2014

AXTEL ANNUAL INTEGRATED REPORT

axtel

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Letter from the Chief Executive Officer

G4-1

Dear friends,

In AXTEL we thank you for your trust and preference; for allowing us to be part of your daily life in your homes and businesses. As a commitment to that trust, as we do every year since 2011, we report with transparency our economic, social and environmental performance through our Integrated Report 2014.

We are part of a modern and agile industry that is key to society's progress and development. The challenges we face motivate us to seek innovation and constant growth. The connectivity we bring through our services is a positive factor to our users' welfare; however, we are also aware that we must provide access to more people, and that our contribution to the development of those communities lacking technology and communications, is imperative.

With this goal in mind, we have made available to the Communication and Transport Ministry (SCT) our connection for telecommunications services in low- income areas where we have our own coverage and infrastructure. This way, we collaborate with municipal and state governments in the development of schools, hospitals and libraries, putting at their disposal our telephone and internet services at lower prices. In the coming years, as part of our commitment to social and rural coverage, we will strengthen our service and technology offer in areas with no telecommunication services supply, to stimulate the development and growth of more communities.

The series of challenges and relevant developments in the industry in 2014 definitely have an impact in our performance and future perspectives. During the year's first semester, the Legislative Branch of government approved a set of secondary laws that define the details about the implementation of the Telecommunications and Economic Competence Reforms passed in 2013, which presents us with new challenges, as well as opportunities.

We are still working on our business strategy, focused on sustainability, and we are aligned with our financial plans, with an adequate management of our economic commitments and with firm discipline to keep our appropriate levels of liquidity and strict spending control. While we focus with dedication to profitability, we also implement social and environmental actions that benefit our collaborators and the community.

We constantly pursue innovation in our services offer that may contribute to the benefit of society. As an example, the Seguridad Hogar service, launched in 2014, provides parents control over the information that their children are looking up in social media, helping them prevent ciberbullying and access to inappropriate content for minors.

In 2014, we created 6 thousand 900 jobs that contribute today with creativity, innovation and talent to the improvement of our services offer and customer service. To each one of them, we provide a platform for their personal and professional development and growth.

Additionally, through Fundación AXTEL, we are connected to the communities close to our operations, where we strive to have a positive impact to their development through alliances with social oriented institutions. Our goal in 2014 was to participate in projects directed towards the educational and social development of youths at risk.

On the other hand, we perform activities that contribute to the mitigation of our operations' impact on the environment. In 2014, we supported various initiatives to reduce water, energy and waste consumption, and for the first year we disclosed our GEI Report (Greenhouse Gas) to SEMARNAT, as part of our commitment with the reduction of CO2 emissions generated by our operations.

In AXTEL, we firmly believe that a strong business must have ethical foundations. We are strongly committed to behave with integrity in our operations and with our suppliers, clients, authorities and diverse stakeholders with whom we are connected.

Our sustainability and corporate practices allow us to be part, for the second year, of the Sustainability Index of the Mexican Stock Market (BMV), and for the fourth consecutive year we reaffirm our commitment to the ten principles of the United Nations Global Compact, refferred to human rights, labor, the fight against corruption and the environment.

All of the above represents an excerpt of our performance in 2014, which is provided in detail in this document. However, our commitment is not limited to a report, but to a series of initiatives and projects in which we will keep working jointly with our more than 6 thousand collaborators. This way, AXTEL will continue to foster innovative practices for the development of the community to which we offer our services, and we are proud to be a part of.

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

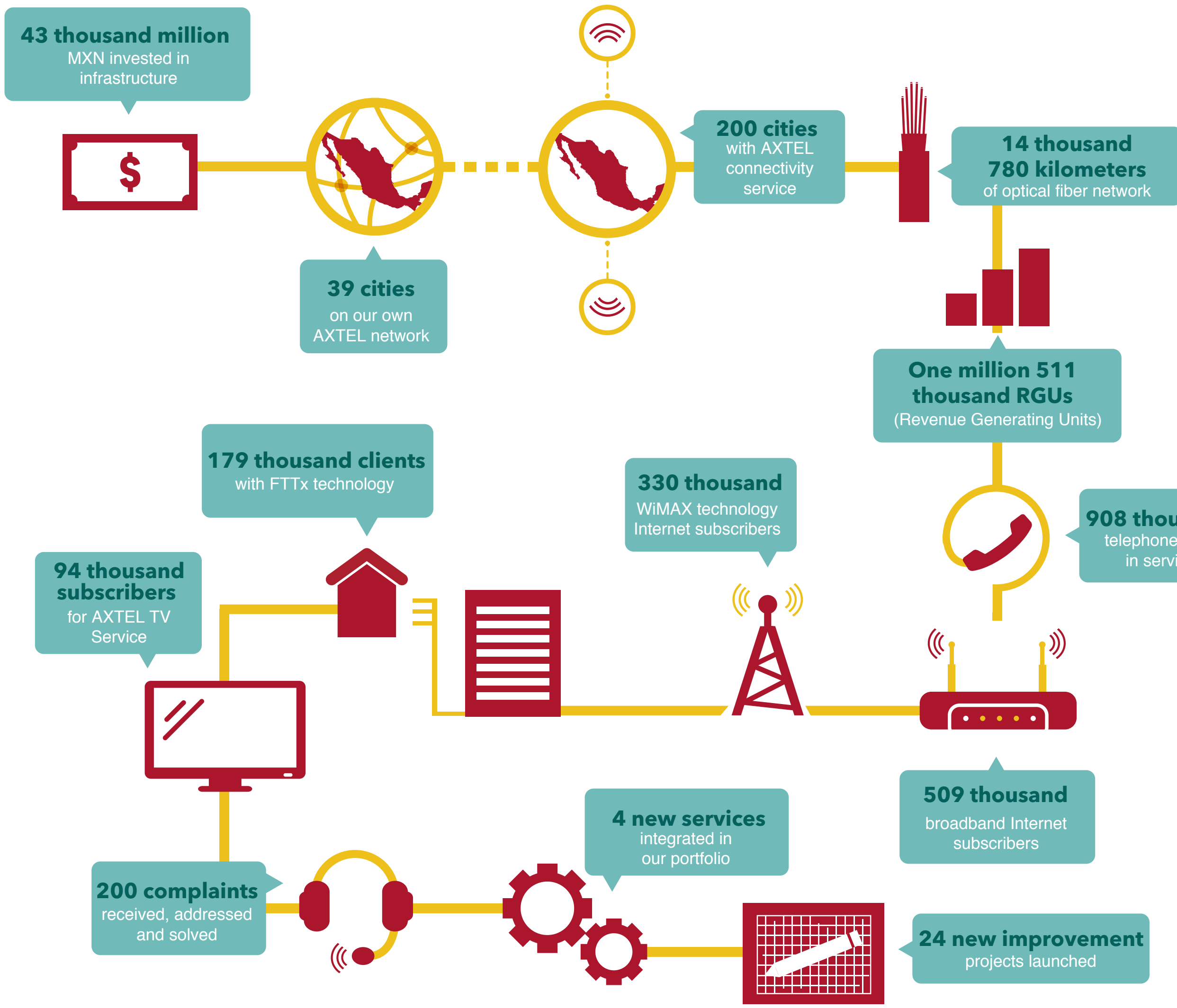
PROFILE

At AXTEL **we connect lives**,
we bring people closer, support companie's development.
Through our services we do not only **offer technology** but also provide
tools that enable the daily life of **thousands of clients who have trusted us.**
We are proudly a Mexican company, **in the service of Mexicans,**
which is the reason why we work every day to be

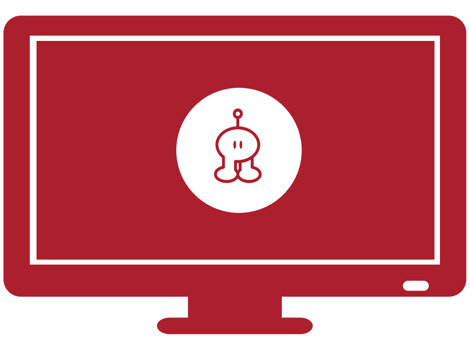
the best option in
information technologies and communication services.

2014 in numbers

G4-9 / G4-EC7



What did we work on during 2014?



We launched AXTEL X-tremo and AXTEL TV in Ciudad Juárez and Toluca. covering an area equivalent to 50 thousand homes and businesses, while in Toluca our market potential is that of 242 thousand homes and businesses.

We included *HBO GO* in AXTEL TV enabling our subscribers to enjoy the entire HBO programming online without any additional cost.

We offer new channels in AXTEL TV. The high definition offer includes 27 new channels, with a total of 51 in the programming bar in addition to open television channels. Likewise, AXTEL TV incorporated 17 new signals in standard definition, having a total of 102 channels, besides the open television signals broadcasted locally.

Together with HBO Latin America, we launched On Demand Video service, without additional cost for all the HBO/ MAX package subscribers, which makes AXTEL TV the only operator in Mexico that has a complete HBO offer, including 10 high definition channels , *HBO GO* and *HBO On Demand*.

AXTEL

G4-3 / G4-4 / G4-5 / G4-6 / G4-56

We are a Mexican telecommunications company that offers world class technology and services. Within our offer, we provide the fastest Internet service in Mexico, broadband, voice, Pay TV Service, and we have an extensive solution portfolio of Information Technology and Communication (TIC) solutions for the corporate and government sector.

MISSION

Improve communication to enhance life.

VISION

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

VALUES:

SERVICE

Excellence and attitude helping others.

COMMITMENT

Honoring promises.

COMMUNICATION

Improving the quality of our dialogues at every moment.

HONESTY

Respecting the truth.

INNOVATION

Making new ideas a reality: transforming life.

If you wish to learn more about our culture, we invite you to visit: www.axtel.mx/sustentabilidad

Corporate Governance

G4-17 / G4-38 / G4-39 / G4-40 / G4-41 / G4-42 / G4-44 / G4-51 / G4-52

Corporate Governance at AXTEL is formed by executives with outstanding business capabilities. Each one of them participates with management skills, expertise, leadership and and business knowledge for leading the company towards a future of growth, profitability and soundness that ensure sustainability in the long term.

Some of the main functions, duties and obligations of the Board of Directors are:

- Managing, identification and mitigation of potential risks to which AXTEL is exposed, internally as well as in the environment.
- Overseeing compliance of the current laws including the Securities Market Law (LMV in Spanish)
- Establishing and managing the business strategy.
- Approving policies, guidelines and significant operations, among which we find loan and warranty policies.
- Designating the General Director
- Defining control and internal audit guidelines.
- Reviewing accounting policies, financial statements and the presentation of the General Shareholders Meeting reports, among others.

The characteristics of the Board of Directors are:

- It is led by Tomás Milmo Santos, President and Chief Executive Officer.
- It includes 10 proprietary board members and nine alternate directors, out of which two are women.
- The board members are designated by the shareholders in the Ordinary General Shareholders' Meeting and their retribution is established annually by the Shareholders' Meeting. In 2014 the total compensation paid to company executives and Board members were approximately $72 million MXN.
- All decisions made by the Board of Directors in regards to desgination, functions, and responsibilities of the board members are regulated by the Securities Market Law (LMV), as well as by AXTEL bylaws. Likewise, work is adhered to the Securities Market Law following rules and guidelines to avoid conflicts of interest.
- In the selection of our Board Members, their expertise, abilities and professional prestige are considered and their development is assessed at least once a year.
- 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., Mexico, CP 66215.

AXTEL Board Members

Tomás Milmo Santos
President and CEO
(50 years old)

Has held the position of Chief Executive Officer of AXTEL since 1994 and Board Member since July 22, 1994. He was also appointed Chairman of the Board of Directors in October 2003. Prior to joining Axtel, he worked at Carbonífera de San Patricio, S.A. de C.V., a mining company in México. In 1988 he was named CEO of that same company, holding this post until 1990, when he founded and became CEO of Milmar, S.A. de C.V., a housing development company which developed and sold over 10,000 homes from 1990 to 1993. He is a member of the Board of Directors of Cemex, Instituto Tecnológico y de Estudios Superiores de Monterrey, and Promotora Ambiental S.A.B. de C.V. He is Chairman of both Tec Salud and Alianza Educativa Ciudadana por Nuevo León. He holds a degree in Business Economics from Stanford University.

Thomas Lorenzo Milmo Zambrano
(79 years old)

He has been a board member of the Company since July 22, 1994 and was Chairman of the Board of Directors since 1997 through 2003. He was co-founder and President of the Board of Directors at Grupo Javer, S.A. de C.V. an important housing developer in Mexico, and Indicasa, S.A. de C.V. one of the largest aggregate producers in the country. He was Chairman of the Board of Directors and CEO at Carbonífera de San Patricio S.A. de C.V. and Carbón Industrial, S.A. de C.V. Likewise, he was a member of Cemex, S.A. de C.V. until 1996.

Lorenzo H. Zambrano Treviño
(†) (70 years old)

He has served as board member at AXTEL since October, 1997. He was Chairman of the Board and Chief Executive Officer of CEMEX. In addition, he was member of the Board of Directors at IBM, part of the Board at *Museo de Arte Contemporáneo de Monterrey* (MARCO) and served as President of the Board at Sistema Tecnológico de Monterrey from 1997 thru 2012. He graduated as Mechanical Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey and studied a Masters Degree in Business Administration in *Stanford University.*

Alberto Garza Santos
(51 years old)

Has been board member at AXTEL since October 9, 2003. He is founder, Chairman of the Board of Directors and Chief Executive of Promotora Ambiental S.A.B de C. V., he is also member of the Board of Directors at Desarrollos Delta and SUPERA. He is Chairman of the Foundation Mundo Sustentable; served as Chairman of the Advisory Board of Parque Ecológico Chipinque. He holds a degree in Business Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey and a graduate degree in Political Sciences from *Southern Methodist University.*

Patricio Jiménez Barrera
(49 years old)

Was Chief Financial Officer at AXTEL from 1998 through 2009. Has been a board member at AXTEL since November 11, 2005. Prior to joining the company he had different positions in the financial field, including investment banker at Invermexico Casa de Bolsa, treasurer at Grupo CYDSA, and again investment banker at Banca Serfín, S.A., where he was Director of International Banking and Treasury. He is currently member of the Board of Directors of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega. He is a CPA and holds a degree from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Fernando A. González Olivieri
(60 years old)

He is member of the Board at AXTEL since April 26, 2010. Since his trajectory started in CEMEX in 1989, he has served in different management positions, including Corporate Vice President of Human Resources, Strategic Planning, and Business Development; President of CEMEX Venezuela; President of CEMEX Asia; President of CEMEX South America and the Caribbean; President of CEMEX Europe, Middle East, Africa, Asia, and Australia; Executive Vice-President for Planning and Development and Executive Vice-President for Planning and Finance. He is currently serving as Executive Vice-President of Finance and Administration. He received his degree and Master's in Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Alberto Santos Boesch
(43 years old)

Has been a board member since April 17, 2013 and was alternate board member for Alberto Santos de Hoyos (†) since June 17, 2005. He is President of Empresas Santos S. A. de C.V., where he was General Director from 2000 to 2013. He is President and Chief Executive Officer of Ingenios Santos, S.A. de C.V. Shareholder and Vice -president of Grupo Tres Vidas Acapulco S.A. de C. V. He is also Board member at Grupo Maseca, Interpuerto de Monterrey, UNAC, Philanthropy Network for ITESM Alumni and Friends, Nuevo Amanecer Institute, En Nuestras Manos, DIF Nuevo León, National Energy and Technology Museum and Renace. He graduated in International Studies from Universidad de Monterrey and has international studies in *Cushing Academy.*

Bernardo Guerra Treviño[1]
(50 years old)

He is member of the Board of Directors at AXTEL since April 28, 2006 and Chairman of the Audit and Corporate Practices Committee. He is founder partner of Morales y Guerra Capital Asesores (MG Capital), President of the Audit Committee at Promotora Ambiental S.A. de C.V., and member of the Board of Directors of Grupo FAMSA and Fibra Monterrey. He received a degree in Industrial Engineering and Systems from Instituto Tecnológico y de Estudios Superiores de Monterrey.

