2012 ANNUAL INTEGRATED REPORT




AXtel ®

Content

LETTER FROM THE CHIEF EXECUTIVE OFFICER

"In 2012 we were the only supplier in the market having Broadband Internet offerings for the consumption segment, with 150 Mbps speed"

Tomás Milmo Santos,
Chairman and Chief Executive Officer

[1.1, 2.9]

"We work intensively to improve our clients' experience through the development and supply of new products, some launched in 2012, and some others that will be announced during 2013"

Dear reader:

Last year our company faced challenges before which we demonstrated our ability and feasibility as a business. These include, among others, the decrease in our earnings coming from International traffic resulting from the prevailing unbalance in the industry, the finalization of the agreement with one of our main wholesale clients and the culmination in the Supreme Court of Justice of the Nation of a long litigation process related to interconnection rates.

Faced with this scenario, which led to the decrease in our revenues and our operating cash flow in relation to our projections, we made adjustments in our investment plan in order to maintain healthy levels of liquidity and, at the same time, not lose focus in our two strategic initiatives; growth of our fiber optic network and value-added services for the enterprise sector. Additionally we intensified efforts to achieve greater efficiencies in the Company's expenses. Finally, and in parallel with these two efforts, we continued strengthening our commercial offers through the development of a new generation of products focused on satisfying the needs of all the market segments we serve.

As a result of these actions, in 2012 we managed to improve our operational productivity, making our organization more efficient, lean, and focused, with a structure appropriate to the size of our core businesses and industry parameters, which resulted in a significant decrease in our operating expenses.

It is worth noting that given the aforementioned challenges, a decision was made to initiate a recapitalization plan that would restore flexibility to continue executing our strategic initiatives. This recapitalization plan consisted of divesting non-strategic assets, as well as a debt restructuring transaction. Both transactions, successfully completed in early 2013, along with the decrease in operating expenses, are significantly improving the capital structure and liquidity of the Company, restoring the required flexibility in order to make the necessary investments and continue to increase our competitiveness in the market.

It is relevant to note that during 2012, revenues coming from our two main segments, consumption and enterprise - government, represented 83 percent of our total earnings, an increase of 4 percent compared to 2011. In regards to our operational performance, the Revenue Generating Units, that are the sum of voice lines and data accounts, totaled nearly a million and a half at the end of 2012.

On the other hand, we continue working intensively in improving our customers' experience through the development and provision of new products, some launched in 2012 and others to be announced during 2013, thereby ensuring their total satisfaction as well as capturing more market share.

In the consumption segment, it is important to mention that the number of broadband subscribers grew 13 percent, driven by our "AXTEL X-tremo" offer which we provide through our fiber-to-the-home or business network (FTTX). Subscribers for this offer grew from 46 thousand to 100 thousand during the year, representing already 20 percent of our total broadband subscriber base.

In the end of 2012 we launched our "AXTEL TV" pay television service in a controlled manner among existing collaborators and customers in México City, Guadalajara, and Monterrey. This service, based on the technology platform of our supplier Ericsson, the most advanced in Latin America, takes advantage of the capacity and reliability offered by our fiber optic network, on which we already offer the AXTEL X-tremo broadband service since 2011. In 2012, we were the only supplier in the market offering broadband Internet speeds of 150 Mbps to the mass market segment. It is worth adding that during 2013 we will extend AXTEL X-tremo and AXTEL TV to more cities.

In the enterprise segment we developed new services in areas such as infrastructure and security, among others. This will strengthen our customized solutions offers for large corporate, financial, and government accounts, as well as standardized packages for small and medium enterprises.

Another relevant event was the entry of AXTEL to the Sustainable IPC of the Mexican Stock Exchange in 2013, thanks to the results achieved in 2012 in regards to sustainability. The aspects assessed were: corporate governance, business ethics, entering the social and environmental fields.

In 2012 we confirmed our commitment to the United Nations Global Compact, of which we are signatories since 2011, to meet its 10 principles related to human rights, fighting against corruption, labor standards, and environmental regulations.
In this way, we closed 2012 with high expectations and with the confidence of a strengthened organization and focused on a new stage of sustained profitable growth.

The aforementioned was possible thanks to the 6 thousand collaborators, who, with their daily work, make a reality the effective realization of the strategies and the satisfaction of market needs.

I thank our customers, our Board of Directors, our suppliers and our shareholders for their support in consolidating our business plans, ratifying our commitment to continue driving the profitable and sustainable growth of our Company.

Tomás Milmo Santos
Chairman and
Chief Executive Officer

01 | COMPANY PROFILE

[2.1, 2.8, 2.10, 4.8]

AXTEL is the second largest operator for fixed telephony and long distance in México, with is own network in 39 of the most important cities in the Country, as well as connectivity in 200 cities in the nation.

Company Profile

WHO WE ARE

We are a young and innovative telecommunications enterprise operating in México. Leaders in ICT solutions (Information and Communication Technologies) in the corporate, financial, and government sectors.

AXTEL is a public enterprise listed in the Mexican Stock Exchange (BMV) since 2005, operating under "AXTELCPO". In 2013 we became part of Sustainable IPC at BMV.

By December 31, 2012:

1 million 490 RGU's were recorded.

493 thousand Broadband Internet subscribers.

377 thousand WiMAX technology Internet users.

100 thousand clients with FTTX technology.

** RGU's: Revenue Generating Units.*

WHAT MARKETS ARE WE SERVING?

We are present in 39 cities in México where we serve all the market segments: corporate, financial, government, wholesale, and residential.

WHAT DO WE OFFER?

Our offering includes integral communication services such as high-speed Broadband, pay television, data transmission and virtual private network implementation, Web page hosting, data centers, managed security, services for other telecommunications operators and voice services, among others.

AXTEL Culture

WHAT DISTINGUISHES US?

Our culture reflects our daily behavior and the pillars on which we work day after day, convinced that congruence, quality work, and ethics are essential values for the development and permanence in our business on the long-term.

Mission:

"Improve communication to enhance life"

Vision:

"Innovating communication experiences that bring people closer to what they care the most for"

OUR VALUES:

Commitment

Honoring promises: to meet what I promise.
Expanding possibilities.
Making claims or stating satisfactions.
Contributing with society.

Honesty

Respecting truthfulness: deciding to do what is correct.
Building trusting relations.
Respecting others.
Declaring and learning from my mistakes and successes.
Responding realistically to requirements.

Service

Excellence and attitude in doing something for others: Listening and satisfying needs.
Positively surprising others exceeding their expectations.
Proactively making offerings
Enriching our work taking care of the ways.

Communication

Improving the quality of our dialogue at every moment: Sharing what we are, do, and learn.
Making clear requests.
Stating improvement areas.
Giving feedback.
Thanking and recognizing.

Innovation

Making new ideas a reality: transforming life.
Improving others' lives.
Generating new experiences.
Creating new ways of doing things.

AXTEL Background

1994 Started operations as Telefonía Inalámbrica del Norte, S.A. de C.V.

1996 Obtained the Telecommunications Public Network concession.

1999 Launched the AXTEL trade name and started operations in Monterrey.

2000 - 2008 Started operations in 37 additional cities.

2005 Became a public entity trading shares in the Mexican Stock Exchange (BMV).

2006 Acquired Avantel.

2009 Received the concession to offer pay television or satellite television services.

2010 Launched AXTEL X-tremo, faster and more advanced Broadband service in México.

2011 Subscribed to the United Nations Global Compact.

2012 We obtained the required results to enter the Sustainable IPC in the BMV. We launched AXTEL TV, and offer 150 mega high speed.

[2.4, 2.6, 4.1, 4.2, 4.3, 4.4, 4.5, 4.6, 4.7, 4.9, 4.10, 4.11]

Corporate Governance

AXTEL is a public enterprise listed in the Mexican Stock Exchange. It operates under the "AXTEL CPO" symbol. It is part of the Sustainable Price and Quotation Index in the Mexican Stock Market.

AXTEL Board of Directors is our supreme body governing the corporate and strategic decisions in our company.

The main function of this Board is managing the Enterprise, together with the Chief Executive Officer. These functions include identification and attention to potential risks that AXTEL is exposed to. Likewise, the Board of Directors, headed by our Chairman and Chief Executive Officer, is in charge of establishing the guidelines for our business strategies and overseeing their compliance, always aligned to the current Securities Market Law in México (LMV).

In accordance to the Company bylaws and the current laws, management is entrusted to the Board of Directors and the Chief Executive Officer. The Board of Directors of the Company is currently composed of 10 owner board members and 9 alternate directors, out of which one is a woman, not exceeding a maximum of 21 owner members in accordance to the provisions of the Securities Market Law and the Company Bylaws. The board members are designated by the shareholders in the Ordinary General Stockholders' Meeting. In compliance to the bylaws and the Securities Market Law, at least 25 percent of the Board of Directors must be independent board members. In compliance with the applicable legislation and Company bylaws, the Board members remain in office 30 days after their resignation or until the Board member designated as replacement is in office. The Company bylaws establish that the alternate directors shall attend the Board of Directors sessions when the owner member cannot attend.

The updated information detail in regards to the integration of the executive officers and members of the Board of Directors of the Company follows:

Tomás Milmo Santos
Chairman of the Board of Directors and Chief Executive Officer

Founder partner and Chief Executive Officer at AXTEL. Member of the Board of Directors since 1997 and Chairman of the Board since 2003. He is Regional Councillor of Grupo Financiero Banorte, member of te Board of Directors in CEMEX, at Instituto Tecnológico y de Estudios Superiores de Monterrey, in Promotora Ambiental. He is Chairman of the Board at Tec Salud and in Alianza Educativa Ciudadana por Nuevo León. Tomás Milmo Santos holds a degree in Business Economics from Standford University.

Thomas Lorenzo Milmo Zambrano
Director

Has been a Director at the Company since October 1997, and held the position of Chairman of the Board of Directors from 1997 until 2003. He was founder and Chairman of the Board at Grupo Javer, S.A. de C.V., one of the largest housing development companies in México, and of Incasa, S.A. de C.V., one of the largest aggregate producers in México. He was also Chairman of the Board of Directors and CEO of Carbonífera de San Patricio S.A. de C.V. and Carbón Industrial, S.A. de C.V. He was also Director of CEMEX until 1996.

Patricio Jiménez Barrera
Director

Has been Director at AXTEL since 1998. He was Corporate Director at AXTEL until February 2009. Prior to being at AXTEL, he held a variety of finance-related positions, including Investment Banker at Invermexico Casa de Bolsa, treasurer at Grupo Cydsa, S.A. and again investment banker at Banca Serfín, S.A., where he was Director of International Banking and Treasury. Currently he is member of the Board of Directors of Sociedad Financiera de Crédito Popular Nacional and of Operadora de Servicios Mega. Patricio Jiménez Barrera is a CPA and holds a degree from Instituto Tecnológico y de Estudios Superiores de Monterrey. He is Chairman of Abstrix, S. A. de C. V., company dedicated to private capital investments in México.

Lorenzo H. Zambrano Treviño
Director

Has been a Director at AXTEL since October 1997. Since 1995 he is Chairman of the Board and Chief Executive Officer of CEMEX, one of the main global companies in the construction materials industry, and he is member of the Board of Directors of IBM and served as Chairman of the Board of the Sistema Tecnológico de Monterrey from 1997 to 2012. He is also Member of the Board of Museo de Arte Contemporáneo de Monterrey (MARCO). Lorenzo Zambrano Treviño holds a B.S. in Mechanical Engineering from Instituto Tecnológico y de Estudios Superiores de Monterrey and has a Master's in Business Administration from Standford University.

Alberto Santos de Hoyos (†)
Director

Held the position of Director at AXTEL from October 1997 through 2013. He was a founder member of AXTEL. He was also a Member of its Board of Directors since 1997. Served as Board Member of Banco de México (regional), Grupo Cydsa, Grupo Senda and Maquinaria Diesel, S.A. de C.V. Was a Senator and Congressman at the National Congress, President of the Nuevo León Chamber of Industry (CAINTRA), Vice Presidente of the Confederation of Industrial Chambers (CONCAMIN) and President of the National Chamber of the Sugar and Alcohol Industries. He also held the position of Chairman of the Board of Directors, CEO and Member of the Board of Gamesa. He was also member of the Board at Instituto Tecnológico y de Estudios Superiores de Monterrey, Casa Paterna La Gran Familia, Andares, Instituto Nuevo Amanecer, Renace, Patronato Pro Educación Marista and Chairman of the Board at Empresas Santos, Ingenio Santos and Tres Vidas. Alberto Santos de Hoyos received a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Alberto Garza Santos
Director

Has been Director of AXTEL since October 2003. He is founder and Chairman of the Board of Directors and CEO of Promotora Ambiental and Museo Maderas del Carmen; likewise he is a member of the Board of Directors of Maquinaria Diesel, S.A. de C.V., Desarrollos Delta and SUPERA. He is Chairman of the Foundation Mundo Sustentable; he served as Chairman of the Advisory Board of Parque Ecológico Chipinque. He held the position of Vice-President of the National Liaison Committee with the Legislative Power at the National Chamber of Industry (CANACINTRA) and Chairman of the Environmental Commission at CANACINTRA. Alberto Garza Santos holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and has a degree in Political Sciences from Southern Methodist University.

Héctor Medina Aguiar (2)(3)
Director

Has been a Director at AXTEL since October 2003 and is member of the Audit and Corporate Practices Committee. He was Executive Vice-President of Finance and Legal at CEMEX from October 1996 until February 2010. Before he worked at Grupo ALFA. He was Chairman of the Directive Board of Universidad Regiomontana from 2006 to 2012, and is Member of the Board of Banco Ahorro Famsa and other private companies. He is also member of Invercap Afore Investment Committee and member of the Technical Committee and Audit Committee at Fibra Inn. Héctor Medina Aguiar graduated from Instituto Tecnológico y de Estudios Superiores de Monterrey as a Chemical Engineer. He also holds a degree in Management from the University of Bradford Management Center in England and a M.S. degree from Escuela de Organización Industrial in Spain.

Fernando A. González Olivieri
Director

Is member of the Board of Directors at AXTEL since 2010. Since he started his career at CEMEX in 1989 Fernando A. González has held different Senior positions, including Corporate Vice-President of Strategic Planning, President of CEMEX Venezuela, President of CEMEX Asia, President of CEMEX South America and the Caribbean, President of CEMEX Europe, Middle East, Africa and Australia, and Executive Vice-President for Planning and Development and Executive Vice-President of Planning and Finance. He is currently Executive Vice-President of Finance and Administration. Fernando received his degree and Master's in Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Bernardo Guerra Treviño (2)(3)
Director

Is member of the Board of Directors at AXTEL since 2006 and Chairman of the Audit and Corporate Practices Committee. He is a founder partner of Morales y Guerra Capital Asesores (MG Capital), and member of the Board of Directors at Promotora Ambiental, Grupo FAMSA and Banco Ahorro FAMSA. Likewise, he is Chairman of the Audit Committee at Promotora Ambiental and member of the Risk Committee at Banco Ahorro FAMSA. Bernardo Guerra Treviño holds an Industrial Engineering and Systems degree from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).

Lawrence H. Guffey (2)(3)
Director

Has been Director of the Board of Directors at AXTEL since may 2000. He is member of the Audit and Corporate Practices Committee. Likewise, he is Administrative Director at Blackstone Group International. Before joining Blackstone, he worked at the Acquisitions Group at Trammell Crow Ventures, the main investment arm at Trammell Crow Company. He is Member of the Board at Cineworld Group PLC, Deutsche Telekom and TDC. Lawrence H. Guffey graduated from Rice University.

Alberto de Villasante Herbert (1)
Alternate Director

Has been Executive Director of Strategic Relations and Alternate Director of AXTEL since march 2007. Prior to his current position, he was Vice-President of Negotiations, Alliances and Institutional Relations, responsible for relations with regulators, purchases of strategic assets, real estate, public telephony, and AXTEL strategic alliances. Prior to joining AXTEL he held different positions in Xignux including the Direction at Multilec. He is a Member of the Board at Concresa S.A de C.V. and Productora de Terrasos S.A. de C.V. Alberto de Villasante Herbert holds a degree in Marketing from Instituto Tecnológico y de Estudios Superiores de Monterrey, and a Masters in public accounting, administration and total quality.

Balbina Milmo Santos (1)
Alternate Director

Is Alternate Director for Thomas Milmo Zambrano. She holds a degree in Graphic Design from Instituto de Arte y Restauración in Florence, Italy. She also has studies at the Chamberlayne School of Design in Boston. She has lead several activities as entrepreneur.

Francisco Garza Zambrano (1)
Alternate Director

Has been Alternate Director for Lorenzo Zambrano Treviño since june 2005. He has held the position of President of the America region for CEMEX, as well as President of CEMEX México. CEMEX Panamá and Venezolana de Cementos (Vencemos, S. A.); has also been Vice-President at CEMEX Trading and Chairman in charge of CEMEX operations in the United States. Francisco Javier Garza Zambrano holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and a Masters in Business Administration from Cornell University – Johnson Graduate School of Management.

Alberto Santos Boesch (1)
Alternate Director

Has been Alternate Director for Alberto Santos de Hoyos since june 2005. He has held the position of Chief Executive Officer at Empresas Santos S.A. since 2000. He is shareholder and director at Grupo Tres Vidas Acapulco S.A., and Desarrollos Marinos del Caribe and Gimnasio Body-tek, S.A. He is member of Grupo México Nuevo and Grupo Generación 2000. He is also Chairman of the Board of Directors at Grupo Monde. Alberto Santos Boesch holds a degree in International Studies from Universidad de Monterrey as well as international studies in Cushing Academy.

Andrés Velázquez Romero (1)
Alternate Director

Is the Executive Director of Business and Government Market. He is alternate Director at AXTEL since march 2007. Prior to his current position, he was Executive Director of Process Transformation and Information Technology during 2011. In the commercial areas he has held the position of Executive Director since 2004, responsible for the Mass Market as well as Business Market in different periods. He has held different Senior positions in AXTEL including Executive Director for the Central Region, Treasurer and Vice-President for Administration and Comptroller, among other responsibilities. Before joining AXTEL, he had experience in different positions in the financial sector, performing functions related with risk management, financing, correspondent banking, international treasury, and foreign exchange. He was also COO at Banca Serfín New York Agency in Nueva York. Andrés Velázquez Romero holds a degree in Economics from Instituto Tecnológico Autónomo de México.

David Garza Santos [1]
Alternate Director

Has been Alternate Director for Alberto Garza Santos since november 2005. He is Chairman of the Board of Directors and Chief Executive Officer at Maquinaria Diesel, S.A. de C.V., a company which distributes Caterpillar, Ingersoll Rand and other construction equipment in México. He is also Chairman of the Board of Directors at Comercial Essex, S.A. de C.V., the most important distributor in México for Exxon Mobil lubricants. He is also member of the Board of Directors at Desarrollos Delta, S.A. de C.V., a real estate developer for the residential market, offices, and resorts, and is a member of the Board of Directors of Promotora Ambiental, S.A. de C.V., leader company in México in waste management. He is member of the Advisory Committee of the School of Business Management at Instituto Tecnológico y de Estudios Superiores de Monterrey. David Garza Santos holds a degree in Business Adminsitration from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Mauricio Morales Sada [1][4]
Alternate Director

Has been Alternate Director for Bernardo Guerra Treviño since april 2006. He is President and founder member since 1995 of MG Capital, an independent investment management firm in México. From 1984 to 1995 he held different Senior positions in Banks and brokerage houses in México. Mauricio Morales Sada received the degree for Mechanical Engineer and Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey. He is currently Director at Maquinaria Diesel, S.A. de C.V. and Grupo FAMSA S.A.B. He also participates in the Board at Fomento Moral y Educativo A.C.

Ramiro Villarreal Morales [1]
Alternate Director

Is Alternate Director for Fernando A. González Olivieri since april 2011, and was previously Alternate Director for Héctor Medina Aguiar since 2006. He is the General Counsel of CEMEX S.A.B. de C.V. since 1987. He serves also Secretary of the Board of Directors of CEMEX S.A.B. de C.V. since 1995. From 1985 to 1987 he held the position of Assistant General Director of Grupo Financiero Banpaís (now part of Banco Mercantil del Norte S.A.). Ramiro Villarreal Morales received a degree in Law from Universidad Autónoma de Nuevo León and a Masters in Finance from Universidad of Wisconsin.

Leif Lindbäck [1][4]
Alternate Director

Is the Executive Director of the Venture Capital Group at Blackstone. Since he joined Blackstone in 2002, Lindbäck has participated in Blackstone's investment funds in Deutsche Telekom, TDC, Southern Cross / NHP, Grupo Espíritu and Houghton Mifflin, and has evaluated investments in the oilfield sector. Before joining Blackstone, Lindbäck worked in Morgan Stanley in the Risk Capital Group. He holds a Master's Degree in Finance from ESCP-EAP European School of Management.

(1) Alternate Director.
(2) Independent Director.
(3) Owner Member of Audit and Corporate Practices Committee.
(4) Alternate Member of the Audit and Corporate Practices Committee

Note: The remuneration received by our directors is determined annually by the Shareholders' Meeting of the Company.

The business address for each officer, director, and alternate directors is located in Blvd. Díaz Ordaz km. 3.33 L-1, Col. Unidad San Pedro, San Pedro Garza García, N.L., México, CP 66215.

OBLIGATIONS AND DUTIES OF THE BOARD OF DIRECTORS

Among the key obligations and duties of the Board of Directors are:

I. Establishing the overall strategies to conduct the business, the company and legal entities it controls.
II. Overseeing management and conducting of the company and the legal entities it controls, as well as performance of relevant officers.
III. Approval of policies, guidelines, and representative operations for the enterprise; appointment, selection, and when appropriate, removal of General Director; policies in regards to loans and collaterals; dispensations for board members and/or directors to take advantage of business opportunities corresponding to the enterprise or the legal entities it controls; the guidelines in regards to internal control and internal auditing; the accounting policies; the financial statements; contracting the legal entity to provide external auditing services and, when appropriate, additional or supplementary services to external auditing.
IV. Submitting reports to the General Stockholders' Meeting, celebrated in closing the financial year.
V. Giving follow-up to the main risks to which the enterprise and legal entities it controls are exposed to.
VI. Approving policies for information and communication with the stockholders and the market, as well as board members and relevant officers.
VII. Determining the corresponding actions in order to rectify known irregularities and implement the corresponding corrective measurements.
VIII. Establishing terms and conditions the General Director will follow while exercising his act of ownership.
IX. Ordering the General Director to disclose openly the important events he has knowledge about.

Giving strict compliance to the Securities Market Law and Corporate Practices reported directly to the Board of Directors and is comprised by three independent directors.
The main functions of the Committee are overseeing management, operation and administrative and financial execution at AXTEL. Furthermore, recommending the Internal and External Auditing areas the actions to be carried out in regards to significant financial matters of the company.

Through this Committee, an information channel between the Board of Directors and the directive levels of the company is established. An additional communication means to contact the Board of Directors is the Investor Relations area, which receives the comments and/or recommendations that our stakeholders wish to make to the members of the Board. The e-mail to send comments is: ir@axtel.com.mx

Other relevant subjects related with Corporate Governance

- To avoid conflict of interests in the highest Governance body at AXTEL, we adhere to the Securities Market Act (LMV) bylaws meeting the required percentage of independent directors. Likewise, the Audit and Corporate Practices Committee, the Internal Auditor and External Auditor ensure that, in case of conflict of interests, the corresponding Director will refrain from participating in the corresponding voting.
- In regards to training and expertise of the highest Governance body, our Directors are selected in accordance to the considerations established by the Securities Market ACT (LMV), where expertise, ability, and professional prestige of the executives are considered.
- Performance of the Board of Directors is approved at least once a year.

[2.3, 2.9, EC7]

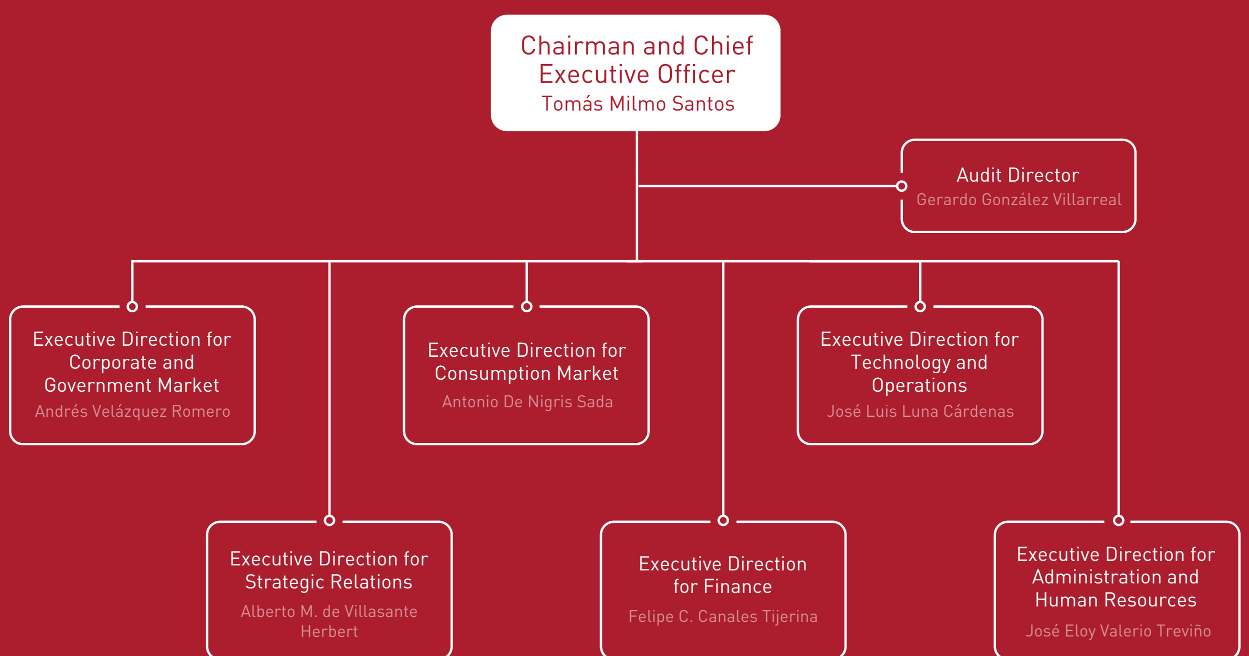
DIRECTIVE TEAM

In order to adapt AXTEL organizational structure to the needs and priorities of the environment, during 2012 a re-dimensioning of the directive areas was carried out.

