the continuous fall of customers with wireless technologies. The ARPU for FTTx and Wireless clients was Ps. 768 and Ps. 440, respectively, at the end of 2017.

RGUs. As of December 31, 2017, RGUs (Revenue Generating Units) amounted to 946 thousand. During 2017, there were 87 thousand net disconnections, compared with 73 thousand net disconnections in 2016.

Voice RGUs (Lines in Service). As of December 31, 2017, the lines in service totaled 461 thousand, made up of 332 thousand of the FTTx segment and 129 thousand of the wireless segment. During 2017 the lines decreased 47 thousand compared to 60 thousand the previous year, due to the continuous decline of wireless subscribers.

Broadband RGUs (Subscribers). Broadband subscribers decreased 9% year-on-year by a total of 363 thousand as of December 31, 2017. During 2017, broadband subscribers decreased by 37 thousand compared to 29 thousand in the same period of 2016 due to continuous disconnections of wireless subscribers and the increase in net additions in FTTx during the year. As of December 31, 2017, total wireless subscribers reached 98 thousand, compared to 167 thousand a year ago, while subscribers of AXTEL X-tremo, or FTTx, rose to 265 thousand compared to 234 thousand against last year. Broadband penetration maintained at 79% for years 2016 and 2017.

Video RGU's (Subscribers). As of December 31, 2017, video subscribers reached 122 thousand compared to 124 thousand the previous year, a decrease of 2%. Video penetration within the FTTx subscriber base was 46% at the end of 2017 compared to 53% at the end of 2016.

Cost of Revenues, Expenses, EBITDA and Operating Profit

Cost of Revenues. For the year 2017, cost of sales represented Ps. 3,947 million, an increase of 44% or Ps. 1,200 million, compared to Ps. 2,748 million in 2016. The cost in 2017 represented an increase of 35% compared to Ps. 2,933 million in 2016 pro forma mainly due to rises in costs of the Government sector related to an increase in non-recurrent costs in Telecom services. Telecom costs increased 53% mainly due to a rise in managed networks associated with the higher revenue level. IT costs rose 5% and the Mass Market costs increased 16% due to a non-recurrent benefit from the voice costs in 2016. Additionally, as part of the merger of accounting policies between Axtel and Alestra, costs that were previously registered as expenses related to billing, collection and maintenance directly associated with customers were recorded as costs as of 2017. This adjustment represents an increase of Ps. 424 million in 2017.

Gross profit. Gross profit is defined as income minus cost of sales. For the year 2017, gross profit represented Ps. 11,566 million, 3% higher than in 2016. Gross profit in 2017 decreased 2% compared to Ps. 11,785 million in 2016 pro forma, due to the sharp fall in revenues and, the contribution margin of the Government and Mass market segments partially mitigated by growth in the Enterprise segment. The gross profit margin fell from 80.1% to 74.6% year-on-year, mainly due to the increase in non-recurrent revenues or extraordinary projects, such as the sale of equipment, which have lower margins, in both the Enterprise and Government segments.

Operating expenses. For the year 2017, operating expenses amounted to Ps. 6,645 million, similar to the Ps. 6,667 million recorded in 2016. Operating expenses in 2017 decreased 5% compared to Ps. 6,984 million in 2016 pro forma, due to decreases in outsourcing and maintenance derived from the synergies of the merger.

Other income (expenses). For the year 2017, other income represented Ps. 530 million, compared to other expenses of Ps. 850 million in 2016 or Ps. 852 million in pro forma 2016. The 2017 figure includes an extraordinary income of Ps. 820 million related to the tower sale to MATC Digital, a subsidiary of American Tower Corporation. Additionally, the figures include extraordinary expenses related to the merger of Ps. 429 million in 2017 and Ps. 838 million in 2016.

EBITDA. The EBITDA defined as operating income plus depreciation and amortization and impairment of assets amounted to Ps. 5,451 million, 48% higher compared to Ps. 3,673 million in 2016. The EBITDA in 2017 registered a rise of 38% compared to Ps. 3,949 million in pro forma 2016. Excluding merger-related expenses and tower sale related income, EBITDA was Ps. 5,060 million for 2017 and Ps. 4,786 million for pro forma 2016, an increase of 6%, resulting from the 5% decrease in operating expenses, mitigated by a 2% decrease in contribution margin.

Depreciation, Amortization and Impairment of Assets. The depreciation and amortization for 2017 was Ps. 4,046 million, compared to Ps. 3,882 million in 2016. Pro forma, it decreased Ps. 34 million or 1%, which corresponds mainly to the decrease in depreciation and amortization of Ps. 76 million, mitigated by an increase of Ps. 41 million in impairment of fixed assets.

Operating Income (Loss). For 2017, the Company recorded an operating income of Ps. 1,406 million compared to an operating loss of Ps. 209 million for 2016. Pro forma, operating loss was Ps. 62 million in 2016, representing an increase of Ps. 1,468 million mainly due the non-recurring income from the tower sale in 2017 and lower merger related expenses.

Comprehensive Financial Result, net

The comprehensive financial cost reached Ps. 915 million in 2017, compared to a cost of Ps. 4,856 million in 2016 or Ps. 5,164 million in 2016 pro forma. The decrease is explained by an exchange rate gain during 2017 compared to a loss during 2016, and by less interest expense in 2017 due to the premium paid during the first quarter of 2016 related to the prepayment of the Senior Notes.

Taxes

During 2017 the income tax was Ps. 428 million, compared to a benefit of Ps. 1,472 million the previous year. Pro forma, the income tax was a benefit of Ps. 1,541 million in 2016. This variation is due to a tax profit generated in the year 2017 derived mainly from a positive effect on the exchange rate compared to a deferred tax benefit in 2016 derived from the tax loss generated in the year 2016, which originated mostly because of the negative effect on the exchange rate and the financial expenses of the company.

Net Income (Loss)

The Company recorded a net income of Ps. 62 million in 2017, compared to a net loss of Ps. 3,599 million recorded in 2016 or a net loss of Ps. 3,691 million pro forma. The positive variation of Ps. 3,753 million from 2016 to 2017 is explained by the variations indicated above, mainly the other income / expenses and the exchange effect.

Capital Investments

For the twelve-month period ended December 31, 2017, capital investment amounted to Ps. 2,954 million, compared to Ps. 3,186 million in 2016, a 7% decrease.

Financial Position as of December 31, 2017 and as of December 31, 2016.

Assets

As of December 31, 2017, total assets totaled Ps. 30,754 million compared to Ps. 32,176 million as of December 31, 2016, a decrease of Ps. 1,422 million, or 4%.

Cash and cash equivalents. As of December 31, 2017, cash and cash equivalents totaled Ps. 1,258 million compared to Ps. 1,447 million as of December 31, 2016, a decrease of Ps. 189 million, or 13%.

Accounts Receivable. As of December 31, 2017, accounts receivable amounted to Ps. 2,680 million compared to Ps. 3,129 million as of December 31, 2016, a decrease of Ps. 449 million or 14%.

Property, systems and equipment, net. As of December 31, 2017, property, plant and equipment, net, were Ps. 19,276 million compared to Ps. 19,619 million as of December 31, 2016, a decrease of Ps. 344 million or 2%. Property, plant and equipment without deducting accumulated depreciation amounted to Ps. 66,599 million and Ps. 63,634 million as of December 31, 2017, and 2016, respectively.

Liabilities

As of December 31, 2017, total liabilities amounted to Ps. 28,261 million compared to Ps. 29,775 million as of December 31, 2016, a decrease of Ps. 1,514 million or 5%, mainly due to the 5% appreciation of the peso which decreases the amount in pesos of the debt denominated in dollars and also due to amortizations of debt.

Accounts Payable and Accrued Expenses. As of December 31, 2017, the accounts payable and accumulated liabilities amounted to Ps. 3,881 million compared to Ps. 3,183 million as of December 31, 2016, an increase of Ps. 698 million, or 22%.

Debt. As of December 31, 2017, total debt decreased Ps. 1,074 million compared to 2016, mainly explained by (i) an increase of Ps. 10,332 million related to the bond due in 2024; (ii) a fall of Ps. 10,483 million in bank loans related to the prepayment of the syndicated loan; (iii) a fall of Ps. 289 million in other loans and leases; (iv) an increase in accrued interest of Ps. 13 million; and (v) an accounting decrease of Ps. 647 million caused by the appreciation of 5% of the Peso against the dollar.

Stockholders' Equity

As of December 31, 2017, the Company's stockholders' equity totaled Ps. 2,492 million compared to Ps. 2,400 million as of December 31, 2016, an increase of Ps. 92 million, or 4%. The capital stock was recorded in Ps. 464 million as of December 31, 2017, and Ps. 10,234 million as of December 31, 2016, a decrease of Ps. 9,769 this is since the shareholders of the Company, at the Extraordinary General Meeting held on March 10, 2017, decided to reduce the capital stock by Ps. 9,868 million, in order to partially absorb the negative balance of the account called "Earnings from Previous Years".

Cash flow

As of December 31, 2017, and 2016, cash flow from operating activities was Ps. 4,395 million and Ps. 3,898 million, respectively.

At December 31, 2017, the cash flow (used in) generated by investment activities was Ps. (2,307) million, compared to Ps. (3,527) million in the same period of 2016. The amounts above reflect investments in property, plant and equipment for the amounts of Ps. 2,954 million and Ps. 3,186 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, the cash flow (used in) generated by financing activities was Ps. (2,347) million, compared to Ps. (1,675) million in 2016.

As of December 31, 2017, the net debt to EBITDA ratio and the interest coverage ratio of the Company both stood at 3.4x. Excluding the expenses derived from the merger and the profit from the sale of the towers, the net debt to EBITDA ratio and the interest coverage ratio of the Company were 3.6x and 3.2x, respectively. Also, as of December 31, 2016, the ratios of net debt to EBITDA and interest coverage were 4.6x and 2.1x, respectively. Excluding the expenses derived from the merger, the net debt to EBITDA and the interest coverage ratio of the Company were 3.8x and 2.5x, respectively.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF AXTEL, S. A. B. DE C. V.

Opinion

We have audited the consolidated financial statements of Axtel, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and its consolidated financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter

The Company's consolidated financial statements for the year ended December 31, 2016, have been audited by other auditors, who expressed an unqualified opinion on February 21, 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

Assessment of impairment of long-lived assets and goodwill

As described in Note 3 k) and 11 to the consolidated financial statements, the Company performs annual impairment tests to the balance of goodwill, intangible assets with an indefinite useful life and of the property, plant and equipment.

Mainly due to the importance of the goodwill and intangible assets balances in the consolidated financial statements of the Company, which consist of $1,509 million, as well as the property, plant and equipment balance of $19,276 million, and because impairment tests involve the application of significant judgments by the Company's management in determining the assumptions related to the estimation of the recoverable value of its cash generating units ("CGUs").

As part of our audit, we focused our tests on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of goodwill, intangible assets and properties, plant and equipment: long-term growth rate of the industry, discount rate, estimated revenues from different segments, expected gross and operating profit margin. With support from our expert appraisers, our procedures, among others, included:

- We reviewed the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.

- We performed tests on the completeness, accuracy and reasonableness of financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including timely monitoring and analysis by the Board of Directors.

- We analyzed the significant assumptions used in the model for calculating the recoverable value of CGUs compared to those commonly used in the industry in which the Company operates, including the long-term growth rate, gross and operating margins and the discount rate determined based on comparable companies in the industry.

- Independent assessment of discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model and the book value of CGUs.

- To determine the CGUs, we considered the Company's operating cash flows, synergies that have been generated in the business, the market segments where they operate and the different lines of goods and services that they offer their clients.

- We discussed with management the sensitivity calculations for all CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

The results of our procedures were satisfactory, and we believe the assumptions used by management in the impairment test, are reasonable.

Assessment of the recoverability of deferred income tax assets

The Company records deferred income tax assets derived from tax losses. Management performed an assessment of the probability of recovering the tax losses carryforward to support the deferred tax assets recognized on its consolidated financial statements.

Due to the significance of the deferred income tax asset balance as of December 31, 2017 amounting to $3,748 million, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item and performed, among others, the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We reviewed the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with management.
- With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by management in preparing tax projections.

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure are included in Notes 3 p) and 18, respectively, to the accompanying consolidated financial statements.

Information other than the Consolidated Financial Statements and Auditor's Report thereon

Management is responsible for the other information presented. The other information includes two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those charged with governance in the Company.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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.