Héctor Medina Aguiar[1]
(64 years old)

He has served as board member at Axtel since October 9, 2003, is member of the Audit Committee and was Executive Vice-President of Finance and Legal Department at CEMEX through February 2010, when he retired. Before, he worked at Grupo ALFA. He was Chairman of the Directive Board of Universidad Regiomontana until April 2012 and was member of the Surveillance Board at *Instituto Tecnológico de Monterrey* until 2011. He is member of the Board of Directors of different public and private companies. He graduated from Instituto Tecnológico y de Estudios Superiores de Monterrey as Chemical Engineer. He also holds a Master's Degree in *Management from The Management Centre of Bradford University*, England and a Diploma in Quantitative Management Methods from *Escuela de Organización Industrial* in Spain.

Lawrence H. Guffey[1]
(47 years old)

Has been member of the Board of Directors at AXTEL since March 27, 2001. He is member of the Board of Directors since 2000 and is part of the Audit and Corporate Practices Committee. Likewise, he is Administrative Director at *Blackstone Group International.* Before joining *Blackstone*, he worked at *Acquisitions Group de Trammell Crow Ventures*, the main investment arm at *Trammell Crow Company.* He is Member of *Cineworld* Group PLC, Deutsche Telekom and TDC. Graduated from *Rice University.*

1 Independent Director

Alternate Directors

Alberto de Villasante Herbert
(58 years old)

He serves as Executive Director of Strategic Relations and is an alternate board member of AXTEL since April 27, 2007. He was Vice-president of Negotiations, Alliances and Institutional Relations, being responsible for the relations with regulators, strategic asset acquisition, real estate, public telephony, and AXTEL strategic alliances. Before joining the company, he held different positions in Xignux including the Direction at Multilec. He is Member of the Board at Concresa S.A de C.V. and Productora de Terrasos S.A. de C.V. He holds a degree in Marketing from Instituto Tecnológico y de Estudios Superiores de Monterrey.

David Garza Santos
(53 years old)

Has been alternate board member for Alberto Garza Santos since November 2005. He is Chairman of the Board of Directors and Chief Executive of Maquinaria Diesel, S.A. de C.V. He is also Chairman of the Board of Directors of Comercial Essex, S.A. de C.V. He is part of the Board of Administration of Desarrollos Delta, S.A. de C.V., and Promotora Ambiental, S.A. de C.V.
He is member of the Advisory Board of the School of Business Management at (ITESM), where he obtained his degree in Business Management.

Balbina Milmo Santos
(44 years old)

She is alternate board member for Thomas Milmo Zambrano since April 2007. She holds a degree in Graphic Design from the Instituto de Arte y Restauración in Florence, Italy. She also studied at Escuela de Diseño *Chamberlayne* in Boston, United States. She has led several activities as entrepreneur.

Andrés Velázquez Romero
(50 years old)

He is the Executive Director for Entrepreneurial Market and Government. He is alternate director at AXTEL since March 2007. He has served as Executive Director since 2004, in the areas of Process Transformation and Information Technology, Mass Market and Business Market in different periods.
Before joining AXTEL he worked in the financial sector, risk management, credit, financing, correspondent, international treasury and foreign exchange. He was also Chief Operations Officer (COO) at Banca Serfín New York Agency. He has a bachelor degree in Economics from Instituto *Tecnológico Autónomo de Mexico* (ITAM).

Francisco Javier Garza Zambrano
(59 years old)

Has been alternate board member for Lorenzo Zambrano Treviño since June 2005. Has held the position as President of the Americas region for CEMEX, as well as President for CEMEX Mexico, CEMEX Panama, and Venezolana de Cementos (Vencemos, S.A.); has also been Vice-president at *CEMEX Trading* and President of CEMEX in the United States. He is Director of Grupo Xignux, ASUR, Grupo CYDSA, GP Construcciones, and Universidad de Monterrey, among others. He holds a degree in Business Administration from *Instituto Tecnológico y de Estudios Superiores de Monterrey* (ITESM) and has a Master's Degree in Business Administration from *Cornell University - Johnson Graduate School of Management.*

Ramiro G. Villarreal Morales
(68 years old)

He is alternate board member for Fernando A. Gonzalez Olivieri since April 2011 and was previously alternate board member for Héctor Medina Aguiar since April 2006. He is Chief Legal Officer of CEMEX since 1987. He also serves as Secretary of the Board of Directors of CEMEX since 1995. From 1985 thru 1987 he held the position of Assistant General Director of Grupo Financiero Banpaís (now part of Banco Mercantil del Norte S.A.). He received his degree in Law from *Universidad Autónoma de Nuevo León* and a Master's Degree in Finance from *Wisconsin University.*

Alicia Santos Boesch
(34 years old)

Has been alternate board member for Alberto Santos Boesch since April 2013. Holds a degree in International Relations from *Universidad de Monterrey* (UDEM). He has also carried out studies in Marketing in the University of California (UCLA). He is also a member of the Board in Grupo Sonoma and various social organizations.

Mauricio Morales Sada[2]
(54 years old)

Has been alternate board member for Bernardo Guerra Treviño since April 2006. He is President and founding member of MG Capital, an independent investment management firm since 1995. From 1984 to 1995 he held different Senior positions in banks and brokerage houses in Mexico. He received the degree for Mechanical Engineer and Administration from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM), and is currently member of the Executive Committee of the Business Development Program in the same institution.

Thomas Westermann[2]

He is Alternate Director for Laurence H. Guffrey since April 2013. He is Analyst at Davidson Kempner Capital Management. Has worked in *Blackstone, J.P. Morgan, The Boston Consulting Group and Booz & Co.* He has a Master's Degree in Administrative Sciences and Engineering from *Stanford University* and a B.S. in Engineering and Applied Mathematics from the Technical University in Denmark.

Board of Directors' Sessions 2014	
Session date	Topics reviewed
March 25	I. Board of Directors' Session approval of the December 17, 2013 note. II. Market and Operations Report III. Society's Financial Results Report. IV. Strategic Projects V. Regulatory Status VI. Discussion and approval of topics to be presented on the Ordinary General Assembly fo Society's Shareholders. V. Various topics.
May 27	I. Board of Directors' Session approval of the March 25, 2014 note. II. Market and Operations Report III. Society's Financial Results Report. IV. Investment opportunities facing the Telecommunications Reform and possible financing alternatives. V. Strategic Projects VI. Regulatory status. V. Various topics.
September 26	I. Ratification of the Note from Board of Directors' May 27, 2014 Session. II. Operations Report and Society's Financial Results. III.Strategic Projects. IV. Regulatory Status. V. Various topics.
December 16	I. Ratification of the Note from Board of Directors' September 26, 2014 Session. II. Operations Report and Society's Financial Results. III.Strategic Projects. IV. Regulatory Status. V. Various topics.
Percentage of attendance: 66%	

2 Alternate member of the Audit and Corporate Practices Committee

Top management compensation policy		
Component	Objective and alignment with the strategy	Description
Base salary	Attract and retain talent.	Salaries are reviewed yearly based on the following criteria: • Business results • Macroeconomic environment • Salary polls • Performance
Fixed compensation (Benefits)	Comply with legal framework. Assure competitiveness regarding the competition.	• Christmas bonus • Vacation bonus • Food bonus • Car bonus
Variable compensation	Reward group and individual goals achievement. Reinforce management team's alignment with stockholders' interests, and assure competitiveness regarding the competition.	Quarterly and yearly bonus plans based on strategic and operational objective compliance.
Social benefits	Provide patrimonial stability to executives. Face contingencies. Retain talent.	• Major medical expenses insurance • Life insurance • Medical emergencies insurance and check up.

G4-17

AXTEL Operational Structure		
Subsidiary	Activity	Participation percentage
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")	Telecommunications Services	100%
Avantel Infraestructura S. de R.L. de C.V. ("Avantel Infraestructura")	Telecommunications Services	100%
Telecom Network, Inc ("Telecom")	Telecommunications Services	100%
Avantel Networks, S.A. de C.V. ("Avantel Network")	Telecommunications Services	100%
Axes Data, S.A. de C.V. ("Axes Data")	Administrative Services	100%
Contacto IP, S.A. de C.V. ("Contacto IP")	Administrative Services	100%
AXTEL Capital S. de R.L. de C.V. ("AXTEL Capital")	Administrative Services	100%

AXTEL Executive Team

G4-34 / G4-37 / G4-41 / G4-49

Chalrman and Chief Executive Officer
Tomás Milmo Santos

Audit Director
Gerardo González Villarreal

Executive Direction for Corporate and Government Market
Andrés Velázquez Romero

Executive Director for Consumption Market
Antonio De Nigris Sada

Executive Direction for Technology and Operations
Andrés E. Cordovez Ferreto

Executive Direction for Administration
José Antonio Velasco Carmona

Executive Direction for Strategic Relations
Alberto M. de Villasante Herbert

Executive Direction for Finance
Felipe C. Canales Tijerina

Executive Direction for Talent and Organizational Culture
Eloy Valerio Treviño

Alberto de Villasante Herbert

(58 years old)

He serves as Executive Director of Strategic Relations and is an alternate board member of AXTEL since April 27, 2007. He was Vice-president of Negotiations, Alliances and Institutional Relations, being responsible for the relations with regulators, strategic asset acquisition, real estate, public telephony, and AXTEL's strategic alliances. Before joining the company, he held different positions in Xignux including the Direction at Multilec. He is Member of the Board at Concresa S.A de C.V. and Productora de Terrasos S.A. de C.V. He holds a degree in Marketing from *Instituto Tecnológico y de Estudios Superiores de Monterrey.*

Andrés Eduardo Cordovez Ferretto

(46 years old)

Since October 2013, he is Executive Director of Technology and Operations at AXTEL. Before this position, he was Director of Information Technologies and Processes. In his 24 years of professional experience he has worked in several executive positions in different national and international telecommunications, financial and services companies, being responsible for different functions, such as technology, innovation, operations, customer service, and sales. He holds a degree in Computer Systems Engineering from *Instituto Tecnológico y de Estudios Superiores de Monterrey* (ITESM) and obtained a Diploma from IPADE in Mexico in Executive Education.

Andrés Velázquez Romero

(50 years old)

He is the Executive Director for Entrepreneurial Market and Government. He is alternate board member at AXTEL since March 2007. He has worked as Executive Director since 2004, in the Process Transformation and Information Technology areas, Mass Market and Business Market in different periods. Before joining AXTEL he worked in the financial sector, risk management, credit, financing, correspondent, international treasury and foreign exchange. He was also COO at Banca Serfín New York Agency. He has a bachelors degree in Economics from Instituto Tecnológico Autónomo de Mexico (ITAM).

Antonio De Nigris Sada

(50 years old)

He serves as Executive Director for Consumer Market since 2011. Before having his current position, he had different positions in AXTEL as North Regional Director for Mass Market, Director of Operations and Director of Service Delivery at a national level. Before becoming part of AXTEL in 1999, he worked as Director of Business Banking and Entrepreneurs at BITAL (now HSBC) and in Financial Leasing Institutions *(Prime Internacional).* He graduated as Industrial Engineer from Universidad Anáhuac.

Felipe Carlos Canales Tijerina

(57 years old)

Serves as Executive Financial Director at AXTEL since February 2009. Before joining the company he was Finance and Administration Director at Sigma. During his 30 year career in Alfa he had different executive positions. He was member of the Board of Directors at Alestra and Director of Corporate Planning and Economic Studies and Corporate Treasurer at Alfa Corporation. He holds a degree in Industrial Engineering from *Instituto Tecnológico y de Estudios Superiores de Monterrey* (ITESM) and studied a Master's Degree in Business Administration in *Wharton School*, in *Pennsylvania University.*

Gerardo González Villarreal

(48 years old)

He has served as Audit Director in AXTEL since March 2000. Before his current position he was Financial Controller. He has more than 25 years of experience in auditing, fiscal, and accounting. Before joining AXTEL, he collaborated with international accounting firms such as Coopers and Lybrand International and DFK International, and was member of the Mexican and International Committee for DFK International, as President of the Mexican accounting firm. He holds a degree in Public Accounting from *Universidad del Norte.*

José Antonio Velasco Carmona

(49 years old)

He is Executive Administration Director since July 2014. Since he joined AXTEL in 1999, he has been involved in the finance and administration areas. He was in charge of Corporate Finance, and was later designated Treasurer and Administrative Director. He participated in different debt emission programs and OPI of the company in 2005. He also participated in the acquisition of Avantel and was responsible for the integration of the financial areas of this company. He holds a degree in Administration from *Instituto Tecnológico y de Estudios Superiores de Monterrey* (ITESM) and obtained a Diploma at IPADE for Executive Education.

José Eloy Valerio Treviño

(55 years old)

He is Executive Director for Talent and Organizational Culture at AXTEL since July 2014. Before this position, he was Executive Director for Administration and Human Resources. He has 30 years expertise; 20 of these in managerial positions in his specialty areas. He has also been a consultant in businesses related to paper and cellulose, tourism, steel, auto mechanics, and pharmaceutics. He was President of the Association of Executives in Human Resources (ERIAC), Secretary of the Board of North American Resources Managers Association (NARHMA) and board member for academic, government and non governmental organizations. He holds a degree in Administration from Universidad Autónoma de Nuevo León and a Master's Degres in Administration from *Instituto Tecnológico y de Estudios Superiores de Monterrey* (ITESM).

AXTEL Audit and Corporate Practices Committee

G4-35 / G4-36

The Auditing and Corporate Practices Committee reports directly to the Board of Directors and is formed by three independent directors. Its key functions are overseeing the administrative and financial management of the company, operation and execution at AXTEL, as well as recommending the Internal and External Auditing areas the actions needed to be carried out in regards to the significant financial matters of the company.

Some other important functions in this Committee are:

- Avoiding conflict of interest in the highest governance body at AXTEL in adherence to LMV. In case of conflict of interest, this Committee, jointly with the Internal Auditor and the External Auditor, it makes sure the directors will refrain from participating in the corresponding voting.
- Maintaining communication of the directors with the Board of Administration. This communication can also be established through the Investors Relations area, which also receives comments and recommendations from all our stakeholders. The contact email is ir@axtel.com.mx

The attendance percentage of committee members at the sessions in 2014 was 75%.

Risk Management

G4-2 / G4-14 / G4-45 / G4-46 / G4-47

The changing environment in every company at a global level operates, compels us to remain alert to the external risks to which our operation could be exposed. In the same way, we address potential internal risks.

Thus, we have methodologies which enable us to identify and analyze these situations in order to give timely attention and make decisions to respond to these risks.

The management of these issues is coordinated by the Internal Audit area and reports to the General Director at AXTEL. This area is responsible for monitoring the Internal Control System through which the financial and non-financial processes of the business are assessed. There were 20 relevant risks identified in 31 processes during 2014, which were reviewed 100 hundred %, concluding that they have no influence in the compliance of our strategic objectives.