Among the most relevant changes is the merger of some areas and directions re-definition, thus, since December 2012 there are seven, and not nine, directions reporting to the General Director.

DIRECTIONS 2011	DIRECTIONS 2012
Executive Direction for Corporate Market	Executive Direction for Corporate and Government Market
Executive Direction for Process Transformation and IT	Executive Direction for Technology and Operations
Executive Direction for Marketing and Innovation	It merged with the Executive Direction for Consumption Market and the Executive Direction for Corporate and Government Market
Executive Direction for Negotiations and Strategic Accounts	Executive Direction for Strategic Relations
Executive Direction for Field Services and Network Operation	Merged with the Direction of Technology and Operations
Corporate Executive Direction	Executive Direction for Finance
Executive Direction for Human Resources and Communication	Executive Direction for Management and Human Resources
Executive Direction for Mass Market	Executive Direction for Consumption Market
Audit Director	Remains without change

ORGANIZATIONAL STRUCTURE AXTEL



[1.2, SO2]

RISK MANAGEMENT

The appropriate risk management is a key aspect in ensuring permanence of our business in the future. The key conflicts for our company are determined through an assessment matrix. This matrix evaluates two key aspects: our exposure in regards to identified risks and the impact probability that our transactions have.

The Internal Audit area, reporting to the AXTEL General Director, is the body responsible for monitoring the Internal Control System through which the financial and non-financial processes of the business are evaluated. Among the processes to assess we find: revenues, Supply Chain, Corporate Governance, related parts, asset safeguarding, information technologies, and legal and regulation compliance.

As part of the identification and risk mitigation exercise, in 2012 we carried out an analysis regarding the key topics that required our focus, determining which was the current status and the status in the same year end.

Main focus for 2012	Desired Results	Status
Focus on risk areas and levels according to strategic initiatives in the company.	Achieving greater alignment of the risk analysis with business strategic initiatives in order to give more value and relevance to the results obtained.	Increase in strategic approach focused on risk analysis and implementation of controls in this sense.
Focus and risk mitigation regarding new projects and products.	Increasing efficiency and return in new products launched by the company.	Increase in interaction with responsible collaborators, generating more value in business processes.
Increase in dissemination of anonymous denouncing lines.	Generating greater presence of anonymous denouncing tools amongst collaborators.	Greater participation of the collaborators through anonymous denouncing lines, increasing trust in such tools.
Restructuring long-term debt.	Exchange of existing debt for new guaranteed and convertible debt, to achieve recapitalization of the enterprise.	The debt exchange plan completed successfully, achieving greater financial flexibility for the business.
Divestment in non-strategic assets.	Non-strategic asset divestment plan execution to strengthen the financial position of the enterprise.	Recapitalization plan completed successfully achieving the approval of the Federal Competition Commission (CFC) and closing satisfactorily the selling of the telecommunication towers.
Legal proceedings (juicio de amparo) in regards to the interconnection rates for "El Que Llama Paga".	Obtaining favorable results from the Supreme Court of Justice of the Nation in regards to the legal proceedings (amparo) initiated due to the interconnection rates for "El Que Llama Paga".	The Supreme Court of Justice of the Nation voted 8 - 2 against denial of the proceedings (amparo) initiated by AXTEL regarding the interconnection rates in the "El Que Llama Paga" service among other enterprises during 2005 - 2007.

100 percent of our operations was evaluated during 2012 regarding risks related with corruption.

AXTEL has a corruption risk map that considers those areas in the different business units which have a greater risk exposure.

Additionally, the corruption or bribery risk is considered in the general assessment that the Audit department carries out, which serves as baseline to determine the areas that will be reviewed within the audit plan in the corresponding period.

[EC6, HR2, HR3, HR4, SO3, SO4]

Business Ethics

In order for an enterprise to remain over time, it must operate under ethical and moral principles that do not affect the environment, society, or the company itself.

Following this principle, in AXTEL we work under stringent standards that guide our daily behavior in all our actions and operations. To ensure it, we have different internal mechanisms among which the AXTEL Ethics Code stands out, our Anti-corruption Policy and the commitment we acquired when adhering to the guidelines established by the Inter-American Convention against Corruption and the United Nations Convention against Corruption, strongly rejecting any action implying or promoting bribery or extortion.

Through the Ethics Code we promote the ethics guidelines that we must meet among our collaborators, always under the framework of the law and regulations in our Country, or any other place where we carry out transactions or operations. Likewise, this document offers a guideline for the resolution of conflict of interests among our collaborators and external entities with which we interact, as well as the ethical obligations toward the company, investors, clients, creditors, suppliers, competitors, and authorities.

In compliance with the agreement made in 2011, we carried out an exercise to communicate the Ethics Code among our collaborators during 2012, with the purpose of reinforcing its knowledge and ensuring its correct application. To this end, we taught the course "AXTEL Ethics" through the Virtual University, where 91 percent of our collaborators participated. Likewise, in the AXTEL Induction course there are subjects related to respect and compliance of Human Rights included.

During the last quarter of the year, a course called AXTEL Good Practices was implemented, through our Virtual University, where the content comprised topics related with our Anti-corruption Policy, No-Gift Policy, and Transparency Mailbox Policy. By the end of the year, 5 percent of our collaborators at a national level had passed the course. Our commitment is that during 2013, 100 percent of our employees have it covered successfully.

The topics addressed by the AXTEL Code of Ethics* are: behavior at work, communication; conflict of interests; personnel hiring; honesty, loyalty and integrity; confidential information; safety in the job; relationship with clients, community, government and suppliers; promotion and sales; and environmental accountability.

We have a Transparency Mailbox that enables us to access denounces brought by our collaborators or any other person in the community, so they may report anonymously or personally any situation or action that is against our organizational values or the guidelines in our Ethics Code.

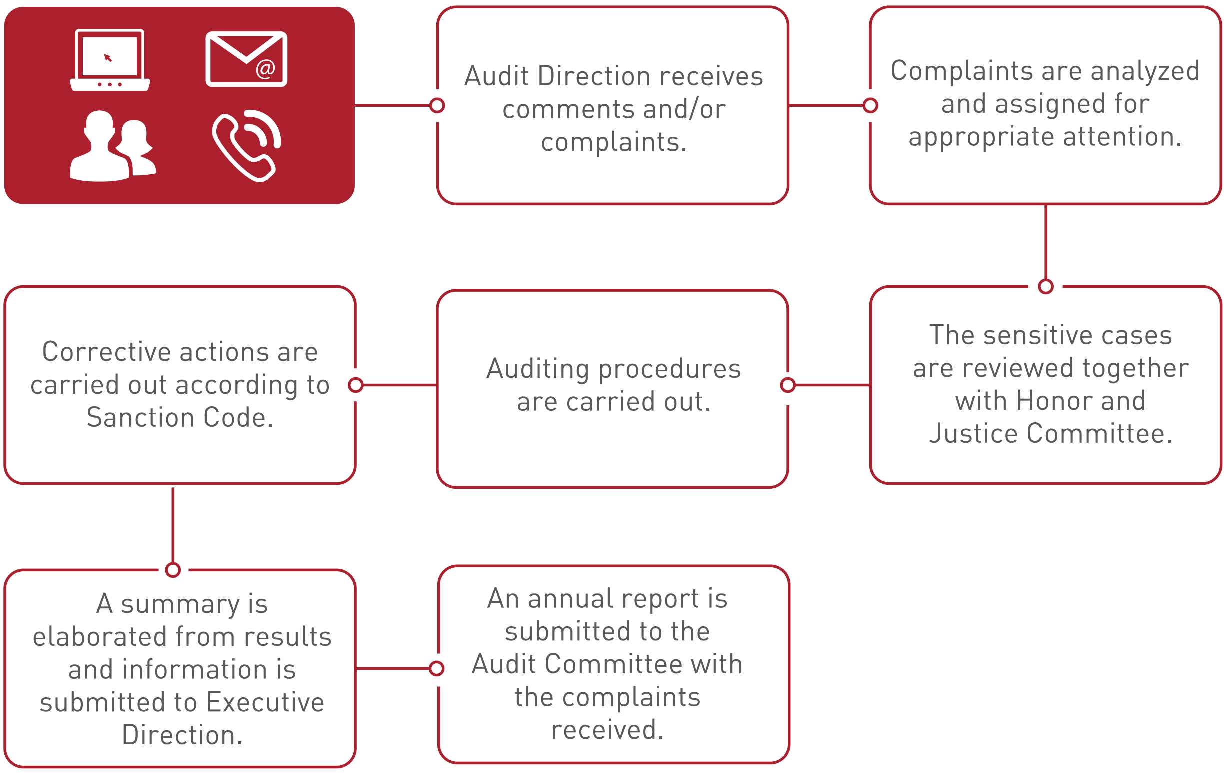
The complaints delivered may be received anonymously or personally, with the certainty they will be dealt with, in all cases, confidentially by the Direction of Internal Audit, body responsible for receiving the reports, giving follow-up and the appropriate solution. In the cases where reports cause controversy, they are reviewed together with the Honor and Justice Committee that is integrated by the Legal Director, Human Resources Director, and Audit Director.

The key objectives of the Transparency Mailbox are:

- Receiving, maintaining and treating the denounces received in the company in regards to accounting, internal control, violations to the Ethics Code, asset robbery or abuse, inappropriate use of privileged information, bribery, policy non-compliance, among them the Non-Gift, Anti-corruption and Suppliers, and activities that may be assumed fraudulent.
- Providing the complainant total certainty regarding treatment and confidentiality of his/her report through the Transparency Mailbox.
- Protecting any revenge or retaliation action to people who report any irregularity in good faith.

**In order to learn the complete content of the document, go to www.axtel.mx/sustentabilidad*

DENOUNCE FLOW IN AXTEL TRANSPARENCY MAILBOX



The contact lines to receive complaints 24/7/365 a year* are:

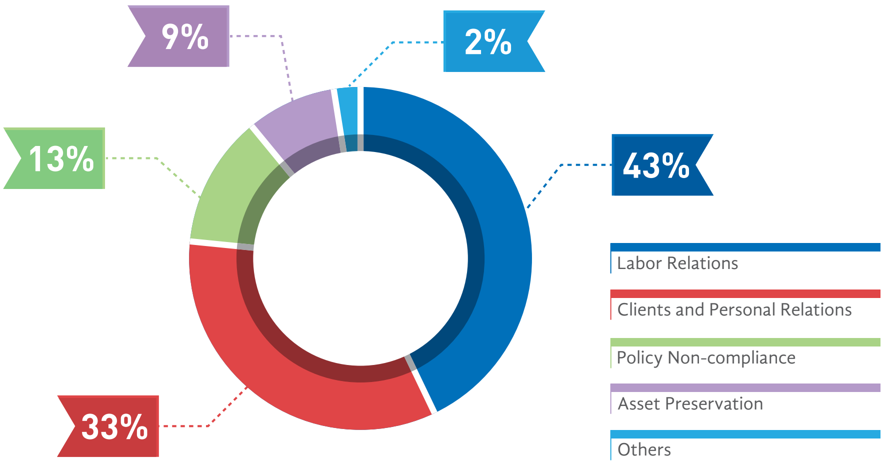
- Toll-free number 01 800 087 0909
- E-mail: transparenciaaxtel@axtel.com.mx
- In our corporate offices with the Audit Director and/or Manager of Corporate Governance

*Through the telephone line and e-mail.
for our clients and suppliers we also have the Transparency Mailbox available through our Web Page:
www.axtel.mx/Sustentabilidad / Gobierno Corporativo / Buzón de Transparencia

During 2012 we received 55 complaints, one that was related to corruption activities. In this case in particular the collaborator involved was dismissed and the corresponding legal process was initiated.

Twelve of the complaints corresponding to Labor Relations were related with work discrimination activities.

COMPLAINTS RECEIVED THROUGH THE TRANSPARENCY MAILBOX IN 2012



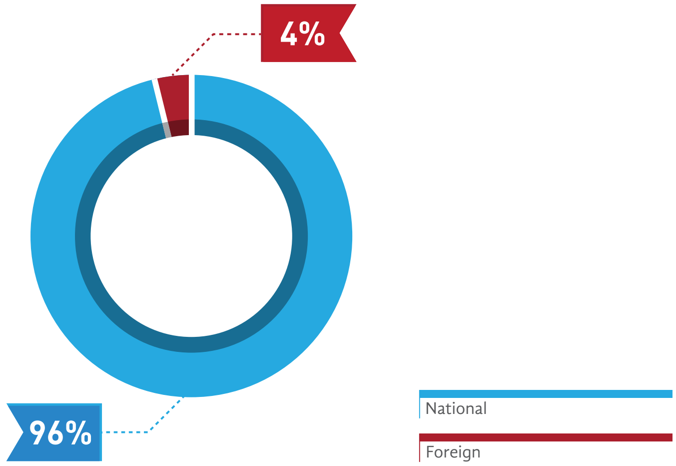
The receiving channels for the complaints received in 2012 were: 90 percent via E-mail and 10 percent by telephone.

During 2012 we also carried out the communication of our No-Gift Policy and Anti-corruption Policy with 100 percent of our suppliers. In this communication they were requested to avoid sending presents to the AXTEL collaborators for any reason.

We have a Supplier Policy which was reported at 100 per cent of them in 2012. Among other topics, promotes compliance of the current law, the principles of the United Nations Global Compact, our Ethics Code, as well as observing our Anti-corruption Policy, Human Rights, Environmental and No-Gift Policies.

In 2012 the business relation with two suppliers was terminated since they were against AXTEL Ethics Code in different aspects not related with corruption activities.

AXTEL SUPPLIERS



[HR6, HR7]

Human Rights

Through our Human Rights Policy* we declare our position to respect individuals in all their expressions, rejecting discrimination actions, child labor, forced labor, abusive behavior, coercive power, and threat, ensuring its compliance with tools such as AXTEL Ethics Code, our Diversity and Inclusion Policy, Personnel Selection and Hiring Policy and our Transparency Mailbox.

Likewise, in AXTEL we comply with the current legislation in our Country in regards to human rights, the Federal Labor Law, and strictly respect the individual and collective agreements with our workers.

Since 2011 we voluntarily became part of the United Nations Global Compact promoting and respecting the 10 principles in this international organization:

Human Rights

1. Companies must support and respect the protection of human rights proclaimed internationally.
2. Companies must ensure not being an accomplice in human rights abuse.

Labor Regulations

3. Companies must respect freedom of association and effective recognition of the right to collective bargaining.
4. Companies must eliminate all forms of forced or mandatory labor.
5. Enterprises must abolish effectively child labor.
6. Enterprises must eliminate discrimination in regards to employment and occupation.

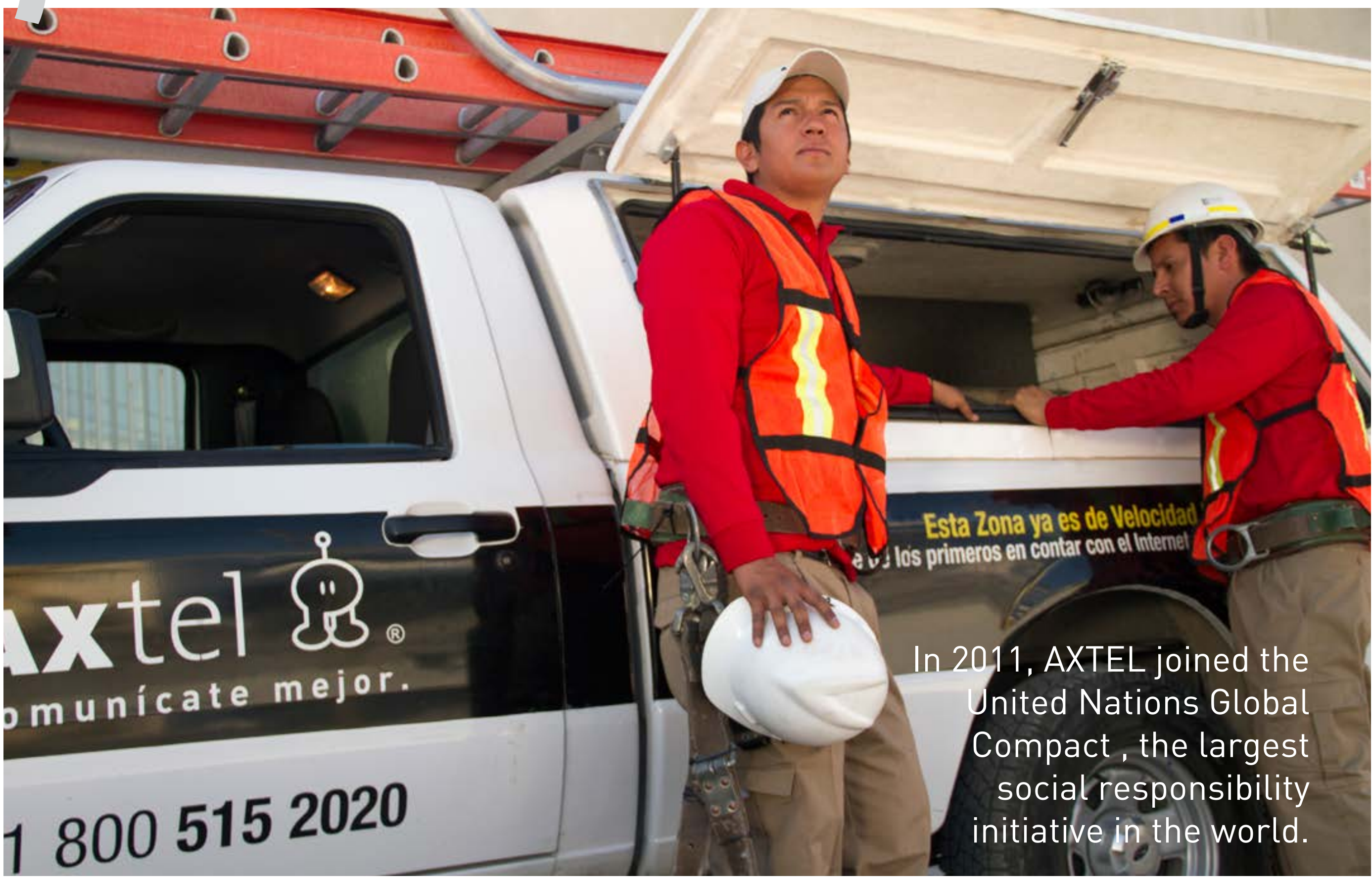
Environment

7. Enterprises must support preventive methods in regards to environmental problems.
8. Enterprises must adopt initiatives to promote a greater environmental responsibility.
9. Enterprises must promote the development and communication of harmless technologies for the environment.

Fight against corruption

10. Companies must work against corruption in all its forms, including extortion and bribery.

**In order to learn the complete document, go to: www.axtel.mx/sustentabilidad*



In 2011, AXTEL joined the United Nations Global Compact , the largest social responsibility initiative in the world.

[2.2, 2.5, 2.7, PR9]

AXTEL Services

A broad assortment of services characterize the versatility of our enterprise. With an offering of 22 telecommunication services we cover the demand of more than 700 thousand clients along the Country.

During 2012 there were no significant fines received due to standard non-compliance in regards with the supply and use of products and organization services.

AXTEL has its own network in 39 of the most important cities in México.

AXTEL X-tremo Broadband service has given the consumers the most advanced and fastest service in the Country, placing México in the same level as the United States, Japan, Korea, Hong Kong, and Sweden, with speeds up to 150 Mbps.

SERVICE	RESIDENTIAL	BUSINESS	CORPORATE	GOVERNMENT
AXTEL Universal Access: Internet plus telephony package.	✓	✓	✓	✓
AXTEL X-tremo: High-speed Internet plus telephony package delivered through optical fiber.	✓	✓	✓	✓
AXTEL TV: Pay TV Service delivered through optical fiber.	✓	✓		
AXTEL WiFi Xtremo: High speed Internet connection in public areas.	✓	✓		
AXTEL Home Plan: Telephony plans with calls and minutes included.	✓	✓		
AXTEL Telephony: Basic telephone service.	✓	✓	✓	✓
AXTEL Conmigo: The line at home or business with mobility through WiFi connection or 3G in different devices such as smartphones, tablets, and laptops.	✓	✓	✓	✓
AXTEL WiFi Network: WiFi wireless connection network at home/business.	✓	✓		
AXTEL Membership: Packages with emergency services, medical discounts, and life insurance, that provide benefits for all the clients' family.	✓	✓		
AXTEL Store: Offers the possibility to acquire different equipment in installments, such as computers, tablets, video game consoles among others.	✓	✓		
AXTEL Expert for PC & MAC: Expert advisor service to assist and solve through a chat application on line, situations or problems with PC or MAC computer.	✓	✓		
AXTEL X-tremo Specialized Support: Specialized engineer team that offers the client the configuration service for all his devices such as computers, smartphones, tablets, videogame consoles and other equipment so they are connected to the AXTEL X-tremo WiFi Wireless Network.	✓	✓		
Soluciones AXTEL: Digital services for the line: Voice Mail, Call Management, Call Forwarding Package, Call ID, Call Waiting, Three party Calling, and Personal Additional Number.	✓	✓	✓	✓
Corporate Voice Services: Intelligent Lines, Digital Trunks, SIP Trunks, Vision, Virtual Line, Long Distance and 800 Service.			✓	✓
Internet: Broadband, Dedicated, High Capacity and Internet 2.			✓	✓
National and International Networks: Private Lines, Ethernet, Broadband VPN and Multi-service VPN.			✓	✓
Safety: Corporate Integral Security, Clean Pipes, and Managed Security.			✓	✓
Data Centers: Dedicated Web Hosting, Co-location and Dynamic Server (IaaS).			✓	✓
Collaboration: Audio-connection, Webex and Private Cloud Collaboration and Telepresence.			✓	✓
Integrated Services: Contact Center, Voice and Data Equipment, Network Management, Managed Monitoring, Cabling and Adaptations.			✓	✓
Applications: Electronic Invoicing.			✓	✓
AXTEL Smart Voice: Package with Lines and Digital Trunks with Broadband or Dedicated Internet.			✓	✓

Residential *Business* *Corporate* *Government*

AXTEL REGIONS

AXTEL offers connectivity in 200 cities in the national territory.

MÉXICO REGION

México, D.F.

MULTI-TECHNOLOGY REGION (WiMAX, Symmetry and FWA)

Acapulco
Aguascalientes
Cancún
Cd. Juárez
Celaya
Chihuahua
Ciudad Victoria
Coatzacoalcos
Cuernavaca
Culiacán
Durango
Guanajuato
Hermosillo
Irapuato
León
Matamoros
Mazatlán
Mérida
Mexicali
Minatitlán
Morelia
Nuevo Laredo
Pachuca
Puebla
Querétaro
Reynosa
Saltillo
San Juan del Río
San Luis Potosí
Tampico
Tijuana
Toluca
Torreón
Veracruz
Villahermosa
Xalapa

OPTICAL FIBER REGION (FTTX) to 2012

Guadalajara
México
Monterrey

The cities where the FTTX network will be deployed will be defined in 2013.

AXTEL Techology

Our company provides services that go together with an offering of technology resources of the most advanced generation, that enable us to provide diversity in communication solutions.

These access technologies we use in our operation are: optical fiber, fixed wireless access, point to point radio, point to multi-point radio, and copper technology.

In 2012, AXTEL invested the equivalent to 18 percent of its earnings in state-of-the-art technology, three percentage points above average in the telecommunications industry at a world level.

AXTEL Digital Network

Comprises the combination of the best technology solutions existing in the telecommunications market. These are the result of years of research, development and experience in the field by leading companies in the world.

Through this network we integrate local telephony, long distance, Internet, and value added services.

Optical Fiber

For our clients who require high capacity transportation in voice and data digital transmission, as well as direct connection to the network, AXTEL offers solutions through optical fiber cable, enabling us to provide longer transmission distances also.

The length in optical fiber network in AXTEL is above 12 thousand 200 kilometers.

Fixed Wireless Access

It is an ideal solution for residential clients and small businesses. This access is carried out using 50MHz of spectrum within the 3.4 GHz band at a national level. It enables providing local telephony, long distance, Internet, and value added services. It is not cellular telephony.

In order to meet the client needs and be able to offer new services, WiMAX technology was integrated, enabling us to deliver higher speed data links using the IP protocol in a native way.

Point to Multi-point Radio

With a broad geographical scope, low maintenance costs and minimum impact on the environment, we offer the Point to Multi-point Radio technology for those clients that require medium capacity for voice and data services. For this technology, in AXTEL we have available 60 MHz spectrum, with coverage at a national level, within the 10.5 GHz band.