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 either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities 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 misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control 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's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and 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 exists, 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 a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Member of Deloitte Touche Tohmatsu Limited

C. P. C. Héctor García Garza
Monterrey, Nuevo León México
January 31, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016
Thousands of Mexican pesos

	Note	2017	2016
ASSETS			
Current assets:			
Cash and cash equivalents	6	$ 1,257,803	$ 1,447,118
Trade and other accounts receivable, net	8	3,544,102	4,066,826
Inventories	9	188,885	109,388
Financial instruments	4	164,278	152,978
Prepayments		485,732	517,455
Derivative financial instruments	4	61,913	-
Total current assets		**5,702,713**	**6,293,765**
Non-current assets:			
Restricted cash	7	161,955	153,040
Non-current accounts receivable	8	-	8,642
Property, plant and equipment, net	10	19,275,810	19,619,451
Goodwill and intangible assets, net	11	1,508,512	1,838,727
Deferred income taxes	18	3,747,711	4,056,773
Other non-current assets	12	357,073	205,305
Total non-current assets		**25,051,061**	**25,881,938**
Total assets		**$30,753,774**	**$32,175,703**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Debt	16	$1,378,934	$1,028,588
Trade and other accounts payable	13	6,095,724	5,645,436
Provisions	14	117,908	129,647
Deferred income	15	312,121	1,022,605
Total current liabilities		**7,904,687**	**7,826,276**
Non-current liabilities:			
Debt	16	19,043,736	20,485,861
Other non-current accounts payable	13	713,602	985,975
Employee benefits	17	588,696	467,036
Deferred income taxes	18	10,648	10,318
Total non-current liabilities		**20,356,682**	**21,949,190**
Total liabilities		**28,261,369**	**29,775,466**
SHAREHOLDERS' EQUITY:			
Controlling interest:			
Capital stock	19	464,368	10,233,841
Additional paid-in capital		159,551	644,710
Retained earnings (accumulated deficit)		1,863,294	(8,484,717)
Other reserves		5,186	6,398
Total controlling interest		2,492,399	2,400,232
Non-controlling interest		6	5
Total shareholders' equity		**2,492,405**	**2,400,237**
Total liabilities and shareholders' equity		**$30,753,774**	**$32,175,703**

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

CONSOLIDATED STATEMENTS OF INCOME
For the years ended December 31, 2017 and 2016
Thousands of Mexican pesos

	Note	2017	2016
Revenues		$15,513,090	$13,937,320
Cost of sales		(7,403,603)	(5,944,104)
Gross profit		8,109,487	7,993,216
Administration and selling expenses		(7,222,132)	(7,364,867)
Other income (expenses), net	21	518,298	(837,729)
Operating income (loss)		1,405,653	(209,380)
Financial income	22	56,698	24,381
Financial expenses	22	(1,647,027)	(2,102,100)
Exchange fluctuation gain (loss), net	22	648,280	(2,778,680)
Gain on changes in fair value of financial instruments		27,052	-
Financial result, net		**(914,997)**	**(4,856,399)**
Equity in income of associates recognized using the equity method		-	(5,189)
Income (loss) before taxes		490,656	(5,070,968)
Income taxes	18	(428,484)	1,471,706
Net consolidated income (loss)		**$62,172**	**$(3,599,262)**
Income (loss) attributable to:			
Controlling interest		$ 62,171	$ (3,599,267)
Non-controlling interest		1	5
		$62,172	**$(3,599,262)**
Profit (loss) per basic and diluted share*		**$0.003**	**$(0.20)**
Weighted average common outstanding shares (thousands of shares)		**19,739,584**	**18,415,933**

* In 2016, the impact of including the effect of convertible bonds and the financial liability as a result of the merger is antidilutive, thus the basic and diluted profit remains unchanged. See Note 19.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2017 and 2016
Thousands of Mexican pesos

	Nota	2017	2016
Net consolidated income (loss)		$62,172	$(3,599,262)
Other comprehensive income for the year:			
Items that will be reclassified to the consolidated statement of income:			
Effect of currency translation	18	(1,212)	10,189
Items that will not be reclassified to the consolidated statement of income:			
Remeasurements of employee benefits, net of taxes	18	(7,602)	(17,617)
Total other comprehensive income for the year		(8,814)	(7,428)
Total comprehensive income (loss) of the year		**$53,358**	**$(3,606,690)**
Attributable to:			
Controlling interest		$53,357	$(3,606,695)
Non-controlling interest		1	5
Comprehensive income (loss) of the year		**$53,358**	**$(3,606,690)**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016

Thousands of Mexican pesos

	CONTROLLIN		
	Capital stock	Additional paid- in capital	Reserve for repurchase of shares
Balances as of January 1, 2016	**$ 6,861,986**	**$644,710**	**$90,000**
Transactions with shareholders:			
Write-off of reserve for repurchase of shares	-	-	(90,000)
Capital increase for conversion of bonds	36,094	-	-
Merger effect	3,335,761	-	-
Other	-	-	-
	3,371,855	**-**	**(90,000)**
Net consolidated loss	-	-	-
Total other comprehensive income for the year	-	-	-
Comprehensive loss	**-**	**-**	**-**
Balances as of December 31, 2016	**$10,233,841**	**$644,710**	**$ -**
Transactions with shareholders:			
Loss absorption	(9,868,332)	(644,710)	-
Issuance of shares	98,859	159,551	-
Accounts payable to holding company	-	-	-
	(9,769,473)	**(485,159)**	
Net consolidated income	-	-	-
Total other comprehensive income for the year	-	-	-
Comprehensive income	**-**	**-**	**-**
Balances as of December 31, 2017	**$ 464,368**	**$159,551**	**$ -**

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

NG INTEREST				
Accumulated deficit) retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total shareholders' equity
$(3,719,469)	**$(3,791)**	**$3,873,436**	**$ -**	**$3,873,436**
90,000	-	-	-	-
-	-	36,094	-	36,094
(1,197,805)	-	2,137,956	-	2,137,956
(40,559)	-	(40,559)	-	(40,559)
(1,148,364)	**-**	**2,133,491**	**-**	**2,133,491**
(3,599,267)	-	(3,599,267)	5	(3,599,262)
(17,617)	10,189	(7,428)	-	(7,428)
(3,616,884)	**10,189**	**(3,606,695)**	**5**	**(3,606,690)**
(8,484,717)	**$6,398**	**$2,400,232**	**$ 5**	**$2,400,237**
10,513,042	-	-	-	-
-	-	258,410	-	258,410
(219,600)	-	(219,600)	-	(219,600)
10,293,442	**-**	**38,810**	**-**	**38,810**
62,171	-	62,171	1	62,172
(7,602)	(1,212)	(8,814)	-	(8,814)
54,569	**(1,212)**	**53,357**	**1**	**53,358**
$ 1,863,294	**$ 5,186**	**$2,492,399**	**$ 6**	**$2,492,405**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017 and 2016
Thousands of Mexican pesos

	2017	2016
Cash flows from operating activities		
Income (loss) before taxes	$ 490,656	$(5,070,968)
Depreciation and amortization	4,033,839	3,829,589
Exchange fluctuation (gain) loss, net	(648,280)	2,778,679
Allowance for doubtful accounts	235,345	209,930
(Gain) loss from sale of property, plant and equipment	(823,269)	4,483
Estimate of realizable fair value of inventories	-	558
Interest income	(56,698)	(24,381)
Interest expense	1,647,027	1,805,661
Current PTU (statutory employee profit sharing)	11,873	13,192
Equity in net income of associates	-	5,189
Disposal of property, plant and equipment	-	52,795
Provisions and other	(13,288)	(92,390)
Change in unrealized fair value and settlement of financial instruments	(27,052)	296,439
Changes in working capital:		
Trade and other accounts receivable, net	242,026	480,889
Inventories	(79,497)	(16,134)
Trade accounts payable, related parties and other accounts payable	88,554	(789,846)
Employee benefits	84,666	180,175
Paid PTU	(14,519)	(6,507)
Deferred income	(710,484)	474,117
Subtotal	4,460,899	4,131,470
Income taxes paid	(66,214)	(233,816)
Net cash flows generated by operating activities	**4,394,685**	**3,897,654**
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(2,953,529)	(3,185,729)
Disposal de property, plant and equipment	856,964	80,772
Acquisition of intangible assets	(95,128)	(960,034)
Interest income	56,508	24,381
Other assets	(34,420)	51,544
Investment in shares of Altan	(137,719)	-
Merger effect, net	-	450,708
Disposal of investment in associate	-	11,234
Net cash flows used in investing activities	(2,307,324)	(3,527,124)
Cash flows from financing activities		
Proceeds of current and non-current debt	16,039,280	16,133,066
Payments of current and non-current debt	(16,874,140)	(15,421,366)
Interest paid and other financial expenses	(1,512,296)	(2,386,734)
Net cash flows used in financing activities	(2,347,156)	(1,675,034)
Net decrease of cash and cash equivalents	(259,795)	(1,304,504)
Effect of changes in exchange rates	70,480	176,400
Cash and cash equivalents at the beginning of the year	1,447,118	2,575,222
Cash and cash equivalents at the end of the year	**$ 1,257,803**	**$ 1,447,118**
Non-cash significant transactions:		
Conversion of bonds (See note 19)	$ -	$ 36,094
Issuance of shares (See note 19)	258,410	-
Finance leases	**$ 310,778**	**$ 174,201**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
As of and for the years December 31, 2017 and 2016
Thousands of Mexican pesos, unless otherwise indicated

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 ("Bolsa Mexicana de Valores" in Spanish) through Certificates of Participation ("CPOs") issued under the Trust whose trustee is Nacional Financiera, S. N. C. The Company is subsidiary of Alfa, S. A. B. de C. V. ("Alfa"), direct holding and last company of the Group, which exercises control and holds 52.78% 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 11.

Axtel conducts its activities through subsidiary companies of which it is the owner or of which it controls directly most of the common shares representing their capital stock. See Note 3.

In the following notes to the consolidated financial statements, references to pesos or "$" mean thousands of Mexican pesos. References to dollars or "US$" mean thousands of U.S. dollars, unless otherwise indicated.

2. RELEVANT EVENTS

2017

a. Issuance and prepayment of debt

On November 9, 2017, the Company placed Senior Notes in the international market and listed on the Irish Stock Exchange under a private offering under Rule 144A and Regulation S in the amount of US$ 500 million, gross of issuance costs of US$7 million. The Senior Notes will accrue an annual coupon of 6.375% maturing in 7 years. The proceeds were mainly used to prepay the existing debt, including certain transaction costs and expenses. All transaction costs from the existing debt pending to be amortized, were recognized in the consolidated statement of income for $52,875.

On December 19, 2017, the Company signed a bilateral credit agreement with HSBC México, for an amount of $5,709 million pesos (equivalent to US$300 million) with a maturity of 5 years and at a variable interest rate with a margin on the TIIE rate applicable according to the leverage ratio between 1.875% and 3.25%. The proceeds obtained were used to prepay the remaining debt of the syndicated loan, denominated mainly in dollars.

b. Shareholding in Altan

On November 17, 2016, the consortium Altan Redes, S. A. P. I. de C. V. ("Altan") was the winner of the international contest promoted by the Secretariat of Communications and Transport, for the construction and operation of the Shared Network.

The Company has a shareholding equivalent to 1.9634% of Altan's capital stock, which will represent an investment of US$15,000, of which US$1,000 was paid in cash in January 2017 and the remaining through a service provision plan. It is important to mention that the shares of all shareholders have been granted as collateral through their involvement in a trust fund to support financing required by Altan and previously agreed between the partners.

In this sense, Axtel will not only be a shareholder of Altan, but also provider of telecommunication and IT services, as well as client once the network starts operating. However, as it is a concessionaire of telecommunication services, the Company will not have significant influence on Altan's operations. Based on the above, the Company's interest will be performed by acquiring a special series of shares without voting rights, largely providing services and capabilities.

On January 17, 2017, the Secretariat of Communications and Transport, through the Promoting Body of Investments in Telecommunications ("Promtel" from Spanish), as well as the Federal Telecommunications Institute ("IFT" from Spanish), awarded Altan a concession title for commercial use as a wholesaler shared network, with a maturity of 20 years from the date it is granted.

Currently, the Company has signed several agreements and is working to sign new service agreements with Altan whereby Axtel will be bound to render services up to a minimum amount of US$15,000.

c. Adjustment to Alfa shareholding

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. de C. V., Axtel proceeds to deliver to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel . The shares were previously held in Axtel's Treasury and their payment to Alfa cancelled the liability previously recognized by Axtel as consideration for the merger.

d. Sale of towers with American Tower Corp.

On July 11, 2017, the Company announced that it entered into a sale agreement with MATC Digital, S. de R. L. de C. V. ("MATC"), a subsidiary of American Tower Corporation, to sell 142 telecommunication towers at approximately US$56 million. The agreement includes Axtel's commitment to lease such sites to MATC for 15 years.

The transaction was structured in stages according to the delivery of documentation and obtaining relevant regulatory authorizations. The initial stage of the transaction was performed on June 30, 2017, is expected to conclude in 2018 and is subject to obtaining the appropriate authorizations.

e. Merger of Alestra, S. de R. L. de C. V.

At the Extraordinary General Shareholders' Meeting held on April 27, 2017, a merger agreement was signed by Alestra, S. de R. L. de C. V. (as the incorporated or merged company) with Axtel, S. A. B. de C. V. (as the incorporating or merging company). This merger was effective on May 1, 2017 and has no impact on the Company's operation at a consolidated level.

f. Loss absorption

At the Ordinary General Shareholders' Meeting on March 10, 2017, the shareholders agreed to decrease the Company's minimum fixed capital stock in the aggregate amount of $9,868,332, in order to absorb prior years' retained losses in the aggregate amount of $10,513,042, and having previously applied the additional paid-in capital of $644,710. This capital reduction will be carried out without modifying or reducing the number of shares that represent the Company's capital stock.

2016

g. 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 is a 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 9,594,008,144 shares for Alfa, at the rate of 0.7140 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 wholly owned subsidiary of Alfa, is the Company's CEO as from February 15, 2016.

As from the merger date, Alestra is a subsidiary of Axtel. Alestra's 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 consolidated statement of income as a result of the transaction.

The difference between the book value of Alestra's 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 account for $3,482,023. See Note 19.

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 11.

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 certain uncollectible accounts receivable of $983,747. See Notes 19 and 24. 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. 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 per U.S. dollar until the date of expiration. Otherwise, Alfa would receive between 0% and 2.50% additional shareholding interest in Axtel, if said exchange rate were between $17.01 and $18.50 pesos or more per U.S. dollar. In accordance with IFRS (IAS 32), this agreement represents a financial liability to be liquidated with own shares presented as a liability in the short term in the Suppliers and other accounts payable line item. Upon exercising this instrument, at maturity, the conversion will result in a variable number of shares, increasing the capital stock. At December 31, 2016, Axtel has applied $246,396, corresponding to the value of the instrument, to retained earnings.

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 21.