We also have a corruption risk map which considers those operations with the greater exposure to these kinds of actions. Each risk was reviewed 100 %, without detecting corruption cases.

This risk map serves as a baseline to determine the Audit Plan for the corresponding period and is focused in guaranteeing:

- Operation efficiency and continuity.
- Reliability and integrity in operational and financial information of the company.
- Safeguarding the company assets.
- Compliance of existing laws and regulations.
- Detecting important errors in internal control and timely informing for their correction.

Main focus for 2014	Desired Results	Status
Focus on processes and risk levels according to the strategic initiatives of the company.	Maintaining the level of efficiency and effectiveness on the business's strategic goals and generating an ascending value scale depending on the company's results.	Impact on detected risks was minimized generating actions and implementing controls which supported in strategic objective compliance.
Focus and risk mitigation regarding new projects and products.	Streamline the new product quality and ensure return on investment and profitability of new and existing products.	Increase in efficiency in key processes and activities related to service, investment, and profitability in new and/or existing products.
Increase in dissemination of anonymous complaint lines.	Maintaining optimal levels of trust within the company's collaborators.	Collaborators' participation increased through several denouncing lines.
Laws and Regulations	That the provision of the Telecommunications Law Reform for no long distance charges does not generate negative impact on earnings.	Impact is only one digit percentage between net earnings and cost, thus it represents a low risk level.
Laws and Regulations	Having the CFE not offering telecommunications services to Federal Government, since this entity is a Carrier of Carriers and not a final service supplier.	Appeal to the Communications Ministry, IFT and Congress so there fair competition is generated.

Business Ethics and Human Rights

G4-41 / G4-57 / G4-58 / G4-HR2 / G4-HR3 / G4-HR4 / G4-HR5 / G4-HR6 / G4-HR7 / G4-SO4 / G4-SO5 / PMNU 1, 2, 3, 4, 5, 6 y 10

AXTEL's Ethics Code officially provide the guidelines to which the company`s operations are subject, as well as the behaviors expected from our collaborators in their daily activities, including the prevention of conflicts of interest.

The topics specified in this document are related to: behavior at work; communication; conflict of interests; personnel hiring; honesty, loyalty and integrity; confidential information; job safety; relationship with clients, community, government and suppliers; promotion and sales; and environmental accountability.

In AXTEL we adhere to international ethics principles and reject corruption, extortion, and bribery.

The mechanism to manage the correct application of the Ethics Code, is the AXTEL Transparency Mailbox, through which complaints submitted anonymously are received, and can also be presented personally in the work area. In both cases, its procedure is totally confidential and guarantees that there will be no revenge or retaliation to claimants.

Complaints are received and addressed until solved by the Direction of Internal Audit, who channels them based on the kind of risk implicit with the activity reported. In case there are controversies, they will be reviewed jointly with the Honor and Justice Committee which is formed by the Legal Director, Human Resources Director and Audit Director.

Complaints related to accounting, internal control, robbery or asset abuse, inappropriate use of privileged information, bribery, policy non-compliance, and fraud activities may be received through the Transparency Mailbox, in addition to the Ethics Code grievances.

As a secondary function, this Mailbox also provides collaborator counseling in regards to issues related to ethical and licit behavior on their daily operations, in addition to how to behave in specific controversial regarding ethical topics.

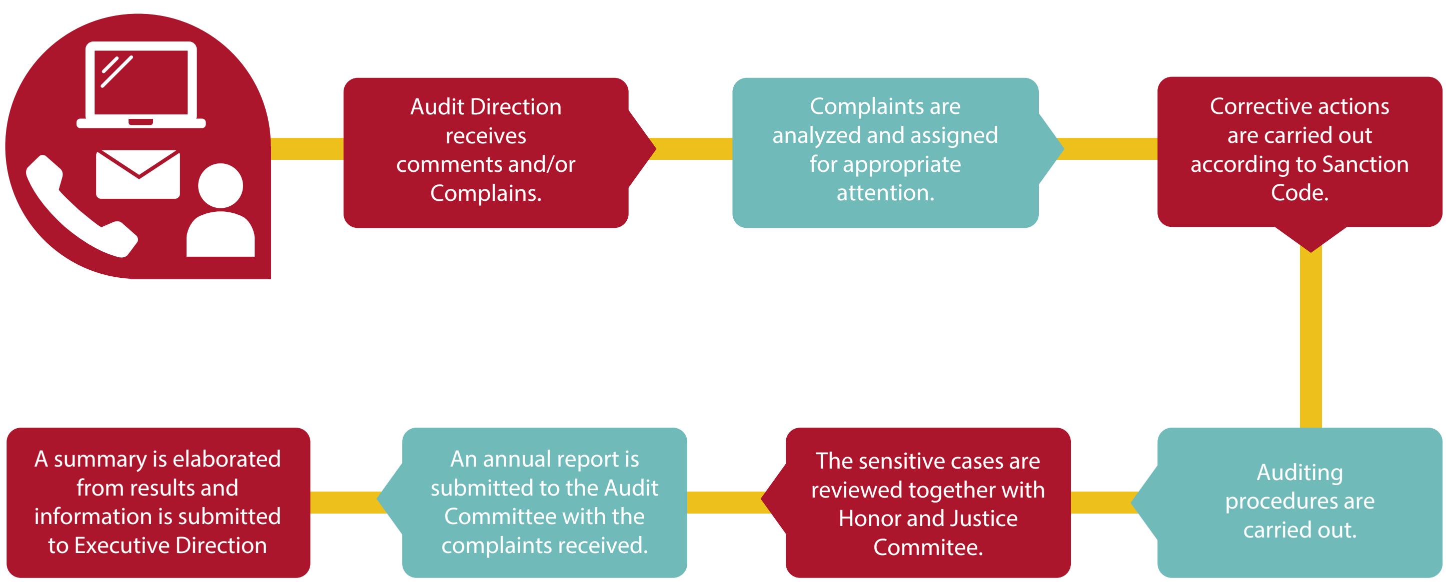
The contact lines available to receive complaints 24/7/365 a year are:

Toll-free number : 01 800 087 0909

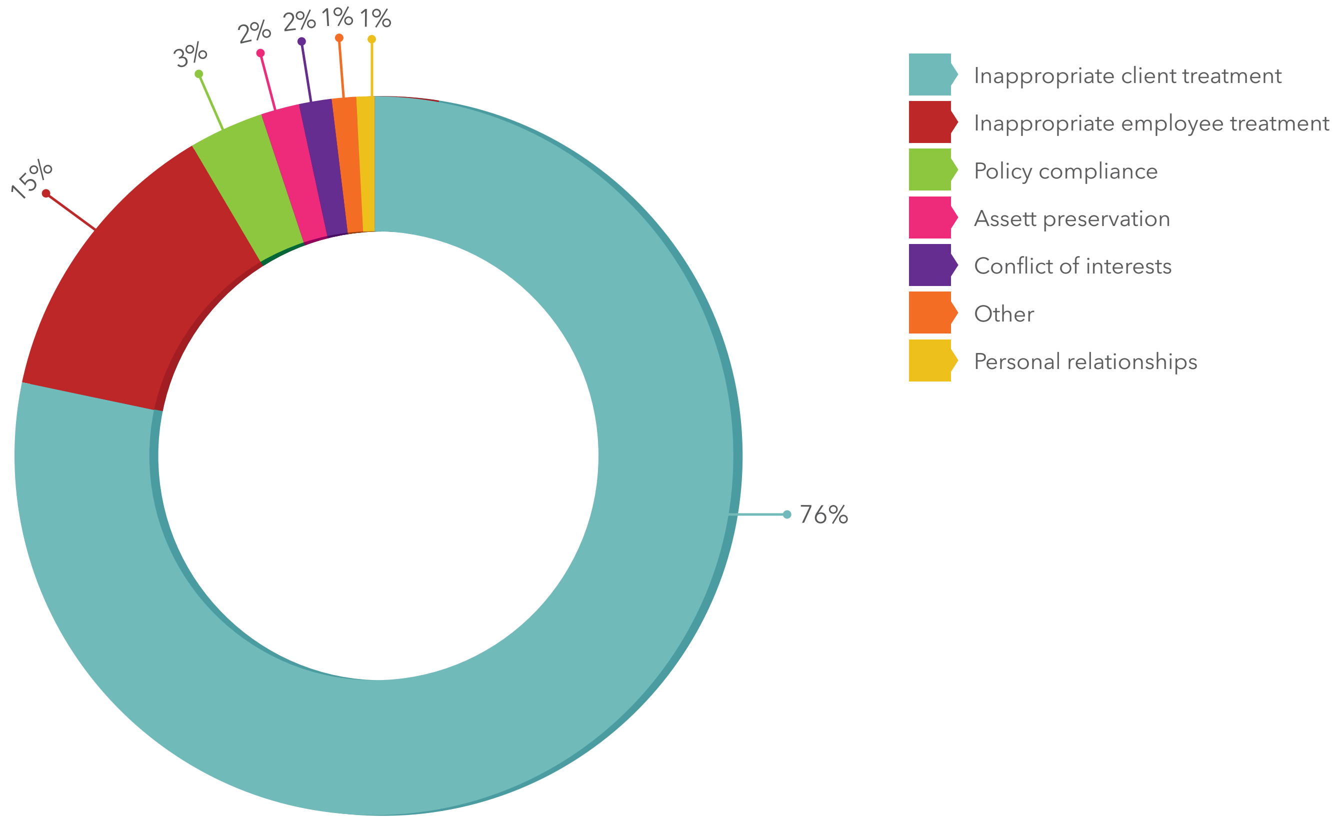
E-mail: transparenciaaxtel@axtel.com.mx

Web Page: http://axtel.mx/gobierno-corporativo/buzon-de-transparencia

In our corporate offices with the Audit Director and/or Manager of Corporate Governance.



Complaints received in 2014



In 2014 we received 200 complaints out of which 43 (21%) were founded and received the corresponding attention and follow-up, corrective actions were taken in all cases; 77% were complaints in the area of customer service that were channeled to the appropriate department, and 2% were non proceeding complaint. By the end of 2014, el 94% were solved and 4% are in the process of being solved. None of them was related with corruption activities or discrimination incidents.

Kind of complaint	Solution
Inappropriate treatment to client/customer	Customer service is assigned to follow-up, when a solution is achieved, the complaint is closed by sending a report.
Inappropriate treatment to employee	Corrective measures were taken, from firing personnel to the application of corporate atmosphere to foster best practices, as well as leadership recommendations.
Policy compliance	Strengthening communication among employees about policy compliance in the company.
Fixed assets preservation	After the corresponding audits, the firing of the identified as responsible personnel took place.
Conflict of interest	Inadmissible complaint
Personal Inter-relations	Inadmissible complaint

In 2014 we carried out specific actions emphasizing our interest in following a culture of legality:

- We taught a course of Promotion of the Culture of Legality to security personnel working in the three main cities where we operate (Mexico, Guadalajara, and Monterrey). The topics covered were anti-corruption policies, transparency mailbox, corporate values and ethics code. The course is promoted by *"Hagámoslo Bien"*, supported by *"Mexico Unido contra la Delincuencia"* and registered at the Labor and Social Welfare Department. 70% of the security officers participated in this training.
- We continue to train 100% of our new incoming collaborators on the Ethics Code, Human Rights, Anti-Corruption Policy, No Presents, and Transparency Mailbox.
- We have a permanent inspection program for external contractors to ensure that all age requirements, documents and safety equipment are met by those carrying out tasks inside and outside our facilities.

In AXTEL we respect human rights[3] in all their expressions and reject discrimination activities, forced labor, child labor, and we make sure all individuals with whom we relate, are protected from abuse, coercive actions and threats. To guarantee its compliance tools such as our Ethics Code, the Diversity and Inclusion Policy, Hiring Policy and Personnel Selection, as well as our Transparency mailbox.

We joined the United Nations Global Compact since 2011 and promote its 10 Principles related with human rights, labor standards, environment, and the fight against corruption.

We comply with legislation in our country and respect freedom of association and the effective recognition of the right to collective bargaining negotiations of our collaborators, to whom a permanent education program is taught regarding union matters.

AXTEL Services

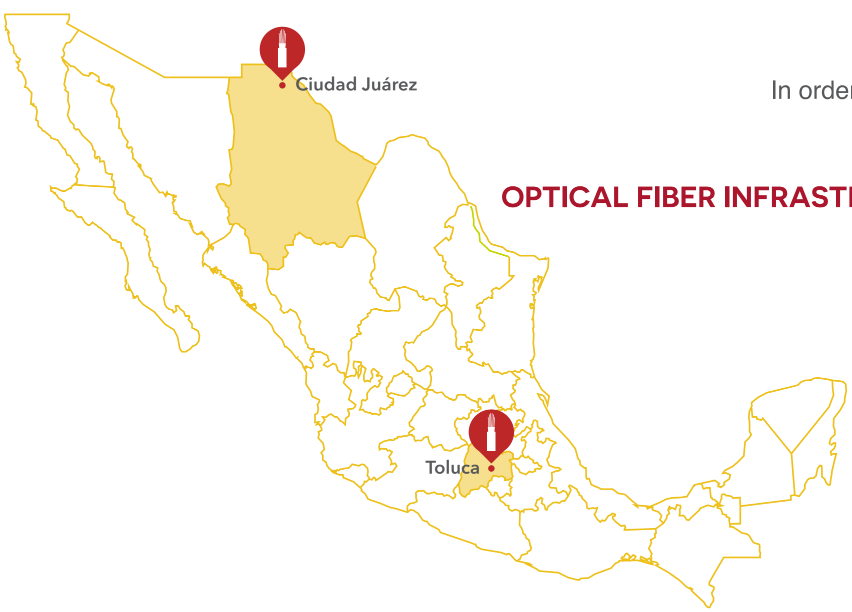
G4-4 / G4-8

Our services are offered through different access technologies such as optical fiber, fixed wireless access, point to point and point to multipoint links, enabling us to address market demands.

Our offer includes a portfolio of more than 30 services among which are broadband service, pay television, advanced solutions for data transmission and implementation of private virtual private networks, *web hosting, data centers*, managed security, services for other telecommunications operators, and voice services among others. Through AXTEL X-tremo we offer the most advanced broadband service in the country, with a 200 MBPS speed.