Point to Point Radio

Offers complete voice, data and Internet transmission services, with great clarity in voice transmission and total security in calls. Point to Point Radio digital technology enables us to serve the communication requirements of our clients who wish high capacity and broad coverage services.

For point to point links at a national level, AXTEL has 100 MHz spectrum within the 23 GHz band and 128 MHz spectrum within the 15 GHZ band.

Intelligent Network

We offer versatile and reliable voice services using our technology to expand the possibilities in the creation of switching services with a platform designed exclusively for this purpose.

Our services are customized according to our clients' needs, some of them are: general information services, automation and customization of entering calls, customer service, contact centers, probing and surveys, 800 and 900 numbers, among others.

Quality Management System

Each one of the areas within our Quality Management System defines, establishes, and maintains the documents ensuring the effective operation at a process level, procedures and operational methods.

The system has 27 performance indicators which are reported, measured, and analyzed monthly. The indicators include the following focus:

- Network operation: availability, commitment compliance in repairing, maintenance and failure relapse.
- Corporate and Government market services: commitment compliance in repairing and telephone assistance.
- Consumption market services: commitment compliance in repairing, telephone assistance, and reliability.

The Quality Management System considers in its scope: Operation and management of AXTEL telecommunication network and its associate services for network maintenance, clients' support, and Contact Center.

In 2013 the system will be re-certified for the third time, with this we seek to make elements more robust such as: data analysis, corrective actions, relationship with internal and external suppliers, and application of continuous improvement cycles. We are certain that with this effort we can continue with our commitment of improving others' lives, meeting the demand of products and services based on quality management and promoting the excellent process performance, to consolidate the success of the business.

The scope of the IT Governance Management System at AXTEL includes the activities required to deliver quality services to the clients at Client Operations Direction, with the guarantee of availability, integrity, confidentiality of the information; a work philosophy based on continuous improvement of our processes as well as service reliability within a frame of IT Governance.

CONSOLIDATION OF AXTEL SIX SIGMA LEAN PROGRAM

During 2012 we continued with the execution of more than 20 improvement projects in all the organization with an impact on productivity. As a result, the benefits vis-a-vis the previous year were doubled, exceeding US 3 million.

The goal for 2013 is certifying with internal capacity more than 40 improvement engineers (Green Belts) belonging to all the work areas. All this, to increase the ability to self-perform projects for efficiency increase and exceed the benefit generated year after year.

[SO7, PR5, PR6, PR7, PR8, PR9]

Customer Satisfaction

Through our Contact Centers we served and gave follow-up to more than 4.7 million interactions with our clients during 2012.

Our priority is offering quality services, efficiently and with the best treatment to our clients.

In AXTEL we have different tools to maintain communication with our users so they have the possibility to communicate their concerns, complaints, service failures, technical, administrative problems or, give their opinion regarding the attention and service received.

These tools are available through the mailboxes in the Customized Service Modules, Customer Service Centers, Internet page, surveys and service calls.

Once our clients express their concerns, complaints and/or suggestions, we give follow-up and response according to the guidelines in our Internal Policy for Customer Support. Likewise, with the same criteria we address the complaints received through PROFECO - Federal Consumer Office - and COFETEL - Federal Telecommunications Commission.

Besides the media that our clients have to connect and express their opinions, in AXTEL we have a tool to assess the satisfaction of the services provided to our users.

This is carried out bi-annually through service surveys applied by an external supplier. In 2012 there were 4 thousand and 112 AXTEL clients contacted to whom a standardized methodology was applied to identify and measure the more relevant attributes for the client.

The moments of truth that are assessed in this exercise are: pre-selling and selling process, installation process, use of products and services, customer service, failure repairs, invoicing, and collection.

The results obtained from these studies enable us to work under the continuous improvement principle, to adapt and serve our clients and users according to their needs and continue offering the telecommunication services with the best quality in the Country.

INTERACTION* WITH CLIENTS DURING 2012

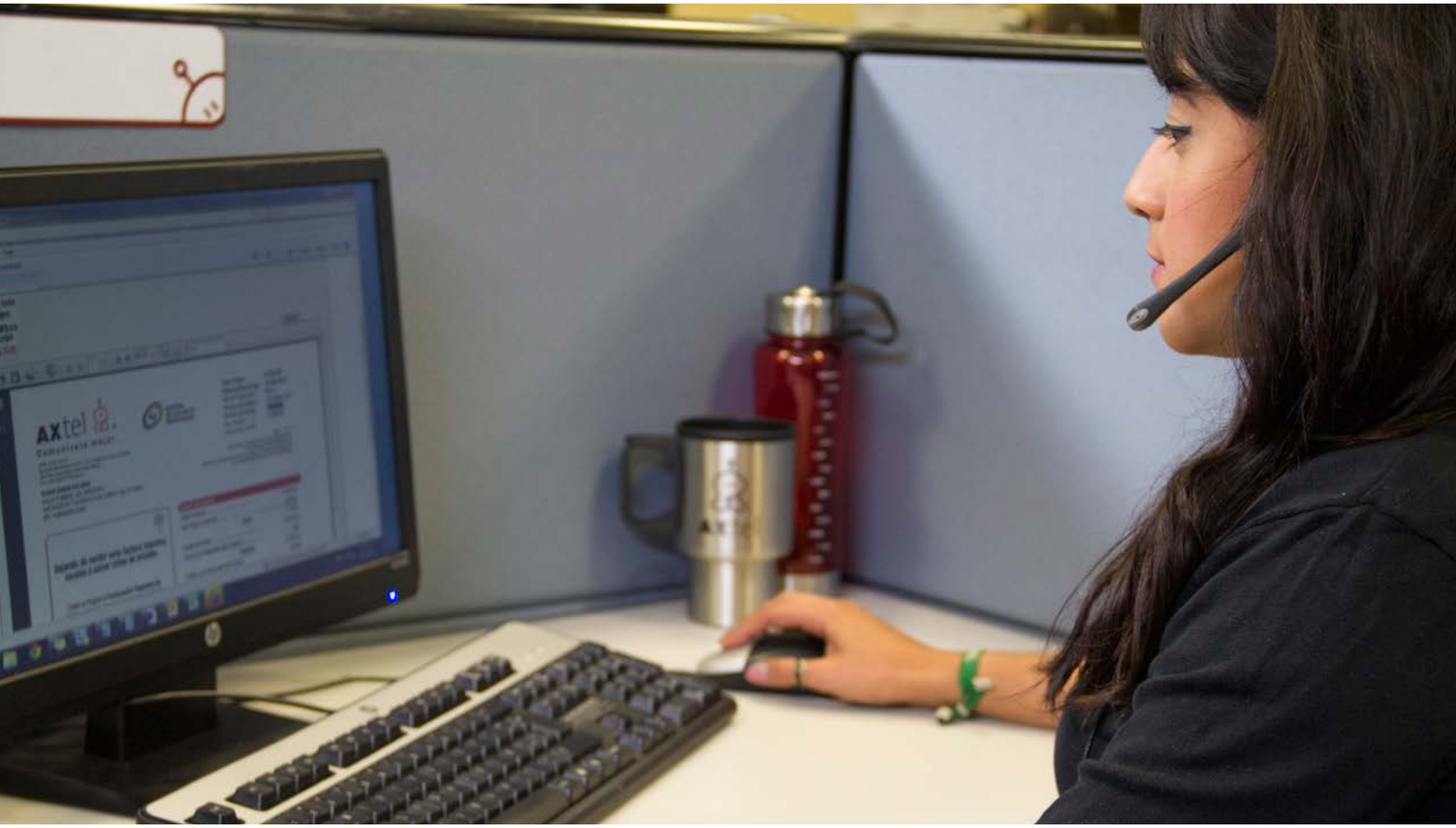
Media	Percentage
Phone	89%
Chat	9%
E-mail	1%
Social Networks	1%

*Total interactions were 4,709,400

AXTEL CLIENT SATISFACTION INDEX

Segment	2011	2012
Corporate	4.90	3.82
Entrepreneur	4.01	4.20
Government	4.05	3.97
Business	3.97	3.94
Residential	4.47	4.31

On a scale from 1 to 5



These measurement exercises provide relevant information to carry out the analysis that helps us in making decisions regarding the following subjects:

- Client satisfaction Index by segment, with which we carry out analysis to verify our continuous improvement.
- *Net Promoted Score* (NPS®), is a value indicating the degree of recommendation in our clients regarding service and enables us to compare ourselves vis-a-vis international benchmarks and from different industries.
- Analysis of attributes and their participation in the moment of truth assessment, and as key motivators for our clients.

During 2012 we had 15 thousand 132 interactions with our clients, received through the mailboxes placed in the 59 Customized Service Modules, which were visited mainly for payments and invoice clarifications, selling of products and services and customized attention.

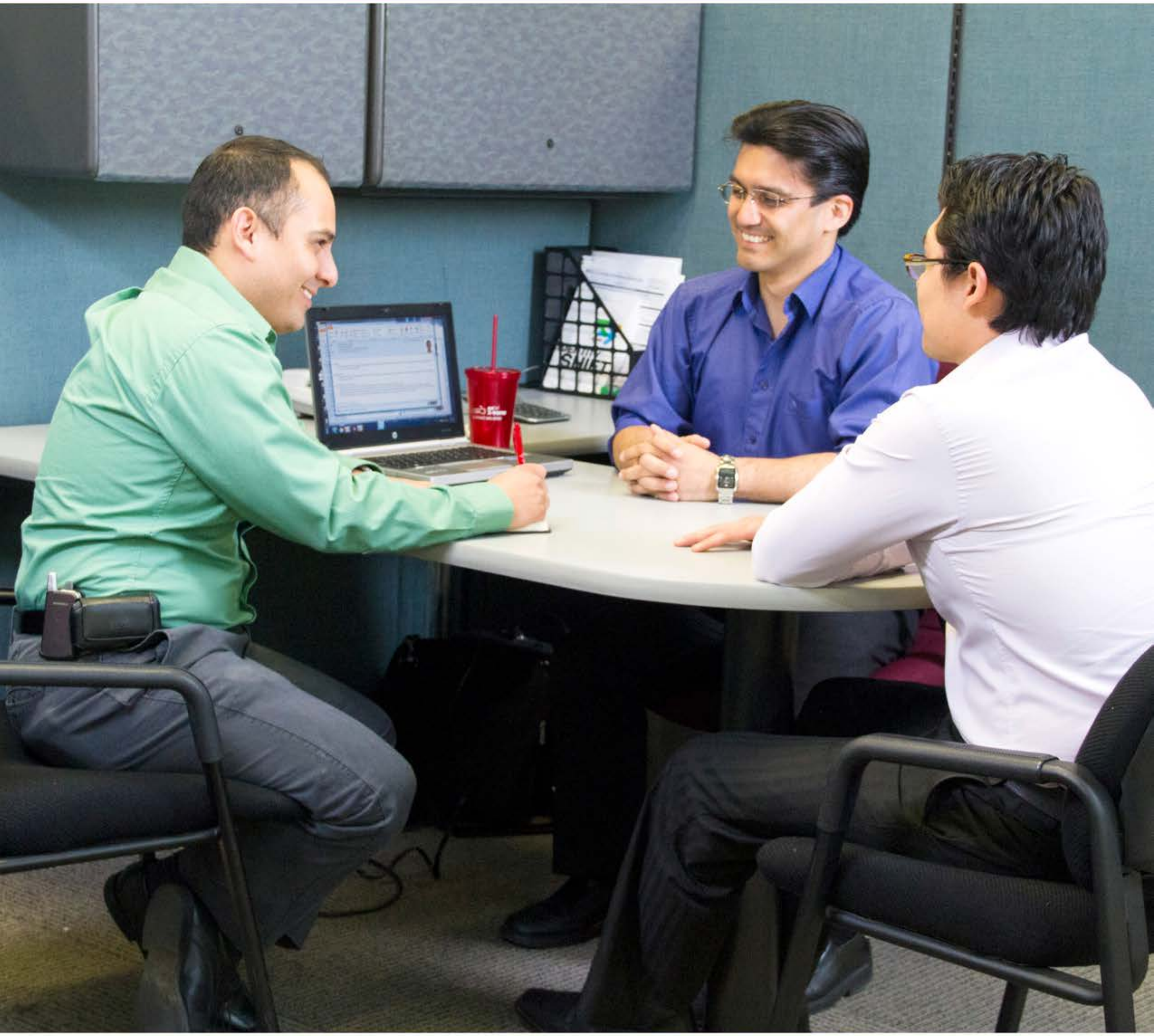
In AXTEL we carry out our advertising communication according to what is established in the Consumer Federal Law and the Industrial Property Law which we review and apply permanently.

The Telecommunications sector in México has been an object of discussion during the latest years derived from regulatory changes, but there are no debates in regards to product and service providing, which is allowed in all the national territory.

In 2012 there were no fines due to non-compliance of the regulation related to supply and use of products and services, or marketing communications, including advertising, promotion and sponsorship. There were no complaints registered for privacy violation or personal information leaks from our clients.

AXTEL operates in an industry which, at a national level, has competitors who have a large market share, so based on the aforementioned and compliant to the law, our company has not been subject to sanctions or legal actions derived from unfair competition and/or practices against free competition or monopolistic.

02 | SUSTAINABILITY



Sustainability

AXTEL has received the recognition as Socially Responsible Enterprise from CEMEFI during five consecutive years since 2008.

Operating under a sustainability framework implies taking care of the social, environmental, and economic aspects of the enterprise. While in AXTEL we have carried out many related actions since our creation, since 2011, we have worked with a sustainable business approach and thus taken actions and established indicators that enable us to assess our evolution over time.

In the economic field, 2012 was a year of great challenges for our enterprise, which pushed us to be innovative developing different strategies to ensure growth and profitability in our business.

In regards to social aspects, we continue promoting our collaborators' development and promoting their professional growth through permanent training. Moreover, AXTEL Foundation continues working in developing projects to benefit the community.

In topics related to the environment, we have been dedicated to measuring the impact of our operations in aspects such as recycling and waste management, energy savings, water consumption, and emissions in order to establish strategies that decrease such impact.

These actions have made us advance steadily, enabling us to enter the Sustainable Price and Quotation Index in the Mexican Stock Exchange (Sustainable IPC), being part of the 29 public enterprises in México that obtained the grade to participate in this Index since January 2013.

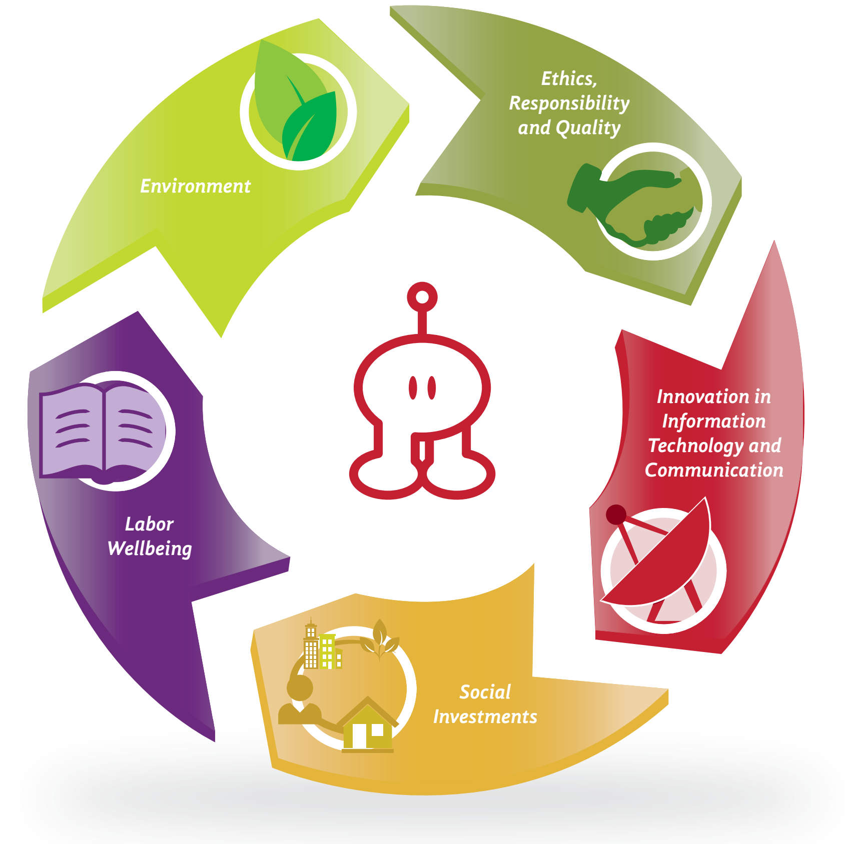
The commitment with Sustainability in AXTEL is expressed in:

- Managing integrally, ethically, and transparently our activities.
- Working to improve not only communication, but also the life of our collaborators, clients, suppliers, shareholders, investors, and stakeholders.
- Carrying out actions that ensure economic, social, and environmental sustainability.

Our Sustainability Policy reflects the following guidelines:

- Meeting the current municipal, state, and federal regulations.
- Establishing policies to protect the collaborators' labor rights, as well as their physical integrity, promoting safety and hygiene practices, and a healthy and safe environment in all the facilities and buildings.
- Respecting human rights, developing a favorable framework for labor relations based on equality, respect to diversity, non-discrimination, rejecting forced labor, slavery, and child labor.
- Adopting Corporate Governance practices based on ethics and corporate transparency, observing a stringent control on risks, to promote trust in our collaborators, clients, suppliers, investors, shareholders, and stakeholders.
- Rejecting bribery practices, corruption or any other kind of contribution to obtain corporate advantages.
- Potentiating a culture of respect for the environment while reducing environmental impact of our activities, defending biodiversity, and promoting care for nature.
- Informing all our stakeholders the activities carried out by the enterprise, veraciously and timely.
- Developing programs that contribute to social sustainability of the communities, promoting productivity, education and personal development, with the support and collaboration of all our collaborators.
- Searching for continuous improvement in all our processes, projects and personal development, to develop innovative technology products and services that contribute in the growth of our society.

Sustainability Model



AXTEL SUSTAINABILITY STATEMENT

The Sustainability Strategy guides and gives direction to our actions. Through its guidelines, AXTEL Sustainability Model becomes a live model that supports us in carrying out concrete actions in each one of its five dimensions.

Global Sustainability Strategy

We seek to contribute to a more sustainable future with our work and environmental practices, introducing in an honest, ethical and responsible manner, innovating solutions that provide society access to information and communication technologies.

Economic Strategy

Our commitment is to honestly manage our technologic, economic, and financial resources, to operate efficiently under a strict risk control and following the legislation, enabling a successful and sustainable growth of the company.

Social Strategy

We promote sustainable development in our community, carrying out actions that benefit our collaborators and our external communities, providing them the tools that allow them to have access to better education and health opportunities and a dignified living.

Environmental Strategy

We seek to reduce the negative impact of our operating practices in the environment, reviewing our procedures, developing new technologies, and improving our methods, to preserve resources and establish a harmonious relationship with nature.

STAKEHOLDERS

AXTEL Strategy and Sustainability Policy are focused not only in our enterprise and collaborators, but also in all those stakeholders with whom we are related and area key for our operations, development, and permanence in the market.

The different actors with which we relate were classified into 41 groups with which we created seven large blocks that enable us to serve then with a greater focus and effectively.

Stakeholder	Mecanismo de comunicación actual	Frecuencia de contacto
Employees Individuals who perform a service function to AXTEL, as well as those individuals or groups that have direct relation with our collaborators an can impact their productivity.	Intranet	Permanent
	E-mail	Daily
	Corporate Communication Boards	Bi-monthly
	AXTEL meeting with General Director	Quarterly
	Monthly Electronic Newsletter	Monthly
	Transparency mailbox	Permanent
	Printed and brochures	Quarterly
Investors and Financial Sector Organizations and/or individuals who maintain financial interests in AXTEL, or collaborate so the information for these groups is clear and timely.	Web Page, Relationship with Investors section	Permanent
	Face-to-face meetings	Permanent
	Telephone conference	Quarterly
	Annual Shareholders Meeting	Annual
	Transparency mailbox	Permanent
	Investors Contact Mailbox	Permanent
Clients Individuals or groups that use AXTEL services in a recurring or eventual manner to cover their communication needs.	Mass media	Permanent
	E-mails	Bi-monthly
	Invoicing	Monthly
	Leaflets	Monthly
	Contact Center	Permanent
	Web Page	Permanent
	Transparency mailbox	Permanent
	Contact Mailbox	Permanent
	Facebook	Daily
	Twitter	Daily
	Suggestion Mailbox (in Customized Service Modules)	Permanent
Suppliers Organizations or individuals with whom AXTEL maintains trade relations to exchange goods and services that support the execution of our administrative and operational processes.	Suppliers' Extranet	Permanent
	E-mails	Bi-monthly
	Face-to-face meetings	Monthly
	Committees	Monthly
	Official Spokespeople	Permanent
	Transparency mailbox	Permanent
	Contact Mailbox	Permanent
Government Government entities with which AXTEL interacts for the correct execution and provision of its services, always respecting the legal framework existing in México.	Face-to-face meetings	Permanent
	Committees	Monthly
	Official Spokespeople	Permanent
	External Communication Department	Permanent
	Transparency mailbox	Permanent
	Contact Mailbox	Permanent
Organizations and Civil Society Groups Civil society organizations with which the enterprise is related with the purpose of exchanging services, knowledge and/or mutual support (or for one of them), for the benefit of the enterprise, the members of the organizations or both parties.	AXTEL Foundation	Permanent
	AXTEL Foundation E-mail	Permanent
	Transparency mailbox	Permanent
Competitors Information Technology Enterprises that offer same or similar services as AXTEL and with whom there is constant dialogue to achieve a competitive development in the Telecommunications Industry.	Committees	Permanent
	Transparency mailbox	Permanent
	Face-to-face meetings	Monthly

Associations in which AXTEL is part

- National Chamber for Telecommunication Industry via Cable - CANITEC
- National Chamber for Electronic Telecommunications Industry and Information Technology, CANIETI
- Mexican Chamber of Industry, CONCAMIN
- Business Coordinating Council, CCE
- Telecom Council of Silicon
- TM Forum

03 AXTEL FOUNDATION

AXTEL Foundation

In AXTEL Foundation we focus on serving the real needs in our communities.

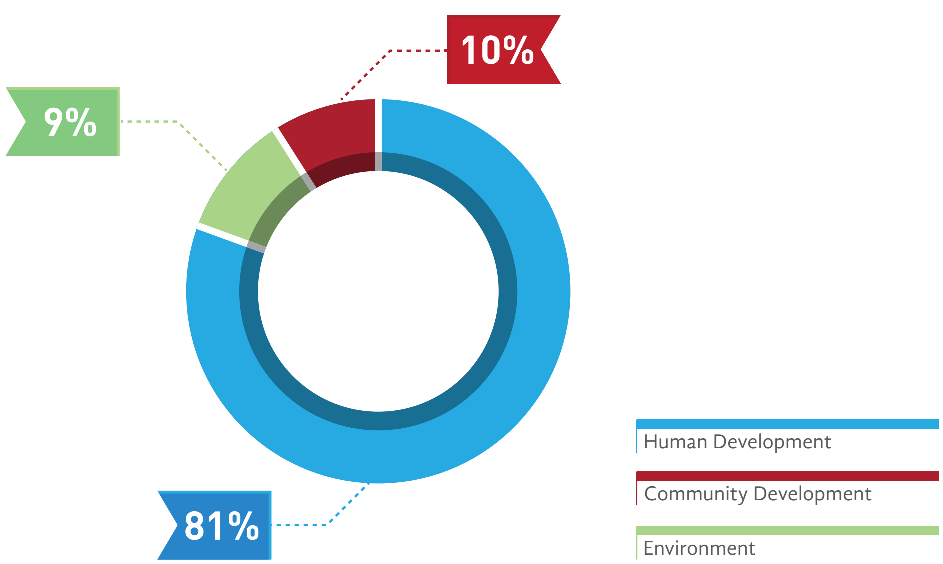
At AXTEL Foundation we recognize that our work is only possible thanks to the trust that, year after year, the clients provide AXTEL. It is thanks to them and representing all our stakeholders, that we seek to address the root causes of the problems that affect the urban-marginal communities in the cities where we operate.

This is how AXTEL Foundation is conceived as a live organization, in constant evolution and flexible, so our actions maintain an updated focus on assisting the real and felt needs of our community.

The structure of the Foundation is small but we know that our arms are in each and every one of the AXTEL collaborators who, with genuine solidarity and enthusiasm, join their knowledge and willingness in the volunteering activities we design.

During 2012 we dedicated 2 million 970 thousand pesos in donations to support causes that benefit the community.

ECONOMIC SUPPORTS BY CAUSE



PRIORITY CAUSES FOR AXTEL FOUNDATION

AXTEL Foundation mainly supports non-dependency causes related with Human Development, Community Development, and the Environment.

Human Development

Through this program, at AXTEL Foundation we promote processes that help people learn and strengthen their personal and professional abilities. Economically, we support projects that develop competencies in people and strengthen their individual and social accountability, helping them in taking control of their own lives and actively participating in the transformation of their social environment.

Community Development

Our objective is promoting sustainable and equitable community development. We support the work of organizations whose projects seek to improve the quality of life and development opportunities of their citizens and consider the social and environmental aspects in a fair, responsible, and integral manner.

Environment and Development

We seek to support causes that promote sustainable social development assisting the needs in society, through actions that do not harm natural resources that the future generations will require.

AXTEL Foundation was created by AXTEL in 2005, which has supported more than 200 social projects and benefited more than 450 thousand people.

MEN AND WOMEN WORKING

As part of our culture, at AXTEL we promote social engagement among our collaborators, searching to contribute in the improvement and development of projects and programs focused on the communities where we live and operate.