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.

h. Debt

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

On January 15, 2016, the Company signed loans for US$500,000 and $4,759,000 to refinance all of the senior notes expiring in 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 beginning in 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 LIBOR plus 2.25%, to be increased up to 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 in 5 years, quarterly payments on the capital beginning in 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 (CPOs). 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the most significant accounting policies followed by Axtel and its subsidiaries, which have been consistently applied in the preparation of their financial information in the years presented, unless otherwise indicated:

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 Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standard Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments which are measured at fair value.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, as well as the areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

b. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

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

A number of new standards, amendments and interpretations that have been issued and are not yet effective for reporting periods ended December 31, 2017, have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

IFRS 9, Financial Instruments

IFRS 9, Financial Instruments, replaces IAS 39, Financial Instruments: Recognition and Measurement. This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income ("FVTOCI"), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined that the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

IFRS 15, Revenues from Contracts with Customers

IFRS 15, Revenues from Contracts with Customers, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the entity satisfies a performance obligation. Furthermore, the amount of disclosures required in the consolidated financial statements, both annual and interim, is increased.

The Company has determined that IFRS 15 will impact the following items: (i) contracts with multiple performance obligations, and (ii) the deferred recognition of costs to obtain contracts. The Company's management will utilize the modified prospective method for contracts entered into prior to January 1, 2018. Based on its analysis, the Company didn't identify significant impacts associated with the initial adoption of IFRS 15, and will consider the requirements of this standard on new revenue generating contracts as of the adoption date. The new standard provides for additional disclosure requirements for contracts with clients.

For new contracts entered into subsequent to January 1, 2018, which include embedded leases of the equipment used to provide services to customers, the Company will recognize revenues for the sale of such equipment as of the inception date of the lease, as well as the corresponding cost of equipment and a lease receivable for the contractual payments equivalent to the net investment in the lease. Additionally, the Company will recognize interest income over the contractual period in accordance with the effective interest method.

IFRS 16, Leases

IFRS 16, Leases, supersedes IAS 17, Leases, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use as an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17 and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as small office furniture items or personal computers.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments of $8,283,702; however, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company translates advance consideration at the exchange rate on the date of the transaction, either received or paid; as a result, management concluded there were no significant impacts on the Company's consolidated financial statements resulting from the adoption of this interpretation.

IFRIC 23, Interpretation on Uncertainty over Income Tax Treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, Income Tax, when there is uncertainty over income tax treatments. Uncertain tax treatments are a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such circumstances, an entity shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.

The Company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and should be disclosed. On initial application, IFRIC 23 must be applied retrospectively under the requirements of IAS 8 modifying comparative periods or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company is assessing and determining the potential impacts for the adoption of this interpretation on its consolidated financial statements.

c. Consolidation

i. Subsidiaries

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's interest in subsidiaries is less than 100%, the interest attributed to external shareholders is recorded as non-controlling interest. Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

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 it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to shareholders.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the transferred consideration and the carrying amount of the net assets acquired at the level of the subsidiary are recognized in equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest in the subsidiary acquired over the net identifiable assets and liabilities assured. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is achieved in stages, the book value at the acquisition date of the interest previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in results of the year.

Transactions and intercompany balances, as well as unrealized gains on transactions between Axtel companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the amounts reported by subsidiaries have been modified where it was deemed necessary.

As of December 31, 2017 and 2016, the main subsidiary companies of Axtel were as follows:

		Shareholding interest (%)		
	Country	2017	2016	Functional currency
Axtel, S. A. B. de C. V. (Holding company) [(3)]	Mexico			Mexican peso
Servicios Axtel, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso
Alestra Comunicación, S. de R. L. de C. V. [(3) (a)]	Mexico	100	100	Mexican peso
Avantel, S. de R. L. de C. V. ("Avantel") [(3)]	Mexico	100	100	Mexican peso
Axes Data, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso
Alestra, S. de R. L. de C. V. ("Alestra") [(3) (c)]	Mexico	-	100	Mexican peso
Servicios Alestra, S. A. de C. V. [(1)]	Mexico	99.98	99.98	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso
Alestra USA, Inc. [(2)]	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	Mexican peso
Alesre Insurance Pte, Ltd. [(4)]	Singapore	100	100	U.S. dollar
Cogeneración de Querétaro, S. A. de C. V. [(1) (b)]	Mexico	-	99.99	Mexican peso
Estrategias en Tecnología Corporativa, S. A. de C. V.	México	100	100	Peso
("Estratel") [(3)]	Mexico	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. [(1)]	Mexico	100	100	Mexican peso

[(a)] 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.

[(b)] Company liquidated on November 2017.

[(c)] On April 27, 2017, a merger agreement was signed by incorporation between Alestra, S. de R. L. de C. V. with Axtel, S. A. B. de C. V., the merger was effective as of May 1, 2017 and has no impact on the operation at the consolidated level of the Company.

[(1)] Provider of administrative services.

[(2)] Leasing of telecommunications and infrastructure equipment.

[(3)] Provider of telecommunication services.

[(4)] Company with no primary operations.

As of December 31, 2017 and 2016, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, that is, an increase or decrease in the percentage of control, is recorded in shareholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment in shares before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in income.

When the Company issues a call option on certain non-controlling interests in a consolidated subsidiary and the non-controlling shareholders retain the risks and benefits over such interests in the consolidated subsidiary, these are recognized as financial liabilities at the present value of the amount to be reimbursed from the options, initially recorded with the corresponding reduction in equity and subsequently accruing through financial charges in results during the contractual period.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control, any retained interest in the entity is remeasured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying amount for purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being reclassified to income for the year.

iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally, an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts previously recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of income and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "Equity in income of associates recognized using the equity method" in the consolidated statement of income.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company´s interest in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the transferred asset is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment, and the book value of the investment is recognized in the consolidated statement of income.

As of December 31, 2017, the Company has no associates. During 2016, the only associate was Conectividad Inalámbrica 7 GHz, S. de R. L. de C. V. (“Conectividad Inalámbrica”), which was liquidated during the period.

d. Foreign currency translation

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company’s subsidiaries should be measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Mexican pesos, which is the Company’s presentation currency. Note 3c describes the functional currency of the Company and its subsidiaries.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21, Effects of Changes in Foreign Currency Exchange Rates (“IAS 21”), this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity and income items at the exchange rate of that date.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are remeasured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of income, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

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

Translation of subsidiaries with recording currency other than the functional currency.

The financial statements of foreign subsidiaries, having a recording currency different from their functional currency, were translated into the functional currency in accordance with the following procedure:

a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rate.

b. To the historical balances of monetary assets and liabilities and shareholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.

c. Revenues, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rates of the date they were accrued and recognized in the consolidated statement of income, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items was used.

d. The exchange differences arising in the translation were recognized in the consolidated statement of income in the period they arose.

The primary exchange rates in the different translation procedures are listed below:

		Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		Average annual exchange rate	
Country	Local currency	2017	2016	2017	2016
United States	U.S. dollar	19.74	20.66	18.94	18.66

e. Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high credit-quality and liquidity with original maturities of three months or less, all of which are subject to insignificant risk of changes in value.

f. Restricted cash

Cash whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement of cash flows.

g. Financial instruments

Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are written off in full when the right to receive the related cash flows expires or is transferred and the Company has also transferred substantially all risks and rewards of ownership, as well as control of the financial asset.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of income. Gains or losses from changes in fair value of these assets are presented in the consolidated statement of income as incurred.

ii. Loans and accounts receivable

The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the consolidated statement of financial position date. These are classified as non-current assets.

Loans and receivables are measured initially at fair value plus directly attributable transaction costs and subsequently at amortized cost, using the effective interest method. When circumstances occur that indicate that the amounts receivable will not be collected at the amounts originally agreed or will be collected in a different period, the receivables are impaired.

Financial liabilities

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

Trade payables are obligations to pay for goods or services that have been acquired or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the consolidated statement of income over the term of the loan using the effective interest method.

Offsetting financial assets and liabilities

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

Impairment of financial instruments

a. Financial assets carried at amortized cost

The Company assesses at the end of each year whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal.
- Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.
- There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:

  i. Adverse changes in the payment of borrowers in the group of assets.

  ii. National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the category of loans and receivables, when impairment exists, the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the original effective interest rate.

The carrying amount of the asset is reduced by that amount, which is recognized in the consolidated statement of income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company could determine the impairment of the asset given its fair value determined on the basis of a current observable market price.

If in subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the loss impairment is recognized in the consolidated statement of income.

Information on impairment of accounts receivable is set out in Note 8.

h. Derivative financial instruments and hedging activities

All derivative financial instruments are identified and classified as fair value hedges or cash flow hedges, for trading or market risk hedging and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. Fair value is determined based on recognized market prices and when non-quoted in an observable market, it is determined using valuation techniques accepted in the financial sector.

Fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged, types of derivatives and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statements of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2017 and 2016, the Company has no derivative financial instruments classified as fair value hedges.

Cobertura de flujos de efectivo

Los cambios en el valor razonable de los instrumentos derivados asociados a cobertura de flujo de efectivo se reconocen en capital contable. La porción efectiva se aloja temporalmente en la utilidad integral, dentro del capital contable y se reclasifica a resultados cuando la posición que cubre afecte resultados, la porción inefectiva se reconoce de inmediato en resultados. Al 31 de diciembre de 2017 y 2016, la Compañía no cuenta con instrumentos financieros derivados clasificados como coberturas de flujos de efectivo.

Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in shareholders' equity. The effective portion is temporarily recorded in comprehensive income, within shareholders' equity and is reclassified to profit or loss when the hedged position affects these, the ineffective portion is immediately recorded in profit or loss. As December 31, 2017 and 2016, the Company does not have derivative financial instruments classified as cash flow hedges.

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedge designation.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to profit or loss over the maturity period. In the case of cash flow hedges, the amounts accumulated in equity as part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect profit or loss. In the event the forecasted transaction is not likely to occur, the gain or loss accumulated in comprehensive income are immediately recognized in profit or loss. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in shareholders' equity are transferred proportionally to profit or loss, to the extent the forecasted transaction impacts it.

Fair value of derivative financial instruments reflected in the Company's consolidated financial statements, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at closing date.

i. Inventories

Inventories are shown at the lesser of its cost and net realization value. The cost is determined using the weighted average cost method. The cost of the finished products and products in process includes the product design cost, raw material, direct labor, other direct costs and overhead costs (based in the normal operation capacity), excludes borrowing costs. The net realization value is the estimated sales price in the ordinary course of the business, less variable sale expenses applicable.

j. 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 consolidated statement of income every month 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.

k. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less accumulated depreciation and any accrued impairment losses. Cost includes expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, cost is recognized in the carrying amount of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of assets classes are as follows:

	Years
Buildings	40 - 60
Computers	3 - 5
Vehicles	4
Office equipment	10
Telecommunications network	6 a 28

Spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction relates to qualifying assets, that require a substantial period of time to be ready for their use or sale, are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests whenever events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount in the consolidated statement of income in other expenses, net. The recoverable amount is the higher of its fair value less costs to sell and its value in use.

Residual value, useful lives and depreciation method of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of income.

l. Leases

The classification of leases as finance or operating depends on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the consolidated statement of income based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical, in order to discount the minimum lease payments to present value, the interest rate implicit on the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the lessor are added to the original amount recognized as an asset.

Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding lease obligations are included in current debt portion and non-current debt, net of finance charges. Interest of finance cost is charged to profit or loss of the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

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

m. Intangible assets

Intangible assets are recognized when they meet the following conditions: they are identifiable, they provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

i. Finite useful life

These assets are recognized at cost less accumulated amortization and accrued impairment losses. They are amortized on a straight-line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

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

	Years
Software and licenses	3 - 7
Concessions	20 - 30
Capacity of communications network	13
Other	4
To do and not to do obligations	3
Trademarks	5
Relationships with customers	15

a. Trademarks

Trademarks acquired in a separate transaction are recorded at acquisition cost. Trademarks acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks are amortized according to their useful life based on the Company´s evaluation; if in this evaluation the useful life proves to be indefinite, then trademarks are not amortized but subject to annual impairment tests.

b. Licenses

Licenses acquired in a separate transaction are recorded at acquisition cost. Licenses acquired in a business combination are recognized at fair value at acquisition date.

Licenses that have a definite useful life are presented at cost less accumulated amortization. Amortization is recorded on a straight-line basis over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

ii. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2017 and 2016, intangible assets with indefinite life of the Company include only goodwill.

n. Goodwill

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

o. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

p. Income tax

The amount of income taxes in the consolidated statement of income represents the sum of current and deferred income taxes.

The amount of income taxes included in the consolidated statement of income represents the current tax of the year and the effects of deferred income tax determined in each subsidiary by the assets and liabilities method, applying the rate established by the legislation enacted or substantially enacted at the statement of financial position date, wherever the Company operates, and generates taxable income on the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of a change in current tax rates is recognized in profit or loss of the period in which the rate change is determined.

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

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

Deferred income tax on temporary differences arising from investments in subsidiaries, associates and joint agreements is recognized, unless the period of reversal of temporary differences is controlled by Axtel and it is probable that the temporary differences will not revert in the near future.

Deferred tax assets and liabilities are offset when a legal right exists and when the taxes are levied by the same tax authority.

q. Employee benefits

i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that the contribution is required.

Defined benefit plans:

A defined benefit plan is a plan which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent third parties using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with IAS 19, Employee Benefits, that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial remeasurements arising from adjustments and changes in actuarial assumptions are recognized directly in other items of the comprehensive income in the year as they occur, and there will be no reclassified to profit or loss of the period.

The Company determines the net finance expense (income) by applying the discount rate to the liability (asset) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of income.

ii. Post-employment medical benefits

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits on the following dates, whichever occurs first: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.

iv. Short-term benefits

The Company provides benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. The Company recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

v. Statutory employee profit sharing (PTU in Spanish) and bonuses

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

r. Provisions

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

s. Share-based payments

The Company has compensation plans that are based on the market value of shares of Alfa and Axtel, granted to certain senior executives of the Company. The conditions for granting such compensation to the eligible executives includes compliance with certain financial metrics such as level of profit achieved and remaining in the Company for up to 5 years, among other requirements. Alfa's Board of Directors has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment of the plan is always subject to the discretion of Alfa's senior management. Adjustments to this estimate are charged or credited to the consolidated statement of income.