We are present in 39 cities in Mexico and provided service in 2014 to 618 thousand 598 clients in two market segments:

- Consumption Market
- Corporate and Government Market



In order to improve our service offer, we will invest more than **13 MILLION USD** during the next five years in **OPTICAL FIBER INFRASTRUCTURE IN CIUDAD JUÁREZ, CHIHUAHUA** and **14 MILLION USD** in this same period in **TOLUCA, STATE OF MEXICO.**

3 To learn our Human Rights Policy in detail and the 10 principles of the United Nations World Compact you may visit: www.axtel.mx/sustentabilidad

4 The complete list of products and services can be found in: www.axtel.mx

Consumption Market

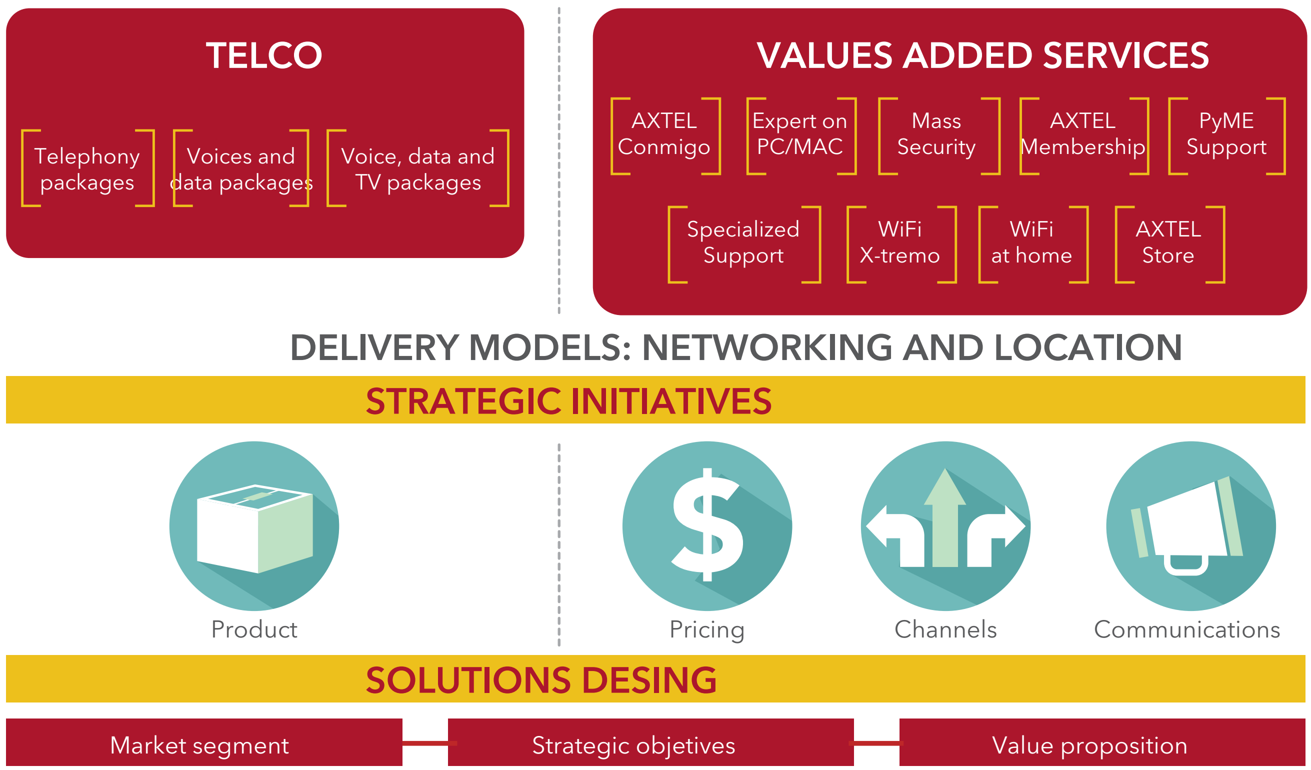
Includes the TELCO (Telecommunications) and Value Added Services business lines. The products offered in 2014 were:

TELCO

In the *telephony* product line: AXTEL Plans, Intelligent Line, 800 Service; in *Packages*: AXTEL X-tremo, Acceso Universal, Entretenimiento X-tremo with AXTEL TV.

Value Added Services

AXTEL Conmigo, Expert for PC/Mac, Seguridad Masiva, Membresía AXTEL, Asistencia Pyme, Soporte Especializado, WiFi X-tremo, WiFi en el hogar, *Connected Home & Business, Back-up*, Tienda AXTEL.



Among the main achievements in the Consumption Market segment in 2014 we can list:

- The deployment of optical fiber infrastructure for homes (FTTH) in Ciudad Juárez and Toluca, totaling 10 cities covered with this technology.
- 21% growth in Internet clients compared to 2013, in addition to 27% increase in AXTEL TV client penetration over the FTTx client base.
- There is an increase in our business client database attracted by the high speed offering of AXTEL X-tremo.
- We implemented a simplification strategy for the AXTEL X-tremo portfolio, which enables the client to evaluate and select the best package in a simple way.
- We developed an on-line sales channel that offers the functionality of automated sales for our services with an immediate response.
- AXTEL TV enriched its offer by adding more than 30 high definition channels and 20 standard definition channels and launching the content of services like HBO GO, Fox Play, TNT GO, Cartoon Network GO, Space GO and Hot GO on line, in addition to complementing its content on demand with studios such as 20th Century Fox, Lionsgate and *On Demand.*
- Obligations stemming from the Telecommunications Reform in regards to long distance were implemented.
- By the end of 2014 we launched *Smart Home & Business* in alliance with Honeywell, which enables us to offer safety and comfort services and applications to our clients.
- We evolved to the AXTEL Expert service that enables us to provide technical support, not only for the client's computer, but for any device demanding Internet connectivity.

Earnings (million MXN)			
Segment	2012	2013	2014
Residential	2,820	2,615	2,597
Micro	586	643	695
Small	276	266	280
Total	3,682	3,523	3,572

Clients			
Segment	2012	2013	2014
Residential	637,068	561,607	515,968
Micro	64,327	69,697	78,064
Small	14,285	13,562	15,283
Total	715,680	644,866	609,315

Corporate and Government Market

We service this market with an assortment of products and services appropriate to this segment's needs. Our portfolio is divided into products (Telecommunications) and IT (Information Technology).

Information Technology (IT)

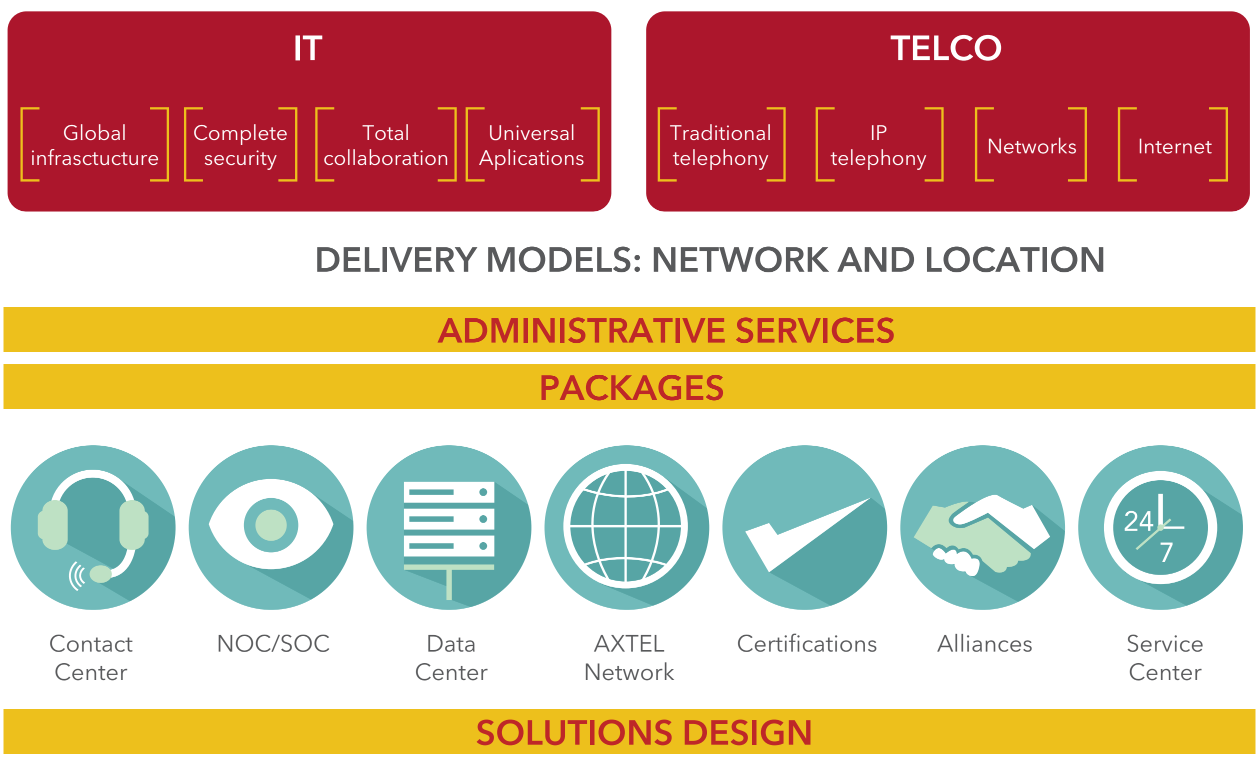
A market in constant evolution and growth where we have concentrated our new product launches.

In the *Global Infrastructure line:* Data Center; in *Total Safety*: AXTEL Track; and in *Total Collaboration*: Contact Center, Immediate Contact Center, Private Cloud Collaboration.

Telecommunications (TELCO)

This market provides AXTEL with 70% of the corporate and governmental sectors income. In the Networks product lines: International VPN (VPN PIP International) and International Private Line (Global Link).

In the *Networks*: International VPN (VPN PIP International) and International Private Line (Global Link).



Government

We have increased our services through the implementation in 2014 of TIC integration projects with the governmental sector clients. Some of these clients are SEDESOL (National Communications Network), FOVISSSTE (Business Continuity Plan), STPS (National Communications Network and Integral Services), the Government of the State of Jalisco (Accounting Harmonization System), among others.

Business

We work successfully to tend to the medium, large and corporate sector through the development of integral solutions, with special emphasis on vertical segments of the financial sector, call centers and carriers.

Earnings (million MXN)			
Segment	2012	2013	2014
Corporate	4,536	4,495	4,782
Government	1,971	2,268	2,243
Total	6,508	6,763	7,025

Clients			
Segment	2012	2013	2014
Corporate	10,112	8,083	8,974
Government	328	470	309
Total	10,440	8,553	9,283

AXTEL Technology

Our services are supported by State-of-the-Art technologies that enable us to meet our clients' needs. We provide telecommunications solutions through access technologies including:

AXTEL digital network

We integrate local telephony services, long distance, Internet, and value added services.

WiMAX

Delivers high speed data links using the IP protocol in a native manner.

Optical fiber

High capability transportation, quality and reliability in voice and data digital transmission, as well as direct web connection.

Point to Multi-point Radio

It is used to provide voice and data services with a broad geographical scope. It has the 60 MHz spectrum, with coverage at a national level, within the 10.5 GHz band.

Fiber to The Home or Business (FTTx)

Enables the delivery of high capacity symmetrical services for homes and businesses.

Point to Point Radio

Complete voice, data and Internet services, with great clarity and total call security. It enables us to cover the high capacity and broad coverage service requirements. AXTEL has 100 MHz spectrums within the 23 GHz band and 128 MHz spectrums within the 15 GHz band.

AXTEL TV
The IPTV *(Internet Protocol TV)* technology enables us to provide a differentiated service in Mexico, having unique functionalities and providing an unequal image quality.

WiFi Metro
Access to Internet through a broad number of WiFI Hotspots located in different places in the city. It uses optical fiber and the AXTEL IP network as transportation means.

Fixed Wireless Access
Enables us to provide local telephony services, long distance, Internet and value added services to residential clients and small businesses. It is not cell telephony. Utilizing 50 MHz spectrum within the band for 3.4 GHz at a national level and has a minimum impact on the environment.

Intelligent network
Offers versatile, reliable and customized services such as automation and customization of incoming calls, customer service, contact centers, probing and surveys, 800 and 900 numbers, among others.

Quality Management System

Our Center for Excellence is focused on managing improvement projects using the *Lean Six Sigma* methodology. The use of these tools allows us to make knowledgeable decisions and involving the operation in changes carried out to the business processes.

More than 24 projects or Improvement Tables were closed during 2014, where more than 150 collaborators were engaged from areas such as: Access Engineering, Capability Engineering, Network Operation, Network Monitoring Center, Negotiations, IT Infrastructure, MIR, External Plant, Collections, Business Solutions Design, Business Service Delivery and Business Sales.

We use the ISO 9000:2008 methodology to manage quality in our operations.

The benefits of these improvements for the company are shown in cost management and operational efficiency. An example of some projects in which we worked during 2014 were: maintenance advantages, network strengthening, pre-selling flow, connectivity and solutions design, among others.

SUSTAINABILITY

G4-15

AXTEL could not exist without the **people and organizations** that surround us. With each one, we assume **the great responsibility** they have granted upon us as being part of their daily lives. For this reason, **we are committed to being accountable in our behavior,** and investing constantly in innovating technology, care for our **collaborators,** proceed with ethics and integrity and, of course, **caring for our Planet** in all of our actions.

2014 in numbers

7 years
obtaining the Distinction as Socially Responsible Company.

17 certifications and re-certifications
in different IT areas

2 years
being part of Sustainable IPC of the Mexican Stock Exchange.

2 years
obtaining the Environmental Quality Certification granted by PROFEPA and SEMARNAT.

94%
of our acquisitions are carried out with national suppliers.

5 million 317 thousand 894
interactions with clients through our contact formats.

What did we work on during 2014?

We received the *Gold Star* distinction from Cisco for the third consecutive year for our Customer Satisfaction Excellence.

We reached to our collaborators, suppliers, communications media and shareholders and asked for the topics they consider of greater relevance in regards to AXTEL sustainability. This exercise was a forum aimed at knowing their opinion and address their needs for information through our Annual Integrated Report and our different communication media.•

We taught Sensitivity to Disability workshops in coordination with DIF in 11 cities where 610 people participated.

We participated in the #YOLOBORRO campaign to communicate the importance of the appropriate use and responsibility of the new technologies in order to inhibit violent behaviors in the digital environment such as *ciberbullying*.

We visited foster homes, old people's homes, and food kitchens as part of our Social Outreach Program.

The second "Cobertón AXTEL" (Giving a Blanket event) in which our employees participated, donating more than 400 blankets distributed into nine communities.

Sustainability Statement

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, innovative solutions that provide society access to information and communication technologies.

Economic Strategy

Our commitment is to honestly manage our technology, economic, and financial resources, operating efficiently and enabling a successful and sustainable growth of the company, under a stringent risk control and meeting regulations.