This corporate citizenship is lived in AXTEL as part of the social sustainability strategy and remains embodied in our Corporate Volunteering Policy that establishes our collaborators' engagement and their families with our stakeholder groups and communities we are part of.

Some guidelines in our Policy establish that all the collaborators may participate actively in social programs and projects that promote development in the communities where we operate:

- Each collaborator can dedicate up to 16 hours of their work time per year to different volunteering activities organized by AXTEL.
- The hours dedicated to volunteering activities shall not interfere with their work responsibilities, project compliance, their daily performance or put in risk the optimum operation of the company.
- Each volunteer shall program the activities and inform their immediate boss the schedule in which the work will be carried out, since the hours dedicated to social activities shall not be restored.
- The collaborators' participation in work schedule is dependent upon the authorization of the immediate boss.
- The political or religious initiatives, as well as those representing a potential conflict of interests for AXTEL, are excluded from the activities of Corporate Volunteering.

During 2012 we increased the volunteering participation of our collaborators, having the engagement of **393 individuals** in 11 cities in the Country.

At AXTEL we promote and maintain alliances with institutions that pursue the same objectives as AXTEL. These causes are mainly related with education, health, and human development.

Among the alliances and projects promoted during 2012, we find the synergy with Alianza Educativa Ciudadana por Nuevo León, Red SumaRSE, Huertos Familiares CEMEX-AXTEL, Programa Impulsa and Habitat for Humanity.

Alianza Educativa Ciudadana por Nuevo León

With the purpose of improving education quality in the State of Nuevo León, AXTEL together with Alianza Educativa Ciudadana por Nuevo León, adopted the Technical Secondary School 43 Adalberto Viesca Sada, located in the municipality of Nuevo León, which has 826 students.

Alianza Educativa Ciudadana por Nuevo León operates under a community participation model with the purpose of generating credibility, engagement, sense of accountability, and ownership among the neighbors and the school community.

The work carried out with the support of 106 volunteers was making improvements, together with the community, in the school infrastructure and providing dignified facilities to the students, to try to increase their educational level and obtain higher grades in the Enlace national examination.

To this end, there are eight committees organized with 37 participants from the education community. The committees are: reading; infrastructure improvement; civil protection and school security; promotion of physical activity; recreational, physical, and cultural activities; discouragement to violence practices; establishing school consumption; caring for the environment and cleaning the surrounding areas.

Likewise, there was coordination with Supera, Impulsa and Gente Joven from the DIF Program, the implementation of different educational preventive health programs, hygiene, reproductive health, pregnancy prevention and sexual transmitted infections

Red SumaRSE

AXTEL finished the period as Chair in Red in February 2012, remaining as member of the Executive Board. Red SumaRSE is an institution comprised by the participation of 21 Mexican enterprises together with the Ministry of Social Development in Nuevo León that promotes strengthening the civic ability and reconstruction of social fabric in the metropolitan area of Monterrey.

Huertos Familiares

Together with CEMEX, we participated in a program developed in order to train the community in the construction of urban orchards where the families in urban zones are enabled to plant fruits and vegetables in easily installed and maintained orchards.

In 2012 there were free horticulture workshops taught to 42 families, neighbors of the orchard, where there was radish, coriander, collard greens, broccoli, lettuce, and cauliflower harvested.

The harvest is used to feed these families contributing to improve family nutrition, obtaining also an economic benefit.

AXTEL Impulsa

AXTEL, through its Volunteering program participates with Impulsa since 2007 in the development of the entrepreneurial spirit in students from elementary schools located in the low income neighborhoods, with the purpose of motivating them to continue studying and planting in them the desire for development.

During 2012, AXTEL volunteers from Morelia, Toluca, Puebla, Mexicali, Hermosillo, Cuernavaca, Chihuahua, Ciudad Juárez, Guadalajara, México, and Monterrey participated

Through the IMPULSA project the following results were obtained:

4 thousand 100 children benefited

One thousand 849 hours volunteer work

305 volunteers

12 schools benefited

(1 secondary, 11 elementary schools)

Hábitat para la humanidad

In 2012 Fundación AXTEL A.C. signed a collaboration agreement with the organization Habitat for Humanity México A. C. with the purpose to start a housing improvement program in the Pueblo Nuevo Neighborhood, in Apodaca, Nuevo León.

The objective of this alliance is to benefit a minimum of 50 families with a process that considers the participation of the families, from the self-diagnosis stage to finishing the housing solution that better responds to their needs.

04 SOCIAL PERSPECTIVE

Social Perspective

Our workforce in 2012 comprised 6 thousand 541 men and women performing their work with dedication and excellence so our company maintains constant movement and satisfies our clients' needs.

[2.8, EC5, EC7, LA1, LA2, LA3, LA4, LA5, HR5]

Workforce

AXTEL collaborators represent the basis for success in our business. Men and women who perform their work with dedication and excellence are the ones that enable our company to maintain its constant movement to satisfy our clients' needs. The balance between excellent collaborators, their development, training and equal opportunities represents a priority for us.

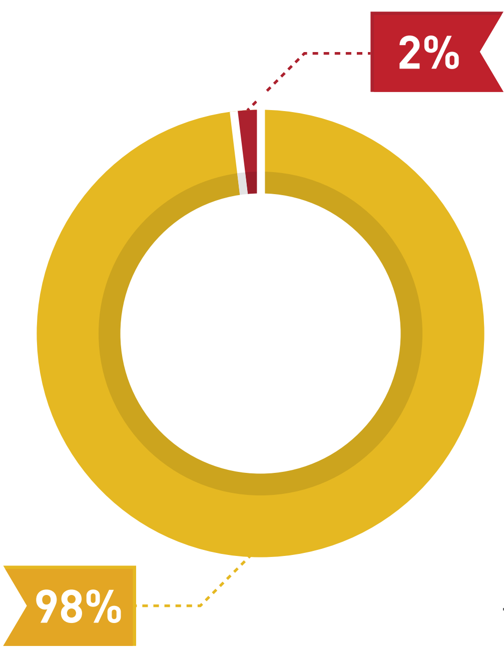
In the last quarters in 2012, AXTEL experienced a decrease in its income and cash flow, affecting our liquidity. For the purpose of improving our productivity, we saw the need to reduce operating expenses dismissing 1 thousand 404 collaborators, which represented a savings of approximately 15 percent in personnel expenses. With this, AXTEL will have a more agile organization and focused on implementation of its key strategic initiatives.

The new organizational proposition considers business units focused on specific markets, integrating the resources necessary to increase efficiency in our services and improving customer service.

NUMBER OF COLLABORATORS BY GENDER AND REGION

Region	Men	Women	Total
México, Center, South	1,298	301	1,599
West	2,488	1,305	3,793
North	748	401	1,149
Total	**4,534**	**2,007**	**6,541**

NUMBER OF COLLABORATORS BY TYPE OF AGREEMENT



Full Time	6,411
Part-Time	130
TOTAL	**6,541**

NUMBER OF COLLABORATORS BY GENDER AND AGE

Age	Men	Women	Total
18-20	2,117	1,289	3,406
31-40	1,806	603	2,409
41-50	537	107	644
50 +	74	8	82
Total	**4,534**	**2,007**	**6,541**

Our Personnel Recruitment, Selection and Hiring Policy ensures our equal opportunity strategy for all our collaborators. In terms of wage, in AXTEL we handle higher amounts than the minimum established by law, thus there is no collaborator receiving the minimum wage in the region where we have significant activities.

Through its guidelines, the personnel selection criteria are specified, being hired or promoted based on their professional competencies without distinction of gender, race or any discriminatory condition.

We promote the development of our collaborators in equal circumstances and consider our internal employees who meet the competencies required as the first option to cover a vacant position. In 2012, 25 percent of our collaborators received a performance evaluation and for professional development, which enables us to give follow-up to their competencies and career plans.

A 17 percent of the AXTEL collaborators is covered by a collective work agreement.

NUMBER OF COLLABORATORS BY TYPE OF EMPLOYMENT, CONTRACT AND REGION

Region	Unionized*	Non-unionized		
	Full Time	Full Time	Part-Time	Total
México, Center, South	492	1,107	0	1,599
West	368	3,332	93	3,793
North	221	891	37	1,149
Total	**1,081**	**5,330**	**130**	**6,541**

**The minimum period for pre-notification regarding organizational changes is two days and it is established in the collective agreement for our unionized collaborators.*
Note: all our collaborators have the right of association and invoke the collective bargaining if they desire so. In 2012 there was no activity that put this right at risk.

Our unionized collaborators are subscribed to a Collective Work Agreement, that is reviewed annually with the union. The renewal is carried out every two years and the document is deposited at a government agency of the Federal Conciliation and Arbitration Board.

NUMBER OF COLLABORATORS BY AGE, GENDER, AND REGION

	México Center South Region		West Region		North Region		
Ages	Men	Women	Men	Women	Men	Women	Total
18-30	524	135	472	320	1,121	834	3,406
31-40	571	142	207	70	1,028	391	2,409
41-50	177	21	65	10	295	76	644
50 +	26	3	4	1	44	4	82
Total	**1,298**	**301**	**748**	**401**	**2,488**	**1,305**	**6,541**

COLLABORATOR DISTRIBUTION BY GENDER AND CATEGORY

Title	Men	Women	Total
Executive Directors	8	0	8
Directors	41	3	44
Managers	122	11	133
Employees - Staff	2,082	728	2,810
Contact Center Executives	1,200	1,265	2,465
Installers	1,081	0	1,081
Trainees	0	0	0
Total	**4,534**	**2,007**	**6,541**

AXTEL generates more than 25 thousand employments, including 6 thousand 530 direct jobs and 20 thousand indirect jobs.

Out of our directive team, 99 percent are native from the cities where AXTEL is present, while the remaining 1 percent are foreign.

EXECUTIVES* BY GEOGRAPHICAL REGION

	Men	Women	Total
Executives native from the cities where AXTEL is present	146	11	157
Executives native from the cities where AXTEL is not present	22	1	23
Executives native from other countries	3	2	5
Total	**171**	**14**	**185**

** Executives are considered the collaborators in positions as Executive Directors, Directors, and Managers.*

COLLABORATOR TURNOVER* BY AGE AND GENDER

Age	Men	Women	Total
18-30	1,236	812	2,048
31-40	746	407	1,153
41-50	230	50	280
50 +	32	6	38
Total	**2,244**	**1,275**	**3,519**

The annual turnover percentage was 47 percent**

** The main cause for dismissals in AXTEL during 2012 was due to personnel reduction carried out at an organizational level, as well as turnover in areas where there are projects contracted (Contact Centers).*
*** Calculated on an annual average of 7,500 employees.*

In 2012, 1 thousand 404 collaborators were dismissed, out of which 91 resigned voluntarily. The amount of such settlements was equivalent to 195 million MXN.

In AXTEL there are no differences in regards to social benefits between our full-time employees and those working part-time. Some of these benefits are life insurance, grocery bonus, 100 percent vacation bonus and 30 days Christmas bonus a year.

A pilot program was launched during 2012 for working from home in the area of sourcing where the collaborators do "home office" two days a week. The benefits shown by this program have been:

- Commute time savings, in average 1.6 hours a day.
- Greater effective work time and productivity while decreasing distractions.
- Permanent attention in chat, telephone, and mail.
- Gas average savings of 544 MXN per month per employee.
- Better quality of life, since the collaborators under this scheme increase an average of two hours of time dedicated to their families.
- Flexibility to work anywhere with WiFi access for operation continuity.
- 100 percent utilization of work tools.

Integral and Occupational Safety

AXTEL offers safe facilities to its collaborators.

AXTEL offers safe facilities to its collaborators. For us, it is key that all the individuals working in our company do so under strict health and safety standards while performing their daily activities.

ABSENTEEISM RATES, PROFESSIONAL DISEASES, LOST DAYS AND NUMBER OF FATALITIES RELATED WITH WORK BY REGION

	2011	2012
Accidents	113	133
Lost days due to accidents*	2,563	2,480
Average personnel exposed to risks in the year	6,034	7,120
Average lost days due to accidents	22.68	18.65
Average accidents per person	0.044	0.02
Fatalities	0	0

Note: due to the type of business, the activities carried out are not considered high risk for our collaborators.
**Working days*

THE HEALTH AND SAFETY MATTERS COVERED IN FORMAL AGREEMENTS WITH UNIONS, INCLUDE THE FOLLOWING TOPICS

	Degree of Coverage
Personal protection team	100%
Safety and Hygiene Committees	100%
Periodical inspections	Quarterly
In accordance to ILO	100%

In the Occupational and Integral Safety area, our accident record was 36.8 percent lower than the telecommunications industry average, according to the Ministry of Labor (an improvement of 4.8 percent regarding 2011). Accident severity decreased in 21 percent compared with 2011, 30 percent lower than the national average. There were 240 safety presentations given at a national level and more than 420 recommendations issued, which contributed in decreasing accident incidence up to 17 percent.

The requirements to obtain the Safe Enterprise Certification from the Ministry of Labor were met during the year.

Within the insecurity context prevailing in the Country, we intensified the communication and orientation campaign to prevent risk situations in personal and family security for our collaborators, implementing an institutional course through AXTEL University to ensure that 100 percent of our personnel has information and recommendations to protect their integrity and their family.

The operation of the Mixed Commission for Safety and Hygiene is institutional. The Commissions, that have an implementation guide, operate at a national level in 17 out of the 39 cities where AXTEL is present. They operate at a Work Center level and the coverage is 25 percent for the number of individuals.

Likewise, we have education, training and counseling programs regarding our workers' risks, we have also invited their families to prevent and control risks in regards to severe diseases. In AXTEL we do not have occupations with high risk of contracting specific diseases.

[LA10]

91 percent of our collaborators participated in the AXTEL Ethics Course taught through our Virtual University.

Training

Developing our collaborators is a commitment and a responsibility at AXTEL. Our business is providing state-of-the-art technology and quality service, thus, it is necessary to maintain our personnel updated and prepared to serve our clients with the speed and excellence they require.

TRAINING 2012

Modality	Number of collaborators trained	Number of courses taught	Hours or total training	Average number of training hours per employee*
Virtual	6,559	342	46,204	7
Face-to-face	2,420	151	96,972	40

** The average number of training hours per employee is calculated taking as a basis the number of collaborators trained.*

AVERAGE NUMBER OF HOURS OF EDUCATION PER YEAR PER EMPLOYEE, DIVIDED BY CATEGORY

Category	Number of collaborators	Education Hours	Average number of hours for training per category
Directors	52	189	3.6
Managers	133	972	7.3
Middle Management	1,260	15,223	12
Analysts	3,848	63,690	16.5
Assistants/Auxiliary personnel	149	1,053	7
Unionized	1,081	28,434	26.3

Note: The difference between the number of trained collaborators and the total number of AXTEL collaborators corresponds to personnel who were not in conditions to take the programs due to disability and/or vacations.

Just as professional development of men and women who work in our company is important, preparing and maintaining them updated regarding ethical and human rights topics is fundamental. In 2012, there were three hours of education on these topics offered per employee in average, providing a total of 17 thousand 799 hours of training to 5 thousand 900 employees during the year.

In our AXTEL Institutional Platform, which offers integral education for all our collaborators, there were 10 courses offered during 2012.

PISA INSTITUTIONAL COURSES (SER AXTEL INSTITUTIONAL PLATFORM)

Name of the course	Number of participants	Average training hours per employee	Total training hours
AXTEL Induction	1,075	3	3,225
Action Coordination	929	3	2,787
Basic on Environment	999	3	2,997
Institutional Processes	1,017	3	3,051
Effective Meetings	839	3	2,517
Institutional 5´S	837	3	2,511
Feedback	820	3	2,460
Customer service	885	3	2,655
AXTEL Ethics	5,933	3	17,799
Introduction to Project Management	5,604	3	16,812

Integral Collaborator Agenda

The Integral Agenda offers a diversity of spaces and opportunities for our collaborators to address the health, education, culture, family, community and work areas. In 2012 there were 96 activities related with these topics for the benefit of our collaborators and their family.

In regards to education, there have been seminars and courses focused on interpersonal relations, team work, communication, leadership, and coaching.

We have maintained the Cultural Cells program, through which 42 teams worked in topics such as work atmosphere, environment, social accountability, and wellness.

INTEGRAL COLLABORATOR AGENDA FOR 2012

Agenda	Action	Number of participant collaborators
Educational	Education workshops with curricular value at AXTEL facilities	229
	Scholarship for graduate studies	15
	Education workshop with curricular value in Universities	63
Family	Child attachment lecture	16
	Relative visits to AXTEL facilities	657

We also made agreements with different organizations and instances offering benefits for our collaborators and their families.

AGREEMENTS IN FAVOR OF THE COLLABORATOR

Type of agreement	Number of agreements	Cities benefited	Number of collaborators benefited
Health	24	39	6,541
Education	36	39	6,541
Entertaining	31	39	6,541
Commercial	34	39	6,541

Part of the objective of the Integral Collaborator Agenda, it is achieving a work-family balance. To this end, we carry out different activities where our collaborators and their families are involved.

These activities have cultural, recreational, educational, health and family sharing purposes. In 2012 more than 17 thousand people participated in this initiative

Event	Event number of participating cities	Total attendees
Family Day	39	14,121
Family Visits	27	657
Educational Fair	5	800
Health Fair	5	1,100
Book Fair	1	505
Child Talent Contest	39	60

Health is fundamental for the good work performance and wellness of our collaborators and their families. In 2012 we carried out multiple health campaigns in different AXTEL work centers.

Medical campaign	Number of participants
Vaccination campaigns	938
Information and prevention campaigns	2,950
Family health	346
Miscellaneous medical services	439
Women health programs	262
Conferences	250
Nutrition campaigns	497

05 ENVIRONMENTAL PERSPECTIVE

Environmental Perspective

At AXTEL we know that care for the environment is a fundamental part of our business and the development of our community. Actions to care for our Planet are everybody's responsibility, in our company we know it, and consequently, since 2008 we formalized the Environmental Committee which is formed by collaborators from different areas in the company who gather to plan, develop and implement improvement ideas in environmental matters.

[EN1, EN18, EN22, EN24, EN26, EN27]

Waste Management and Disposal

This Committee has the participation of a representative in each city, who is responsible for implementing campaigns and carrying out projects related with ecology and environmental care, as well as for the Environmental Management System, implemented this year.

We institutionalized these actions through different policies and procedures:

- Environmental Policy
- Policy on Management and Disposal of Waste
- Energy Savings Policy

ENVIRONMENTAL POLICY

Includes guidelines to reduce and prevent the environmental impact of our activities, inside and outside the company, at a local, state, and national level.

This Policy is integrated to the AXTEL Environmental Sustainability Strategy that seeks to preserve resources and establish a harmonious relationship with Nature.

At AXTEL we are committed to:

- Preserving the Planet.
- Preventing pollution.
- Decreasing environmental impact of our activities.
- Managing non-hazardous and hazardous waste, internally and externally.
- Contributing in water and soil preservation.
- Promoting material recycling and reutilization.
- Reducing emissions of polluting gases into the atmosphere.
- Meeting the current environmental regulations.

ENVIRONMENTAL QUALITY

During 2012, all the requirements established in the regulations of the General Law for Ecological Balance and Environmental Protection in regards to self-regulation and PROFEPA environmental audits were met in the Campus, Monterrey, and Santa Fe facilities in México City, to obtain the Environmental Quality Certification granted by the Federal Direction for Environmental Protection (PROFEPA), regulating agency in the Environment and Natural Resources Secretariat (SEMARNAT).

The Waste Management and Disposal Policy at AXTEL establishes the guidelines to control the materials generated by our operation at a national level.

This document defines the materials by type of waste, treatment given to each one of them, as well as the guidelines to identify the waste generated in a recurrent manner in our company.

Likewise, we have procedures established in accordance with the Mexican Official Standards (NOM) and the Environmental and Natural Resources Secretariat (SEMARNAT) to gather ink and toner cartridges for printers, batteries and obsolete computer equipment.

An important action we carried out in 2012 was the *"AXTEL Paperless Invoicing"* campaign, where we invited our clients to be part of the electronic invoicing process. In this year, issuance of electronic invoices increased in 218 percent compared with the previous year. In 2012 we stopped using 7.2 tons of paper, which represented not discharging 8.075 tons of CO2 into the atmosphere and avoiding cutting down 213 trees.

In march we signed an alliance with XEROX to minimize our environmental impact substituting the printing equipment in México, Guadalajara, and Monterrey. Thanks to this we stopped printing more than 540 thousand sheets of paper, equivalent to 2.2 tons of paper, which represents not cutting down 64 trees and not discharging 2.40 tons of CO2.

In the rest of the cities we continue participating with Hewlett Packard in the program *"Planet Partner"*, initiative in favor or recycling empty toner cartridges enabling to treat an average of 440 units during last year. These actions enabled us to achieve 42 percent additional savings in expenses for equipment, maintenance, operation, consumables, paper, and energy.

MATERIALS USED BY WEIGHT AND VOLUME

Waste	Annual amount (Tons)	CO_2*Emissions Avoided
Domestic residues	2,833	0
Paper	30.30	33.66
Cardboard	55.00	61.43
Pet plastic	1.61	1.07
Aluminum	0.85	0.094
Plastics	13.95	9.30
Glass	1.55	5.18

** Considered emissions avoided since they are sent to recycle.*

SPECIAL MANAGEMENT WASTE BY WEIGHT

Waste	Annual amount (Tons)
Batteries	0.286
Power sources	41.22
Plastics	13.95
Cables	12.62
Electronic equipment	1,005.32
Toner cartridges	1.25

TOTAL WEIGHT OF WASTE, BY TYPE AND TREATMENT METHOD

Waste	Annual amount (Tons)
Hazardous waste	1,046
Non-hazardous waste*	2,937

** All the other solid and liquid waste forms, except waste water.*

TOTAL WEIGHT OF WASTE, BY TYPE AND TREATMENT METHOD

Way to eliminate waste	Annual amount (Tons)
Recycling	103
Landfill	2,833
Onsite Storage	0.286

TOTAL WEIGHT OF HAZARDOUS WASTE TRANSPORTED IN 2012

1,046 ton

ANNUAL AMOUNT OF WASTE TREATED AND TRANSPORTED TO BE CONFINED

Destination	Annual amount (Tons)
Mina, Nuevo León	0.286
Singapore	36.30

At AXTEL plastic casings are used to protect the electronic equipment from natural phenomenon impacts which are used with WiMAX technology; these casings are recovered at the end of their useful life. Currently we have 377 thousand operating, out of which we have substituted 5 thousand 189 parts, which means that 98.62 percent are active and operating.

This recovery process is carried out according to the parameters established by the waste management company, in its environmental management system.

ANNUAL AMOUNT OF PACKING AND PACKAGING PRODUCTS AND MATERIALS RECOVERED

5,189 pieces = 6.226 ton

At AXTEL, polystyrene glasses were used by the AXTEL collaborators generating an average of 650 grams of waste per year per person. The aforementioned led us to suggest an initiative to eliminate the use of this harmful product for the environment, having an annual saving of 1 million 393 thousand glasses. With this, we avoid discharging 2.58 tons of CO2 into the atmosphere.

Energy and Air Emissions

The AXTEL Energy Savings Policy promotes practices to decrease electrical power consumption in all our installations among all the collaborators, strengthening the commitment acquired through the United Nations Global Compact.

DIRECT ENERGY CONSUMPTION AND GREENHOUSE GAS EMISSIONS

	Consumption (Gigajoules)	CO2 Emissions (Tons)
Gas	77,227.036	605.70
Gasoline	11,045,681	11,601.54
Diesel	193,605.97	277.53
TOTAL	**11,316,513**	**12,484.77**

INDIRECT ENERGY CONSUMPTION AND INDIRECT GREENHOUSE GAS EMISSIONS

	Consumption (Gigajoules)	CO2 (Tons)
Electrical Energy	28.51	67,331.02
TOTAL	**28.51**	**67,331.02**

We have started actions to contribute in mitigating the environmental deterioration promoting initiatives to reduce CO2 discharges into the atmosphere. The actions taken during 2012 in this line and the savings generated were:

- 2.40 tons of CO2 emissions avoided due to not printing on bond paper, because of the change of printing equipment in México, Monterrey, and Guadalajara, (AXTEL-Xerox Alliance).
- 110.75 tons of CO2 discharges avoided into the atmosphere, due to responsible disposal (recycling) of paper, glass, aluminum, and plastics.
- 5.27 tons of CO2 saved in employee commute thanks to the *Home Office* program, or work from home.
- 2.58 tons of CO2 saved in eliminating the use of polystyrene glasses in all AXTEL facilities.
- 8.07 tons of CO2 discharges avoided due to the *Paperless Electronic Invoicing* program.

Activities in the organization that create indirect emissions of greenhouse gas emissions:	Annual amount (Tons CO2)
Employees commute	52,747.2
Traveling	57.54

SIGNIFICANT ENVIRONMENTAL IMPACTS FROM PRODUCTS, MATERIALS AND PERSONNEL TRANSPORTATION

	Annual amount
Energy consumption (fuels, electricity)	11,316,541 gjj
Greenhouse gas emissions	79,815.79 ton CO2
Waste	2,833.6 ton C02

SIGNIFICANT ENVIRONMENTAL IMPACTS FROM TRANSPORTATION WITH LOGISTIC PURPOSES AND EMPLOYEE TRANSPORTATION

	Impacts (CO2 Tons)
Transportation with logistic purpose	11,601.538
Employee transportation	52 ,804. 74

Water

Water is used at AXTEL mainly for consumption in our administrative facilities in toilets, gardens and air conditioning. The main sources come from the municipal supply and, in some cases where this service is not available, water comes from authorized underground sources.