Fair value of the amount payable to employees in respect of share-based payments, which are settled in cash, is recognized as an administrative expense in the consolidated statement of income, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and at settlement date. Any change in the fair value of the liability is recognized as an expense in the consolidated statement of income.

t. Capital stock

Axtel's common shares are classified as capital stock within shareholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

u. Comprehensive income

Comprehensive income is comprised of net income plus the annual effects of other reserves, net of taxes, which include the translation of foreign subsidiaries, actuarial remeasurements, the effects of the change in the fair value of financial instruments available for sale, and other items specifically required to be reflected in shareholders' equity, and which do not constitute capital contributions, reductions and distributions.

v. Segment reporting

Segment information is presented consistently with the internal reporting provided to the Chief Executive Officer, who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

w. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and rendering of services in the normal course of operations. Revenue is shown net of estimated customer returns, rebates and similar discounts.

Revenue from rendering of services are recognized as follows:

- Revenue from the provision of data transmission services, internet and local services are recognized when services are rendered.

- Revenues from national and international long distance outgoing and incoming services are recognized based on minutes of traffic processed by the Company and processed by a third party, respectively.

- Installation revenues and related costs are recognized as revenue during the period of the contract with the customers.

- The estimates are based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from the sale of goods are recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred.

- The amount of revenue can be reliably measured.

- It is likely that future economic benefits will flow to the Company.

- The Company retains no involvement associated with ownership nor effective control of the sold goods.

- The costs incurred, or to be incurred, in respect of the transaction can be measured reasonably.

Dividend income from investments is recognized once the rights of shareholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured).

Interest income is recognized when it is likely that the economic benefits will flow to the entity and the amount of revenue can be reliably measured by applying the effective interest rate.

Costs for the acquisition of subscribers are recognized in profit or loss as they are incurred.

x. Advances from customers

Customer prepayments for cable, interconnection, data transmission, internet and local services are billed monthly and applied to profit or loss as revenue for the period as the services are provided. The Company's deferred income are recorded based on the commitment to provide a service to the customers, and the service is recognized in profit or loss as it is provided.

y. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2017 and 2016, there are no dilutive effects from financial instruments potentially convertible into shares.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various financial risks: market risk (including exchange rate risks, interest rate risk on cash flows and interest rate risk on fair values), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance.

The objective of the risk management program is to protect the financial health of the businesses, taking into account the volatility associated with foreign exchange and interest rates. Sometimes, regarding market risks, the Company uses derivative financial instruments to hedge certain exposures to risks.

Alfa (holding company) has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") of Alfa and the Risk Management Officer ("RMO") of Alfa acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, including Axtel, in which a potential loss analysis surpasses US$1 million. This committee supports both the CEO and the Board's Chairman of the Company. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both the Company and Alfa's CEO, in accordance to the following schedule of authorizations:

	Maximum Possible Loss US$1 million	
	Individual transaction	Annual cumulative transactions
Chief Executive Officer of Alfa	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the transactions are entered into.

Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return equity to shareholders, issue new shares or sell assets to reduce debt.

Axtel monitors capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total equity.

The financial ratio of total liabilities / total equity was 11.34 times and 12.41 times as of December 31, 2017 and 2016, respectively, resulting on a leverage ratio that meets the Company's management and risk policies.

Financial instruments per category

Below are the Company's financial instruments by category:

As of December 31, 2017 and 2016, financial assets and liabilities consist of the following:

	As of December 31, 2017		
	Accounts receivable and payable at amortized cost	Financial assets and liabilities at fair value with changes through profit or loss	Total categories
Financial assets:			
Cash and cash equivalents	$ 1,257,803	$ -	$ 1,257,803
Restricted cash	161,955	-	161,955
Trade and other accounts receivable	2,852,437	-	2,852,437
Financial instruments (zero strike call)	-	164,278	164,278
Derivative financial instruments	-	61,913	61,913
Total financial assets	**$ 4,272,195**	**$ 226,191**	**$ 4,498,386**
Financial liabilities:			
Current debt	$ 1,378,934	$ -	$ 1,378,934
Trade payables, related parties and			
sundry creditors	5,084,307	-	5,084,307
Non-current debt	19,043,736	-	19,043,736
Other non-current accounts payable	713,602	-	713,602
Total financial liabilities	**$26,220,579**	**$ -**	**$26,220,579**

	As of December 31, 2016		
	Accounts receivable and payable at amortized cost	Financial assets and liabilities at fair value with changes through profit or loss	Total categories
Financial assets:			
Cash and cash equivalents	$ 1,447,118	$ -	$ 1,447,118
Restricted cash	153,040	-	153,040
Trade and other accounts receivable	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
Trade payables, 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**

Fair value of financial assets and liabilities valued at amortized cost

The amount of cash and cash equivalents, trade 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 since their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flow at December 31, 2017 and 2016.

The carrying amount and estimated fair value of financial assets and liabilities valued at amortized cost is presented below:

	As of December 31, 2017		As of December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$19,775,122	$18,039,800	$21,162,446	$20,183,807
Long-term accounts payable to Alfa (**)	713,602	709,735	983,747	983,747

(*) The carrying amount of debt, for purposes of calculating its fair value, is presented gross of interest payable and issuance costs.

(**) In 2016, the fair value of the long-term account payable to Alfa approximates its carrying amount because of the term and interest rate conditions. See Note 24.

As of December 31, 2016, the fair value of non-current accounts receivable is $8,310 compared to its carrying amount of $8,642. As of December 31, 2017, the Company has no financial assets valued at amortized cost.

The estimated fair values as of December 31, 2017 and 2016 were determined based on discounted cash flows, using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. In the case of Senior Notes placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. For purposes of disclosure, measurement at fair value of financial assets and liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

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.

The Company's interest expense on the dollar debt, stated in Mexican 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 Mexican peso appreciates or depreciates against the U.S. 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 Mexican peso to the U.S. dollar will give rise to exchange losses.

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of its subsidiaries, translated to thousands of Mexican pesos at the closing exchange rate as of December 31, 2017:

	USD (translated to thousands of MXP)
Financial assets	$ 614,952
Financial liabilities	(15,974,008)
Foreign exchange monetary position	$(15,359,056)

As of December 31, 2016, the Company did not have derivative financial instruments to hedge exchange rate risk. However, during 2017, Axtel contracted several derivative financial instruments, mainly forwards, to hedge this risk. These derivatives have been designated at fair value with changes through profit or loss for accounting purposes as explained in the next section of this note.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD exchange rate and keeping all other variables constant, would result in an effect of $1,535,906 on the consolidated statement of income and shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2017 and 2016, 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 decided 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 deciding 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 = defined 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 through profit or loss.

As of December 31, 2017 and 2016, the lending position of the options represents the maximum amount of its credit exposure, as showed below:

Counterparty	Notional amount	Agreement beginning date	Type of underlying asset	Fair value	
				2017	2016
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$114,854	$106,954
Corporativo GBM, S. A. B. de C. V.	13,074,982	2015 y 2014	CPO's Axtel	49,424	46,024
				$164,278	**$152,978**

For the year ended December 31, 2017, the changes in fair value of the Zero Strike Calls gave rise to an unrealized gain of $11,300 (unrealized loss of $225,121 for the year ended December 31, 2016), recognized in the consolidated statement of income within financial income and expenses.

Derivative financial instruments

For the year ended December 31, 2017, the Company maintained the following derivative financial instruments designated at fair value with changes through profit or loss:

a. Exchange rate agreements

Positions of foreign currency derivative financial instruments are summarized as follows:

	As of December 31, 2017							
		Valor del activo Subyacente			Maturity by year			
Type of derivative, value or agreement	Notional amount	Units	Refe-rence	Fair value	2018	2019	2020 +	Collateral / guarantee
At fair value with changes through profit or loss:								
USD/MXP	$63,400	Peso/Dollar	19.74	**$61,913**	**$61,913**	**$ -**	**$ -**	**$ -**

(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.

As of December 31, 2017, 47% of Axtel's total debt generates variable interest, whereas the remaining 53% 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 defined 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.

As of December 31, 2017, if interest rates on variable rate loans were increased or decreased by 100 base points, the interest expense shown in income and shareholders' equity would be modified by $99,709 and $(99,709), respectively.

Credit risk

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 each of its new customers prior to establishing the terms and conditions of payment to offer. 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 accounts receivable balances aging with reserves that are usually increased to the extent the accounts receivable increases in age.

Axtel determines its allowance 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 over 270 days, and business customers, carriers and government over 360 days. Moreover, collection problems such as bankruptcy or catastrophes are also taken into account. Accounts receivable are analyzed monthly, and the allowance for impairment of accounts receivable is adjusted in profit or loss.

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 1% and 5% of the Company's total accounts receivable as of December 31, 2017 and 2016, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2017 and 2016 was 6% and 7%, respectively.

Company B accounts for 2% and 1% of the Company's total accounts receivable as of December 31, 2017 and 2016, respectively. Additionally, revenues related to Company B for the years ended December 31, 2017 and 2016 was 7% and 7%, respectively.

As of December 31, 2017 and 2016, the allowance for impairment totaled $2,089,484 and $1,920,753, respectively. Axtel considers this allowance to be sufficient to cover for the probable loss of accounts receivable; however, it cannot ensure that it will not need to be increased.

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 carrying amount of its financial assets.

Liquidity risk

The Company's finance department continuously monitors the cash flows' 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 minimum internal liquidity ratios and legal or regulatory requirements.

Management's responsibility with respect to 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 non-discounted contractual cash flows.

	Less than 1 year	Between 1 and 5 years	More than 5 years
December 31, 2017			
Current debt	$1,051,915		
Trade payable, related parties and creditors	6,373,957		
Non-current debt	-	$7,639,779	$11,292,596
Finance leases	327,019	309,493	
Non-accrued interest payable	1,458,143	4,869,316	1,316,007

The Company expects to meet its obligations with the cash flows provided by operations and/or cash flows provided by its main shareholders. Furthermore, the Company has access to credit lines as mentioned in Note 16.

Fair value hierarchy

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. Three different levels are used as presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets, which are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2017 and 2016:

	As of December 31, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Zero strike calls	$164,278	$ -	$ -	$164,278
Forwards	-	61,913	-	61,913
	$164,278	**$ 61,913**	**$ -**	**$226,191**

	As of December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets:				
Zero strike calls	**$152,978**	**$ -**	**$ -**	**$152,978**
Financial liabilities:				
Financial liability as a result of the merger (Note 2)	**$ -**	**$246,396**	**$ -**	**$246,396**

There were no transfers between Level 1 and 2 or between Level 2 and 3 during the period.

The specific valuation techniques used to value financial instruments include:

- Market quotations or quotations for similar instruments.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND SIGNIFICANT JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

a. Long-lived assets

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

b. Estimated impairment of goodwill and intangible assets with indefinite useful lives

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 11). For impairment testing, goodwill and intangibles assets with indefinite lives is allocated with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

- Estimation of future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.

- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.

- Long-term growth rates.

c. Recoverability of deferred tax assets

The Company has applicable tax-loss carryforwards, which can be used in the following years until maturity expires (See Note 18). Based on the projections of income and taxable income that the Company will generate in the following years through a structured and robust business plan, management has considered that current tax losses will be used before they expire and, therefore, it was considered appropriate to recognize a deferred tax asset for such losses.

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 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.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents presented in the consolidated statement of financial position consist of the following:

	2017	2016
Cash on hand and in banks	$ 550,408	$ 620,862
Short-term investments	707,395	826,256
Total cash and cash equivalents	**$1,257,803**	**$1,447,118**

7. RESTRICTED CASH

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).

The restricted cash as of December 31, 2017 and 2016 of $161,955 and $153,040, respectively, represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position under non-current assets.

8. TRADE AND OTHER ACCOUNTS RECEIVABLE, NET

Trade and other accounts receivable are comprised as follows:

	2017	2016
Current:		
Trade accounts receivable	$4,769,317	$5,049,799
Allowance for customer impairment [1]	(2,089,484)	(1,920,753)
Trade accounts receivable, net	2,679,833	3,129,046
Recoverable taxes	691,665	859,477
Notes and other accounts receivable	140,902	57,354
Related parties	31,702	20,949
	$3,544,102	**$4,066,826**
Non-current:		
Other accounts receivable	**$ -**	**$ 8,642**

[1] Movements pertaining to the allowance for impairment of trade receivables are as follows:

	2017	2016
Opening balance	$1,920,753	$3,178,325
Write-off of doubtful accounts	(66,614)	(1,571,426)
Allowance for doubtful accounts for the year	235,345	209,930
Increase due to merger	-	103,924
Ending balance	**$2,089,484**	**$1,920,753**

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 consolidated financial statements. The credit risk concentration is moderate due to the number of customers and the fact that they are not related.

Trade accounts receivable include unimpaired past-due balances of $997,418 and $1,367,754 as of December 31, 2017 and 2016, respectively.

The analysis by age of the unimpaired past-due balances of trade accounts receivable is as follows:

	2017	2016
1 to 30 days	$333,905	$ 284,656
30 to 90 days	233,804	365,489
90 to 180 days	198,674	251,947
Over 180 days	231,035	465,662
	$997,418	**$1,367,754**

As of December 31, 2017 and 2016, the maximum risk inherent to accounts receivable is their carrying amount.

As of December 31, 2017, credit quality of unimpaired non past-due trade receivables, is evaluated as follows:

	Massive	Business	Government	Total
Low Risk < 60 days	$138,514	$1,281,669	$ 743,484	$2,163,667
Medium Risk 61 – 180 days	22,084	151,739	111,308	285,131
High Risk >180 days	107,935	61,531	61,569	231,035
Total	**$268,533**	**$1,494,939**	**$ 916,361**	**$2,679,833**

9. INVENTORIES

Inventories are analyzed as follows:

	2017	2016
Materials and consumables	$188,885	$109,145
Other	-	243
	$188,885	**$109,388**

The cost of inventories recognized as an expense and included in the cost of sales amounted to $199,930 and $207,441 for 2017 and 2016, respectively.