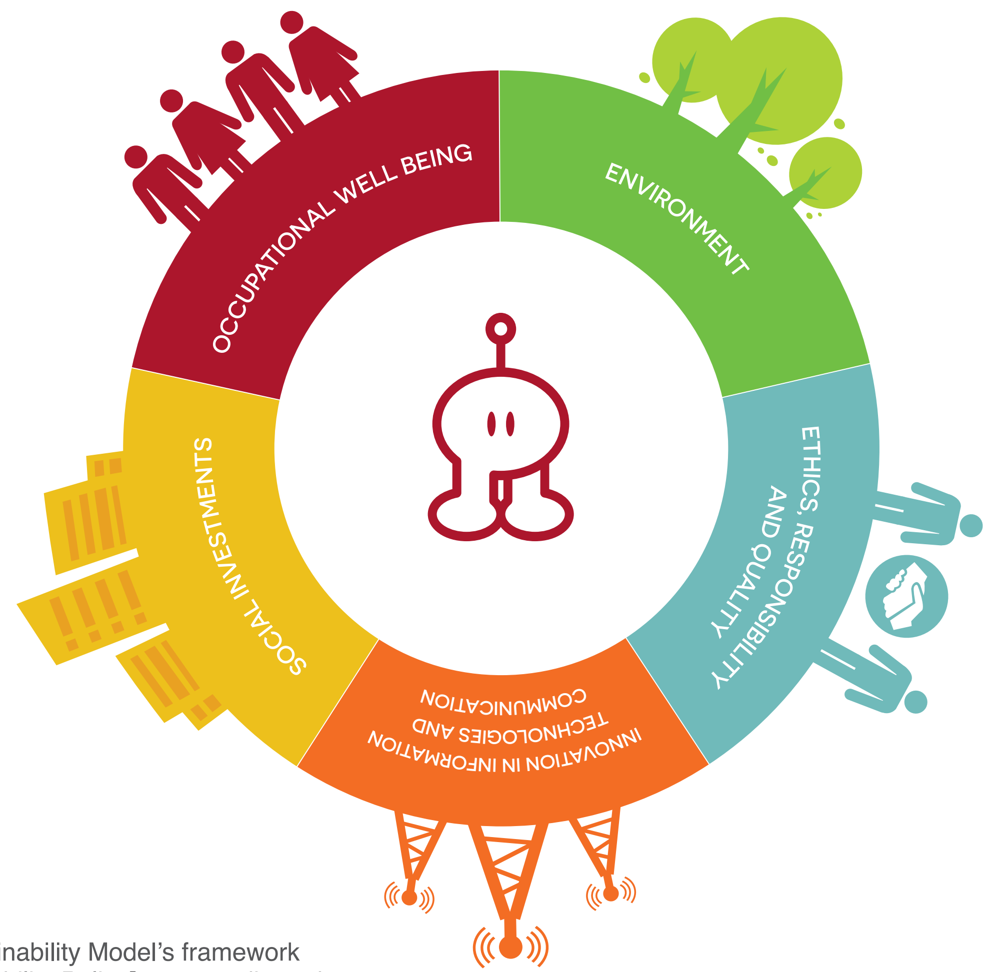
Social Strategy

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 access to better education and health opportunities as well as a dignified life.

Environmental Strategy

We seek to reduce the environmental negative impact of our operation practices, reviewing our procedures, developing new technologies, improving our methods, preserving resources and establishing a harmonious relationship with nature.

Sustainability Model



Under AXTEL Sustainability Model's framework and AXTEL Sustainability Policy[5], we coordinated our socially accountable performance and aligned it to our business' strategy.

5 To learn more about our Sustainability Model, please visit: www.axtel.mx/sustentabilidad

Stakeholders

G4-24 / G4-25 / G4-26 / G4-27

We know that success in our business is based not only on the services we offer, but also on the good relationship we maintain with the community and the stakeholders around us. In AXTEL we have grouped organizations and individuals with whom we are related to into 10 categories to ease our communication and attention to each one of them.

Stakeholders	Employees	CONTACT FREQUENCY	Shareholders and investors	CONTACT FREQUENCY
	People that perform a function at the service of AXTEL, as well as individuals that work as part-time personnel.		Shareholders and company's capital owners, creditors or investors in company's debt, analysts who facilitate information between the company and investors, as well as regulators, valuator agencies and other entities with influence over public companies.	
Current communication channel	Intranet	Permanent	Web page	Permanent
	Email messages	Daily	Annual Integrated report	Annual
	Meetings with CEO	Annual	Board meetings	Quarterly
	Electronic newsletter	Bi-weekly	Results conferences	Quarterly
	Transparency Mailbox	Permanent	Annual Shareholder Meeting	Annual
	Corporate Social Network	Permanent	Email	Permanent
	Brochures and printed materials	Permanent	Forum presentations	Recurrent
	Corporate atmosphere	Annual	Quarterly results report	Quarterly
	Web page	Permanent	Spokespeople and representatives	Permanent
	Integrated Annual Report	Annual	News and media	Quarterly
	Spokespeople and representatives	Permanent	Shareholders contact mailbox	Permanent
	News and media	Permanent		
	Press releases	By event		
	Health and safety commissions	Monthly		
Expectations	Results recognition Training and professional development Live / work balance Flexible work schedules Occupational health and wellness Competitive salaries and benefits Safe working conditions Innovation Communication		Profitable and sustainable growth, Information transparency Accountability Access to high executive levels Accountability on decisions and results *(accountability)*	
Initiatives	Organizational atmosphere survey 360° annual assessment Communication campaigns Objective alignment Seniority recognition Volunteer program Annual Integrated Report Health, education and entertainment programs Personal safety prevention campaigns Family Day AXTEL meeting Results based incentive Objectives alignment Commercial agreements for collaborators		Strategic planning Constant communication with investors Internal audit Risk identification Corporate Governance structure Ethics Code	

Stakeholders

	Customers		Suppliers	
	Individuals or groups that use AXTEL services in a recurring or eventual manner to cover their communication needs, entertainment and information technologies.		Organizations or individuals with whom AXTEL maintains trade relations to exchange goods and services that support the execution of our administrative and operational processes.	
Current communication channel		CONTACT FREQUENCY		CONTACT FREQUENCY
	Media news	Permanent	Suppliers' extranet	Permanent
	Advertising	Permanent	Annual Integrated Report	Annual
	Emails	Bi-monthly	Emails	Bi-monthly
	Message and inserts in invoices	By event	Face-to-face meetings	Monthly
	Leaflets	Monthly	Training workshops	Monthly
	Contact Center (telemarketing,	Monthly	Spokespeople and representatives	Permanent
	service and National Center for		Transparency Mailbox	Permanent
	Permanent Repair)	Permanent	Contact Mailbox	Permanent
	Web page		News and media	Permanent
	Transparency Mailbox	Permanent	Press releases	By event
	Contact Mailbox	Permanent		
	Spokespeople and representatives	Permanent		
	SMS	Permanent		
	Annual Integrated Report	Monthly		
	Facebook, Twitter, You Tube, Digital media (Google)	Annual		
		Daily		
Expectations	Service quality and reliability Timely communication and attention Truthful and timely information of product and service offerings Innovation Legality Knowledge of AXTEL and its products Price according to product value Support and counseling Care for the environment		Development Sharing sustainable business practices Policy compliance Compliance of current legislation Care for the environment	
Initiatives	Customer approach making the satisfaction model evolve Communication through media Portal redesign Communication deployment, service and sales Via Social Networks PC&MAC Expert post-sales and specialized support specialized services. Data Center and service personnel certification Certification of contact centers E Business and digital marketing Optical Fiber Network (FTTX) development Electronic invoicing		Implementation of Environmental Leadership Workshop (PROFEPA) Implementation of Social Accountability Workshop (CEMEFI) Engagement in no-gift and anti-corruption campaign. Volunteer programs	

	Stakeholders			
	Government and Regulatory Entities		Organizaciones y Grupos de la Sociedad Civil	
	Government entities with which AXTEL interacts for the correct execution and provision of its services, always respecting the legal framework existing in México.		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.	
Current communication channel		CONTACT FREQUENCY		CONTACT FREQUENCY
	Face-to-face meetings	Permanent	Volunteer work	By event
	Portability and long distance Committees	Monthly	AXTEL Foundation	Permanent
	Spokespeople and representatives	Permanent	Email	Permanent
	Transparency Mailbox	Permanent	Transparency Mailbox	Permanent
	Annual Integrated Report	Annual	Annual Integrated Report	Annual
	News and media	Permanent	News and media	Permanent
	Press releases	By event	Campaigns	By event
	Web page	Permanent	01 800 AXTEL Foundation	Permanent
	Portability dealer microsite	Permanent	Invitation for co-investment projects	Annual
			Spokespeople and representatives	Permanent
			Web page	Permanent
			Reunions	By event
			Press releases	By event
Expectations	Compliance of laws, regulations, and applicable standards		Alliances and support	
	Investment		Feedback	
	Job creation		Contribution in social and economic development	
	Social coverage		Job creation	
	Analysis of proposals for laws and regulation projects		Education promotion	
Initiatives	Collaboration with authorities		Annual invitation for co-investment contest in social projects.	
	Compliance with current legislation		Participation in volunteer work	
	Participation in intermediate organizations		Participation in non-government organizations	
	Constant dialogue		Social welfare campaigns	
	Job creation		Participation in mixed representation social programs	
	Investment		(Government - PS-Community)	

	Stakeholders	
	Competitors	**Media**
	Telecommunications Dealers and Information Technology enterprises who offer same or similar services as AXTEL with whom there is constant communication in order to achieve a competitive development in the Telecommunications Industry.	Enterprises specialized in spreading news through one or several media (printed, electronic, etc.).
Current communication channel	CONTACT FREQUENCY Committees — Permanent Web page — Permanent Spokespeople and representatives — Permanent Press releases — By event Sector meetings and events — By event Annual Integrated Report — Annual News and media — Permanent Transparency Mailbox — Permanent	CONTACT FREQUENCY Press releases — By event One-on-one interviews — By event Spokespeople and representatives — Permanent Breakfasts — Quarterly Annual Integrated Report — Annual Web page — Permanent Transparency Mailbox — Permanent Social networks and applications — Permanent Email — Permanent
Expectations	Fair competition and legally following Compliance of agreements and standards Participation in committees and industry chambers Exchange of opinions regarding industry aspects and topics Respect to legality Acting ethically	Truthful and timely information Transparency Accountability Compliance of current legislation
Initiatives	Participation in sector forums and industry chambers Constant and expedite communication Collaboration in joint opinions in legislation proposals Facilitation in dialogue amongst competitors	Constant dialogue Procurement of timely information Implementation of program for media relationship

Stakeholders	Communities	CONTACT FREQUENCY	Unions	CONTACT FREQUENCY
	Groups of individuals who live in areas where the company is established who maintain a good relationship as neighbors with the organization and its collaborators.		Groups of Collaborators who are organized through a collective agreement and who work full time in the company.	
Current communication channel	Spokespeople and representatives	By event	Spokespeople and representatives	By event
	Annual Integrated Report	Annual	Annual Integrated Report	Annual
	Web page	Permanent	Web page	Permanent
	Social networks and applications	Permanent	Social networks and applications	Permanent
	Transparency Mailbox	Permanent	Transparency Mailbox	Permanent
	Journal notes	By event	Journal notes	By event
	Email	By event	Email	By event
			Events and sector meetings	Bi-annually
Expectations	Care for the environment Investment in social development projects Job creation Mutually beneficial relations Effective communication channels Respect to habits and culture Compliance of current legislation		Compliance of current legislation Improvement in working conditions Compliance of collective work agreement Safe working conditions Better productivity for the company	
Initiatives	Volunteer program Annual invitation for co-investment contest in social projects Participation in sector meetings Open communication channel		Mixed commissions for safety and hygiene Collective labor agreement Compliance of current legislation Participation in sector meetings Permanently open communication channel Sector meetings Periodic training Better work safety and health conditions	

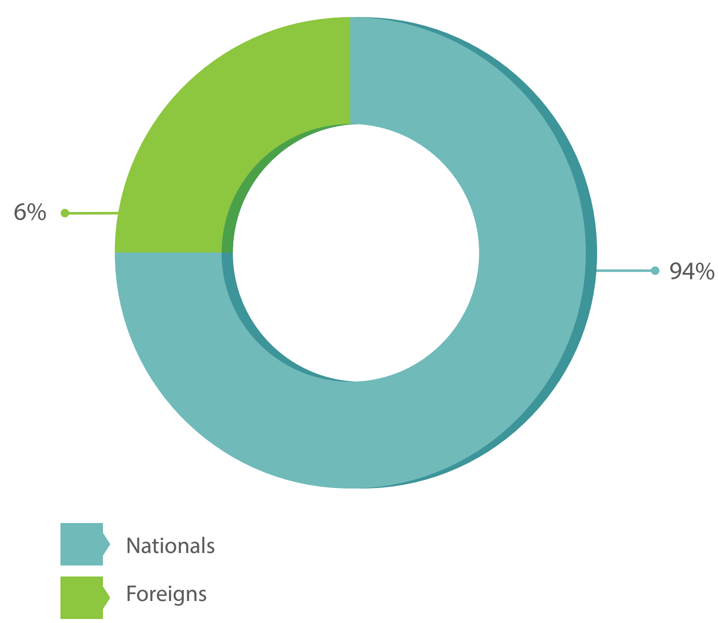
Suppliers

G4-12 / G4-EC9

Our value chain is an essential link in our sustainability strategy. Our suppliers are the ones who provide products and services that enable us to serve our clients appropriately.

In order to guarantee supply chain efficiency, we have procedures that guide us in the supplier selection logistics, from registration in our systems, receipt of services and merchandise, to their assessment about the quality requirements requested.

During 2014 we carried out transactions with 801 suppliers, 94 of which were national and the remaining 6 were foreign. Spending a budget of 3 thousand 206 million MXN (83% of expenses) and 563 million MXN (17% of expenses) respectively. 75% of this budget corresponds to purchases of small and medium size companies.



Community

G4-SO1

Community initiatives were carried out as part of the Social responsibility area with the support of AXTEL collaborators. During 2014 we participated in the following initiatives:

Workshops on Disability Awareness

In coordination with DIF, 25 workshops for Disability Awareness were taught in the cities of Monterrey, Saltillo, Torreón, Durango, Zacatecas, Hermosillo, Nuevo Laredo, Reynosa, Matamoros, Ciudad Victoria and Tampico, with 610 collaborators as participants (9% of our headcount).

Social Outreach Events

The purpose of Social Outreach is promoting solidarity among AXTEL collaborators and their families towards vulnerable groups in the community. In 2014 we worked in coordination with DIF Nuevo León.

Five activities were organized with the participation of 152 volunteers who benefited 790 people. One of the activities organized was the second AXTEL Cobertón, where collaborators donated 416 blankets for communities in need in the cities of Iturbide and García, Toluca, Mexico, Mexicali, Hermosillo, Tijuana, Tampico, and Culiacán.

#YOLOBORRO Campaign

AXTEL joins the effort of the Science and Technology Commissions in the Senate and House of Representatives to communicate the importance of the appropriate and responsible use of new technologies in order to inhibit violent behaviors in the digital environment, such as *cyberbullying*. The #YOLOBORRO campaign is greatly important and of great impact, given that in Mexico, 30% of Internet users are younger than 12 years old.

Affiliation to *Congruencia* Movement

In November 2014, AXTEL joined the Congruencia Movement which has as its mission the promotion, awareness and promotion of the social/labor inclusion of disabled individuals with equal opportunities within the business sector. The companies part of Congruencia Movement hire and offer career opportunities to individuals with a disability under the same terms and conditions as any other employee.

Santa Catarina Technology University Project

The Santa Catarina Technology University has a Disability Attention Program (PAD in Spanish) established since 2005, with the mission of providing higher education to people with hearing, visual, motor or language disabilities.

AXTEL and Santa Catarina Technology University signed an agreement on June 6, 2011 to provide disabled individuals with the opportunity to be employed in the Contact Center services that the company offers in the University facilities.

Within this framework, The Company at School, promotes the 100% Inclusive Outreach Program, consisting in training personnel at the Contact Center to privilege individuals with disabilities who meet the appropriate profile to initiate a work life.