[EN8, EN9]

WATER CONSUMPTION BY SOURCES

Source	Annual amount Cubic meters
Underground water sources*	34,000
Municipal water supply	191,679
Total	225,679

** Water extracted of an underground source does not risk biodiversity in the region, or the total volume mass of water.*

ANNUAL WATER CONSUMPTION
CUBIC METERS

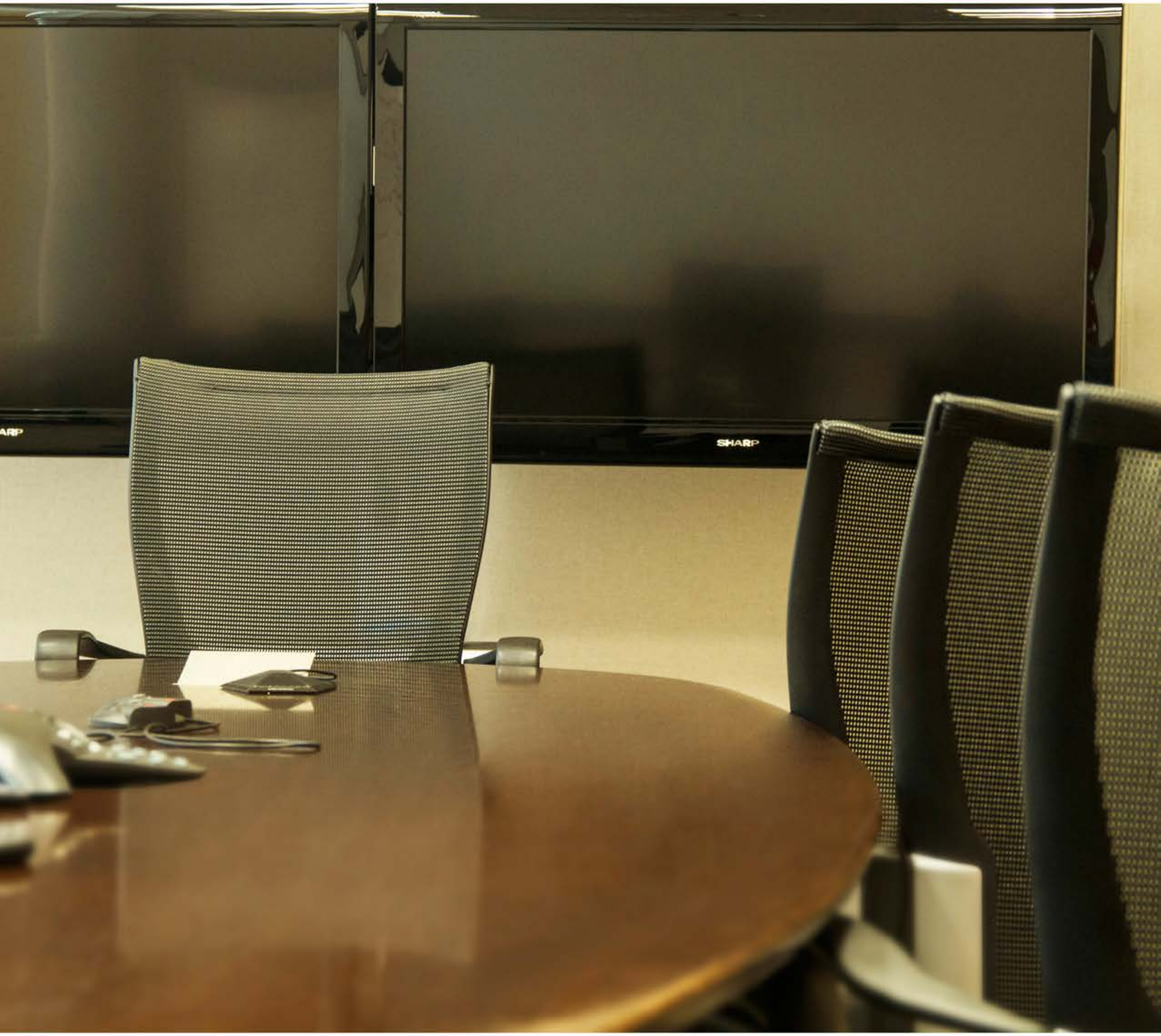
2012	225,679.00
2011	495,893.23
2010	423,883.29
2009	409,302.90
2008	362,027.73

METHODOLOGY AND CRITERIA APPLIED TO DETERMINE WHAT ENVIRONMENTAL IMPACT IS SIGNIFICANT

- Each ton of waste produces 1 ton of CO2.
- Amounts were obtained based on the following equivalent values:
  - Liter of gasoline: 2.22 k of CO2
  - Liter of diesel: 2.63 k of CO2
  - Liter of LP Gas: 3 k of CO2
  - Kwh: .656 k CO2
  - Flights: 110 grams per passenger in international flight
  - 38.4 liters of fuel per passenger in national flight

In the same way, an awareness campaign is carried out among employees for energy and fuel savings in order to mitigate the environmental impact generated by products transportation, collaborators, and other goods, and materials .

06 FINANCIAL PERSPECTIVE



[EC1, EC5, EC6, EC7]

Financial Perspective

One of the key challenges we faced in 2012 was maintaining an appropriate cash flow level before the abrupt decrease in earnings coming from the international traffic segment. In face of this dilemma demonstrated since the beginning of the year, we saw the need to adjust our investment budget, which caused our deployment plan for the fiber optic network directly to homes or businesses (FTTX) to be partial and temporary deferred.

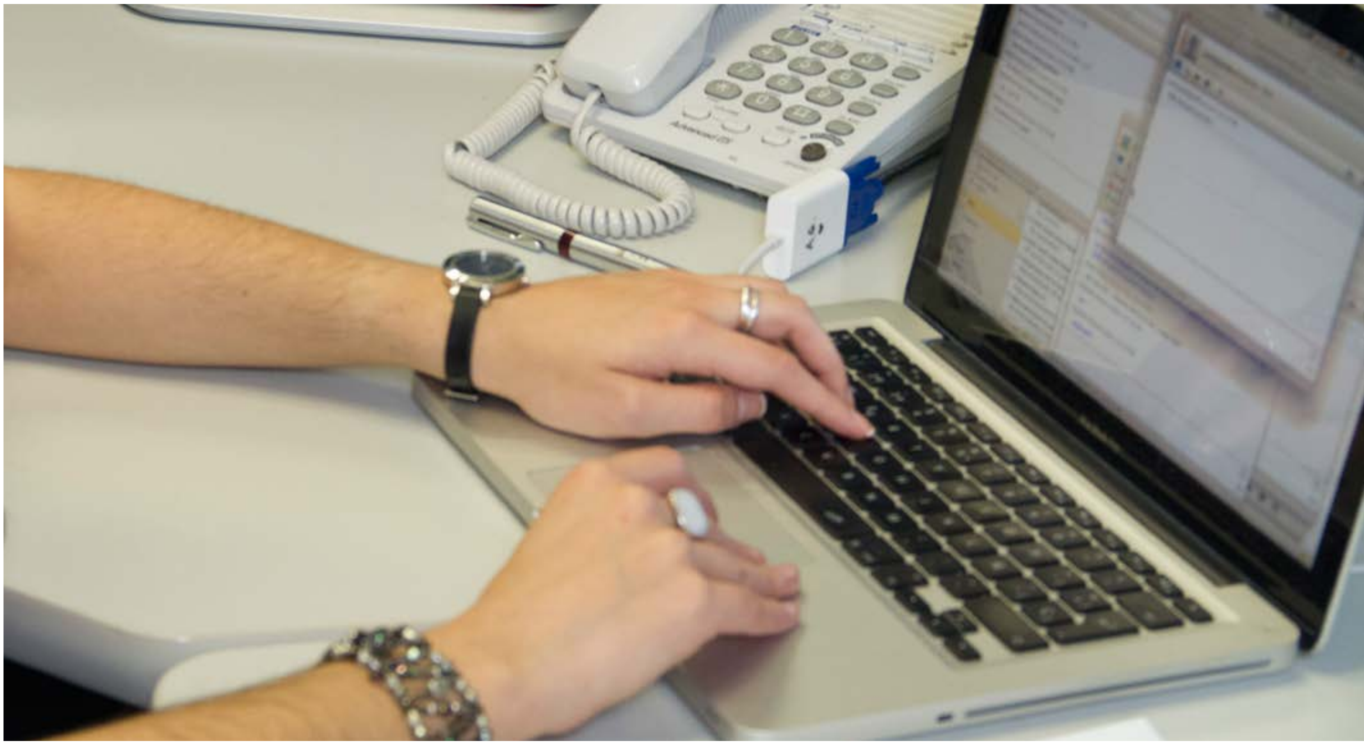
Resulting from the aforementioned, we also faced deterioration in financial leverage which forced us to oversee with special attention, our debt and liquidity levels, as well as start actions to make expenditures more efficient and improve capital structure.

In this sense, we started a financial clean-up process. Initially, we started negotiations to amend the credit agreement with our banks avoiding the possible non-compliance in certain financial clauses. Later, by mid-year, we started a recapitalization process of the Company, which involved divestment of communication towers, which were no longer strategic and whose economic value was greater in hands of a specialized operator. In parallel we started a process for debt reduction through the exchange of the two emissions of global notes and pre-payment of the syndicated credit with part of the resources that would be obtained from the towers sale. Both transactions were carried out successfully in January 2013 with the important support of most of the global bandholders and also the investor of the communication towers.

Likewise, we have given special emphasis in being more creative in the search of financial schemes that do not affect the leverage of the company, such as the operational leasing mechanisms, managed sourcing ad-hoc to specific projects and factoring schemes under standardized platforms.

The recapitalization plan operated during 2012 and closed in january 2013 enables the Company to recover financial flexibility to continue implementing appropriately its key strategic initiatives; (a) the deployment of the optical fiber network to home or business, on which we are placing high value multi-services for the consumption market, and (b) ICT (Information and Communication Technologies) products and services in the cloud for the corporate and government market.

Already interweaving the promissory future of AXTEL, we see that the key financial objectives for 2013 are (i) ensuring an efficient investment in working capital that contributes to strengthen our liquidity, and (ii) carry out the necessary investments that address our business plan maintaining a prudent financial leverage. The successful execution of the aforementioned will enable us to create value for our clients, shareholders, collaborators, and the community in general.

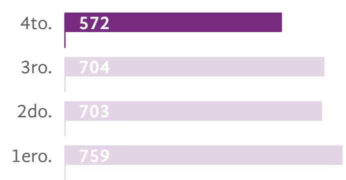


AXTEL is an information and telecommunications company, ITC, that has invested more than 43 billion MXN in the creation of basic infrastructure for services and solutions for its clients and society.

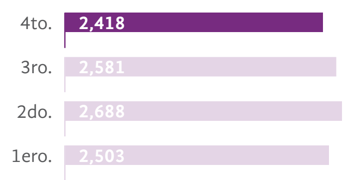
BUSINESS HIGHLIGHTS

Results (millions MXN)	2012	2011	2010
Income	10,190	10,829	10.652
(Loss) Operating Profit	(535)	46	234
Net loss	(709)	(2,070)	(307)
Financial Situation (millions MXN)			
Total assets	20,500	22,092	22,532
Total debt	11, 467	12,323	10,465
Equity	5, 088	5, 802	7,633
Operating Cash flow (millions MXN)			
Adjusted UAFIRDA	2,738	3,569	3,228
Measures			
EBITDA/Income	26.9%	33%	30%
(Loss) Operating Profit/Income	-5.2%	0.4%	2.2%
Net Loss/Income	-7.0%	-19.1%	-3%
Interest coverage	2.6%	3.6	3.4
Liabilities/Equity	3.03	2.81	1.95
Total Personnel	6,541	8,024	9,007

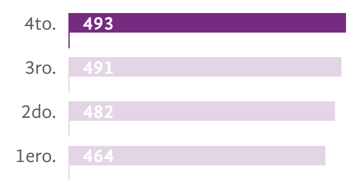
EBITDA PER QUARTER (MILLION MXN)



SALES PER QUARTER (MILLION MXN)



BROADBAND SUBSCRIBERS (THOUSANDS)



AXTEL ECONOMIC PERFORMANCE IN 2012

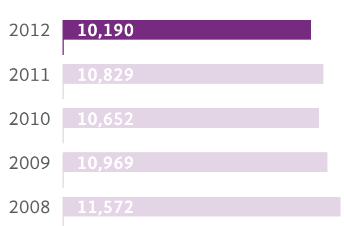
	Concept	2012	2011
Economic value generated (VEG)	Earnings	10,189,732	10,829,405
	Earning due to Interests	21,967	22,340
	Other Earnings	-199,987	-419,450
	(VEG)	**10,011,712**	**10,432,295**
Economic value distributed (VED)	Operating costs	-2,854,785	-2,799,269
	Outsourcing	-425,474	-427,855
	Social benefits (Payroll and derivatives)	-1,956,608	-2,014,782
	Taxes paid	-68,028	-69,314
	Payment to funding sources	-1,002,967	-763,536
	Investments in the community (Donations)	-14,702	-22,068
	(VED)	**-6,322,564**	**-6,096,824**
Retained economic value	**VEG + VED**	**3,689,148**	**4,335,471**

Amounts in millions of MXN
Calculation according to Mexican Financial Information Standards

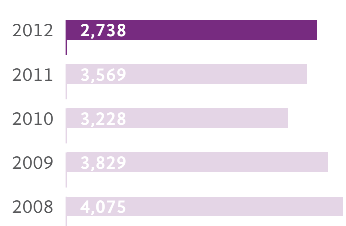
In 2012 there were no financial or in –kind donations to political parties or related institutions.

During this year, there were no sanctions or fines received derived from non-compliance of laws or regulations, or due to monopolistic practices or against free competition.

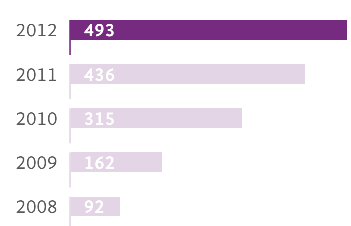
ANNUAL SALES (MILLION MXN)



EBITDA PER YEAR (MILLION MXN)



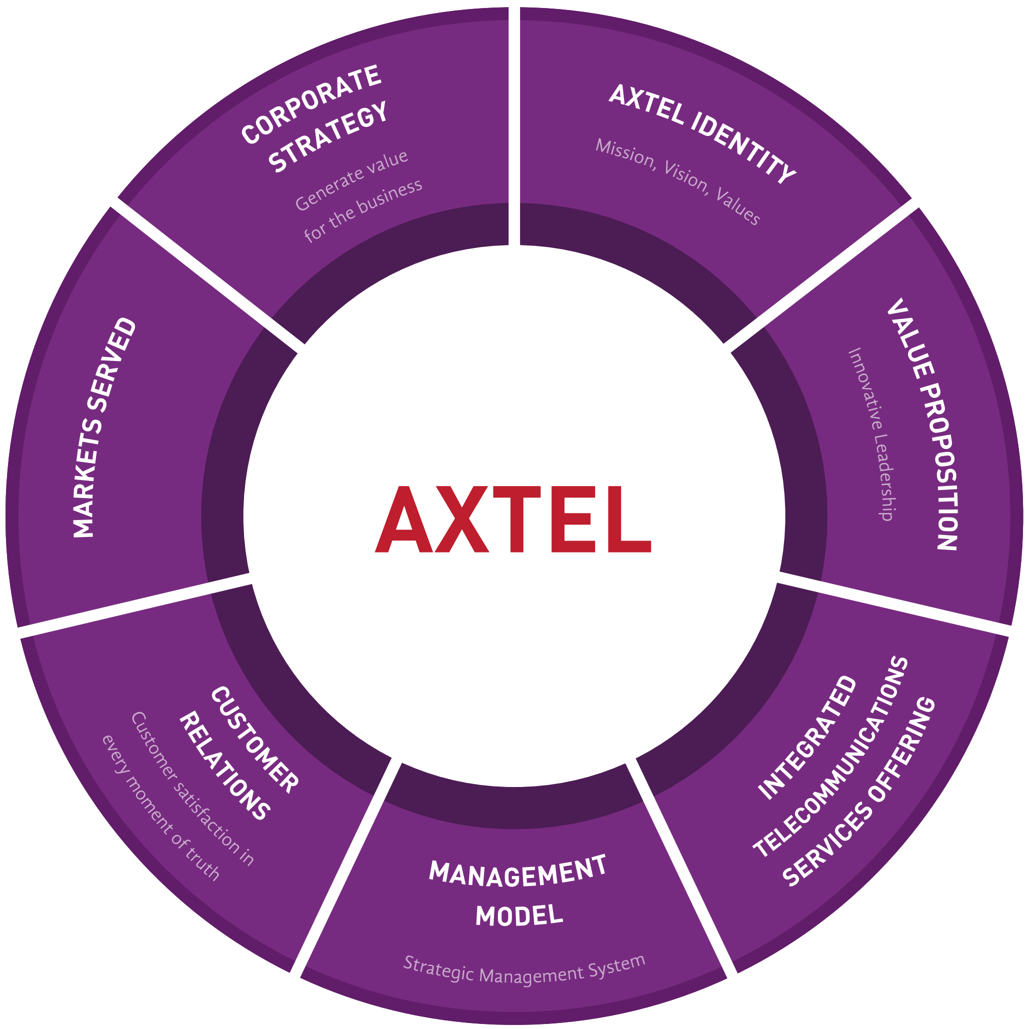
BROADBAND SUBSCRIBERS (THOUSANDS)



The information from 2012 and 2011 has been prepared under the International Financial Reporting Standards (IFRS). The information from 2010 and previous years has been prepared under the Mexican Financial Reporting Standards (NIF).

AXTEL Business Model

The AXTEL business model is designed to satisfy the strategy, policies and guidelines defined by the Board of Directors, as well as to guarantee the growth of the company and operate integrally and in a transparent manner under an ethical frame according to the corporate values.



Markets Served

CORPORATE AND GOVERNMENT MARKET

Government

During 2012 we increased earnings in 16 percent in this market.

Corporate

We worked successfully in serving medium and large size enterprises and corporations through the development of integral solutions specialized in vertical segments of the financial sector, Contact Centers, and Carriers.

We concentrate our efforts in two business lines that complement each other, which also comprise four product families each:

Communications: It is a market from which AXTEL obtains more than 70 percent earnings from the corporate and government segment.

- Traditional telephony
- IP telephony
- Networks
- Internet

Information technology: It is a market in continuous evolution and growth above 15 percent per year where AXTEL has concentrated the launching of new products.

- Infrastructure
- Applications
- Collaboration
- Security

Some of the main changes we carried out in our systems and/or structures to improve performance during 2012 were:

- Change in the approach, evolving from Salespeople to Business Consultants.
- The organizational structure aligned to verticalization by sectors.
- The Corporate Service Cells were implemented, integrated by Business Consultants + Service Executives.
- The variable compensation scheme was modified to boost team work under the concept of Cells.
- A Data Base was created with information for potential by client.
- The support information and decision making systems were improved for the Sales Force and Field Service.

Among the main strategies and procedures used to implement policies or achieving objectives during 2012 we find:

- Implementation of Consulting Sales Methodology.
- More specialized resources focused on the 750 most important accounts in the Country with the purpose of increasing Wallet Share.
- Verticalization by sectors to achieve solutions appropriate to Industry and Government needs.
- Re-definition of the segments focusing on service levels according to each client's size and potential.
- Integration of the Solution Design and Service Delivery areas within the same Business Unit to improve service management End to End.

INCOME 2012 (MILLON MXN)

Segment	Total
Business	4,536
Government	1,971
Total	**6,508**

CLIENTS 2012

Segment	Total
Business	10,112
Government	328
Total	**10,440**

CONSUMPTION MARKET

Change in AXTEL organizational structure to one based on business units focused on a specific market, in this case Consumption, comprised by homes, micro and small businesses, enabled integrating the marketing, sales, service delivery, customer service, failure solution and collections functions under one executive direction.

The aforementioned has enabled us to improve operative efficiency, client and user attention, as well as achieving the evolution and specialization in sales channels according to the client market segment.

The prior was achieved thanks to the integration of the following strategies:

- Improving the value proposition for the client incorporating value added services such as PC&MAC Expert and Specialized Support.
- Increase recognition and purchasing intention for AXTEL X-tremo High speed Internet through advertising campaigns and targeted promotion.
- Evolution of the direct and indirect sales forces to achieve better service due to the new possibilities that the new generation products offer the client.
- Communication and targeted sales strategies in zones with available capacity for wireless technologies.
- Maintaining a competitive value offering in terms of the price-value relation.

The main goals for AXTEL consumption market in 2013 are:

- Introducing the Television product to the market, selling in double and triple play packages.
- Deploying the FTTX technology in four new cities and introducing the AXTEL Xtremo and AXTEL TV products in those markets in double and triple play packages.
- Increasing customer penetration in the current FTTX coverage areas.

INCOME 2012 (MILLON MXN)

Segment	Total
Residential	2,820
Micro-businesses	586
Small businesses	276
Total	**3,682**

CLIENTS 2012

Segment	Total
Residential	637,068
Micro-businesses	64,327
Small businesses	14,285
Total	**715,680**

ANNUAL FINANCIAL REPORT 2012

ADMINISTRATION ANALYSIS ON FINANCIAL STATEMENTS

The information contained herein reflects the financial situation of the Company by December 31, 2012, compared with the financial situation by December 31, 2011.

INCOME

For the 12 month period finished on December 31, 2012, total earnings totaled 10 thousand 190 million MXN, from 10 thousand 829 million MXN invoiced during the same period in 2011, a decrease of 640 million MXN or 6 percent.

Company earnings come from the following services:

Local services.

Earnings for local services for the 12 month period finished on December 31, 2012 totaled 3 thousand 619 million MXN, in comparison to 4 thousand 160 million MXN registered in the same period in 2011; a decrease of 541 million MXN or 13 percent explained mainly due to a decrease of 28 million, 62 million and 451 million MXN in monthly rents, measured usage charge, and cell phone earnings.

Long Distance Services.

For the 12-month period finished on December 31, 2012, earnings for long distance totaled one thousand 236 million MXN compared with one thousand 224 million MXN registered in 2011, an increase of 12 million MXN or 1 percent.

Data and Networks.

For the 12-month period finished on December 31, 2012, the earnings for networks and data totaled 2 thousand 797 million MXN, from 2 thousand 595 million MXN invoiced in the same period in 2011, an improvement of 202 million MXN in its level, explained due to an increase of 254 million MXN in mass market or “on demand” Internet earnings, and a decrease of 52 million MXN in dedicated Internet and virtual private network earnings.

International Traffic.

Earnings due to international traffic totaled 655 million MXN in the 12-month period finished on December 31, 2012, a decrease of 47 percent compared with the same period in 2011, explained by a drop of 20 percent in volume and 34 percent in price.

Other Services.

Earnings due to other services for the 12-month period finished on December 31, 2012, totaled one thousand 882 million MXN in comparison with one thousand 604 million MXN registered in the same period in 2011, which represented an increase of 278 million MXN or 17 percent, mainly due to the increase of 306 million MXN in earnings for equipment sales.

OPERATIONAL METRICS

RGU’s and Clients.

By December 31, 2012, the revenue generating units (RGU’s) totaled 1 million 490 thousand, an increase of 1 percent or 15 thousand by the same date in 2011. During the year 2012, net additions of RGU’s totaled 17 thousand, in comparison with 120 thousand net additions in 2011, attributable to a slower pace in additions and a greater number of Internet disconnections. By December 31, 2012, the number of clients totaled 709 thousand, a decrease of 48 thousand or 6 percent by the same date in 2011.

Voice RGU’s (Lines in Service).

By December 31 2012, the lines in service totaled 997 thousand, representing a decrease of 42 thousand lines with regards to December 31, 2011. During 2012, in gross numbers, the total number of additional lines was of 242 thousand in comparison with 282 thousand in 2011. Disconnections in 2012 and 2011 were 284 thousand each year. By December 31, 2012, the residential lines represented 66 percent of the total lines in service.

Broadband RGU’s (Broadband subscribers).

The broadband access subscribers totaled 493 thousand by December 31, 2012. During this year, there was an increase of 57 thousand subscribers for broadband, an increase of 13 percent compared with the previous year. By the end of December 2012, the total number of WiMax subscribers reached 377 thousand, facing 368 thousand a year ago, while the total subscribers of AXTEL X-Tremo, or FTTH, totaled 100 thousand. The slower pace in broadband additions considered mainly due to increase in disconnections from WiMax that cannot be totally compensated by additions in FTTH subscribers. Broadband penetration reached 49 percent by the end of 2012, in comparison with 42 percent a year ago.

COST OF SALES AND EXPENDITURES

Cost of Sales.

For the 12-month period finished on December 31, 2012, the cost of sales was 2 thousand 855 million MXN, an increase of 56 million MXN in comparison with the year 2011, mainly due to increase in costs related to sales of equipment and integrated services, partially compensated by a decrease in costs from fixed to mobile and international traffic.

Gross Profit.

Gross profit is defined as earnings minus cost of sales. For the 12-month period finished on December 31, 2012, gross profit was 7 thousand 335 million MXN in comparison with 8 thousand 030 million MXN registered in year 2011, a decrease of 695 million MXN or 9 percent.

Administrative and sales expenses.

For the 12-month period finished on December 31, 2012, the operating expenses were 4 thousand 597 million MXN, from 4 thousand 461 million MXN in the same period in 2011. Personnel expenses represented 43 percent of the total operative expenses in the 12 month period finished on December 31, 2012. The increase of 135 million MXN was due to greater expenses in rents, maintenance and advertising related to AXTEL X-tremo and starting up of the AXTEL TV campaign.