For the year ended December 31, 2017 and 2016, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of $0 and $558, respectively.

As of December 31, 2017 and 2016, there were no inventories pledged as collateral.

10. PROPERTY, PLANT AND EQUIPMENT

	Depreciable assets					Non-depreciable assets			
	Buildings	Telecommu-nications network	Office equipment	Computers	Vehicles	Lease-hold impro-vements	Land	Invest-ments in process	Total
For the year ended December 31, 2016									
Net opening balance	$ 99,003	$ 9,418,143	$ 49,532	$2,251,528	$ 34,631	$ 77,726	$167,331	$1,118,285	$13,216,179
Acquisitions due to merger (Note 2)	719,865	4,550,467	43,965	189,656	16,167	45,110	314,305	690,045	6,569,580
Translation effect		3,292							3,292
Additions		620,061	44	8,277	2,901			2,753,883	3,385,166
Transfers	179,201	2,104,885	4,210	198,424	13,151	8,060	6	(2,507,937)	-
Disposals	-	(100,405)	(2)	(665)	(2,486)	-	-	(34,492)	(138,050)
Depreciation charge recognized in the year	(30,500)	(3,059,965)	(22,095)	(257,039)	(20,850)	(26,267)	-	-	(3,416,716)
Ending balance	**$ 967,569**	**$ 13,536,478**	**$ 75,654**	**$2,390,181**	**$ 43,514**	**$104,629**	**$481,642**	**$2,019,784**	**$19,619,451**
As of December 31, 2016									
Cost	$1,163,254	$ 53,627,217	$482,638	$4,665,963	$408,448	$587,635	$481,642	$2,019,784	$63,436,581
Accumulated depreciation	(195,685)	(40,090,739)	(406,984)	(2,275,782)	(364,934)	(483,006)	-	-	(43,817,130)
Net carrying amount as of December 31, 2016	$ 967,569	$ 13,536,478	$ 75,654	$2,390,181	$ 43,514	$104,629	$481,642	$2,019,784	$19,619,451
For the year ended December 31, 2017									
Net opening balance	$ 967,569	$ 13,536,478	$ 75,654	$2,390,181	$ 43,514	$104,629	$481,642	$2,019,784	$19,619,451
Translation effect	-	1,447	-	-	-	-	-	-	1,447
Additions	-	78,312	105	4,656	6,538	164	-	3,121,041	3,210,816
Transfers	115,194	4,337,789	48,997	(1,823,961)	364	13,054	263	(2,691,700)	-
Disposals	-	(12,928)	(184)	(1,203)	(1,465)	(331)	-	(2,057)	(18,168)
Depreciation charge recognized in the year	(27,594)	(3,263,680)	(23,692)	(181,066)	(17,050)	(24,654)	-	-	(3,537,736)
Ending balance	**$1,055,169**	**$ 14,677,418**	**$100,880**	**$ 388,607**	**$ 31,901**	**$ 92,862**	**$481,905**	**$2,447,068**	**$19,275,810**
As of December 31, 2017									
Cost	$1,428,354	$ 55,801,809	$517,212	$4,925,324	$389,638	$607,992	$481,905	$2,447,068	$66,599,302
Accumulated depreciation	(373,185)	(41,124,391)	(416,332)	(4,536,717)	(357,737)	(515,130)	-	-	(47,323,492)
Net carrying amount as of December 31, 2017	**$1,055,169**	**$ 14,677,418**	**$100,880**	**$ 388,607**	**$ 31,901**	**$92,862**	**$481,905**	**$2,447,068**	**$19,275,810**

Of the total depreciation expense, $3,404,087 and $3,095,736 were charged to cost of sales, $133,649 and $320,980 to selling and administrative expenses in 2017 and 2016, respectively.

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

For the years ended December 31, 2017 and 2016, the Company capitalized $29,377 and $27,770, respectively, of borrowing costs related to qualifying assets of $1,045,667 and $858,114, respectively. These amounts were capitalized based on an interest rate of 7.27% and 6.09%, respectively.

The assets in finance leases include the following amounts in which the Company is the lessee:

	2017	2016
Cost – finance leases	$1,578,543	$1,370,389
Accumulated depreciation	(919,710)	(675,255)
Net carrying amount	**$ 658,833**	**$ 695,134**

The Company has entered into non-cancellable finance lease agreements as lessee. The lease terms of the agreements entered into vary between 3 and 5 years.

11. GOODWILL AND INTANGIBLE ASSETS

The intangible assets with indefinite life of the Company include only goodwill, which has been assigned to the Business segment. The rest of the intangible assets are of definite life.

Of the total amortization expense, $52,350 and $53,224 were charged to cost of sales, $443,753 and $359,649 to selling and administrative expenses in 2017 and 2016, respectively.

	Definite life						Indefinite life	
	Concessions	Trademarks	Relationships with customers	Agreements not to compete	Software and licenses	Other	Goodwill	Total
Opening balance as of January 1, 2016	$ 103,701	$ -	$ -	$ -	$ -	$ 21,298	$ -	$ 124,999
Additions	6,858	40,000	-	809,793	99,791	3,592		960,034
Acquisitions due to merger (Note 2)	18,824	38,255	220,412		285,834	115,011	488,232	1,166,568
Amortization charges recognized in the year	(46,105)	(14,139)	(15,191)	(219,051)	(92,123)	(26,265)	-	(412,874)
Ending balance as of 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	$2,991,541
Accumulated amortization	(624,117)	(14,139)	(15,191)	(219,051)	(92,123)	(188,193)	-	(1,152,814)
Ending balance as of December 31, 2016	**$ 83,278**	**$ 64,116**	**$205,221**	**$ 590,742**	**$ 293,502**	**$113,636**	**$488,232**	**$1,838,727**
Opening balance as of January 1, 2017	$ 83,278	$ 64,116	$205,221	$ 590,742	$ 293,502	$113,636	$488,232	$1,838,727
Additions	-	-	-	-	91,083	4,861	-	95,944
Disposal	-	-	-	-	-	(1,163)	-	(1,163)
Transfers	(2,357)	-	(46,060)	-	110,127	78,093	(68,696)	71,107
Amortization charges recognized in the year	(44,582)	(15,196)	(9,745)	(265,055)	(115,876)	(45,649)	-	(496,103)
Ending balance as of December 31, 2017	**$ 36,339**	**$ 48,920**	**$149,416**	**$ 325,687**	**$ 378,836**	**$149,778**	**$419,536**	**$1,508,512**
Cost	$ 797,142	$258,905	$516,600	$ 809,793	$1,523,867	$483,892	$419,536	$4,809,735
Accumulated amortization	(760,803)	(209,985)	(367,184)	(484,106)	(1,145,031)	(334,114)	-	(3,301,223)
Ending balance as of December 31, 2017	**$ 36,339**	**$ 48,920**	**$149,416**	**$ 325,687**	**$ 378,836**	**$149,778**	**$419,536**	**$1,508,512**

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:

Service	Use	Period	Maturity
Sole concession of telecommunications and/or radio broadcasting (4)	Commercial	30 years	2046
Data transmission via satellite (1) (4)	Commercial	30 years	2042
Local, national and international long-distance service (1) (4)	Commercial	30 years	2026
Point-to-multipoint microwave connection (1)	Commercial	20 years	2018
Fixed to mobile wireless access (1)	Commercial	20 years	2018
Local, national and international long-distance service (2) (4)	Commercial	30 years	2025
Basic local telephone service (2) (4)	Commercial	30 years	2029
Frequency band pertaining to radio-electric spectrum (3)	Commercial	20 years	2018
Frequencies pertaining to radio-electric spectrum (3)	Commercial	20 years	2018

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

(2) Concessions granted to Avantel.

Concessions in renovation process:

(3) In 1998, Alestra obtained two concessions for point-to-point microwave connections and three point-to-multipoint concessions covering Mexico City, Monterrey and Guadalajara.

(4) Renewable concessions for additional periods of 20 years, provided that the Company complies with all of its obligations and the new conditions set forth in the law, and agreements are reached with respect to any new condition imposed by the IFT.

The Company provides services under a value-added 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. The current conditions are:

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

ii. Complying with 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.

From 2013 to date, 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.

Impairment testing of goodwill

Goodwill is comprised of the amount paid in excess of the carrying amount of net assets and liabilities of $419,536, which were allocated to the business segment.

At the date of issuance of these consolidated financial statements, no impairment has been identified.

Impairment sensitivity analysis for goodwill and intangibles

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2017 and 2016:

	2017	2016
Discount rate, after tax	10.1%	9.9%
Long-term growth rate	4.9%	5.0%

As of December 31, 2017, the Company carries out a sensitivity analysis on the impact of a possible increase of one percentage point in the discount rate and a decrease in the long-term growth rate, and no impairment loss resulted from this sensitivity analysis.

12. OTHER NON-CURRENT ASSETS

	2017	2016
Investments of shares	$139,427	$ 1,703
Connections rental	40,637	51,311
Guarantee deposit	65,881	68,237
Other	111,128	84,054
Total other non-current assets	**$357,073**	**$205,305**

13. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable are analyzed as follows:

	2017	2016
Current:		
Trade accounts payable	$3,881,152	$3,183,091
Related parties	1,023,866	680,546
Value added tax and other federal and local taxes	111,128	84,054
payable	834,820	990,198
Accrued expenses payable	179,289	668,917
Other	176,597	122,684
	$6,095,724	**$5,645,436**
Non-current:		
Related parties	$ 713,602	$ 985,975

14. PROVISIONS

	Litigation	Restructuring [1]	Other	Total
As of January 1, 2016	$ -	$ 89,000	$101,100	$190,100
Additions	50,620	514,600	-	565,220
Additions due to merger	-	31,937	-	31,937
Payments	-	(556,510)	(101,100)	(657,610)
As of December 31, 2016	**$50,620**	**$ 79,027**	**$ -**	**$129,647**
Additions	18,391	99,517	-	117,908
Payments	(50,620)	(79,027)	-	(129,647)
As of December 31, 2017	**$18,391**	**$ 99,517**	**$ -**	**$117,908**

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

Provisions as of December 31, 2017 and 2016 are short-term.

15. DEFERRED INCOME

Deferred income movements during the year are shown as follows:

	2017	2016
Beginning balance	$1,022,605	$ 509,415
Increases	435,109	1,235,772
Recognized income of the year	(1,145,593)	(722,582)
Ending balance	**$ 312,121**	**$1,022,605**

16. DEBT

	2017	2016
Bancomext	$ 3,562,240	$ 3,867,268
HSBC Mexico	6,108,670	-
Senior Notes [3]	9,867,700	-
Banco Nacional de México, S. A. [a] [b]	-	1,500,151
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.	300,000	400,000
Finance lease with Telmex [1] [3]	266,530	400,137
Other finance leases [2] [3]	369,982	303,399
Accrued interest payable	145,681	132,815
Issuance costs	(198,133)	(180,812)
Total debt	20,422,670	21,514,449
Current portion of debt	(1,378,934)	(1,028,588)
Non-current debt	**$19,043,736**	**$20,485,861**

[a] Unsecured syndicated loan Tranche A MXP.

[b] Unsecured syndicated loan Tranche B MXP.

[c] Unsecured syndicated loan Tranche B USD.

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

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

[3] Non-bank borrowings.

The terms, conditions and carrying amounts of non-current debt are as follows:

			Interest rate				As of December 31,	
	Country	Currency	Contractual	Effective	Maturity date	Interest	2017	2016
Bancomext	Mexico	USD	payment	4.43%	17/01/2024	Trimestral	$ 3,356,004	$ 3,729,852
HSBC Mexico	Mexico	MXP	periodicity	11.06%	15/12/2022	Mensual	5,708,670	-
Senior Notes	International	USD	6.38%	6.64%	14/11/2024	Semestral	9,867,700	-
Syndicated loan:								
Tranche A	Mexico	MXP	TIIE + 2%	7.03%	15/01/2019	Mensual	-	4,759,800
Tranche B	Mexico	MXP	TIIE + 2.25%	7.26%	15/01/2021	Mensual	-	1,499,842
Tranche B	Mexico	USD	Eurodólar rate+ 2.25	3.64%	15/01/2021	Trimestral	-	10,332,000
Total bank loans							18,932,374	20,321,494
Debt issuance costs							(198,133)	(180,812)
Finance leases and other							309,495	345,179
Total non-current debt							**$19,043,736**	**$20,485,861**

As of December 31, 2017, annual maturities of non-current debt are as follows:

	2019	2020	2021	2022 onwards	Total
Bank loans	$281,229	$1,497,959	$2,314,239	$ 4,773,114	$ 8,866,541
Senior Notes	-	-	-	9,867,700	9,867,700
Financel leases	243,969	63,979	1,547	-	309,495
	$525,198	**$1,561,938**	**$2,315,786**	**$14,640,814**	**$19,043,736**

Issuance costs of debentures and financings 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.

As of December 31, 2017, the Company has unused contractual credit lines of $15 million pesos and US$500 thousand dollars with maturities between one and two years.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2017 and 2016 were determined using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. In the case of Senior Notes placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. Measurement at fair value of such financial liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Liabilities related to finance leases are effectively covered by the rights of the leased asset to be returned to the lessor in the event of default.

	2017	2016
Minimum future payments of finance leases, including non-accrued interest		
- Less than 1 year	$360,570	$407,866
- Over 1 year and less than 5 years	327,296	374,678
Non-accrued interest of finance leases	(51,354)	(79,008)
Present value of finance lease liabilities	**$636,512**	**$703,536**
The present value of finance lease liabilities is as follows:		
	2017	**2016**
Less than 1 year	$327,017	$358,358
Over 1 year and less than 5 years	309,495	345,178
	$636,512	**$703,536**

Covenants:

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

Financial ratios to be fulfilled include the following:

a. Interest coverage ratio: which is defined as adjusted EBITDA (see Note 26) divided by financial expenses for the last four quarters of the period analyzed. This factor cannot be less than 2.75 times from the execution date of the contract until the second quarter of 2019 and cannot be less than 3.0 times from there on.

b. Leverage ratio: which is defined as net consolidated debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) divided by adjusted EBITDA (see Note 26) for each quarter.