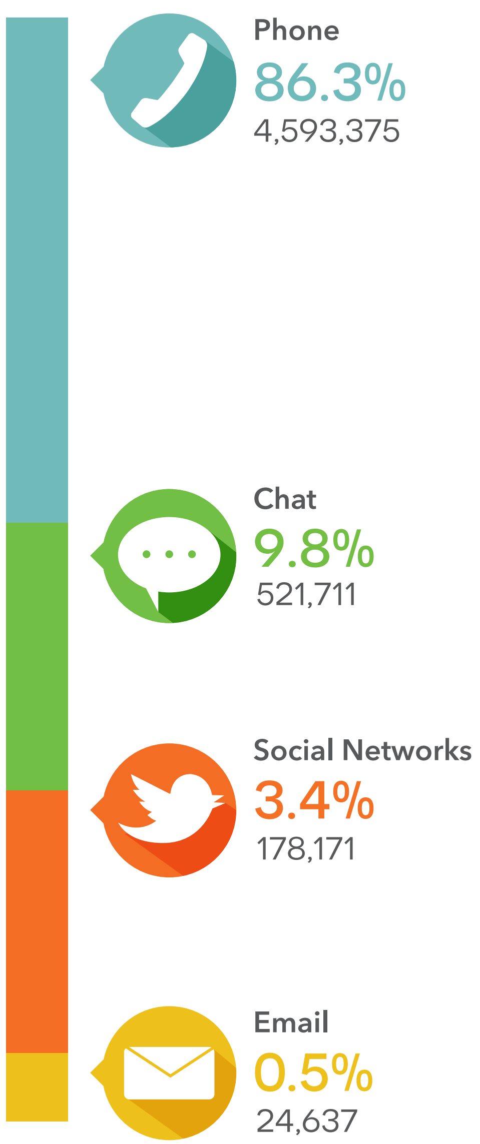
Customer Satisfaction

G4-PR5

Our customers' satisfaction in regards to our expected service is very important for us. We have available different mechanisms in order for our users to express concerns, complaints, service faults, technical and administrative problems or to provide their opinion.

The available channels are mailboxes in the Customer Service Modules, Customer Service Centers, web page, surveys and service calls.

In 2014 we had a total of
5 million 317 thousand 894
interactions with our clients.



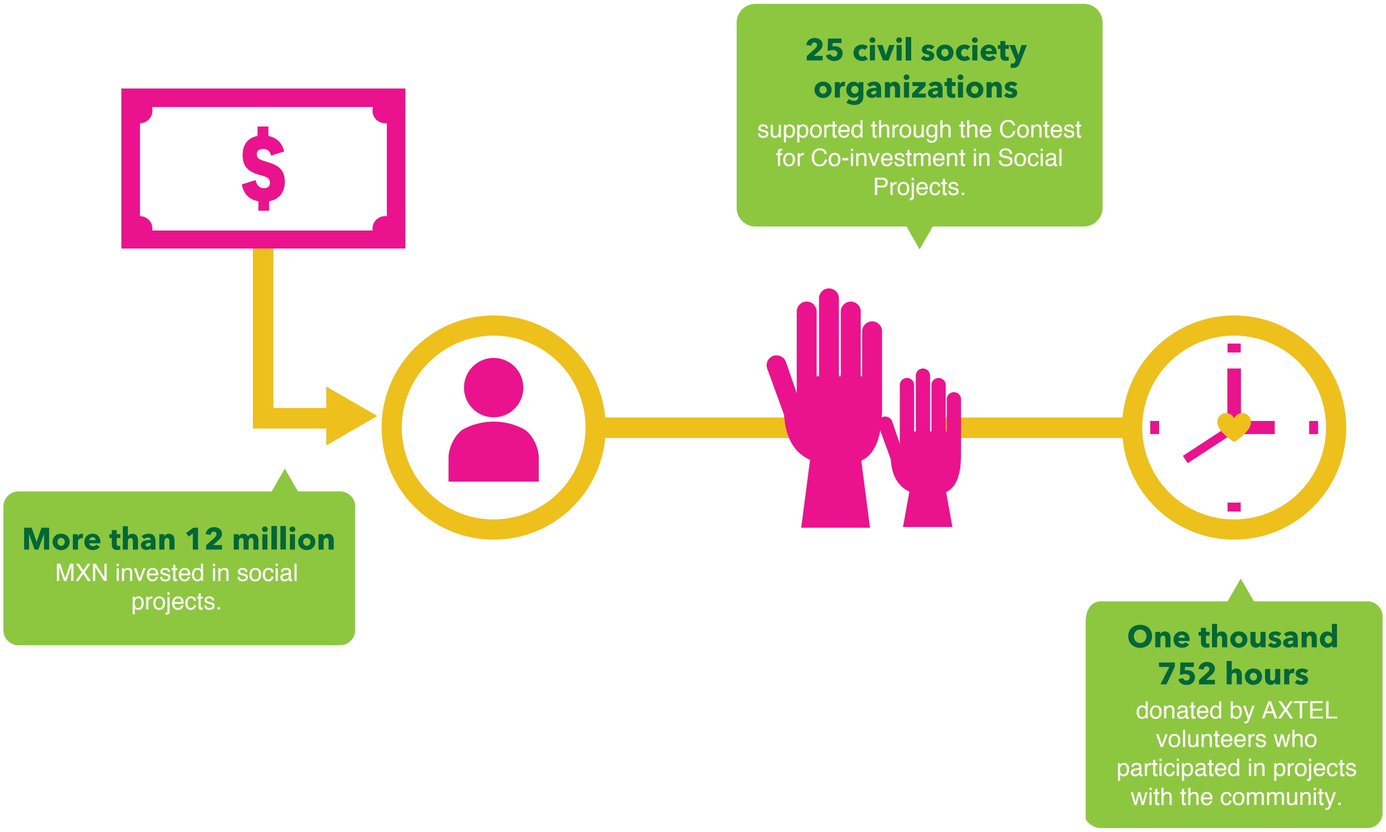
As an additional consultation tool for our clients and users, we carry out a bi-annual satisfaction survey. In 2014 there were 10 thousand 185 clients participated assessing the following aspects: pre-selling and selling process, installation process, use of products and services, customer service, failure repairs, invoicing and collection. Out of the clients interviewed, 75% correspond to the consumption market, and 25% to the business market.

AXTEL FOUNDATION

G4-SO1

The heart of **AXTEL** is in its **Foundation.**
Through our Foundation we provide economic resources, volunteer work and experience in **favor of a better Mexico.**
AXTEL Foundation is our arm towards the community, it is the way in which we want to **share and communicate** our commitment and conviction that our **actions and responsibilities** go beyond our operations.
It is our way to share with the community **our desire to contribute in the building of a better organized and solidary Mexico** for those who need it the most.

2014 in numbers



What did we work on during 2014?

We launched the invitation for the 8th Contest for Social Projects Co-investment involving and investment of 6 million MXN. In 2014, 25 organizations were selected, all of which provide attention to youths between the ages of 12 and 17 who are in risk of social exclusion.

Supporting *Alianza Educativa Ciudadana* por Nuevo León, where we delivered the remodel work for infrastructure and equipment during three years of intervention that took place in the Technical Secondary School No. 43 in the municipality of Apodaca, Nuevo León.

In AXTEL Foundation we promote the development of civil society organizations by providing resources to support social causes which are a concern. In 2014 we focused particularly on organizations working on projects with youths in risky situations of social exclusion in urban-marginated areas in the cities where AXTEL is present.

Through the 8th edition of the Contest in Social Project Co-investment, we supported 25 projects during 2014 in 13 cities with a total of 6 million MXN and 11 thousand 932 individuals impacted.

At the same time, we provided economic resources for a total of 9 million 700 thousand MXN, to support other programs in the community, such as:

Program	Number of people benefited	Project description
Alianza Educativa Ciudadana por Nuevo León	1,500	Virtuous Circle for Education Quality Program, School 1º de Mayo and UDEM Polytechnic High School
Red Sumarse	5,452	Reconstruction of social fabric and strengthening of civic capabilities.
Potencia Joven	350	Social skills and prevention for social exclusion in children and youths.
AXTEL - CEMEX Family Orchards	105	Training in the creation and maintenance of family urban orchards.

We continue the promotion of volunteer work among our collaborators, who in **2014** donated

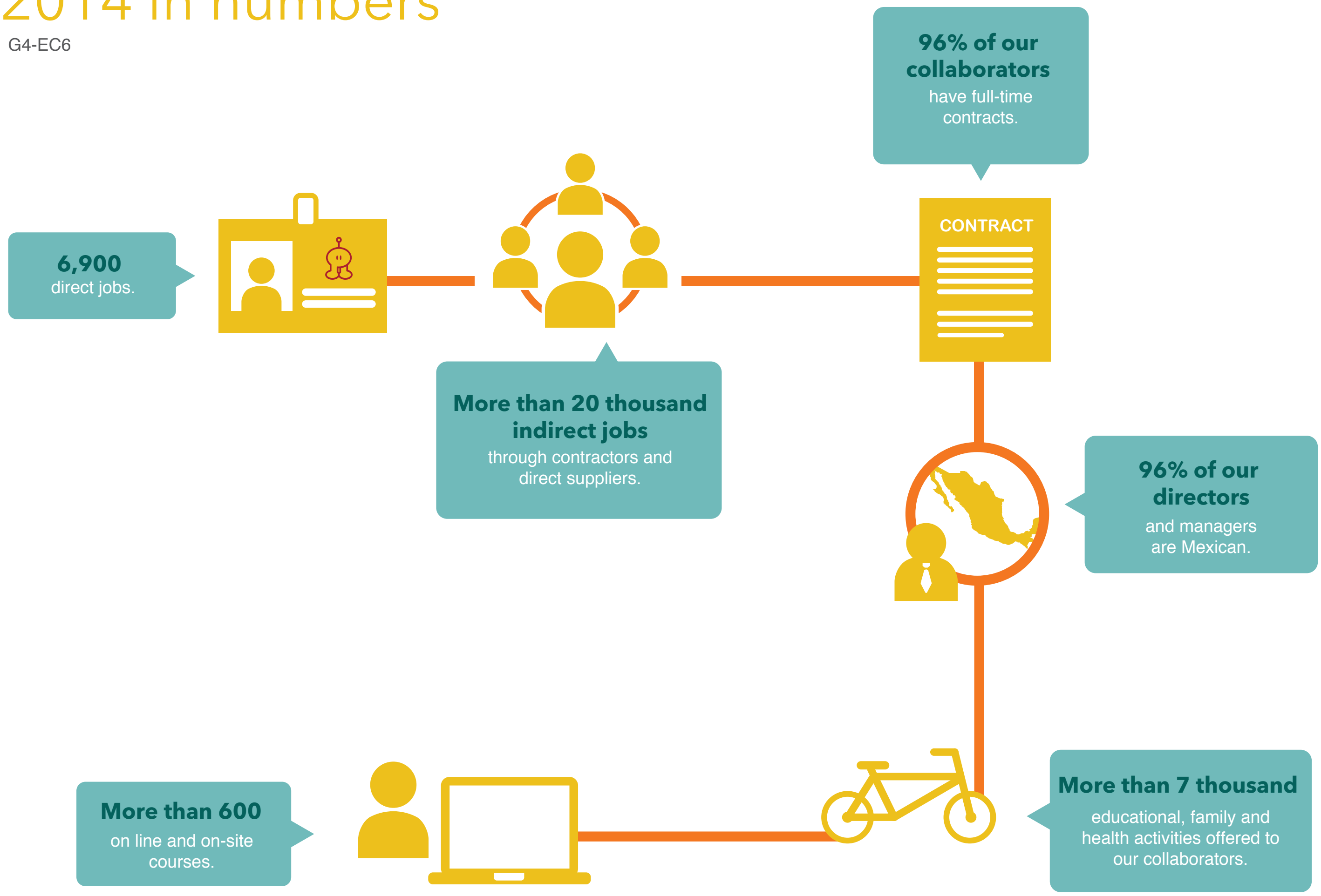
ONE THOUSAND 752 HOURS
of their time in seven projects where
647 PEOPLE WERE BENEFITED.

SOCIAL PERSPECTIVE

The greatest **assets** at AXTEL is **our employees.**
Those who leave their homes every day with the firm intention to
dedicate their time and knowledge to serve our clients.
Our collaborators are the ones who make it possible for AXTEL
to provide quality services
and have them **available for thousands of Mexicans.**
All of them and their families, are part of AXTEL, thus
we feel committed to reward fairly the effort and enthusiasm
they provide day after day trough
development opportunities
and **personal and professional growth.**

2014 in numbers

G4-EC6



What did we work on during 2014?

As part of the Integral Collaborator Agenda we carried out a nutrition program at a national level as support for a healthy lifestyle among our collaborators. Among the activities organized, we taught courses and presentations regarding nutrition and health.

The AXTEL Library was created, to promote the culture of reading, where our collaborators may donate books, exchange them and lend them for return.

AXTEL Cinema was created, where sharing and enjoyment of our collaborators is promoted through the projection of movies, series, and sports games twice a week.

We organized the AXTEL 5K Race in Mexico, Guadalajara, Monterrey, and Culiacán with 2 thousand 700 participants.

There were 22 presentations given regarding different topics such as leadership, motivation, emotional intelligence, team work, among others.

Workforce

G4-10 / G4-EC5 / G4-LA1 / G4-LA3

Number of employees with permanent agreement distributed by gender			
	Men	Women	Total
Full Time	4,363	1,496	5,859
Part Time	62	72	133
Total	4,425	1,567	5,992

Number of employees with temporary agreement distributed by gender			
	Men	Women	Total
Full Time	423	339	762
Part Time	88	58	146
Total	511	397	908

Number of employees by gender and region			
Region	Men	Women	Total
Mexico, Center, South	1,384	313	1,697
West	988	452	1,440
North	2,564	1,199	3,763
Total	4,936	1,964	6,900

Employees' turnover rate in 2014 by gender and age			
Age	Men	Women	Total
18 - 30	431	278	709
31 - 40	211	111	322
41 - 50	61	33	94
+ 50	19	6	25
Total	722	428	1,150
28.12% percent total rotation based on an average of 6.890 collaborators .			

Number of collaborators hired in 2014 by gender and age			
Age	Men	Women	Total
18 - 30	856	490	1,346
31 - 40	324	179	503
41 - 50	114	59	173
+ 50	53	15	68
Total	1,347	743	2,090

Number of employees who exercised their maternity/paternity leave divided by gender			
	Men	Women	Total
Number of workers	188	147	335
Number of employees who returned to work after maternity/paternity leave divided by gender			
Number of workers	188	133	321
Number of employees who kept their work after 12 months after returning from maternity/paternity leave divided by gender.			
Number of workers	173	117	290

Competitiveness percentage de minimum wage salary vs daily wage in the area		
Geographic area	Daily wage in the area	Difference
A	$70.10	375%
B	$66.45	395%

As part of the options offered to our employees to achieve a work-family balance, since 2012 we started the *home office* program, where collaborators are given the opportunity to work from home in some areas where this work scheme is available.

We started implementation in 2014 in the engineering area where 17 collaborators participated, 12 men and five women; 12 of them with an average commute time of 50 minutes and five with an average commute of one hour or more. The scheme consists of working at home during 15 days and organizing the team in staggered groups.

This program has shown multiple benefits such as greater productivity and more efficient work time, economic savings for employees in the concept of gas, contributing to decrease CO2 emissions into the atmosphere and better quality of life for our collaborators.

We have cultural, educational events for our collaborators and their families as well as family sharing events. In this sense, Family Day was celebrated in 38 cities in 2014, with an attendance of 14 thousand 297 people, out of which 4 thousand 944 were collaborators; an Educational Fair where 260 people attended; and the Health Fair in four cities with a participation of 3 thousand 890 individuals. We also offered 26 educational events where 51 collaborators attended and received coaching on topics such as leadership, stress management, personal finance, communication, teamwork, personal development and recruitment and selection.

The Integral Collaborator Agenda offers training alternatives and events in the areas of health, education, family, community, and labor development. Also, we have formalized 80 agreements with different product and service companies with preferential benefits to which all our collaborators have access.