Adjusted EBITDA.

The Adjusted EBITDA defined as net profit plus expenses for net interest, taxes, depreciation and amortization, and adjusted for extraordinary or non-recurring earnings or expenses. Adjusted EBITDA totaled 2 thousand 738 million USD, in comparison with 3 thousand 569 million MXN in 2011. As a percentage of earnings, margin was 27 percent for the 12-month period finished on December 31, 2012.

Depreciation and Amortization.

Depreciation and amortization for the 12-month period finished on December 31, 2012 was of 3 thousand 073 million MXN, from 3 thousand 103 million MXN in the same period in 2011, a decrease of 30 million MXN.

Operating Profit (Loss).

For the 12-month period finished on December 31, 2012 our operating loss was of 535 million MXN in comparison with the operating profit registered in the same period in 2011 of 46 million MXN, a variation of 581 million MXN.

INTEGRAL FINANCING RESULT

The integral result of financing was a cost of 347 million MXN in 2012 compared with a cost of 2 thousand 330 million MXN in 2011, explained mainly due to 5 percent appreciation of the peso in the 2012 period, in comparison with a 9 percent depreciation in the 2011 period.

NET PROFIT (LOSS)

The Company recorded a net loss for 709 million MXN in the 12-months finished in December 31, 2012, compared with a net loss for 2 thousand 070 million MXN pesos recorded in 2011. The variations pointed out previously, net of an unfavorable variation of 41 million MXN in the tax line, explain this loss.

DEBT

At the end of 2012 total debt decreased 856 million MXN in comparison with 2011, explained by (i) a net increase of 271 million MXN in bank debt related to the drawdown under the revolving facility, (ii) a decrease of 339 million MXN in leases and other financial liabilities, (iii) a decrease of 32 million MXN in notes issuance and deferred financing costs, and (iv) a non-cash decrease of 814 million MXN caused by the 5 percent appreciation of the currency.

MAIN CHANGES IN THE FINANCIAL SITUATION OF THE COMPANY

By December 31, 2012 and 2011, the flows generated by operating activities were 2 thousand 204 million MXN and 3 thousand 548 million MXN respectively. By December 31, 2012 and 2011, the Company had utilized flows in investment activities for (2 thousand 031) million MXN and (2 thousand 534) million MXN, respectively. By December 31, 2012 and 2011, the flows (utilized in) generated due to financing activities were (one thousand 003) million MXN and (829) million MXN, respectively.

The result of the aforementioned, during 2012, the Company decreased the cash from one thousand 425 million MXN by the end of 2011, to 608 million MXN in 2012.

Capital investments.

For the 12-month period finishing on December 31, 2012, the capital investment totaled 2 thousand 016 million MXN, in comparison with 2 thousand 533 million MXN in 2011.

Taxes.

During 2011, the benefit on income tax was of 173 million MXN, in comparison with a benefit of 214 million MXN the previous year. This benefit was mainly generated due to fiscal losses to be amortized, real estate, systems and equipment and other liability provisions.

The information contained in this section reflects the financial situation of the Company by December 31, 2012, compared with the financial situation by December 31, 2011.

Assets.

By December 31, 2012, the total assets were 20 thousand 500 million MXN in comparison with 22 thousand 092 million MXN by December 31, 2011, a decrease of one thousand 592 million MXN.

Cash and Equivalent.

By December 31, 2012, cash and equivalent totaled 597 million MXN in comparison with one thousand 373 million MXN by December 31, 2011, a decrease of 776 million MXN, or 57 percent.

Accounts Receivable.

By December 31, 2012, accounts receivable totaled 2 thousand 407 million MXN in comparison with 2 thousand 018 million MXN by December 31, 2011, an increase of 389 million MXN.

Real estate, systems and equipment, net.

By December 31, 2012, real estate, systems and equipment, net, were 13 thousand 998 million MXN in comparison with 15 thousand 423 million MXN by December 31, 2011, a decrease of one thousand 425 million MXN. The real estate, systems and equipment without discounting accumulated depreciation totaled 35 thousand 653 million and 34 thousand 444 million MXN by December 31, 2012 and 2011, respectively. The increase in real estate, systems and equipment is explained due to a greater investment during this period.

Liabilities

By December 31, 2012, the total liabilities were 15 thousand 412 million MXN in comparison with 16 thousand, 290 million MXN by December 31, 2011, a decrease of 878 million.

Accounts Payable and Accumulated Liabilities.

By December 31, 2012, accounts payable and accumulated liabilities totaled 2 thousand 404 million in comparison with 2 thousand 396 million by December 31, 2011, an increase of 9 million.

Equity

By December 31, 2012, Company equity totaled 5 thousand 088 million in comparison with 5 thousand 802 million by December 31, 2011, a decrease of 714 million, or 12 percent. Corporate capital remained in 6 thousand 626 million MXN by December 31, 2012 and 2011.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
AXTEL, S. A. B. de C. V.:

We have audited the accompanying consolidated financial statements of AXTEL, S. A. B. de C. V, and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2012, 2011, and January 1, 2011 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2012 and 2011 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S. A. B. de C. V, and subsidiaries, as of December 31, 2012, 2011 and January 1, 2011 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

Without qualifying our opinion, we draw attention to the following:

As described in note 2, in recent quarters, the Company has experienced declines in revenues and cash flows, and liquidity constraints. Company´s plans to address this situation are listed in Note 2.

As mentioned in notes 24 (b) and 24 (c), the Company has contingencies related to interconnection rates with mobile operators and with long distance terminating calls with one of its main suppliers. As of December 31, 2012, the difference between the amounts paid by the Company and the amounts billed by the mobile operators and one of its main suppliers amounted to approximately $2,073 and $1,240 million of pesos, respectively, before value added tax. As of the date of this report, Company Management and legal counsel consider that they have sufficient elements for a favorable outcome in the trials related to these contingencies.

KPMG Cardenas Dosal, S. C.

C.P.C. Leandro Castillo Parada

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original
and for the convenience of foreign English – speaking readers

	Note		December 31, 2012	December 31, 2011	January 1, 2011
Assets					
Current assets:					
Cash and cash equivalents	8	$	597,201	1,372,896	1,250,143
Restricted cash	8		10,709	52,127	58,121
Accounts receivable	9		2,406,764	2,018,013	2,240,534
Refundable taxes			91,069	108,679	97,884
Prepaid expenses			52,188	79,580	55,032
Inventories	10		105,471	152,756	165,629
Financial instruments	8		88,419	320,123	271,817
Assets classified as held for sale	11		460,462	-	-
Other current assets	14		141,439	235,401	303,798
Total current assets			3,953,722	4,339,575	4,442,958
Long-term accounts receivable	11		15,470	17,712	27,346
Property, systems and equipment	12		13,997,994	15,423,023	15,769,472
Intangible assets	20		288,622	325,495	370,772
Deferred income taxes	13		2,081,718	1,853,392	1,628, 471
Investments in associates	14		9,647	9,667	44,341
Other assets			153,158	123,090	141,658
Total assets		$	20,500,331	22,091,954	22,425,018
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	2,404,471	2,395,837	2,668,135
Accrued interest			276,043	297,107	261,692
Taxes payable			135,703	168,319	153,733
Short-term debt	8		-	-	280,000
Current maturities of long-term debt	15		411,969	380,880	375,996
Current portion of provisions	18		281,808	59,855	100,000
Deferred revenue	19		631,298	567,878	667,665
Derivative financial instruments	8		46,532	16,888	127,549
Other current liabilities	16		106,702	139,994	98,629
Total current liabilities			4,294,526	4,026,758	4,733,399
Long-term debt	15		11,054,645	11,941,813	9,667,867
Provisions	18		-	253,129	223,824
Other liabilities			9,534	12,233	18,535
Employee benefits	17		19,452	21,935	19,972
Deferred revenue	19		33,900	33,900	33,900
Total liabilities			15,412,057	16,289,768	14,697,497
Stockholders' equity					
Common stock	21		6,625,536	6,625,536	6,625,536
Additional paid-in capital	21		644,710	644,710	644,710
Reserve for repurchase of own shares	21		162,334	162,334	162,334
Retained earnings			(2,314,955)	(1,606,086)	464,040
Accumulated other comprehensive income	21		(29,351)	(24,308)	(169,099)
Total stockholders' equity			5,088,274	5,802,186	7,727,521
Commitments and contingencies	24				
Subsequent events	24 y 27				
Total liabilities and stockholders' equity		$	20,500,331	22,091,954	22,425,018

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

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2012 and 2011

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original
and for the convenience of foreign English – speaking readers

	Note		2012	2011
Telephone services and related revenues	22	$	10,189,732	10,829,405
Operating costs and expenses:				
Cost of revenues and services			(2,854,785)	(2,799,269)
Selling and administrative expenses			(4,596,598)	(4,461,366)
Depreciation and amortization			(3,073,240)	(3,102,824)
Other expenses	23		(199,987)	(419,450)
Operating (loss) income			(534,878)	46,496
Interest expense	11		(1,057,513)	(1,002,580)
Interest income			21,967	22,340
Foreign exchange gain (loss), net			797,630	(1,276,332)
Change in the fair value of financial instruments, net	8		(109,197)	(73,886)
Net finance costs			(347,113)	(2,330,458)
Equity in earnings of associated company	13		(20)	(141)
Loss before income taxes			(882,011)	(2,284,103)
Income taxes:				
Current	20		(53,022)	(73,105)
Deferred	20		226,164	287,082
Total income tax benefit			173,142	213,977
Net loss		$	(708,869)	(2,070,126)
Other comprehensive income items:				
Valuation effects of cash flow hedges, net of income tax	21		(5,043)	144,791
Comprehensive loss		$	(713,912)	(1,925,335)
Weighted average number of common shares outstanding			8,769,353,223	8,769,353,223
Basic loss per share		$	(0.08)	(0.22)

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2012 and 2011

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original
and for the convenience of foreign English – speaking readers

		2012	2011
Cash flows from operating activities:			
Net loss for the period	$	(708,869)	(2,070,126)
Adjustments for:			
Income tax benefit		(173,142)	(213,977)
Foreign exchange (gain) loss, net		(797,630)	1,276,332
Depreciation		3,021,210	3,028,501
Amortization		52,030	74,323
Impairment loss recognized on trade receivables		201,473	186,695
(Gain) loss on sale of property, system and equipment		(429)	71,493
Allowance for obsolete and slow-moving inventories		21,408	324,409
Share of losses of equity-accounted investees		20	141
Impairment of other permanent investments		-	36,938
Interest expense		1,057,513	1,002,580
Amortization of premium on bond issuance		(6,236)	(6,236)
Fair value gain on financial instruments		109,197	73,886
		2,776,545	3,784,959
Movements in working capital:			
(Increase) decrease in accounts receivable		(482,751)	81,795
Decrease in inventories		47,284	12,873
Decrease in accounts payable		(132,263)	(206,804)
(Increase) decrease in deferred revenue		63,420	(99,787)
Cash generated from operating activities		2,272,235	3,573,036
Taxes paid		(68,028)	(25,245)
Net cash from operating activities		2,204,207	3,547,791
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,016,223)	(2,532,772)
Other investment		-	(2,405)
Other assets		(15,075)	895
Net cash used in investing activities		(2,031,298)	(2,534,282)
Cash flows from financing activities:			
Interest paid		(1,038,846)	(969,724)
Proceeds of bank loans		261,862	964,092
Payments of bank loans		-	(352,000)
Other long terms loans, net		(333,027)	(416,254)
Income (payments) of derivative financial instruments		107,044	(54,738)
Net cash flow from financing activities		(1,002,967)	(828,624)
Net (decrease) increase in cash and cash equivalents		(830,058)	184,885
Cash and cash equivalents at beginning of the year		1,372,896	1,250,143
Effects of exchange rate fluctuations on cash and cash equivalents held		54,363	(62,132)
Cash and cash equivalents at the end of the year	$	597,201	1,372,896

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

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2012 and 2011

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' equity
Balances as of January 1, 2011	$	6,625,536	644,710	162,334	464,040	(169,099)	7,727,521
Net loss		-	-	-	(2,070,126)	-	(2,070,126)
Other comprehensive income items, net of income tax		-	-	-	-	144,791	144,791
Balances as of December 31, 2011		6,625,536	644,710	162,334	(1,606,086)	(24,308)	5,802,186
Net loss		-	-	-	(708,869)	-	(708,869)
Other comprehensive income items, net of income tax		-	-	-	-	(5,043)	(5,043)
Balances as of December 31, 2012	$	6,625,536	644,710	162,334	(2,314,955)	(29,351)	5,088,274

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Mexican pesos)

These financial statements have been translated from Spanish language original
and for the convenience of foreign English – speaking readers

(1) REPORTING ENTITY

AXTEL, S.A.B. de C.V. ("AXTEL") is a Mexican corporation engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls. A concession is required to provide these services and carry out the related activities, (see notes 6 (j) and 12). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years. The corporate domicile of the Company located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. AXTEL's primary activities are carried out through different operating entities which are its direct or indirect subsidiaries (collectively with Axtel referred to herein as the "Company").

(2) SIGNIFICANT EVENTS

On December 4, 2012, the Extraordinary General Meeting of Shareholders authorized to negotiate, incur or execute financing operations and debt restructuring on terms and conditions that management deems appropriate and in according with current market conditions, and is authorized to grant part or all of the tangible and intangible assets, present and / or future of the Company to ensure the financing and restructuring operations.

In recent quarters of 2012, the Company has experienced declines in revenues and cash flows, affecting its liquidity. This situation is negatively impacting the Company´s investment program, thus slowing the Company´s growth. The Company plans to address this situation is as follow:

- reduce operating expenses, through the implementation of different programs such as restructuring corporate structure and reducing workforce, and the not renewal of certain offices space under operating leases,
- pursuing a liability management plan targeting to reduce current long term debt to achieve a more affordable debt level,
- selling of non-strategic assets, through sale and lease back transactions,
- launching different commercial offers and new products that were in developing stages and are ready to begin its commercial launch in the coming quarters.

In order to implement the strategic plans, the Company is restructuring certain operations (see note 18).

On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc in order to strengthen liquidity, provide cash flows for future capital investments, debt repayment and other corporate general purposes (see note 15).

(3) INTERNATIONAL FINANCIAL REPORTING STANDARDS

Beginning January 1, 2012, the Company adopted the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") as the regulatory base to prepare and present consolidated financial statements.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the Company's first annual consolidated financial statements under these standards. The Company applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, the Company's financial statements have been prepared on the basis of Mexican Financial Reporting Standards ("FRS"). The effects of transition to IFRS are disclosed in note 25.

(4) CONSOLIDATION OF FINANCIAL STATEMENTS

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

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

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

(5) BASIS OF PREPARATION

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These are the first annual financial statements prepared in accordance with IFRS and has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The effects of transition to IFRS are disclosed in note 25, and an explanation of how it affected the financial position, financial performance and cash flows reported by the Company are disclosed in note 25.

On February 28, 2013, the Director of Administration and Human Resources of the Company authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

b) Basis of measurement

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

c) Functional and presentation currency

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

(6) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2011 for the purposes of the transition to IFRSs, unless otherwise indicated.

a) Cash and cash equivalents

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

b) Restricted cash

The Company restricted cash as of December 31, 2012 and 2011 and January 1, 2011, presented in the consolidated statements of financial position, amounted to $ 10,709, $52,127 and $58,121, respectively, derived from various financial instrument contracts mentioned in note 8 and the syndicated loan mentioned in note 15.

c) Financial assets

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

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

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

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

FINANCIAL ASSETS VALUED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as such or that are not classified in any of the previously mentioned categories and do qualify as held-to-maturity investments. Available-for-sale financial assets represent investments with a quoted price in an active market and can therefore be reliably valued at their fair value. After initial measurement, available-for sale financial assets are valued at their fair value and the unrealized gains or losses are recognized as a separate item in the other comprehensive income in the stockholders’ equity within other comprehensive income. When the available-for-sale financial assets are sold and all of the risks and benefits have been transferred to the buyer, all previous fair value adjustments recognized directly in the other comprehensive income in the stockholders’ equity are reclassified to the consolidated statements of comprehensive income.

RECEIVABLES

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

EFFECTIVE INTEREST METHOD

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

WRITE-OFF OF FINANCIAL ASSETS

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

d) Impairment of financial instruments

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

FINANCIAL ASSETS CARRIED AT AMORTIZED COST

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

AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

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

e) Derivative financial instruments

HEDGING INSTRUMENTS

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

CASH FLOW HEDGES

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

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

EMBEDDED DERIVATIVES

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

f) Fair value of financial instruments

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

g) Inventories and cost of sales

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

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

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

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

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

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

i) Property, systems and equipment

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

Property, plant and equipment are presented using the cost method foreseen in IAS 16, "Property, Plant and Equipment." Depreciation is calculated using the straight line method based on the value of the assets and their estimated useful life, which is periodically reviewed by the Company's management.

DEPRECIATION

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

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

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

SUBSEQUENT COSTS

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

DECOMMISSIONING AND REMEDIATION OBLIGATIONS

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

BORROWING COSTS

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

j) Intangibles assets

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

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

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

As a consequence of the acquisition of Avantel, the Company identified and recognized the following intangible assets: trade name, customer relationships and concession rights (see note 12).

k) Impairment of non-financial assets

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

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

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

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

l) Non-current assets held for sale

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

m) Financial liabilities

INITIAL RECOGNITION AND MEASUREMENT

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

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

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

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

FINANCIAL LIABILITIES AT FAIR VALUE WITH CHANGES TO PROFIT OR LOSS

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

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

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

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

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

FINANCIAL DEBT AND INTEREST BEARING LOANS

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

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

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

n) Leases

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

THE COMPANY AS A LESSEE

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

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

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

o) Provisions

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

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

p) Employee benefits

SHORT-TERM EMPLOYEE BENEFITS

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

SENIORITY PREMIUMS GRANTED TO EMPLOYEES

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

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

TERMINATION BENEFITS

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

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

q) Statutory employee profit sharing

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

r) Income taxes

CURRENT INCOME TAXES

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

DEFERRED INCOME TAXES

Deferred income tax is calculated based on management's financial projections according to whether it expects the Company to incur ISR or IETU in the future. The recognition of deferred tax assets and liabilities reflects the tax consequences that the Company expects at the end of the period, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

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

s) Revenue recognition

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

- *Telephony Services* – Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services.

- *Activation* – At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.

- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.

- *Integrated services* – At the moment when the client receives the service.

t) Earnings per share

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

u) Segments

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

(7) CRITICAL ACCOUNTING JUDGMENTS AND KEY UNCERTAINTY SOURCES IN ESTIMATES

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

Underlying estimates and assumptions are reviewed regularly.

The critical accounting judgments and key uncertainty sources when applying the estimates performed as of the date of the consolidated financial statements, and that have a significant risk of resulting in an adjustment to the book values of the assets and liabilities during the following financial period are as follows:

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

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

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

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

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

f) *Deferred income taxes* - The Company prepares future cash flows projections to determine whether it will pay ISR or IETU in future periods, in order to estimate the reversal dates for the temporary differences that result in deferred tax assets and liabilities.

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

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

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

(8) FINANCIAL INSTRUMENTS

Categories of financial instruments		December 31, 2012	December 31, 2011	January 1, 2011
Financial assets				
Cash and cash equivalents	Ps	597,201	1,372,896	1,250,143
Restricted cash		10,709	52,127	58,121
Accounts receivables		2,406,764	2,018,013	2,240,534
Fair value through profit or loss		88,419	135,212	216,035
Derivative financial instruments		-	184,911	55,782
Financial liabilities				
Derivative financial instruments		46,532	16,888	127,549
Amortized cost		13,871,085	14,718,530	12,991,998

a) Financial risk management objectives

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

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

b) Market and interest rate risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2012 and 2011, and January 1, 2011 are as follows:

		(Thousands of US dollars)		
		December 31, 2011	December 31, 2011	January 1, 2011
Current assets	US $	62,082	117,550	131,409
Current liabilities		(124,903)	(125,882)	(177,566)
Non-current liabilities		(817,765)	(820,471)	(780,642)
Foreign currency liabilities, net	US $	(880,586)	(828,803)	(826,799)

The U.S. dollar exchange rates as of December 31, 2012 and 2011 and January 1, 2011 were Ps. 13.01, Ps. 13.99 and Ps. 12.35, respectively. As of February 28, 2013, the exchange rate was Ps. 12.86.

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

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

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

US$ 100 Million Syndicated loan CCS

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

				Fair Value Asset (Liability)	
Counterparty	**Notional Amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Credit Suisse	Ps.614 US$44.4	Pays fixed rate in pesos of 5.06% and receives LIBOR + 400	-	(1,630)	-
Credit Suisse	Ps.464 US$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	(40,299)	-	-
Ixe	Ps.128 US$10	LPays fixed rate in pesos of 11.11% and receives LIBOR + 400	(6,233)	-	-

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

U.S. $275 Million Senior Notes Currency Swaps

In August 2007, the Company issued senior unsecured notes for U.S. $275 million at a fixed rate. The Company decided to enter into a CS derivative contract to hedge exchange rate risk (devaluation of the peso versus the U.S. dollar) derived from the senior notes. Under this agreement, the Company will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 3,038 million (notional value) at a fixed annual rate of 8.43%.

The Currency Swap information is as follows:

				Fair Value Asset (Liability)	
Counterparty	**Notional Amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Credit Suisse	$ 3,039 US$275	Pays fixed annual rate of 8.43% and receives fixed annual rate in USD of 7.625%	-	18,640	12,688

During October 2010, the Company decided to enter into a CS derivative to hedge the exchange rate derived from the issuance mentioned in the preceding paragraph, for the period between February 2012 and August 2014, under these agreements, the Company will receive and will make the payments listed in the following table:

				Valor razonable Activo (Pasivo)	
Counterparty	Notional Amount	Terms	December 31, 2012	December 31, 2011	January 1, 2011
Credit Suisse	Ps. 2,480 US$200	Pays fixed annual rate of 8.16% and receives fixed annual rate in USD of 7.625%	-	50,650	12,623
Citibank	Ps. 929 US$75	Pays fixed annual rate of 8.57% and receives fixed annual rate in USD of 7.625%	-	7,638	(5,325)

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

U.S. $300 and U.S. $190 Million Senior Notes Currency Swaps

In September 2009 and March 2010, the Company issued senior unsecured notes for U.S.$ 300 million and U.S. $190 million, respectively, at a fixed rate. The Company decided to hedge the exchange rate risk derived from these issuances with CS derivative financial instruments as follows (during the last quarter of 2011, the Company cancelled the hedge of U.S. $65 million entered into with Deutsche Bank A.G. and replaced it with Citibank):

				Fair Value Asset (Liability)	
Counterparty	Notional Amount	Terms	December 31, 2012	December 31, 2011	January 1, 2011
Credit Suisse	Ps. 2,885 US$ 225	Pays fixed rate in pesos of 9.059% and receives fixed rate in USD of 9.00%	-	98,431	30,471
Deutsche Bank	Ps. 1,320 US$100	Pays fixed rate in pesos of 10.107% and receives fixed rate in USD of 9.00%	-	(9,754)	(57,880)
Citibank	Ps. 861 US$65	Pays fixed rate in pesos of 9.62% and receives fixed rate in USD of 9.00%	-	7,013	-
Deutsche Bank	Ps.819 US$65	Pays fixed rate in pesos of 9.99% and receives fixed rate in USD of 9.00%	-	-	(19,284)
Merrill Lynch	Ps.658 US$50	Pays fixed rate in pesos of 10.0825% and receives fixed rate in USD of 9.00%	-	(4,154)	(25,143)
Merrill Lynch	Ps.315 US$25	Pays fixed rate in pesos of 9.98% and receives fixed rate in USD of 9.00%	-	2,539	(6,910)
Morgan Stanley	Ps.327 US$25	Pays fixed rate in pesos of 10.080% and receives fixed rate in USD of 9.00%	-	(1,350)	(13,007)

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

Margins calls and required collateral associated with the Company's derivative financial instruments are established with the counterparties to the agreement depending on their authorized credit lines. The Company does not operate with counterparties that do not offer reasonable lines of credit. As of, December 31, 2012 and 2011 and January 1, 2010 the Company had Ps.$0, Ps. 28 million (U.S.$2.0) and Ps. 58 million (U.S. $4.7), respectively, held as collateral.

c) Market and interest rate sensitivity analysis

EXCHANGE RATE SENSITIVITY ANALYSIS

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

Peso strengthens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase by Ps.1,041,501.
- equity would increase by Ps.969,032.

Peso weakens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase decrease by Ps.1,145,651.
- equity would decrease by Ps.1,095,470.

INTEREST RATE SENSITIVITY ANALYSIS

The Company has completely hedged the interest rate risk associated with its variable rate borrowings through its derivative instrument hedging strategy as described above.

d) Other price risks (equity price risk)

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

				Fair value Asset (Liability)	
Counterparty	**Notional amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	$ 88,419	$ 135,212	$ 216,035

For the year ended December 31, 2012 and 2011 the change in the fair value of the Zero Strike Calls resulted in an unrealized loss of Ps.46,793 and Ps.80,823, respectively, recognized in the fair value loss on financial instruments, net, line item.

e) Equity price risk sensitivity analysis

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

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

- profit and equity for the year ended December 31, 2012 and 2011 would increase by Ps. 8,842 and Ps.13,521, respectively.