   As of December 31, 2017 and until December 31, 2018, this factor cannot exceed 4.25 times. For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.

* For Senior Notes, the leverage ratio cannot exceed 4.25 times.

Covenants contained in credit agreements establish certain obligations, conditions and exceptions that require or limit the capacity of the Company to:

- Grant liens on assets;
- Enter into transactions with affiliates;
- Conduct a merger in which the Company is dissolved, unfavorable sale of assets; and
- Pay dividends.

As of December 31, 2017 and as of the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

17. EMPLOYEE BENEFITS

Defined contributions plans:

The Company has a defined contribution plan. According to the structure of this plan, the reduction on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contribution plan. Due to the changes made in the 2014 tax reform, the Company interrupted the deposits to the trust; however, it has maintained this benefit and recognized labor obligations of $242,207 and $160,117 as of December 31, 2017 and 2016, respectively.

Defined benefit plans:

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

Following is a summary of the primary financial data of these employee benefits:

	2017	2016
Obligations in the consolidated statement of financial position:		
Pension benefits (1)	$340,821	$302,399
Post-employment medical benefits	5,668	4,520
Defined contribution additional liability	242,207	160,117
Liability recognized in the consolidated statement of financial position	**$588,696**	**$467,036**
Charge in the consolidated statement of income for:		
Pension benefits	$ 46,757	$ 16,419
Post-employment medical benefits	454	537
	$ 47,211	**$ 16,956**
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	**$ 10,859**	**$ 25,167**

(1) Up until February 15, 2016, the Company recognized seniority premiums.

Pension and post-employment medical benefits

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most of the plans are externally funded. The Company operates post-employment medical benefit plans. The accounting method, assumptions and frequency of the valuations are similar to those used for defined benefits in pension schemes. These plans are not funded.

The amounts recognized in the consolidated statement of financial position are determined as follows:

	2017	2016
Present value of obligations equal to the liability in the consolidated statement of financial position	**$588,696**	**$467,036**

The movement in the defined benefit obligation during the year was as follows:

	2017	2016
As of January 1	$306,919	$ 28,231
Current service cost	24,063	8,194
Financial cost	23,148	8,762
Remeasurements:		
Loss from changes in financial assumptions	10,859	25,167
Past service cost	5,168	2,719
Benefits paid	(23,016)	(3,444)
Liabilities acquired in merger	-	122,262
Modifications to the plan (*)	-	137,321
Reductions	(652)	(22,293)
As of December 31	$346,489	$306,919

(*) Effect arising from standardization of personnel benefits with those offered by Alfa.

The primary actuarial assumptions were as follows:

	2017	2016
Discount rate	7.25%	6.75%
Future wage increase	4.50%	5.25%
Medical inflation rate	6.50%	7.50%

The sensitivity analysis of the main assumptions for defined benefit obligations were as follows:

	Impact on defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	$(22,105)	$25,104
Medical inflation rate	1.0%	$ (6,803)	$ 4,763

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.

18. INCOME TAXES

a) Income taxes recognized in the consolidated statement of income:

	2017	2016
Current income tax	$ (75,827)	$ (97,048)
Deferred income tax	(312,650)	1,556,866
Prior years' adjustment	(40,007)	11,888
Income tax (expense) benefit	**$(428,484)**	**$1,471,706**

b) The reconciliation between the statutory and the effective income tax rates was as follows:

	2017	2016
Income (loss) before taxes	$ 490,656	$(5,070,968)
Equity in income of associates recognized using the equity method	-	5,189
Income (loss) before equity in associates	490,656	(5,065,779)
Statutory rate	30%	30%
Taxes at statutory rate	(147,197)	1,519,734
(Plus) less tax effect on:		
Tax effects of inflation	95,432	105,895
Non-deductibles	(268,136)	(249,064)
Other differences, net	(108,583)	95,142
Total income tax provision charged to income	**$(428,484)**	**$ 1,471,706**
Effective rate	**87%**	**29%**

c) The detail of deferred income tax asset (liability) is as follows:

	2017	2016
Tax loss carryforwards	$2,940,991	$2,797,686
Allowance for doubtful accounts	573,271	591,444
Property, plant and equipment	392,463	1,012,748
Provisions and other	219,427	481,128
Long-term debt	(546,735)	-
Intangible assets and other	168,294	153,908
Deferred tax asset	**$3,747,711**	**$5,036,914**
Property, plant and equipment	$ (4,433)	$ (54,416)
Telephone concession rights	-	(15,905)
Long-term debt	-	(549,342)
Intangible assets and other	(6,215)	(370,796)
Deferred tax liability	**$ (10,648)**	**$ (990,459)**

Deferred income tax assets are recognized over tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is likely. Tax losses amount as of December 31, 2017 for which a tax asset was recognized amount to $9,803,303. The Company reserved tax losses of $1,086,631 as their realization was not considered likely.

Tax losses as of December 31, 2017 expire in the following years:

Year of expiration	Amount
2021	$ 645,823
2022	484,931
2023	622,543
2024 onwards	9,136,636
	$10,889,933

d) The tax charge/(credit) related to other comprehensive income is as follows:

	2017			2016		
	Antes de impuestos	Impuesto cargado/ (acreditado)	Después de impuestos	Antes de impuestos	Impuesto cargado/ (acreditado)	Después de impuestos
Effect of currency translation	$ (1,212)	$ -	$(1,212)	$14,556	$ (4,367)	$10,189
Remeasurements of employee benefits	(10,859)	3,257	(7,602)	(25,167)	7,550	(17,617)
	$(12,071)	**$ 3,257**	**$(8,814)**	**$(10,611)**	**$ 3,183**	**$(7,428)**

19. SHAREHOLDERS' EQUITY

At the Ordinary General Shareholders' Meeting on March 10, 2017, the shareholders agreed to decrease the Company's minimum fixed capital stock in the aggregate amount of $9,868,332 in order to absorb prior years' retained losses in the aggregate amount of $10,513,042, and having previously applied the additional paid-in capital of $644,710. This capital reduction was carried out without modifying or reducing the number of shares that represent the Company's capital stock.

On July 18, 2017 and in accordance with the resolutions adopted at the General Shareholders' Extraordinary Meeting held on January 15, 2016 relating to the merger of Onexa, S. A. de C. V., Axtel delivered to Alfa 1,019,287,950 Class "I" shares of Series "B", representing an additional ownership to Alfa of 2.50% in Axtel. The shares were previously held in Axtel's Treasury and their payment to Alfa cancelled the liability previously recognized by Axtel as consideration for the merger.

After the above-mentioned events, the Company's capital stock as of December 31, 2017 was $464,368 and was comprised of 20,249,227,481 Class "I", Series "B" common nominative shares, with no par value, entirely subscribed and paid in. As of that date, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

Movements on the number of common shares of the Company during the year was as follows:

	Number of shares
Beginning balance	19,229,939,531
Issuance of shares to Alfa	1,019,287,950
Ending balance	**20,249,227,481**

In 2016, as a result of the merger mentioned in Note 2g), the following, among other matters, were approved: (i) cancellation of 287,141,239 Class "I" Series "B" shares of the Company, (ii) reissuance of 287,141,239 Class "I" Series "B" shares issued, but not subscribed, held by the Company's Treasury to be subscribed through the conversion of debentures convertible into shares under the terms of the decisions made at the extraordinary general stockholders' meeting on January 25, 2013; (iii) 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 (iv) 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 cannot 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	Merger reserve	Total
Issuance of shares (see Note 2)	$3,464,252	$ 3,385,870	(*) $6,850,122
Difference between fair value and shareholders' equity of Onexa (*)		(3,482,023)	(3,482,023)
Transfer to reserve	(128,491)	128,491	-
Indemnity (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 2g), taking into account the estimated unit price thereof at the date of the merger, which totaled $6,850,122.

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. During 2016, the $90,000 reserve set up for the repurchase of shares was canceled. Moreover, during 2016, conversion options were exercised totaling $36,094 equivalent to 104,833,887 shares.

During the year ended December 31, 2016, the Company suffered net losses of $3,599,262. As of December 31, 2016, the Company showed an accumulated deficit of $8,486,561 and an excess of short term liabilities over current assets of $1,532,511 in 2016. As of 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. As of December 31, 2017, such situation no longer prevails in the Company considering the events described previously in this note.

Net income for the year is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock.

In accordance with the new Mexican Income Tax Law effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individual tax payers, when these correspond to taxable income generated starting 2014. It also establishes that for fiscal years 2001 to 2013, net taxable income will be determined as established in the Income Tax Law that was effective in the corresponding fiscal year.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN from Spanish). Dividends exceeding CUFIN will generate income tax at the applicable rate of the period in which they are paid. This tax incurred is payable by the Company and may be credited against income tax in the same year or the following two years. Dividends paid from previously taxed profits are not subject to tax withholding or additional tax payments. As of December 31, 2017, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $657,754 and $39,142,270, respectively.

In case of capital reduction, the procedures established by the Income Tax Law provide that any surplus of shareholders' equity be given over the balances of the fiscal accounts of the capital contributed, the same tax treatment applicable to dividends.

20. EXPENSES CLASSIFIED BY THEIR NATURE

Total cost of sales and selling and administrative expenses, classified by nature of the expense, were as follows:

	2017	2016
Service cost [1]	$ 3,947,167	$ 2,747,613
Employee benefit expenses (Note 23)	3,121,411	2,958,216
Maintenance	1,397,526	1,667,790
Depreciation and amortization	4,033,838	3,829,589
Advertising expenses	179,810	169,736
Energy and fuel consumption	344,548	273,001
Travel expenses	55,484	69,199
Operating leases	1,138,605	1,107,916
Technical assistance, professional fees and administrative services	28,068	126,934
Other	379,278	358,977
Total	**$14,625,735**	**$13,308,971**

(1) Service cost 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.

Interconnection costs, including charges for local and resale access, 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.

21. OTHER INCOME (EXPENSES), NET

	2017	2016
Merger expenses (*)	$(312,724)	$(835,200)
Disposals of property, plant and equipment due to damage and obsolescence	(11,724)	(52,795)
Gain (loss) on sale of property, plant and equipment (**)	841,437	(4,483)
Other income (expenses), net	1,309	54,749
Total other income (expenses), net	$ 518,298	$ (837,729)
Total	**$14,625,735**	**$13,308,971**

(*) As of December 31, 2017 and 2016, corresponds mainly to personnel compensation of $191,226 and $514,630; adoption of the retirement benefit plan of $0 and $137,300; and other merger expenses of $121,498 and $183,270, respectively.

(**)As of December 31, 2017, corresponds mainly to $840,400 gain on the sale of telecommunication towers to MATC Digital, S. de R. L. de C. V., subsidiary of American Tower Corporation.

22. FINANCIAL RESULT, NET

	2017	2016
Financial income:		
Interest income on short-term bank deposits	$39,286	$19,738
Other financial income	17,412	4,643
Total financial income	**$56,698**	**$24,381**
Financial expenses:		
Interest expense on bank loans	$(1,131,457)	$(775,668)
Expense related to early cancellation award (Note 2h)	-	(758,064)
Financial assets at fair value applied to income	-	(225,121)
Interest expense on senior notes	(140,408)	(221,944)
Expenses related to other interest and commissions	(16,094)	(2,472)
Financial expenses related to employee benefits	(26,135)	(6,492)
Embedded derivative financial instrument	-	(71,318)
Other financial expenses	(332,933)	(41,021)
Total financial expenses	**$(1,647,027)**	**$(2,102,100)**
Exchange fluctuation gain (loss), net		
Gain on exchange fluctuation	$ 4,366,749	$ 210,124
Loss on exchange fluctuation	(3,718,469)	(2,988,804)
Exchange fluctuation gain (loss), net	**$ 648,280**	**$(2,778,680)**

23. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries, wages and benefits	$2,592,738	$2,448,479
Social security fees	423,054	421,205
Employee benefits	24,063	8,914
Other fees	81,556	79,618
Total	**$3,121,411**	**$2,958,216**

24. TRANSACTIONS WITH RELATED PARTIES

			December 31, 2017				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company		$ 2,952					N/A
Holding company		-	$ 413,161	$ 5,678	USD	15/07/18	3%
Holding company [1]		-	287,300	27,018	MXP	28/02/18	TIIE + 2.25%
Holding company [1]		-	287,300	27,018	MXP	28/02/19	TIIE + 2.25%
Holding company [1]		-	204,574	19,238	MXP	28/02/18	TIIE + 2.25%
Holding company [1]		-	204,574	19,238	MXP	28/02/19	TIIE + 2.25%
Holding company		-	219,600	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	$31,702	17,384	2,127	304	USD		LIBOR 3M + 2.75%
Total	$	31,702	$ 20,336	$1,618,636	$ 98,494		

[1] Indemnification (see Note 2).

			December 31, 2016				
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company [2]		$ 246,396			MXP	14/07/17	N/A
Holding company		-	$413,280	$12,605	USD	15/07/17	3%
Holding company [1]		287,300	-	-	MXP	28/02/18	TIIE + 2.25%
Holding company [1]		287,300	-	-	MXP	28/02/19	TIIE + 2.25%
Holding company [1]		204,574	-	-	MXP	28/02/18	TIIE + 2.25%
Holding company [1]		204,574	-	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	$20,949	8,034	2,228	229	USD		LIBOR 3M + 2.75%
Total	**$20,949**	**$1,238,178**	**$415,508**	**$12,834**			

[1] Indemnification (see Note 2).

[2] Merger-related financial liability (see Note 2).