Integral Collaborator Agenda	
Area	Collaborators participating
Educational	5,895
Relative	2,700
Health	1,147

Health events for employees and their families			
Campaign	2012	2013	2014
Vaccination	938	1,056	2,320
Information and prevention	2,950	2,314	2,200
Family health	346	360	680
Miscellaneous medical services	439	450	523
Women Health programs	262	350	572
Conferences	250	250	160
Nutrition campaigns	497	530	652

Training

G4-LA9 / G4-LA10 / G4-LA11

The training programs we offer to our collaborators develop their technical and personal abilities. We are convinced about the importance of the development of each one of them in their work area, thus we convey the relevance of joining this training offering offered virtually and online.

Average number of hours of formation per year per employee per category			
Category	Number of collaborators	Average hours	Average formation of training per category
Excecutive Directors	3	3	1
Directors	28	35	1.25
Managers	38	61	1.6
Employees - Staff	3,715	20,493	2.10
Contact Center Executives	1,285	23,420	2.82
Unionized	169	13,066	8.74

AXTEL training 2014				
Modality	Number of colaborators trained	Number of courses taught	Hours of total taining	Average hours training per employee*
Virtual	5,142	555	13,011	2.53
Presencial	824	136	44,260	53.71

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

Integral and Occupational Safety

G4-LA6

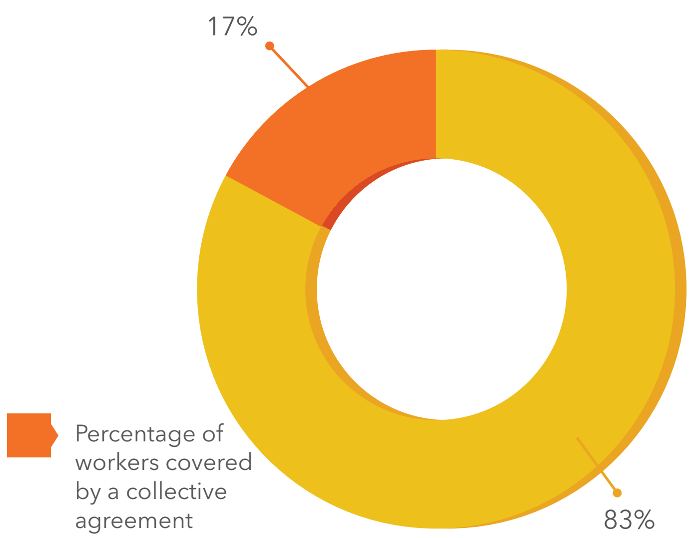
In accordance to the Ministry of Labor and Social Welfare (STPS), in the Industrial Security area, the record for accidents in 2014 remained 4% below the average for the professional and technical services providers' industry. This represents a 13% decrease versus 2013. The accident gravity indicator also decreased in 45.42% compared to the national average registered by the STPS.

Absenteeism rates, professional diseases, days lost and number of fatal victims by region in 2014

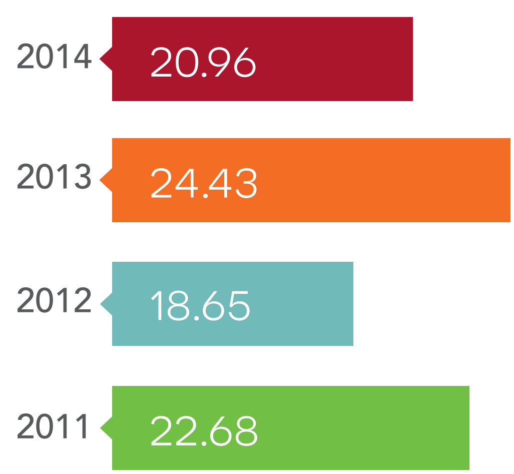
	North		West		Center-South		
	Men	Women	Men	Women	Men	Women	Total
Number of work accidents	27	1	55	4	53	4	144
Days lost	993	28	683	62	1,130	123	3,019
Number of professional diseases	0	0	0	0	0	0	0
Fatalities	0	0	0	0	0	0	0

Absenteeism rates, professional diseases, days lost and number of fatalities

	2011	2012	2013	2014
Number of work accidents	113	133	139	144
Days lost	2,563	2,480	3,397	3,019
Number of professional diseases	0	0	0	0
Fatalities	0	0	0	0



Days lost due to accidents



Incidence Index of Industry Related Accidents	2011	2012	2013	2014
AXTEL	1.41	2.03	2.05	2.09
Industry	2.82	2.77	2.56	2.56
Difference	50%	27%	20%	18%

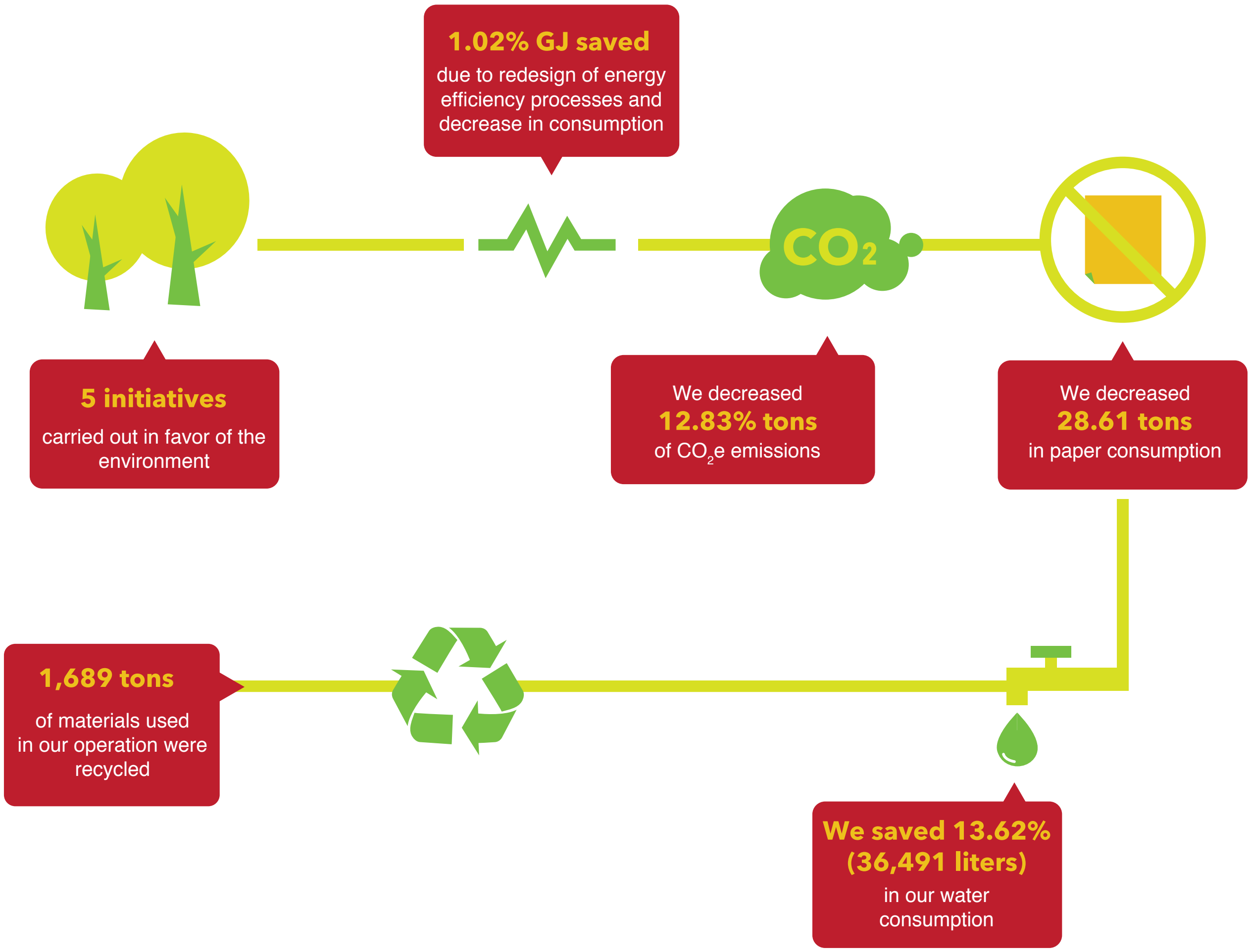
Gravity Index of Industry Related Accidents	2011	2012	2013	2014
AXTEL	31.91	37.91	50.02	43.75
Industry	83.65	77.10	66.56	66.65
Difference	62%	51%	25%	34%

ENVIRONMENTAL PERSPECTIVE

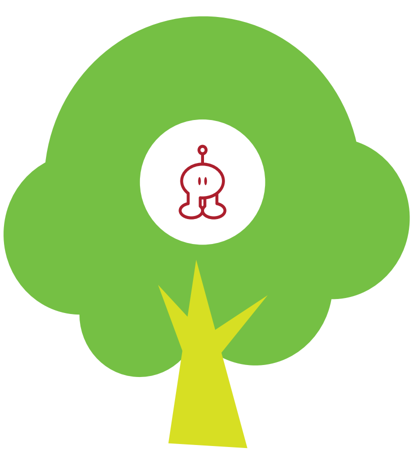
G4-EN27 / PMNU 7, 8 y 9

What we do or not do in **taking care and improving the conditions of our Planet** will undoubtedly impact in our children and the future generations. In AXTEL **we are preoccupied to contribute** for **a better future** for them. Thus, our operations are designed to **generate the least impact possible in the environment;** we take care of water, seek a decrease in energy consumption and emissions into the atmosphere, we recycle and confine our waste appropriately, and **share an environmental culture with our collaborators.** We know that if we all contribute with small or big actions, we can **leave a better environmental** legacy to the **future generations.**

2014 in numbers



What did we work on during 2014?



We continue with our campaign for *Paperless* invoicing thanks to which we stopped printing 2 million 724 thousand 963 invoices in 2014, which represents a decrease in the consumption of paper in 28 tons, and prevented 29 thousand tons of CO_2 into the atmosphere.

We implemented wind energy in 18 of our buildings, with which we were able to reduce 34,909 Gigajoules.

We participated in the Communication Committee for *Fondos de Agua Metropolitano de Monterrey* (FAMM).

We worked in different projects to reduce greenhouse gas emissions generated by our operations.
We participated in the Clean Transportation Program promoted by SEMARNAT and issued our GEI (Greenhouse Gases Report) Report to this government entity.

During 2014, we continued the screening of our environmental performance aiming to set goals for better efficiencies and decrease our energy and water consumption, the generation of waste and emissions into the atmosphere.

Our environmental management system follows the ISO 14001 and the Federal Environmental Protection Agency (PROFEPA) guidelines. This system includes a map of the processes used to review and follow up on the company's environmental performance, as well as the logs that gather each area's information. Also, the right execution of the environmental policy is monitored, among which the Environmental Policy is included.

The Environmental Policy[6] covers 100% of our operations and is aligned to AXTEL's Sustainability Policy. It allows us to align to institutional practices to improve our environmental performance, and is complemented with the Waste Policy and the Energy Saving Policy.

We search, more and more, for the use of technologies that do not generate environmental liabilities, and we participate in initiatives and projects to generate methods and procedures that allow us to prevent and mitigate risks, while promoting a culture of resources care among our stakeholders.

The General Director (CEO) is the level in charge of the environmental issues, which reflects the importance of environmental care to the company. We also make sure to comply with federal, national and municipal environmental laws in force, as well as the protocols and dispositions of the Ministry of the Environment and Natural Resources (SEMARNAT) and the Federal Environmental Protection Agency (PROFEPA).

This is the first year we generated the Greenhouse Gas Protocol to be presented to the SEMARNAT as part of the GEI Mexico program. We also presented our transportation's GEI emission report as part of the Clean Transportation Program, promoted by the same governmental entity.

For the second consecutive year, we maintained the Environmental Quality Company Certificate given by PROFEPA to our corporate buildings in Monterrey and Mexico City in the Santa Fe area.

Inside the company, another initiative is the Shared Car Program, promoted since 2013 amongst our employees in Monterrey. This program decreases CO_2 emissions, reduces gas consumption, and efficiency in the corporate building's parking spots.

We are still participating in the paperless Invoicing Program, implemented since 2011, which has saved 59 tons of paper since 37% of our clients have joined. In 2014, we stopped printing 2 million 724 thousand 963 invoices, which equals saving 29 tons of paper.

The Monterrey Metropolitan Water Fund (FAMM) was created in 2013 by four universities, 23 companies, 16 civil organizations and 16 governmental organizations, is oriented towards the protection of the sources of water which supply more than 4 million people in the city. The FAMM is part of the Latin American Water Funds Alliance, created in 2011 by The Nature Conservancy (TNC), Fundación FEMSA, the Inter-American Bank for Development (BID) and the World Environment Fund (FMAM-GEF) to create and strengthen water funds in Latin America. The Fund has four objectives: mitigate floods, improve infiltration, develop a water culture and work with the government to invest for the water basin.

Due to the industry's nature, biodiversity and water do not represent risk issues, given that our operations have a minimal impact on these aspects. This fact was confirmed by our stakeholders in the materiality exercise that took place in 2014. However, in Axtel we care for the environment integrally, and invest mainly on energy, CO_2 emissions reduction and waste.

G4-EN31

Deployment of expenses and environmental investments	
Description	Amount (Mexican pesos)
Waste treatment and disposal	$1,014,722
Cleaning costs and materials	$18,942,818
Total	$19,957,540

Prevention costs and environmental management	
Description	Amount (Mexican pesos)
Cleaner technology installation costs	$348,715

6 Para conocer la Política Ambiental consultar: www.axtel.mx/sustentabilidad/medioambiente

In 2014 we achieved important reduction in non-renewable materials, water, emissions to the atmosphere and non-recoverable hazardous waste.

Environmental impact mitigation of our products and services in 2014		
Description	Iniciative	Mitigation percentage
Non-renewable materials consumption	• Emission Measurement Program • Clean Transportation Program	13.31%
Water consumption	Internal water saving and conservation campaign	13.62%
Emissions	• Clean Transportation Program • Eolian energy • Internal recycling and energy saving campaign	12.83%
Non-recoverable hazardous waste	Internal recycling and energy saving campaign	52.79%

Environmental impact of products and services transportation										
Aspects	Impact	Unit of measurement	Scope	2011	2012	2013	2014	Goal 2014	Reduction	Goal 2015
Air emissions	Medium	Ton CO_2	National	48,914	65,233	62,233	54,102	10%	12.83%	10%
Waste	Low	Ton	National	3,109	5,029	2,639	1,689	10%	35.99	10%
Water consumption	Low	M^3	National	495,893	225,679	267,831	231,339	10%	13.62%	10%
Energy	Medium	Gj	National	253,266	369,499	366,225	362,490	.50%	1.02%	1%
Fuels	Medium	Liters	National	5,643,673	5,225,918	4,239,940	3,675,268	10%	13.31%	10%

Energy and Air Emissions

G4-EN3 / G4-EN4 / G4-EN5 / G4-EN6 / G4-EN7 / G4-EN15 / G4-EN16 / G4-EN17 / G4-EN18 / G4-EN19 / G4-EN30

Since energy is one of the most important resources needed to operate, we constantly work on internal initiatives that may allow us to reduce consumption and make our operation more efficient.

In 2013 we established the goal to reduce .50% our electricity consumption, which was met and surpassed, given that our 2014 consumption decreased in 1.02%.