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

- profit and equity for the year ended December 31, 2012 and 2011 would decrease by Ps.8,038 and Ps.12,292, respectively.

f) Credit risk management

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

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

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

Company A represented 15%, 0.2% and 0.1% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2012 and 2011 were 3% and 0%, respectively.

Company B represented 7%, 8% and 6% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2012 and 2011 were 1.9% and 2.7%, respectively.

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

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

g) Liquidity risk management

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

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

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

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

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

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2012	Less than 1 year	1-2 years	2-3 years	3-4 years	Total
Cross Currency Swaps	Ps 51,555	320,919	290,256	67,783	730,513
	Ps 51,555	320,919	290,256	67,783	730,513

h) Financing facilities

Short-term debt of Ps. 280,000 associated with the Company's financing facilities as of January 1, 2011 consisted of a revolving unsecured credit agreement with Banamex in Mexican pesos, renewable on a quarterly basis. The interest rate is TIIE + 375 basis points and is due monthly. During November 2011 this loan was paid in full.

i) Fair value of financial instruments

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

	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Financial liabilities held at amortized cost:						
U.S. $275 million Senior Unsecured Notes	3,577,778	1,842,555	3,847,360	2,770,099	3,398,203	3,397,863
U.S. $300 million Senior Unsecured Notes	3,903,030	2,068,606	4,197,120	3,189,811	3,707,130	3,561,811
U.S. $190 million Senior Unsecured Notes	2,514,015	1,310,117	2,706,508	2,020,214	2,402,418	2,255,813
Syndicated loan	1,057,925	964,663	838,904	626,645	-	-
Other long-term financing	251,182	225,166	468,245	454,626	549,472	468,375
Capacity lease	318,984	327,442	453,237	467,619	127,642	130,173

VALUATION TECHNIQUES AND ASSUMPTIONS APPLIED FOR THE PURPOSES OF MEASURING FAIR VALUE

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

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

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

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

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

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

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

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

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

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	184,911	-	184,911
Zero Strike Calls	135,212	-	-	135,212
Total	135,212	184,911	-	320,123
Financial liabilities				
Derivative financial liabilities	-	16,888	-	16,888

	January 1, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	55,782	-	55,782
Zero Strike Calls	216,035	-	-	216,035
Total	216,035	55,782	-	271,817
Financial liabilities				
Derivative financial liabilities	-	127,549	-	127,549

(9) ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Trade accounts receivable	Ps	4,614,301	4,025,091	4,059,229
Less allowance for doubtful accounts		2,207,537	2,007,078	1,818,695
Trade accounts receivable, net	Ps	2,406,764	2,018,013	2,240,534

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2012 and 2011 and as of January 1, 2011.

Movement in the allowance for doubtful accounts:

		December 31, 2012	December 31, 2011	January 1, 2011
Opening balance	Ps	2,007,078	1,818,695	1,658,055
Allowance for the year		201,473	186,695	161,860
Effect of exchange rate		(1,014)	1,688	(1,220)
Balances at period end	Ps	2,207,537	2,007,078	1,818,695

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

Aging of impaired trade receivables:

		December 31, 2012	December 31, 2011	January 1, 2011
30 - 60 days	Ps	35,418	28,978	30,105
60 - 90 days		31,282	24,871	27,284
90 - 120 days		42,719	27,203	29,642
120 + days		2,098,118	1,926,026	1,731,664
Total	Ps	2,207,537	2,007,078	1,818,695

(10) INVENTORIES

Inventories consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Routers	Ps	17,209	38,552	41,022
Installation material		19,836	24,276	33,723
Network spare parts		13,622	20,796	26,510
Tools		10,864	13,332	15,261
Telephones and call identification devices		13,734	9,122	11,024
Other		30,206	46,678	38,089
Total inventories	Ps	105,471	152,756	165,629

(11) PROPERTY, SYSTEMS AND EQUIPMENT

Property, systems and equipment are as follows:

Cost	Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2011	430,990	2,717,392	355,631	207,057	26,312,273	391,134	2,088,815	32,503,292
Additions	-	163	7,635	797	536,424	179	2,440,896	2,986,094
Transfer of completed projects in progress	-	322,723	24,792	8,065	1,381,776	26,644	(1,764,000)	-
Disposals	-	-	(9,987)	-	(806,363)	-	(229,000)	(1,045,350)
Balance as of December 31, 2011	430,990	3,040,278	378,071	215,919	27,424,110	417,957	2,536,711	34,444,036
Additions	-	247	2,814	2	572,753	-	1,481,933	2,057,749
Transfer of completed projects in progress	-	235,402	25,095	5,178	2,411,698	7,190	(2,684,563)	-
Transfer to assets held for sale	-	-	-	-	(817,077)	-	-	(817,077)
Disposals	-	(26)	(10,569)	-	(21,307)	-	-	(31,902)
Balance as of December 31, 2012	430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806

Depreciation and impairment	Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2011	93,226	1,064,654	151,854	134,996	15,069,521	219,569	-	16,733,820
Depreciation for the year	14,286	64,371	75,072	14,458	2,820,714	39,600	-	3,028,501
Disposals	-	-	(4,971)	-	(736,337)	-	-	(741,308)
Balance as of December 31, 2011	107,512	1,129,025	221,955	149,454	17,153,898	259,169	-	19,021,013
Depreciation for the year	14,286	101,517	76,790	14,063	2,776,095	38,459	-	3,021,210
Disposals	-	-	(9,588)	-	(21,208)	-	-	(30,796)
Transfer to assets held for sale	-	-	-	-	(356,615)	-	-	(356,615)
Balance as of December 31, 2012	121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Property, systems and equipment, net	309,192	2,045,359	106,254	57,582	10,018,007	127,519	1,334,081	13,997,994

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

During the year ended December 31, 2012 and 2011 the Company capitalized Ps.61,399 and Ps. 57,157, respectively of borrowing costs in relation to Ps.716,915 and Ps. 611,387 in qualifying assets. Amounts were capitalized based on a capitalization rate of 8.57% and 9.42%, respectively.

For the year ended December 31, 2012 and 2011 interest expenses are comprised as follows:

		December 31, 2012	December 31, 2011
Interest expense	$	(1,118,912)	(1,059,737)
Amount capitalized		61,399	57,157
Net amount in consolidated statements of comprehensive income	$	(1,057,513)	(1,002,580)

As of December 31, 2012, certain financial leases amounting to approximately Ps.10 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2012 and 2011, amounts to Ps. 3,021,210 and Ps. 3,028,501, respectively.

NON-CURRENT ASSETS HELD FOR SALE

Certain of the Company´s communications towers are presented as held for sale due to a formal plan to sell these assets. The sale took place on January 31, 2013, see note 26. As of December 31, 2012 assets held for sale amounted to $460,462 less liabilities (decommissioning and remediation obligations) of $281,808.

(12) INTANGIBLE ASSETS

Intangible assets with defined useful lives consist of the following:

	Telephone concession rights AXTEL	Telephone concession rights Avantel	Customers relationships	Trade name "Avantel"	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	67,871	1,351,411
Additions	-	-	-	-	-	-	-	5,298	5,298
Balances as of December 31, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	73,169	1,356,709
Additions	-	-	-	-	-	-	-	14,161	14,161
Balances as of December 31, 2012	571,520	110,193	312,438	179,332	58,982	21,045	30,030	87,330	1,370,870

Amortization and impairment	Telephone concession rights AXTEL	Telephone concession rights Avantel	Customers relationships	Trade name "Avantel"	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	336,317	40,070	312,438	179,332	26,337	7,665	11,565	66,915	980,639
Amortization expense	30,307	10,018	-	-	4,081	1,673	2,886	1,610	50,575
Balances as of December 31, 2011	366,624	50,088	312,438	179,332	30,418	9,338	14,451	68,525	1,031,214
Amortization expense	30,307	10,018	-	-	4,080	1,672	2,886	2,071	51,034
Balances as of December 31, 2012	396,931	60,106	312,438	179,332	34,498	11,010	17,337	70,596	1,082,248
Intangible assets, net	174,589	50,087	-	-	24,484	10,035	12,693	16,734	288,622

CONCESSIONS RIGHTS OF THE COMPANY

The main concessions of the Company are as follows:

- On June, 1996 AXTEL obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- On September 15, 1995 Avantel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;
- Concessions of different frequencies of radio spectrum for 20 years and renewable for additional periods of 20 years, as long as AXTEL complies with all of its obligations, and with all conditions imposed by the law and with any other condition that Secretaria de Comunicaciones y Transporte (SCT) imposes.

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

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

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

INTANGIBLE ASSETS ARISING FROM THE ACQUISITION OF AVANTEL

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name "Avantel", customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2012 the values of the trade name "Avantel" and of customer relationships were totally amortized.

(13) INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AND OTHER EQUITY INVESTMENTS

As of December 31, 2012, the investment in shares of associated company through Avantel, S. de R.L. de C.V. is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to $9,647. The operation of this company consists of providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the Company requested the concession.

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

Summarized financial information in respect of the Company's associates accounted for under the equity method is set out below.

	Ownership			Investment amount		
	December 31, 2012	December 31, 2011	January 1, 2011	December 31, 2012	December 31, 2011	January 1, 2011
Conectividad Inalámbrica 7GHZ, S. de R.L.	50%	50%	50%	9,647	9,667	9,808
Opanga Networks	19.8%	19.8%	20%	17,798	17,798	17,798
Eden Rock Communications	10.5%	10.5%	11.7%	16,735	16,735	16,735
				44,180	44,200	44,341
Less impairment				(34,533)	(34,533)	-
Total investments				9,647	9,667	44,341

Conectividad Inalámbrica 7GHZ, S. de R.L		December 31, 2012	December 31, 2011	January 1, 2011
Total assets	Ps	20,791	20,830	20,864
Total liabilities		1,497	1,497	1,249
Net assets		19,294	19,333	19,615
Share of net assets of associates		9,647	9,667	9,808
Net (loss) income for the period		(40)	(282)	12
Share of loss of associates accounting by the equity method	Ps	(20)	(141)	6

(14) OTHER ASSETS

Other assets consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Long-term prepaid expenses	Ps	170,633	144,785	146,697
Account receivable Telmex (see note 24 (b))		47,395	139,790	225,654
Guarantee deposits		47,631	48,357	41,983
Advances to suppliers		10,419	11,204	13,427
Other		18,519	14,355	17,695
Other assets		294,597	358,491	445,456
Current portion of other assets		141,439	235,401	303,798
Other long-term assets	Ps	153,158	123,090	141,658

(15) LONG-TERM DEBT

Long-term debt as of December 31, 2012 and 2011 and January 1, 2011 consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
U.S. $275,000,000 in aggregate principal amount of 7 5/8 % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year.	Ps	3,577,778	3,847,360	3,398,203
U.S. $300,000,000 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		3,903,030	4,197,120	3,707,130
U.S. $190,000,000 in aggregate principal amount of 9 % Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		2,471,919	2,658,176	2,347,849
Premium on Senior Unsecured Notes with an aggregate principal of U.S. $190,000,000 with an interest rate of 9%, due in 2019.		42,096	48,332	54,569
Syndicated loan totaling U.S. $100 million with variable interest rate from LIBOR + 3.0% to LIBOR + 4.5% and from TIIE + 3.0% to TIIE + 4.5% according to the leverage of the Company. Interest payments are made quarterly. As of December 31, 2011 U.S. $ 53.3 million and Ps. 364.7 million have been utilized.		1,057,925	838,904	-
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.		318,984	453,237	127,642
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.		251,179	468,245	549,472
Note issuance and deferred financing costs		(156,297)	(188,681)	(141,002)
Total long-term debt		11,466,614	12,322,693	10,043,863
Less current maturities		411,969	380,880	375,996
Long-term debt, excluding current maturities	Ps	11,054,645	11,941,813	9,667,867

Annual installments of long-term debt are as follows:

Year		Amount
2014	Ps	708,958
2015		503,899
2016		3,178
2017		3,577,863
2018 and thereafter		6,260,747
	Ps	11,054,645

Note issuance and deferred financing costs directly attributable to the issuance of the Company's borrowings are amortized based on the effective interest rate over the term of the related borrowing. The Company incurred Ps. 66,849 related to the issuance of its syndicated loan in 2011.

For the year ended December 31, 2012 and 2011, the interest expense was Ps. 1,118,912 and Ps. 1,059,737 respectively.

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

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of December 31, 2012 and February 28, 2013, the Company was in compliance with all covenants contained in its debt agreements.

(16) OTHER CURRENT LIABILITIES

As of December 31, 2012 and 2011 and January 1, 2011 other accounts payable consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Guarantee deposit	Ps	10,261	11,034	9,746
Payroll and other liabilities (1)		96,441	128,960	88,883
	Ps	106,702	139,994	98,629

(1) Payroll and other liabilities mainly include christmas bonus, vacation premium and other benefits

(17) EMPLOYEE BENEFITS

The cost, obligations and other elements of the Company's seniority premium liability for reasons other than restructuring have been determined based on computations prepared by independent actuaries at, December 31, 2012 and 2011 and January 1, 2011. The components of the net periodic cost for the years ended December 31, 2012 and 2011 are as follows:

		December 31, 2012	December 31, 2011
Net period cost:	Ps		
Current service cost		3,527	3,564
Interest cost		1,403	1,270
Actuarial gain		(7,593)	-
Amortization of net actuarial loss		(453)	(453)
Net period (benefit) cost	Ps	(3,116)	4,381

The actuarial present value of benefit obligations of the plans at December 31, 2012 and 2011, and January 1, 2011 are follows:

		December 31, 2012	December 31, 2011
Initial balance	Ps	21,935	19,972
Benefits paid		(343)	(1,375)
Current service cost and interest cost		4,930	4,834
Actuarial gain		(7,070)	(1,496)
Net projected liability	Ps	19,452	21,935

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

	December 31, 2012	December 31, 2012	January 1, 2011
Total present value of obligations	18,131	20,635	18,686
Amendments to plan	267	866	1,319
Actuarial losses (gains)	1,054	434	(33)
Liability recognized for defined benefit obligation	19,452	21,935	19,972

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

	December 31, 2012	December 31, 2011
Discount rate used to reflect the present value of obligations	6.5%	7.5%
Rate of increase in the minimum wage	3.5%	4%
Real rate of increase in future salary levels	4%	4%
Average remaining labor life of employees	19 years	21 years

(18) PROVISIONS

The Company's provisions as of December 31, 2012 and 2011and January 1, 2011 are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Decommissioning and remediation obligations	Ps	281,808	253,129	223,824
Restructuring provision		-	59,855	100,000
Total		281,808	312,984	323,824
Current portion of provisions		281,808	59,855	100,000
Long-term portion of provisions	Ps	-	253,129	223,824

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

Decommissioning and remediation obligations		December 31, 2012	December 31, 2011
Initial balance	$	253,129	223,824
Additional provisions recognized		-	3,543
Unwinding of discount and effect of changes in the discount rate		28,679	25,762
Ending balance	$	281,808	253,129

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

Restructuring provision		December 31, 2012	December 31, 2011
Initial balance	Ps	59,855	100,000
Additional provisions recognized		-	63,500
Payments		(59,855)	(103,645)
Ending balance	Ps	-	59,855

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

(19) TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The transactions with related parties during the years ended December 31, 2012 and 2011 are as follows:

		2012	2011
Banamex:			
Telecommunication service revenues	Ps	514,287	596,517
Commission and administrative services		14,176	14,811
Interest expense		28,795	22,883
Other related parties:			
Rent expense		39,914	37,061
Installation service expense		32,027	26,693
Other		5,950	21,691

The balances with related parties as of December 31, 2012 and 2011 and January 1, 2011, included in accounts payable are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Accounts payable short-term:				
Banco Nacional de México, S.A. (1)	Ps	434,693	385,289	445,532
Instalaciones y Desconexiones Especializadas, S.A. de C.V. (2)		991	843	949
GEN Industrial, S.A. de C.V. (2)		73	54	162
Total		435,757	386,186	446,643
Accounts payable long-term:				
Banco Nacional de México, S.A. (1)	Ps	33,900	33,900	33,900

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

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2012 and 2011 were as follows:

		2012	2011
Short-term employee benefits paid	Ps	108,185	67,645

(20) INCOME TAX (IT) AND FLAT RATE TAX (IETU)

Under the current tax legislation, companies must pay the greater of their Income Tax or Business Flat Tax (IETU). If IETU is payable, the payment will be considered final and not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, 30% for 2013, 29% for 2014 and 28% for 2015 and thereafter. The IETU rate is 17.5 % for 2010 and thereafter.

The deferred income taxes are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Income Tax	Ps	1,890,998	1,731,332	1,482,021
Business Flat Tax		190,720	122,060	146,450
Deferred income taxes	Ps	2,081,718	1,853,392	1,628,471

The subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios AXTEL, S.A. de C.V. and Instalaciones y Contrataciones, S.A. de C.V., will pay IETU. The main differences that generated the deferred IETU asset as of December 31, 2012 and 2011 and January 1 2011 in these subsidiaries is as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Accounts payable	Ps	345,534	286,473	183,830
Deferred revenues		87,308	81,192	98,818
Provisions		30,278	21,948	21,843
Other		17,917	37,815	8,405
Total deferred tax assets		481,037	427,428	312,896
Deferred tax liability				
Accounts receivable		271,628	281,139	141,129
Telephone concession rights		9,854	11,291	12,728
Property, systems and equipment		7,219	11,186	10,614
Other		1,616	1,752	1,975
Total deferred tax liability		290,317	305,368	166,446
Net deferred tax assets	Ps	190,720	122,060	146,450

The main differences that gave rise to the deferred income tax assets as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Net operating loss carry forwards	Ps	599,839	700,066	448,762
Allowance for doubtful accounts		438,602	345,348	281,586
Fair value of derivative financial instruments		26,073	-	93,736
Accrued liabilities and other provisions		246,221	166,688	315,633
Premium on bond issuance		12,629	14,500	16,371
Property, systems and equipment		661,615	637,900	450,494
Total deferred tax assets		1,984,979	1,864,502	1,606,582
Deferred tax liabilities:				
Telephone concession rights		55,628	63,215	78,065
Fair value of derivative financial instruments		-	37,459	-
Intangible and other assets		38,353	32,496	46,496
Total deferred tax liabilities		93,981	133,170	124,561
Deferred tax assets, net	Ps	1,890,998	1,731,332	1,482,021

A reconciliation between tax expense and income before income taxes multiplied by the statutory income tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Statutory income tax rate	30%	30%
Difference between book and tax inflationary effects	9%	4%
Change in valuation allowance	(4%)	(7%)
Non-deductible expenses	(8%)	(6%)
Effect of IETU tax rate	4%	-
IETU effect	(11%)	(7%)
ISR cancellation of subsidiary	-	(2%)
Other	-	(3%)
Effective tax rate	20%	9%

The roll forward for the net deferred tax asset as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 2012
Net operating loss carry forwards	Ps	700,066	(100,227)	-	599,839
Allowance for doubtful accounts		345,348	93,254	-	438,602
Fair value of derivative financial instruments		(37,459)	61,370	2,162	26,073
Accrued liabilities and other provisions		166,688	79,533	-	246,221
Premium on bond issuance		14,500	(1,871)	-	12,629
Deferred IETU		122,060	68,660	-	190,720
Property, systems and equipment		637,900	23,715	-	661,615
Telephone concession rights		(63,215)	7,587	-	(55,628)
Intangible and other assets		(32,496)	(5,857)	-	(38,353)
	Ps	1,853,392	226,164	2,162	2,081,718

		January 1, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 2011
Net operating loss carry forwards	Ps	448,762	251,304	-	700,066
Allowance for doubtful accounts		281,586	63,762	-	345,348
Fair value of derivative financial instruments		93,736	(69,034)	(62,161)	(37,459)
Accrued liabilities and other provisions		315,633	(148,945)	-	166,688
Premium on bond issuance		16,371	(1,871)	-	14,500
Deferred IETU		146,450	(24,390)	-	122,060
Property, systems and equipment		450,494	187,406	-	637,900
Telephone concession rights		(78,065)	14,850	-	(63,215)
Intangible and other assets		(46,496)	14,000	-	(32,496)
	Ps	1,628,471	287,082	(62,161)	1,853,392

As of December 31, 2012, the tax loss carry forwards and the refundable tax on assets expire as follows:

Year		Tax loss carry forwards	Tax on assets
2013	Ps	558,544	88,002
2014		111,123	84,424
2015		-	30,885
2016		24,210	27,901
2017		-	56,291
2018		434,013	-
2020		178,932	-
2021		1,783,597	-
2022		571,266	-
	Ps	3,661,685	287,503

At December 31, 2012, the valuation allowance of deferred tax assets is Ps 607,378, of which Ps178,321 relate to tax loss carry forwards, Ps 141,554 to estimating doubtful accounts and Ps287,503 to tax recoverable asset.

The recoverable tax loss carry - forwards includes Ps 1,007,001 from companies in which deferred IETU was calculated.

(21) STOCKHOLDERS' EQUITY

The main characteristics of stockholders' equity are described below:

a) Capital stock structure

As of December 31, 2012, the common stock of the Company is Ps 6,625,536. The Company has 8,769,353,223 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. Of the total shares, 96,636,627 are series A and 8,672,716,596 series B. At December 31, 2012 the Company has issued only Class "I".

	Shares			Amount		
	December 31, 2012	December 31, 2011	January 1, 2011	December 31, 2012	December 31, 2011	January 1, 2011
Authorized and issued capital:						
Series A	96,636,627	96,636,627	96,636,627	73,012	73,012	73,012
Series B	8,672,716,596	8,672,716,596	8,672,716,596	6,552,524	6,552,524	6,552,524

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

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

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

b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps 8,644,068 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 15 establish limitations on dividend payments.

c) Comprehensive loss income

The balance of other comprehensive income items and its activity as of December 31, 2012 and 2011, is as follows:

		2012	2011
Net loss	Ps	(708,869)	(2,070,126)
Valuation of the effective portion of derivative financial instruments		(7,205)	206,952
Effect of income tax		2,162	(62,161)
Valuation of the effective portion of derivative financial instruments, net		(5,043)	144,791
Net comprehensive income (loss)	Ps	(713,912)	(1,925,335)

(22) TELEPHONE SERVICES AND RELATED REVENUES

Revenues consist of the following:

		2012	2011
Local calling services	Ps	3,619,022	4,160,082
Long distance services		1,236,414	1,223,985
Data services		2,796,542	2,594,528
International traffic		655,328	1,246,418
Other services		1,882,426	1,604,392
	Ps	10,189,732	10,829,405

(23) OTHER EXPENSES, NET

Other expenses consists of the following

		2012	2011
Restructuring cost	Ps	(190,984)	(63,500)
Write off of fixed assets inventories		-	(324,409)
Impairment of other permanent investments		-	(36,938)
Other, net		(9,003)	5,397
	Ps	(199,987)	(419,450)

(24) COMMITMENTS AND CONTINGENCIES

As of December 31, 2012, the Company has the following commitments and contingencies:

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

With respect to Telcel, when the Cofetel issued the ruling where it determined the interconnection tariffs for the years 2005 to 2007, both Telcel and Axtel challenged such ruling via amparo trial, such trial being attracted by the Supreme Court of Justice (Suprema Corte de Justicia de la Nación) ("SCJN"). The SCJN decided, in public sessions that took place on February 25, 26 and 28 of the year 2013, to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

With respect to Grupo Iusacell, Grupo Telefonica and Unefon, the Company filed an administrative review proceeding, wich was resolved on September 1, 2008 by the Department of Communications and Transportation (Secretaría de Comunicaciones y Transportes) ("SCT"). The SCT decided to revoke the resolutions issued by the Cofetel, and established cost based tariffs for the years 2006 and 2007.

The above mentioned mobile carriers challenged the resolutions issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceedings filed by Axtel, and that the Cofetel is the authority that should rule on these administrative review proceedings.

Therefore, during the following months, the Cofetel will have to decide yet again, the interconnection tariffs applicable between AXTEL and the mobile carriers mentioned in the precedent paragraphs, and consequently, the interconnection tariffs that AXTEL shall pay to these carriers is not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

(b) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in fist instance by the SCT, on the first day of September, 2008, which as mentioned before, arose from a proceeding filed by AXTEL. In such ruling, the SCT set the cost based interconnection tariffs of \$0.5465 pesos, \$0.5060 pesos, \$0.4705 and \$0.4179 pesos for the years 2008, 2009, 2010 and 2011, respectively.

Telcel challenged the resolution issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceeding filed by AXTEL, and that the Cofetel is the authority that should determine such interconnection tariffs

Due to the above mentioned SCJN ruling, the Cofetel will have to set forth the interconnection tariffs applicable between AXTEL and Telcel, and consequently, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

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

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

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

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

The tariffs that the Company was paying prior to the rulings, was of $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers. As of December 31, 2012, the difference between the amounts paid by the Company according to these tariffs, and the amounts billed by the mobile carriers, amounted to approximately Ps. 2,073 million not including value added tax.

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

(c) Interconnection Disagreements – Telmex – Years 2009 to 2010. In March 2009, the Cofetel resolved an interconnection disagreement proceeding existing between the Company (AXTEL) and Teléfonos de México, S.A.B. de C.V. ("Telmex") related to the rates for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, the Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps. 0.75 per minute to US$0.0105 or US$0.0080 per minute (depending on the place where the Company delivers the long distance call).

Until June 2010, Telmex billed the Company for the termination of long distance calls applying the rates that were applicable prior to the resolutions mentioned above, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2012, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps. 1,240 million, not including value added tax.