Transactions with related parties for the years ended December 31, 2017 and 2016, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

	Year ended December 31, 2017			
	Income	Costs and expenses		
	Telecommunication services	Interests	Administrative services	Others
Holding company	$ -	$(104,204)	$ -	$ -
Affiliates	162,792	(81)	-	(38,320)
Total	$162,792	$(104,285)	$ -	$(38,320)

	Year ended December 31, 2017			
	Income	Costs and expenses		
	Telecommunication services	Interests	Administrative services	Others
Holding company	$ -	$(10,093)	$(2,317)	$ -
Affiliates	131,060	(1,498)	-	(31,287)
Total	$131,060	$(11,591)	$(2,317)	$(31,287)

Additionally, as mentioned in Note 2g, in 2016 the Company paid $809,793 corresponding to obligations related to the non-competition agreement.

For the year ended December 31, 2017, compensation and benefits paid to the Company's main officers totaled $112,048 ($245,506 in 2016), comprised of base salary and benefits required by law, complemented by a program of variable compensation basically based on the Company's results and the market value of Alfa's shares.

25. CONTINGENCIES AND COMMITMENTS

As of December 31, 2017, the following commitments and contingencies exist in relation to Axtel and its subsidiaries:

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. The corresponding tariffs to the interconnection mobile services provided by Telcel to the Company starting April 5, 2014 and from this date on, are subject to the gratuity conditions imposed by the article 131 section a) from the Federal Law of Telecommunications and Radiodifussion ("LFTR" from Spanish). Telcel challenged such condition, which was resolved by the Second Chamber of the Supreme Court of National Justice through sentence contained in the record 1100/2015 which declared unconstitutional the article without an order of application of retrospective charges from the Company.

Therefore, as of December 31, 2017, 2016 and 2015, and from August 14 to December 31, 2014, the gratuity conditions prevailed based on the resolutions obtained in favor of the Company, without any existing contingency for the Company for the mentioned years.

On January 2018, the Company was notified through an injunction issued by Telcel against the resulting tariffs in 2017 for the 2018 period from IFT in accordance to the resulting sentence provided by the Second Chamber referred above. For that matter, the Company and its legal advisors consider that the tariffs will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

b. Telefónica Group.

i. The Company (Axtel and Avantel) signed transaction agreements in 2015 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 the periods of 2012, 2013, 2014 and 2015, the Federal Telecommunications Institute (IFT) resolved interconnection disagreements to 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, on February 2016, the Company and Telefónica Group signed agreements to terminate disputes related to interconnection rates.

In the case of the subsidiary Alestra, severance agreements were signed with Grupo Telefónica for the period from January 1, 2007 to July 31, 2016, being them positively resolved for Alestra in courts for the period comprised from August 1 to December 31, 2016. The tariffs used for the compensation payment for such period are the ones the IFT has resolved in other instances and based on the court case results, no change is expected.

Therefore, as of 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 such tariffs and there are no provisions associated to this contingency.

In January 2018, the Company was notified through an injunction issued by Telefónica against the resulting tariffs in 2017 for the 2018 period from IFT in accordance to the resulting sentence provided by the Second Chamber referred above. For that matter, the Company and its legal advisors consider that the tariffs will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

c. Iusacell Group (now AT&T).

i. For the periods of 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements to 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 specialized courts. For such 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 the 2015 period and in July 2016, the Company (Axtel) obtained a favorable first instance sentence confirming the tariffs. The appeal for review filed by Iusacell before the Specialized Collegiate Court was resolved in favor of the interest of the Company, prevailing the tariffs of the resolution.

iv. The subsidiary Alestra has lawsuits for interconnection tariffs with Iusacell for the years 2012, 2013, 2014, which were resolved in favor of Alestra, prevailing the interconnection tariffs issued by IFT. Regarding 2015 with Iusacell and with ATT for 2015 and 2016, such lawsuits are under litigation at specialized courts.

Therefore, as of December 31, 2016 and 2015, the Company and its advisors consider that the tariffs pertaining to the IFT resolutions will prevail, as a result of which, the Company has recognized the cost based on such tariffs and there are no provisions associated to this contingency.

d. Disagreements on interconnection with Telmex & Telnor.

i. For the years 2009, the Company (Axtel and Alestra in different trials), 2012, 2013 and 2014 (Axtel-Avantel) and 2013 (Alestra) obtained final favorable sentences confirming termination long-distance calls tariffs of the Company towards Telmex which the Federal Telecommunications Commission ("Cofetel") had established. For the years 2009, 2012, 2013 and 2014 Telmex placed litigation procedures to contest the tariffs established by Cofetel.

ii. Additionally, there is a disagreement between Telmex and Avantel regarding the tariffs for terminating long-distance calls that the Cofetel resolved in favor of Avantel for the year 2009, approving a tariff reduction. Telmex contested this resolution at the Court, and the related sentence is expected to be handed down shortly.

iii. On May 2011, Cofetel also approved a reduction in the tariffs 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 still pending.

iv. On August 2015, the IFT established the interconnection tariffs that Telmex will pay to the Company for local origination. Telmex obtained sentence on first instance protecting them with the 20th transitional article of the Telecommunications and Radiodifussion Federal Law (LFTR) (for two different tariffs for each period). Telmex presented a revision which was sent to the Supreme Court of National Justice to determine the constitutionality of such transitional article, the authority conceded the protection to Telmex and now it is under specialized courts for its definite result.

v. For the 2015 period, the IFT set the interconnection rates to be paid by Telmex to the Company for fixed termination. Telmex contested such resolution and the gratuity imposed by article 131 section a) of the LFTR regarding termination in its network. No ruling has yet been handed down by the Supreme Court in this regard.

vi. Subsidiary Alestra is involved in litigation with Telmex for interconnection tariffs applicable from 2008 to 2013, except 2009, as Telmex contested the reduction of tariffs 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 for 2009 and 2010. On April 2013, Alestra obtained a favorable sentence for 2009, and obtained 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 as of December 31, 2016 of $153.0 million. (See Note 7).

vii. Since April 2012, Alestra and Telmex resumed negotiations and given the most recent and reliable information and the market conditions, the resale interconnection tariffs 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. On April 2015, the IFT set interconnection tariffs to Alestra for termination of long distance in the Telmex network applicable to 2013 and 2015. Telmex contested in a protection trial which was resolved in favor of the Company. Alestra obtained favorable firm sentence for the year 2013. The IFT resolved interconnection tariffs for 2015, which Telmex contested before specialized courts, and were definitely resolved by denying the protection to Telmex in favor of Alestra.

ix. Under the LFTR, from August 13, 2014 and until December 31, 2017, the preponderant economic agent (AEP in Spanish) in the telecommunications sector, Telmex and Telcel are prohibited to charge any interconnection tariff for the termination of calls ending in their network. Telcel and Telmex contested such condition that was resolved by the Second Chamber of the Supreme Court of National Justice through sentence contained on the file 1100/2015, declaring unconstitutional the article without the application of retrospective charges in prejudice of the Company. Only the protection agreement referred to Telcel has been resolved.

Therefore, as of December 31, 2017, 2016, 2015 and from August 14 to December 31, 2014 the gratuity conditions prevailed based on the resolutions obtained in favor of the Company, without any contingency existing for the years in prejudice of the Company.

x. During 2016, the IFT started a revision process of the preponderance measurements imposed to América Móvil as holding company of Telmex and Telcel. From this revision, the agreement P/IFT/EXT/270217/119 was issued by which the IFT modifies and adds the measurements imposed to the AEP in 2014 which tends to generate a sector where competition conditions exist in the telecommunications sector. As of December 31, 2017, the preponderant agent status of Telmex, Telnor and Telcel wasn´t modified.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider that the tariffs pertaining to the IFT and Cofetel resolutions will prevail as per the favorable resolutions obtained by the Company, and as a result, the Company has recognized the cost based on such tariffs and there are no provisions 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. 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 Tamaulipas. To date, Solution Ware has filed a number of ordinary commercial lawsuits against Axtel, for payment of a number of purchase orders for administrative services, as well as interest, damages and prejudice, as well as legal costs and expenses. As of the date of these consolidated financial statements, Solution Ware has demanded, via commercial notary public, payment of $91,776 and $US12,701.

Currently, only the trial related to the contract of the Department of Labor and Social Welfare has been resolved in first instance, which absolved Axtel from the social benefit claimed.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider there is no real probability that these lawsuits will prosper and therefore, no provisions were recognized for this contingency.

While the results of the disputes cannot be predicted, as of 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 resolved 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 involved in 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. Provisions were set up in connection with these contingencies.

II. Commitments

The Company has commitments related to lease agreements, mainly consisting of offices, that qualify as operating leases.

The aggregated minimum future payments, corresponding to non-cancellable operating leases are as follows:

Within 1 year	$1,063,034
After 1 year but not exceeding 5 years	3,424,198
After 5 years	3,796,470

26. FINANCIAL INFORMATION BY SEGMENTS

Currently, the information used in strategic decision making is reported to the Chief Executive Officer based on three operating segments. The approach of the three 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. Such category includes expenses related to the centralized functions, including acquisitions, chain of supply and the Company'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. Transactions 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 each 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 Chief Executive Officer.

The Company defined adjusted EBITDA as the result of adding depreciation and amortization, and impairment of non-current assets, to the operating income (loss). 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 Alfa's central treasury.

When projects are not directly attributed to a particular operating segment, the capital expense is allocated 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 of these operating segments:

I. Analytical information per segment

	2017			
	Massive	Business	Government	Total
Sales by segment	$2,996,184	$9,945,476	$2,571,430	$15,513,090
Service cost	(506,965)	(2,029,522)	(1,410,680)	(3,947,167)
Expenses	(1,064,572)	(1,039,486)	(131,260)	(2,235,318)
Business unit contribution (BUC)	1,424,647	6,876,468	1,029,490	9,330,605
	48%	69%	40%	60%
Unallocated expenses				(3,450,742)
Adjusted EBITDA without merger expenses				5,879,863
Merger and other operating expenses				(428,648)
Adjusted EBITDA				5,451,215
Impairment of non-current assets				(11,724)
Depreciation and amortization				(4,033,838)
Operating income				1,405,653
Financial result, net				(914,997)
Equity in income of associates				-
Income taxes				(428,484)
Consolidated net income				62,172

	2016			
	Massive	Business	Government	Total
Sales by segment	$3,129,580	$8,783,843	$2,023,897	$13,937,320
Service cost	(436,820)	(1,579,947)	(730,846)	(2,747,613)
Expenses	(1,098,137)	(905,408)	(242,768)	(2,246,313)
Business unit contribution (BUC)	$1,594,623	$6,298,488	$1,050,283	$8,943,394
	51%	72%	52%	64%
Unallocated expenses				(4,435,190)
Adjusted EBITDA without merger expenses				4,508,204
Merger and other operating expenses				(835,200)
Adjusted EBITDA				3,673,004
Impairment of non-current assets				(52,795)
Depreciation and amortization				(3,829,589)
Operating income				(209,380)
Financial result, net				(4,856,399)
Equity in income of associates				(5,189)
Income taxes				1,471,706
Consolidated net income				(3,599,262)

II. General information

a. Sales by service:

	2017	2016
Voice	$3,865,353	$4,236,979
Administered networks	4,045,312	3,046,351
Internet data	4,896,642	4,209,462
Video	533,054	499,726
Administrative applications	230,344	215,042
Hosting	656,286	586,149
System integration	529,882	573,475
Security	390,899	322,680
Cloud services	186,180	125,474
Other services	179,138	121,982
Total	**$15,513,090**	**$13,937,320**

b. Sales per geographic zone:

	2017	2016
Mexico	$15,439,019	$13,865,436
Outside Mexico	74,071	71,884
Total	**$15,513,090**	**$13,937,320**

27. SUBSEQUENT EVENTS

In preparing the consolidated financial statements, the Company has evaluated events and transactions for recognition or disclosure subsequent to December 31, 2017 and through January 31, 2018 (date of issuance of the consolidated financial statements), and has concluded there are no significant subsequent events that affect the consolidated financial statements.

28. AUTHORIZATION TO ISSUE THE FINANCIAL STATEMENTS

On January 31, 2018, the issuance of the accompanying consolidated financial statements was authorized by Sergio Rolando Zubirán Shetler, Chief Executive Officer, Adrián de los Santos Escobedo, Chief Financial Officer, and José Salvador Martín Padilla, Corporate Controller.

These consolidated financial statements are subject to the approval of the Company's ordinary shareholders' meeting.

REPORT PARAMETERS

102-10, 102-48, 102-49, 102-50, 102-51, 102-52, 102-54, 102-56

As we do every year, through the Axtel 2017 Integrated Annual Report, we ratified our commitment to our stakeholders to transparently report the results we obtained during the year on matters of economy, labor, corporate governance, environment, and finance.

The information presented pertains to the period from January 1 to December 31, 2017. During this period, we carried out a new materiality exercise, so the list and coverage of Axtel's material issues were updated with respect to the previous period, without this entailing significant changes in our manner or methodology of reporting.

The Report does not include information from other entities, companies, or institutions, or from shareholders, customers, or business partners. The important organizational changes during this period are specified throughout the report.

For the first time, the new methodology of the Global Reporting Initiative Standards has been used. This report has been prepared in accordance with the GRI Standards: Core Option.

This document was verified by e3 Consultora Ambiental, an entity unattached to Axtel whose verification letter is attached to this Report.