Telmex filed for the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (Tribunal Federal de Justicia Fiscal y Administrativa) requesting the annulment of Cofetel's administrative resolution. The Company (AXTELl and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel. Telmex obtained a suspension for the application of the interconnection rates established by Cofetel, such suspension came into effect on January 26, 2010, but ceased to be in force and effect as of February 11, 2010, since the Company decided to exercise its right to leave without effect the suspension by guaranteeing any damages that could be caused to Telmex. Nonetheless, the above mentioned Court revoked the guarantee given to Telmex, taking into consideration the issuance of resolution P/140410/189, whereby Cofetel ruled the same low rates between Axtel and Telmex for the year 2010.

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

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

As of December 31st 2012, the Company believes that the rates determined by the Cofetel in its resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for U.S. $34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. As of December 31, 2012, Avantel has been able to recover Ps.395 million of pesos from the amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis. The remaining balance of Ps. 47 million of pesos is recognized in the "other accounts receivable" line item in the balance sheet.

(d) Spectrasite Contingency. On January 24, 2001, an agreement was entered into with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.), with expiration on January 24, 2004, whereby Global Towers was to provide to the Company with services for the location, construction, setting up and selling of sites within the Mexican territory. As part of the operation, the Company agreed to lease from Global Towers 650 sites in a time frame period of three years.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. During 2002, Spectrasite Communications México, S. de R.L. de C.V., filed an Ordinary Mercantile Trial against the Company, claiming the refund of the guarantee deposit. On December 15 2011, the trial was ruled in favor of AXTEL releasing the Company from any and all liability, and therefore finalizing this contingency.

(e) Contingency – Payment of Duties. With respect to the contingency that the Company had for the payment of rights for the years 2001 to 2011 for the installation and use of a cable in the exclusive economic geographic zone in Mexico related to certain landing points in "Playa Niño", region 86, Benito Juarez, Itancah Tulum, Carrillo Puerto, and Quintana Roo, after several trials and as a consequence of several approaches with the General Management of Ports of the Department of Communications and Transportation, after which, the surface over which the duties for the for the maritime cable were to be calculated was modified and considerably reduced, on the 4th day of September 2012, it was delivered to the Company a new authorization in order to use for a period of ten years, an area of the Mexican territorial seafloor, for which the Company paid, for the period from the year 2001 to the third quarter of the year 2012, the amount of Ps. 2,569 (including adjustments and surcharges).

The above brings this contingency litigation to an end, due to the fact that the Company made the payment for the full period of time and a new authorization title was issued.

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

(g) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps 5,236 and to other service providers amounting to Ps 1,243,020.

(h) The concessions granted by the Department of Communications and Transportation (SCT), mentioned in note 2, establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.

(i) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2012 and 2011 amounted to Ps 641,977 and Ps 567,986, respectively.

The annual payments under these leases as of December 31, 2012 are as follows:

		Leases contracts in:	
		Pesos (thousands)	Dollars (thousands)
2013	Ps	217,027	10,483
2014		185,584	10,512
2015		149,616	6,702
2016		125,670	4,441
2017		106,716	1,091
2018 and thereafter		206,444	1,250
	Ps	991,057	34,479

(j) As of December 31, 2012, the Company has placed purchase orders which are pending delivery from suppliers for approximately Ps. 965,058.

(25) IMPACTS OF ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company adopted IFRS on January 1, 2012, as required by the National Banking and Securities Commission ("CNBV"). The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS.

The Company has applied the following applicable mandatory exceptions to the retroactive application of IFRSs as established by IFRS 1 as follows:

Accounting estimates – IFRS estimates are consistent with those of MFRS at the same date.

Hedge accounting - Hedge accounting is applied only if the hedge relationship meets the criteria established by IFRS as of the transition date.

The Company applied the following optional exemptions to the retroactive application of IFRS:

Business combinations - The Company elected not to apply IFRS 3, "Business Combinations," to business combinations as well as to acquisitions of associates prior to its transition date.

Revaluation as deemed cost - The Company has opted for using the cost or depreciated cost basis, adjusted to reflect changes in a general or specific price index for property, systems and equipment, which include inflation adjustments through December 31, 2007 in accordance with MFRS as of the transition date.

Borrowing costs – The Company has applied the borrowing cost exemption as of the transition date.

A reconciliation of the Company's stockholders' equity as of January 1, 2011 and December 31, 2011 is as follows:

			2011	
			January 1	December 31
Stockholders' equity per MFRS	**note:**	Ps	**7,633,468**	**5,740,146**
Intangible assets- effects of inflation	a)		(242,292)	(208,018)
Property, systems and equipment	b)		-	(94,765)
Employee benefits	c)		55,816	54,956
Deferred employee statutory profit sharing	d)		(18,581)	(18,082)
Derivative financial instruments	f)		2,536	1,456
Deferred income taxes	g)		296,574	326,493
Stockholders' equity per IFRS		Ps	**7,727,521**	**5,802,186**

A reconciliation of the Company's comprehensive income for the year ended December 31, 2011 is as follows:

			December 31, 2011
Net loss per MFRS	**note:**	Ps	**(1,893,322)**
Effects of inflation in intangibles assets	a)		34,274
Property, systems and equipment – borrowing costs	b)		(94,765)
Employee benefits	c)		(860)
Deferred employee statutory profit sharing	d)		499
Derivative financial instruments	f)		(1,080)
Deferred income taxes	g)		29,919
Comprehensive loss per IFRS		Ps	**(1,925,335)**

The following notes describe the adjustments associated with the transition to IFRS:

a) Elimination of inflation in intangible assets and contributed capital

According to MFRS, the Mexican peso ceased to be a currency of an inflationary economy in December 2007, since cumulative inflation for the previous three years as of such date did not exceed 26%. According to IAS 29, "Financial Reporting in Hyperinflationary Economies," the last hyperinflationary period for the Mexican peso was in 1997. As a result, the Company eliminated the cumulative inflation recognized within intangible assets and contributed capital, for IFRS purposes.

b) Borrowing costs

In accordance with MFRS, the Company had capitalized exchange rate fluctuations, which in accordance with IFRS have been derecognized as they were not considered to be an adjustment to interest costs.

c) Employee benefits

According to MFRS, a severance provision and the corresponding expense, must be recognized based on the entity's experience in terminating the employment relationship before the retirement date. For IFRS purposes, this provision was eliminated as it does not meet the definition of a termination benefit pursuant to IAS 19, "Employee Benefits." Accordingly, at the transition date, the Company derecognized its termination obligation recorded under MFRS.

d) Deferred employee profit sharing

In accordance with MFRS, the Company records deferred employee profit sharing, which for purposes of IFRS has been derecognized given that this provision does not meet its recognition principles.

e) Debt issuance costs

In accordance with IAS 39, debt issuance costs are presented net of the associated debt given that they are considered to be a component of the effective interest cost.

f) Derivative financial instruments

EMBEDDED DERIVATIVES

For MFRS purposes, the Company recorded embedded derivatives for lease agreements denominated in US dollars. Pursuant to the principles set forth in IAS 39, "Financial Instruments: Recognition and Measurement", there is an exception for embedded derivatives on those contracts that are denominated in certain foreign currencies, if for example the foreign currency is commonly used in the economic environment in which the transaction takes place. The Company concluded that all of its embedded derivatives fell within the scope of this exception. Therefore, at the transition date, the Company derecognized all embedded derivatives recognized under MFRS.

CREDIT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

IAS 39, "Financial Instruments: Recognition and Measurement", establishes that both the Company's own and counterparty credit risk be considered in the fair value determinate of financial instruments measured at fair value through profit or loss, which impacted the valuation of its derivative financial instruments.

g) Deferred income taxes

The adjustments to IFRS recognized by the Company had an impact on the deferred income tax calculation, according to the requirements set forth by IAS 12, "Income Taxes." In addition, the Company recognized its deferred income tax liabilities, except to the extent that the deferred tax liability arose from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affected neither accounting profit nor taxable profit.

h) Presentation of comprehensive income items

The Company reclassified certain items within its statement of comprehensive income to conform with the requirements of IAS 1, "Presentation of Financial Statements," such as the reclassification of certain expenses, which for purposes of IFRS are considered to be operating in nature.

(26) RECENTLY ISSUED ACCOUNTING STANDARDS NOT YET IN EFFECT

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

STANDARDS AND AMENDMENTS TO BE ADOPTED IN 2013

IAS 27, "Separate Financial Statements," establishes the requirements applicable to the accounting of investments in subsidiaries, associates and joint ventures, when an entity elects or is required by the local regulations, to present individual financial statements. This standard does not dictate which entities produce separate financial statements available for public use; it is applicable when an entity prepares such financial statements in accordance with IFRS. The separate financial statements are those presented by a controlling entity, an investor with joint control or significant influence, in which investments are accounted at cost or in accordance with IFRS 9. The effective date of IAS 27 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 28 (2011), IFRS 10, IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements.

IAS 28, "Investments in Associated Companies and Joint Ventures," prescribes the accounting for Investments in associated companies and establishes the requirements to apply the equity method when those investments and the investments in joint ventures are accounted. The standard is applicable to all the entities that own control or significant influence over another entity. This standard supersedes the previous version of IAS 28, Investments in associated companies. The effective date of IAS 28 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IFRS 10, IFRS 11 and IFRS 12.

IFRS 10, "Consolidated Financial Statements," establishes the principles for the presentation and preparation of the consolidated financial statements when an entity controls one or more entities. The standard requires the controlling company to present its consolidated financial statements; modifies the definition about the principle of control and establishes such definition as the basis for consolidation; establishes how to apply the principle of control to identify if an investment is subject to be consolidated. The standard replaces IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities. The effective date of IFRS 10 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 11, "Joint Arrangements," classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of as to whether a joint arrangement is a joint operation or a joint venture is based on the parties' rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. The effective date of IFRS 11 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 12. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 12, "Disclosure of Interests in Other Entities," has the objective to require the disclosure of information to allow the users of financial information to evaluate the nature and risk associated with their interests in other entities, and the effects of such interests in their position, financial performance and cash flows. The effective date of IFRS 12 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 11. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 13, "Fair Value Measurement," establishes a single framework for measuring fair value where that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. Fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the standard is adopted. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

STANDARDS AND AMENDMENTS TO BE ADOPTED IN 2015

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

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

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

(27) SUBSEQUENT EVENTS

a) On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital telecommunications, S. de RL de CV ("MATC"), a subsidiary of American Tower Corporation, in amount of U.S. 249 million. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net cost of approximately $ 20 million.

b) On the same date, the Company completed the exchange of 142 and 335 million of unsecured notes due 2017 and 2019, respectively, for 249 and 22 million secured bonds and a convertible bond, respectively, both with due on 2020, plus a cash payment of 83 million to participating holders.

c) On January 30, 2013, the Company launched its pay-TV service "AXTEL TV" in Mexico City, Guadalajara and Monterrey.

[3.1, 3.2, 3.3, 3.4, 3.5, 3.6, 3.7, 3.8, 3.9, 3.10, 3.11, 3.13]

MEMORY PARAMETERS

We submit our second sustainability report, being the current document our first integrated report containing information corresponding to the economic, social and environmental fields in the organization with indicators that correspond to the period from January 2012 to December 2012.

This Report, submitted annually, gives continuity to the information submitted in the report for 2011, incorporating indicators that are considered materials for AXTEL. These indicators were determined based on the Strategic Plan assessment of the company.

The report structure has been defined taking Guideline G3.1 of the Global Reporting Initiative (GRI) with a self-declared Level B.

The information contained in this report shows the performance of AXTEL Corporate offices in Monterrey, as well as the administrative and operation centers where the company is present around the country. The information corresponding to the suppliers, shareholders, clients and/or trade partners is not included in the report.

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B+
GRI REPORT
GRI CHECKED

AWARDS RECEIVED DURING 2012

For the fifth consecutive year we achieved the **ESR Distinction** (Socially Responsible Enterprise) granted by CEMEFI (Mexican Center for Philanthropy).

We obtained the **Gold Star** distinction from Cisco for Customer Satisfaction Excellence.

We received the certification as **Telepresence Video Master Authorized Technology Provider - ATP** granted by Cisco.

We revalidated **Cisco Gold Partner, Managed Services Channel Partner (MSCP)** certifications from Cisco and **ISO 27001.**

During 2012 the **ISO 9001:2008, ISO 20000-1:2011 and ISO 27001:2005** were received, enabling AXTEL to be recognized for its ability to offer and operate ICT managed services.

We were recognized with the Certification from Uptime Institute **TIER III Certification of Design Documents.** This certification validates that the design of our Data Center is concurrently sustainable, that is, it has redundant components and has multiple energy feeding trajectories to the computer equipment.

Certification from International Computer Room Experts Association (ICREA) **Level 3 S-WCQA Safety World Class Quality Assurance Data Center.** This certification validates that our Data Center is a reliable computer room with world class Certified Environment.

GRI INDEX

AXTEL REPORT 2012 - LEVEL B+

SCOPE	SUB-TOPIC	MEASURE		PAGE	REPORT LEVEL
PROFILE	Strategy and Analysis	1.1	Statement from top responsible individual in making decisions for the organization.	4	Complete
		1.2	Description of key impacts, risks, and opportunities.	16	Complete
		2.1	Name of the organization.	6	Complete
		2.2	Main services.	21	Complete
		2.3	Operational structure of the organization.	15	Complete
		2.4	Location of headquarters of the organization.	9	Complete
		2.5	Number of countries where the organization operates.	21	Complete
		2.6	Nature of the ownership and legal form.	9	Complete
		2.7	Markets served.	21 / 63	Complete
		2.8	Scale of the reporting organization.	6 / 40	Complete
		2.9	Significant changes in the size, structure and ownership of the organization during the period covered.	4 / 15	Complete
		2.10	Awards and distinctions received.	6	Complete
	Report parameters	3.1	Reporting period.	113	Complete
		3.2	Date of most recent previous report.	113	Complete
		3.3	Reporting cycle.	113	Complete
		3.4	Contact point for report matters.	113	Complete
		3.5	Process for defining report content.	113	Complete
		3.6	Report coverage.	113	Complete
		3.7	Limitations on report scope or coverage.	113	Complete
		3.8	Base in including information in case of joint ventures.	113	Complete
		3.9	Data measuring techniques and bases for calculations.	57 / 113	Complete
		3.10	Description of re-statement of information provided in earlier reports.	113	Complete
		3.11	Significant changes from previous periods in scope, coverage or assessment methods of the report.	113	Complete
		3.12	Table of report basic contents.	115	Complete
		3.13	Current policy and practice regarding report external verification.	113	Complete

PROFILE	Government	4.1	Governance structure of the organization.	9	Complete
		4.2	Position of chairman of highest governance body.	9	Complete
		4.3	Number of independent members in highest governance body.	9	Completo
		4.4	Stockholders and employee mechanisms to communicate recommendations or indications to highest governance body.	9	Complete
		4.5	Linkage between retribution of members in highest governance body, top directors and executives.	9	Complete
		4.6	Implemented procedures to prevent conflict of interest in highest governance body.	9	Complete
		4.7	Procedure to determine training and experience of highest governance body.	9	Complete
		4.8	Mission, vision, and internal values, code of conduct and principles relevant for economic, social, environmental performance and implementation status.	6	Complete
		4.9	Highest governance body procedures in overseeing identification and management of economic, environmental and social performance.	9	Complete
		4.10	Performance evaluation procedures of highest governance body.	9	Complete
		4.11	Description of how the organization has adopted a precautionary principle.	9	Complete
		4.12	Principles or social, environmental and economic programs developed externally.	29	Complete
		4.13	Main associations it belongs to.	29	Partial
	Stakeholders participation	4.14	Stakeholders relation the organization has included.	29	Complete
		4.15	Base for identification and selection of stakeholders with whom the organization is engaged.	29	Complete
ECONOMIC PERSPECTIVE	Economic Performance	EC1	Direct economic value generated and distributed, including earnings, exploitation costs, employees retribution, donations and other investments in the community, non-distributed benefits and payments to capital providers and governments.	59 / 60	Complete
	Market presence	EC5 (PMNU 1)	Range in relation between standard initial wage and local minimum wage in places where significant operations are performed.	40 / 59	Partial
		EC6	Policy, practices and proportion of expense corresponding to local suppliers in places where significant operations are performed.	17 / 59	Complete
		EC7 (PMNU 6)	Local hiring procedures and proportion of top directors native from the local community in areas where significant operations are performed.	15 / 40 / 59	Complete
SOCIAL PERSPECTIVE	Employment	LA1	Breakdown of workers by type of employment, by contract, and by region.	40	Complete
		LA2 (PMNU 6)	Total number of employees and average turnover, broken down by age group, gender, and region.	40	Complete
	Education and training	LA3	Social benefits for full-time employees, not offered to temporary workers or part-time, broken down by main activity.	40	Complete

SOCIAL PERSPECTIVE	Company/employee relations	LA4 (PMNU 1 Y 3)	Percentage of employees covered by a collective agreement.	40	Complete
		LA5 (PMNU 3)	Minimum pre-notification Period(s) regarding organizational changes, including if these notifications are specified in collective agreements.	40	Complete
	Health and safety in the work	LA6 (PMNU 1)	Total percentage of employees represented in health and safety joined committees management-employees, established to support in controlling and counseling regarding health and safety in the job programs.	44	Complete
		LA7 (PMNU 1)	Rates for absenteeism, professional diseases, lost days and number of fatalities related with work by region.	44	Partial
		LA8 (PMNU 1)	Programs on education, training, counseling, prevention and risk control applied to the workers, their families or members of the community related to severe diseases.	44	Complete
		LA9 (PMNU 1)	Health and safety matters covered in formal agreements with unions.	44	Complete
	Education and training.	LA10	Average number of hours of formation per year per employee, divided by category.	45	Complete
	Investment practices and Sourcing	HR2	Percentage of key distributors or contractors that have been subject to analysis in regards to human rights, and measures adopted as a consequence.	17	Complete
		HR3 (PMNU 1, 2, 3, 4, 5 Y 6)	Total number of hours formation of employees regarding policies and procedures related to human rights aspects relevant for their activities, including the percentage of employees trained.	17	Complete
	Human Rights / Non-discrimination	HR4 (PMNU 1, 2 Y 6)	Total number of discrimination incidents and the corrective actions taken.	17	Complete
	Freedom of Association	HR5 (PMNU 1, 2 Y 3)	Company activities where the right to freedom of association and invoke the collective agreements may run important risks and measures adopted to support these rights.	40	Complete
	Child Exploitation	HR6 (PMNU 1, 2 Y 5)	Activities identified that involve a potential risk for child exploitation incidents, and measures adopted to contribute to its elimination.	20	Complete
	Forced Labor	HR7 (PMNU 1, 2 Y 4)	Operations identified as a significant risk for being the origin of forced or non-voluntary labor episodes and the measures adopted to contribute to its elimination.	20	Complete
	Corruption	SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs.	34	Complete
		SO2	Percentage and total number of business units analyzed with regards to risks related with corruption.	16	Complete
		SO3 (PMNU 10)	Percentage of employees trained in anti-corruption policies and procedures in the organization.	17	Partial
		SO4 (PMNU 10)	Measures taken in response to corruption incidents.	17	Complete
	Public Policy	SO6 (PMNU 10)	Total value of financial support or in-kind to political parties or related institutions, per country.	60	Complete

SOCIAL PERSPECTIVE	Unfair Competition	SO7	Total number of actions due to causes related with monopolistic practices and against fair competition and its results.	26 / 60	Complete
	Regulation Compliance	SO8	Monetary value of sanctions and significant fines and total number of non-monetary sanctions derived from non-compliance of laws and regulations.	60	Complete
	Customer Health and Safety	PR5	Customer satisfaction practices including the results of the customer satisfaction studies.	26	Complete
	Marketing Communications	PR6	Legal compliance programs or adherence to standards and voluntary codes mentioned in marketing communications, included in advertising, other promotional activities, and sponsorships.	26	Complete
		PR7	Total number of incidents resulting from non-compliance of regulations regarding marketing communications, including advertising, promotion and sponsorship, distributed based on the type of result of such incidents.	26	Complete
	Customer Privacy	PR8 (PMNU 1)	Total number of complaints dully supported in regards to privacy and customer information leaks.	26	Complete
	Regulation Compliance	PR9	Cost of significant fines due to non-compliance of standards in regards to supply and use of organization products and services.	21 / 26	Complete
ENVIRONMENTAL PERSPECTIVE	Materials	EN1 (PMNU 8)	Materials used by weight and volume.	52	Complete
		EN3 (PMNU 8)	Direct energy consumption broken down by primary sources.	55	Complete
		EN4 (PMNU 8)	Direct energy consumption broken down by primary sources.	55	Complete
		EN8	Total water withdrawal by source.	56	Complete
		EN9	Water sources significantly affected by withdrawal of water.	56	Complete
	Emissions, discharges and waste	EN16 (PMNU 8)	Total emissions, direct and indirect, of greenhouse gas emissions, in weight.	55	Complete
		EN17 (PMNU 8)	Other relevant indirect greenhouse gas emissions by weight.	55	Complete
		EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	52	Complete
		EN22 (PMNU 8)	Total weight of waste managed, according to type and treatment method.	52	Complete
		EN24 (PMNU 8)	Weight of waste transported, imported, exported or treated that are considered hazardous according to the Basil Convention, addendum I, II, III, and VIII and percentage of waste transported internationally.	52	Complete
		EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	52	Complete
	Products and Services	EN27 (PMNU 8 Y 9)	Percentage of products sold, and its packaging material recovered at the end of its useful life, by product category.	52	Complete
	Conveying	EN29 (PMNU 8)	Significant environmental impacts in transportation of product and other goods and materials used for the activities of the organization, as well as personnel transportation.	55	Complete

PMNU refers to the United Nations Global Compact principle with which the indicator is related.

Huixquilucan, State of Mexico, April 10 2013

AXTEL S.A.B. de C.V

External Assurance Statement for the 2012 AXTEL Integrated Annual Report

To the Directors and management of AXTEL,

In response to the request from AXTEL, we conducted an independent external assurance of its Integrated Annual Report for its 2012 operations; in this process we reviewed its application of the content and quality principles for Sustainability Reporting, according to the Global Reporting Initiative (GRI) G3.1 Guidelines, and the description of the organizational profile, its management approach to sustainability, and the economic, social and environmental performance indicators proposed in these Guidelines.

Director's Responsibility

The elaboration and presentation of the 2012 Integrated Annual Report of AXTEL, its content and performance indicators, and the B level self-declaration according to GRI G3.1 Guidelines are the sole responsibility of the Directors of AXTEL.

Scope of our work

The IDEARSE Centre is responsible to express its conclusions about the independent assurance process conducted for the 2012 Integrated Annual Report of AXTEL, in accordance to GRI G3.1 content and quality principles for Sustainability Reporting and the inclusion of economic, social and environment indicators, based on the methodology and procedures applied in our review. This statement could not be considered as an audit report.

Assurance Process

The external assurance process was carried out in three stages by applying specific guidelines for collecting and analyzing information:

- Review and analysis of the content of the 2012 Integrated Annual Report and the annexes provided by AXTEL.
- Interviews with specific executives and managers of various related areas and responsible for the elaboration of the 2012 Integrated Annual Report, to validate cross-sectional information on its sustainability model and its implementation throughout the company.
- Information analysis and presentation of a critical-reading report containing the conclusions and improvement recommendations for future reports.

During all the process, the application of GRI Guidelines for the report preparation was validated, and the mainstreaming of sustainability in the management approach towards economic, social and environmental performance was assured. We reviewed the alignment with the quality and content principles proposed by GRI, the consistency between the qualitative and quantitative information about specific practices and the application of GRI Guidelines for the content of the report. (All complementary information requested was timely provided by AXTEL and there was no limitation to the access of any evidence).

Conclusions

As a result of the external assurance process, we found no significant deviations or omissions in the application of the methodology proposed in GRI Guideline version 3.1 (G3.1) for Sustainability Reporting, as well as any aspect showing significant inconsistencies in the information reported by AXTEL in the texts or indicators of its 2012 operations. These enable AXTEL to self-declare their 2012 Annual Integrated Report as a B level report.

Recommendations

Additionally, we presented a report to AXTEL Management containing the detail of our external assurance process and the recommendations emerging from it, in order to improve their sustainability reporting practice in future years.

Sincerely,

Sybil Aréchiga Vargas
External Assurer

Jorge Reyes Iturbide
Director of IDEARSE Centre

Global Reporting Initiative™

Statement
GRI Application Level Check

GRI hereby states that **AXTEL S.A.B. de C.V.** has presented its report "2012 Annual Integrated Report" to GRI's Report Services which have concluded that the report fulfills the requirement of Application Level B+.

GRI Application Levels communicate the extent to which the content of the G3.1 Guidelines has been used in the submitted sustainability reporting. The Check confirms that the required set and number of disclosures for that Application Level have been addressed in the reporting and that the GRI Content Index demonstrates a valid representation of the required disclosures, as described in the GRI G3.1 Guidelines. For methodology, see www.globalreporting.org/SiteCollectionDocuments/ALC-Methodology.pdf

Application Levels do not provide an opinion on the sustainability performance of the reporter nor the quality of the information in the report.

Amsterdam, 16 July 2013

Nelmara Arbex
Deputy Chief Executive
Global Reporting Initiative

B+
GRI REPORT
GRI CHECKED

The "+" has been added to this Application Level because AXTEL S.A.B. de C.V. has submitted (part of) this report for external assurance. GRI accepts the reporter's own criteria for choosing the relevant assurance provider.

The Global Reporting Initiative (GRI) is a network-based organization that has pioneered the development of the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. The GRI Guidelines set out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. www.globalreporting.org

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APOYAMOS EL PACTO GLOBAL

AXTEL

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