CERTIFICATIONS, ASSOCIATIONS, AND PARTICIPATIONS 2017

102-12, 102-13

TECHNOLOGICAL CERTIFICATIONS

- ISO 9001:2015
- ISO/IEC 27001:2013
- ISO 20000-1:2011
- ICREA Level 3,4 and 5
- Tier III of Design Documents - Uptime Institute
- CEEDA Silver and Bronze Level
- PCI Data Security Standard
- SSAE-16
- Avaya Diamond Partner
- Checkpoint Partner Level 3 Stars
- CISCO, Gold Certified Partner
- CISCO, Cloud and Managed Services Master
- EMC Gold Partner
- Fortinet Platinum Partner in Mexico with Fortinet Managed Services
- HPE Silver Partner
- Microsoft Cloud Reseller and Hosting Partner
- Partner Managed Cloud
- Symantec Platinum Partner

In 2017, 60 of our employees obtained 85 certifications in different tools from institutions such as Alcatel, Amazon, Avaya, Axelos, Blue Coat, Check Point, CISCO, COMMSCOPE, Data Center Dynamics, Ec-Council, Exin, Fortinet, Hewlett Packard Enterprise, Huawei, ISACA, ISCA, LRQA-IRCA, Oracle, PMI, PROSCI, Red Hat System, Scrum Study, The Open Group, VMWARE, and Westcon.

In November 2017, concluded the transition to our Quality Management System to the ISO 9001:2015 norm, whose purpose is to increase customer satisfaction.

PARTNERSHIPS AND PARTICIPATIONS

- Organización Vida Silvestre, A.C., through the urban reforestation and corporate volunteering program NOW, Alianza por la Reforestación.

- Red SumaRSE Nuevo León, participation

GRI CONTENT INDEX

102-55

GRI Standard	Page	Description	Direct response
GRI 102 GENERAL DISCLOSURES 2016			
1. Perfil de la organización			
102-1	-	Name of the organization.	Axtel, S.A.B. de C.V.
102-2	36	Activities, brands, products, and services.	
102-3	9	Location of headquarters.	
102-4	41, 42, 43, 44	Location of operations.	
102-5	-	Ownership and legal form.	Axtel, S.A.B. de C.V.
102-6	9, 36, 41, 42, 43, 44	Markets served.	
102-7	41, 42, 43, 44, 51, 77	Scale of the organization.	
102-8	51	Information on employees and other workers.	
102-9	39	Supply chain.	
102-10	165	Significant changes to the organization and its supply chain.	
102-11	18	Precautionary Principle or approach.	
102-12	165	External initiatives.	
102-13	165	Membership of associations.	
2. Strategy			
102-14	4	Statement from senior decision-maker.	
102-15	18	Key impacts, risks, and opportunities.	
3. Ethics and integrity			
102-16	10, 30	Values, principles, Standards, and norms of behavior.	
102-17	30	Mechanisms for advice and concerns about ethics.	
4. Governance			
102-18	19	Governance structure.	
102-19	19	Delegating authority.	

102-20	19	Executive-level responsibility for economic, environmental, and social topics.	
102-21	12	Consulting stakeholders on economic, environmental, and social topics.	
102-22	19	Composition of the highest governance body and its committees.	
102-23	19	Chair of the highest governance body.	
102-24	19	Nominating and selecting the highest governance body.	
102-25	19, 30	Conflicts of interest.	
102-26	19	Role of highest governance body in setting purpose, values and strategy.	
102-27	19	Collective knowledge of highest governance body.	
102-28	19	Evaluating the highest governance body's performance.	
102-29	18	Identifying and managing economic, environmental, and social impacts.	
102-30	18	Effectiveness of risk management processes.	
102-31	18	Review of economic, environmental, and social topics.	
102-32	30	Highest governance body's role in sustainability reporting.	Executive Director of Human Capital.
102-33	30	Communicating critical concerns.	
102-34	30	Nature and total number of critical concerns.	
102-35	19	Remuneration policies.	
102-36	19	Process for determining remuneration.	
102-37	19	Stakeholders' involvement in remuneration.	
102-38	-	Annual total compensation ratio.	Information that is kept confidential to protect the safety of our employees.
102-39	-	Percentage increase in annual total compensation ratio.	Information that is kept confidential to protect the safety of our employees.
5. Stakeholders' participation			
102-40	16	List of stakeholder groups.	
102-41	51	Collective bargaining agreements.	12% of Axtel employees are unionized.
102-42	16	Identifying and selecting stakeholders.	

102-43	16	Approach to stakeholder engagement.	
102-44	16, 39	Key topics and concerns raised.	
6. Report ellaboration practices			
102-45	21	Entities included in the consoli-dated financial statements.	
102-46	12	Defining report content and topic Boundaries.	
102-47	12	List of material topics.	
102-48	164	Restatements of information.	
102-49	164	Changes in reporting.	
102-50	164	Reporting period.	
102-51	164	Date of most recent report.	
102-52	164	Reporting cycle.	
102-53	175	Contact point for questions regarding the report.	
102-54	164	Claims of reporting in accor-dance with the GRI Standards.	
102-55	166	GRI content index.	
102-56	164	External assurance.	

GRI Standar	Page	Description	Direct response	Global Compact Principles
GRI 200: Economic standards 2016				
GRI 201 Economic performance				
103-1	77	Explanation of the material topic and its Boundary.		
103-2	77	The management approach and its components.		
103-3	77	Evaluation of the management approach.		
201-1	77	Directo economic value generated and distributed.		
201-3	-	Defined benefit plan obligations and other retirement plans.	We have a pension plan with an estimated value of 500,000,000 pesos.	
201-4	-	Financial assistance received from government.	Axtel did not receive any type of financial aid given by the government during 2017.	
GRI 202 Market presence				
202-1	51	Ratios of standard entry level wage by gender compared to local minimum wage.		
202-2	-	Proportion of senior management hired from the local community.		
GRI 203 Indirect economic impacts				
203-2	-	Significant indirect economic impacts.	As a part of compliance with the Federal Telecommunications and Radio Broadcasting Act, we began implementation of the necessary modifications to improve accessibility for users with disabilities. To users in rural zones, we offer the Program of Social and Rural Coverage and Connectivity, granting special rates in accordance with the zone. Likewise, we provide services to entities such as schools, hospitals and libraries as requested by the Ministry of Communication and Transportation with preferential discounts, promoting connectivity and social development.	
GRI 204 Procurement practices				
204-1	39	Proportion of spending on local suppliers.		
GRI 205 Anti-corruption				
103-1	30	Explanation of the material topic and its Boundary.		
103-2	30	The management approach and its components.		

103-3	30	Evaluation of the management approach.		
205-1	30	Operations assessed for risks related to corruption.		
205-2	30	Communication and training about anti-corruption policies and procedures.		
205-3	30	Confirmed incidents of corruption and actions taken.		
GRI 300: Environmental standards 2016				
103-1	65	Explanation of the material topic and its Boundary.		
103-2	65	The management approach and its components.		
103-3	65	Evaluation of the management approach.		
GRI 301 Materials				
301-2	74	Materials used by weight or volume.		7 and 8
301-3	74	Reclaimed products and their packaging materials.		8 and 8
GRI 302 Energy				
302-1	67	Energy consumption within the organization.		8
302-3	67	Energy intensity.		
302-4	67	Reduction of energy consumption.		8
GRI 303 Water				
303-1	73	Water withdrawal by source.		7 and 8
303-2	73	Water sources significantly affected by withdrawal of water.		
303-3	73	Water recycled and reused.		8 and 9
GRI 304 Biodiversity				
304-2	66	Significant impacts of activities, products, and services on biodiversity.		
GRI 305 Emissions				
305-1	70	Direct (Scope 1) GHG emissions.		8
305-2	70	Energy indirect (Scope 2) GHG emissions.		8
305-3	70	Other indirect (Scope 3) GHG emissions.		8
305-4	70	GHG emissions intensity.		8 and 9
305-5	70	Reduction of GHG emissions.		7 and 8
GRI 306 Effluents and waste				
306-2	74	Waste by type and disposal method.		8
306-4	74	Transport of hazardous waste.		

GRI 307 Environmental compliance				
307-1	**74**	Non-compliance with environmental laws and regulations.		8
GRI 308 Supplier environmental assessment				
308-1	**39**	New suppliers that were screened using environmental criteria.		
308-2	**39**	Negative environmental impacts in the supply chain and actions taken.		7 and 8
GRI 400: Social standards 2016				
GRI 401 Employment				
401-1	**51**	New employee hires and employee turnover.		
401-2	**51**	Benefits provided to full-time employees that are not provided to temporary or part-time employees.		6
401-3	**51**	Parental leave.		
GRI 403 Occupational health and safety				
403-1	**58**	Workers representation in formal joint management–worker health and safety committees.	At Axtel, the formal worker-company committees for health and safety are held at the managerial level.	3
403-2	**58**	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.		1
403-3	**58**	Workers with high incidence or high risk of diseases related to their occupation.		
403-4	**58**	Health and safety topics covered in formal agreements with trade unions.		
GRI 404 Training and education				
103-1	**55**	Explanation of the material topic and its Boundary.		1
103-2	**55**	The management approach and its components.		
103-3	**55**	Evaluation of the management approach.		
404-1	**55**	Average hours of training per year per employee.		
404-2	**55**	Programs for upgrading employee skills and transition assistance programs.		
404-3	**-**	Percentage of employees receiving regular performance and career development reviews.	29% of our employees receive periodic performance evaluations.	

GRI 405 Diversity and equal opportunity				
405-1	51	Diversity of governance bodies and employees.		
GRI 406 Non-discrimination				
406-1	30	Incidents of discrimination and corrective actions taken.		1, 2, 4 and 5
GRI 407 Freedom of association and collective bargaining				
407-1	33, 39	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	None of our operations are at risk since we allow freedom of association. We conduct union induction trainings twice a month and a monthly operational meeting with union representatives.	1, 2 and 6
GRI 408 Child labor				
103-1	33	Explanation of the material topic and its Boundary.		
103-2	33	The management approach and its components.		
103-3	33	Evaluation of the management approach.		
408-1	33, 39	Operations and suppliers at significant risk for incidents of child labor.		1, 2, 4 and 5
GRI 409 Forced or compulsory labor				
103-1	33	Explanation of the material topic and its Boundary.		
103-2	33	The management approach and its components.		
103-3	33	Evaluation of the management approach.		
409-1	33, 39	Operations and suppliers at significant risk for incidents of forced or compulsory labor.		1, 2, 4 and 5
GRI 410 Security practices				
410-1	33	Security personnel trained in human rights policies or procedures.		1, 2 and 4
GRI 411 Rights of indigenous peoples				
103-1	33	Explanation of the material topic and its Boundary.		
103-2	33	The management approach and its components.		
103-3	33	Evaluation of the management approach.		
411-1	33	Incidents of violations involving rights of indigenous peoples.		
GRI 412 Human rights assessment				
103-1	33	Explanation of the material topic and its Boundary.		

103-2	33	The management approach and its components.		
103-3	33	Evaluation of the management approach.		
412-1	33	Operations that have been subject to human rights reviews or impact assessments.		1
412-2	33	Negative social impacts in the supply chain and actions taken.		1, 2 and 4
412-3	-	Operations with significant actual and potential negative impacts on local communities.	During 2017 we did not sign any major investment agreement or contract.	
GRI 413 Local communities				
413-1	60	Operations with local community engagement, impact assessments, and development programs.		
GRI 414 Supplier social assessment				
414-1	39	New suppliers that were screened using social criteria.		
414-2	39	Negative social impacts in the supply chain and actions taken.		
GRI 416 Customer health and safety				
416-1	-	Assessment of the health and safety impacts of product and service categories.	This standard will be reported in 2018.	
GRI 418 Customer privacy				
418-1	30	Substantiated complaints concerning breaches of customer privacy and losses of customer data.		1

VERIFICATION LETTER

Independent verification report

CONSULTORA AMBIENTAL · ecología · evaluación · economía

The publics of the **Axtel 2017 Annual Integrated Report** are hereby informed that:

RYM Servicios Ambientales Internacionales, S.C, hereinafter referred to as **e3 Consultora Ambiental** has concluded an independent review of the sections that present the results of the sustainability practices implemented by Axtel, S.A.B de C.V., hereinafter referred to as Axtel, for fiscal year 2017.

Summary of Activities

e3 Consultora Ambiental formed a work team of specialists in corporate governance, ethics, employment practices, human rights and other areas of the social sphere, such as energy, emissions, water, waste and other environmental matters, as well as the methodologies and standards referred to in the **Axtel 2017 Annual Integrated Report.**

The Company's current Materiality Study was used to confirm the coverage of the contents in accordance with the GRI Standards, *Core* option.

To validate the quality of a sample of contents from the **Axtel 2017 Annual Integrated Report**, the verifying team requested access to the consolidated information records shared among the Company's departments.

Recommendations

The findings and detailed recommendations were provided separately in an internal report addressed to Axtel's Social Responsibility Department.

Methodologies

The application of the principles for the definition of the contents of the recport, the review of the basic general and specific contents and the coverage of the indicators related to the material issues and the presentation of the GRI Content Index, was confirmed by taking as reference the GRI Standards (GRI 101: Foundation 2016).

This independent verification report was prepared based on the following standards: *AA1000APS and ISAE 3000 (AccountAbility) and The External Assurance of Sustainability Reporting (Global Reporting Initiative).*

Conclusions

There was no evidence to indicate that the definition of the content of the **Axtel 2017 Annual Integrated Report** was not prepared based on the principles of stakeholder participation, the context of sustainability, materiality and exhaustiveness.

Based on a review of the evidence that supports the figures presented in a sample of the indicators covered by the record, no situations arose that led us to conclude that there are any significant errors or omissions in the information disclosed in the **Axtel 2017 Annual Integrated Report**.

There is no evidence that led us to object to the **Axtel 2017 Annual Integrated Report** having been prepared with the Core option of the GRI Standards.

David Parra
Operational Director
e3 Consultora Ambiental

NOTES. This work covers a limited verification exercise conducted under the charge of Axtel that was completed in February 2018. Under no circumstances shall this work be understood as an audit of the figures contained in the report or an exhaustive review of the internal control mechanisms for the generation, analysis, calculation and filing of Axtel's non-financial information.
e3 Consultora Ambiental is a company independent from Axtel. The verifying team did not take part in the preparation of the Axtel 2017 Annual Integrated Report.

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