Direct energy consumption		
Fuels	Liters	Gigajoules
Gas	45,278	1,495.31
Oil	10,144	369.84
Diesel	71,784	2,731.02
Total	127,206	4,596.16

Indirect energy consumption		
Consumption	Kwh	Gigajoules
Electricity	90,994,618	327,580
Aeolian energy	9,697,162	34,909
Total	100,691,780	362,490

Total energy consumption in 2014		
Consumption	Total	Gigajoules
Fuels	127,206 liters	4,596
Energy	100,691,780 Kwh	362,490
Total		367,086

External energy consumption		
Source	Total	Gigajoules
Transportation (Fleet)	3,665,124 liters	121,041
Workers deployment to work centers	20,750,400 liters	43,858
Company travel	1,831,832 Km	112,281
Total		277,180

Energy intensity*	
Denominator	Amount
Number of employees	6,900
Total energy consumption	100,691,780
Energy intensity (employees)	14,593 kwh/person
Energy intensity (square meters)	534,kwh/m^2

*Energy intensity is calculated by dividing energy consumption by the number of employees and/or square meters.

Energy intensity of services (Gigajoules)				
Sources	2011	2012	2013	2014
Gas	185,868.32	172,112.31	139,637.85	121,041
Amount of offered services	1,050,022	1,025,581	893,806	890,309
Energy intensity	0.1970	0.1678	0.1562	0.1359

Due to the different programs and initiatives in which we participate, such as the Clean Transportation Program, we have increased our fleet's efficiency and have been able to reduce fuel consumption. In 2014, we decreased gas consumption in 13.31%, gas in 15.20% and diesel in 89.06%.

Breakdown of energy generating sources							
Sources	2011	2012	2013	2014	Reduction percentage	Goal 2014	Goal 2015
Fuels: diesel, gas and gasoline (liters)	6,033,945	5,371,778	4,949,839	3,792,250	23.38%	10%	10%
Energy (Kwh)	70,351,873	102,638,752	101,729,438	100,691,780	1.02%	.50%	1%

Fuel consumption breakdown (Gigajoules)							
Sources	2011	2012	2013	2014	Reduction percentage	Goal 2014	Goal 2015
Gasoline	185,868.32	172,112.31	139,637.85	121,041	13.31%	10%	10%
Gas	4,483.774	1,332.176	1,763.377	1,495.31	15.20%	10%	10%
Diesel	47,780.92	4,019.088	24,966.51	2,731.02	89.06%	10%	10%

Electricity consumption breakdown (Kilowatts and Gigajoules)							
Consumption	2011	2012	2013	2014	Reduction percentage	Goal 2014	Goal 2015
Electricity	70,351,873	102,638,752	101,729,438	100,691,780	1.02%	.50%	1%
Gigajoules	253,266	369,499	366,225	362,490			

Consumption	Consumption 2013	Consumption 2014	Kwh savings
Electricity	101,729,438	100,691,780	1,037,658

Consumption	Kwh	Gigajoules
Electricity	90,994,618	327,580
Aeolian energy	9,697,162	34,909
Total	100,691,780	363,490

Fleet's gasoline consumption reductions from 2011 to 2014					
	2011	2012	2013	2014	Reduction percentage
Gasoline consumption (liters)	5,643,673	5,225,918	4,239,940	3,675,268	13.31%

In the following tables, we present the emissions produced by our operations and generated by fuels (scope 1), by electricity (scope 2) and by indirect emissions such as executives' travels and deployment of employees (scope 3).

Direct GEI emissions (scope 1)*	
Source	CO_2 tons
Fuels mobile sources	8325.496
Fuels stationary sources	288.3551
Total	8,613.8511

*Consumed fuel data used for travel, using as base year 2011.

Indirect GEI emissions (scope 1)			
Source	CO_2	CH_4	N_20
Fuels	287.933	0.03168	0.00167

Direct emissions (tons)					
Source	CO_2	CH_4	N_20	tCO_2e	Units
Gas	72.97	0.00578	0.00012	73.16	45,278 L
Gasoline	23.04			23.04	10,144 L
Diesel	191.91	0.02590	0.00155	192.28	71,704 L
Purchased electricity	45,488			45,488.20	90,994,618 Kwh
Total	45,776	0.03168	0.00167	45,776.70	

Indirect GEI emissions (scope3)		
Source	CO_2	Liters
Travel	116	53,123
Employee deployment	41,432	18,240,000
Total	41,549	18,293,123

Sum of scope 1, 2 and 3 emissions	
Source	CO_2 Tons
Fuels	8,613.42
Energy	45,488.20
Travel	41,549.93
Total	95,651.56

Intensity of GEI emissions	
Source	Description
Scope 1 emissiones	8,325.49
Number of vehicles (fleet)	1,999
Emissions intensity	4.1648 ton CO_2 by vehicle

Intensity of scope 2 GEI emissions		
	Units	$tonCO_2e$
Scope 2 emissions ($tonCO_2e$)	45,488.869	
Number of employees	6,900	6.595 by employee
Square meters area	188,542	0.2412 by meter^2

Services emissions intensity (CO_2 tons)				
Sources	2011	2012	2013	2014
CO_2 tons (gasoline)	12,819	11,870	9,631	8,325
Services	1,050,022	1,025,581	893,806	890,309
Emissions intensity	0.012	0.011	0.010	0.009

In 2014, we installed aeolian energy infrastructure in 18 corporate building from AXTEL in order to reduce greenhouse gas emissions.

GEI emissions reduction (CO_2 tons)							
	2011	2012	2013	2014	Goal 2014	Reduction percentage	Goal 2015
Electricity	35,190	53,012	50,854	45,488	.50%	10.5%	1%

Source	Kwh	Gigajoules
Aeolian energy	9,697,162	34,909.78

GEI emissions 2011 to 2014				
	2011	2012	2013	2014
CO_2 Tons	48,914.45	65,233.11	62,068.51	54,103.38

The methodologies and emission factors used for calculations were:
GHG emissions fro purchased electricity version 4.4 (2012)
http://geimexico.org/factor.html
GHG Protocol tool for Mobile Combustion Version 2.5 (2013).
GHG Protocol for stationary combustion Version 4.0 (2008).

Water

G4-EN8 / G4-EN9 / G4-EN22

Our water consumption is mainly registered for the use of our administrative facilities in restrooms, yards and air-conditioning units. The main sources come from municipal supply and, in some cases where the service is not available, from authorized underground sources.

In 2013 we committed to decrease water consumption by 10%, a goal that we achieved. Thanks to the implemented initiatives, we saved 13.62% of water.

Total water consumption volume in cubic meters by sources in 2014			
Source	Total consumption	Reduction in consumed liters	Reduction percentage
Underground water	18,815	15,185	44.66%
Municipal water supply or by other water sources	212,524	21,306	10.02%
Total	231,339	36,491	

Water consumption 2011 a 2014 (cubic meters)							
	2011	2012	2013	2014	Reduction percentage	Goal 2014	Goal 2015
Water	495,893	225,679	267,831	231,339	13.62%	10%	10%

Water discharge and destination (liters)	
Drainage	231,339.95

Waste Management

G4-EN1 / G4-EN23 / G4-EN25

We consistently work to reduce waste caused by our operations, in our administrative offices and those that come from the materials used to render our services.

Our Waste management Policy defines the procedures for the disposal of waste and provides the guidelines to identify the waste that our company generates periodically.

Also, we have procedures established in accordance to the Mexican Official Normas (NOM) and the Environment and resources Ministry (SEMARNAT) for the gathering of ink cartridges and toner for printers, batteries and obsolete computer equipment that is generated by our administrative offices.

Materials used in 2014	
Renewable materials	
Type	Quantity (tons)
Cardboard	49.06
Plastic	3.26
Aluminium	2.91
Paper	9.91
Copper	9.975
Iron	3.616
Steel	9.600
Glass	1.19
Total	97.55
Non-renewable materials	
Type	Quantity (liters)
Gasoline	3,765,268
Gas	45,278
Diesel	71,704
Total	3,792,250

AXTEL hires different suppliers for the management and disposal of hazardous and non-hazardous waste. They are registered by the SEMARNAT, as well as by the Environment Protection Federal Agency at the federal level, and by state and municipal governmental institutions to guarantee their correct disposal and management. Most of the waste withdrawn by suppliers were destined to destruction and confinement.

Waste generated by AXTEL operations in 2014	
Type of waste	Tons
Hazardous waste	103.85
Non-hazardous waste	1,585.95
Total	1,689.80

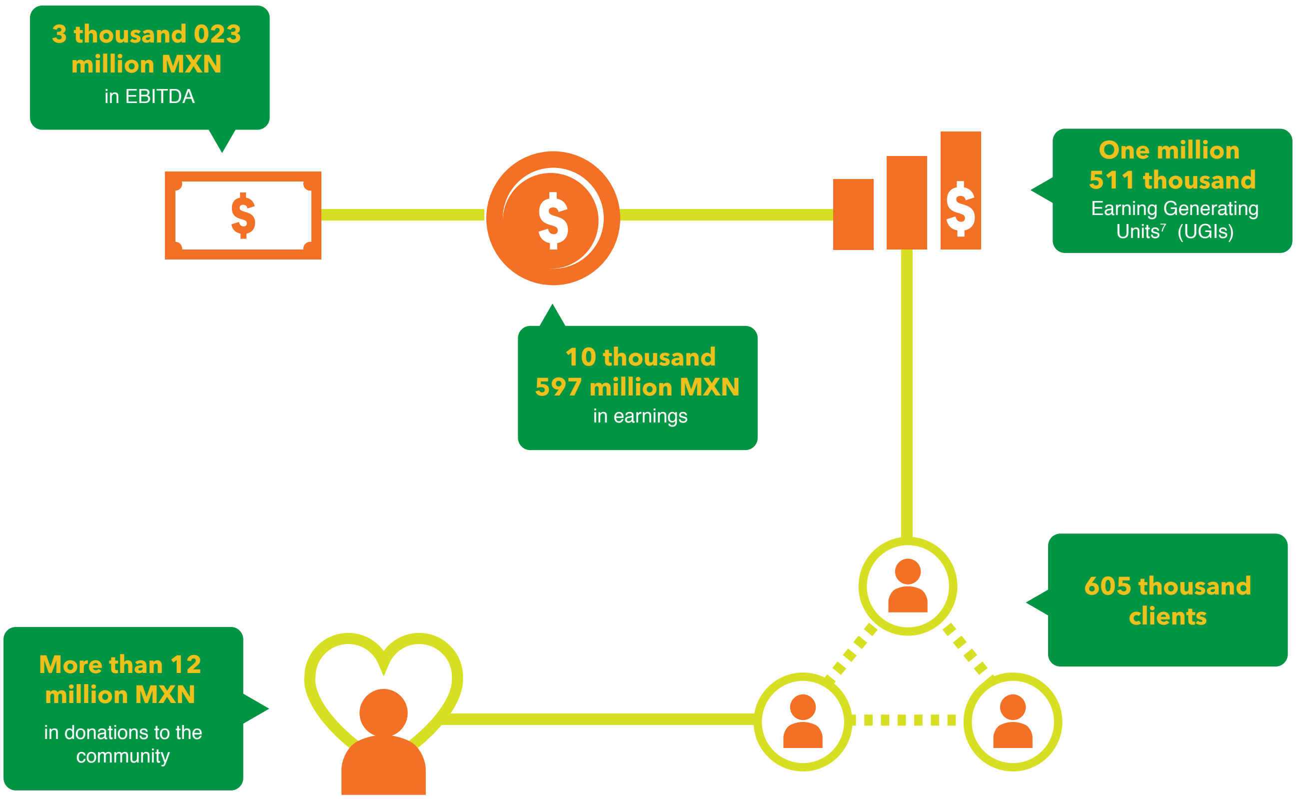
Total quantity of waste by disposal method	
Disposal method	Tons
Reuse	9.60
Recycling	95.95
Garbage dump	1,490
Onsite storage	51.99
Destruction	42.26

Transported hazardous waste weight and destination			
	Total weight in tons	Destination	Total percentage of waste
Hazardous transported waste	103.85	Mina, Nuevo León; Ramos Arizpe, Coahuila; Aguascalientes, Aguascalientes.	6.14%

FINANCIAL PERSPECTIVE

It is unlikely for a non-profitable company to add value to society. In AXTEL **we are concerned with growing,** in order to **create value** for our shareholders and clients, through an **efficient management of our resources.** The economic performance is essential for our company to continue providing **quality services,** thus we will continuously strive to **generate new and better business opportunities** that enable us to reach more **Mexican homes.**

2014 in numbers



7 The sum of voice lines, broadband Internet subscribers, and video subscribers that generate recurring earnings for the company

What did we work on during 2014?

Since 2005 we are a public enterprise listed in the Mexican Stock Exchange (AXTEL CPO), and for the second consecutive year we are part of the IPC Sustainable enterprises for the 2014-1015 period as the result -2015 period as a result of our performance in 2013.

We issued bonds for 150 Million USD in the international market which will be dedicated to investments related with telecommunications and Information technology integrated services focused mainly on the business and government market.

G4-EC1

Our financial results at the end of 2014 contribute in the consolidation of our annual five % growth in our operating flow (EBITDA), an increase similar to the one achieved in 2013. This reassures the positive evolution of our operational results since the successful execution of the recapitalization plan that concluded in January 2013.

During the last quarter of 2014, the operating flow also increased five %, mainly influenced by an increase of almost 30 % of earnings from consumption market subscribers connected with optical fiber, as well as the sustained level of recurring earnings in the business and government sectors.

Perspectives of the company have improved, not only due to this positive evolution of the results, but also due to the attractive industry dynamics promoted by the Telecommunications Reform.

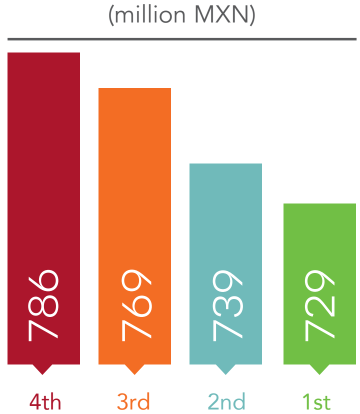
By the end of 2014, AXTEL totaled one million 511 thousand Earning Generating Units (RGU's). In the broadband service, we reported 509 thousand subscribers. The total subscribers for AXTEL X-tremo increased to 179 thousand, higher than the 148 thousand reported in 2013. Broadband service penetration in our client base reached 56 %, higher than 54 % recorded by the end of 2013.

In regards to the subscriber base for AXTEL TV, we reported a total of 94 thousand by the end of 2014, above the 61 thousand reported a year ago.

Outstanding Data

Results (million MXN)	2014	2013	2012	2011	2010
Revenues	10,597	10,286	10,190	10,829	10,652
(Loss) Operating Profit	(500)	2,687	(535)	46	234
(Loss) Net Profit	(1,919)	2,408	(709)	(2,070)	(397)
Financial Situation (million MXN)					
Total assets	20,985	19,883	20,500	22,092	22,532
Total debt	15,279	12,355	15,412	16,290	14,697
Equity	5,706	7,528	5,088	5,802	7,633
Operating Cash flow (million MXN)					
Adjusted EBITDA	3,023	2,872	2,738	3,569	3,228
Measures					
EBITDA/Earnings	28.5%	27.9%	26.9%	33.0%	30.0%
(Loss) Operating Profit / Earnings	-4.7%	26.1%	-5.2%	0.4%	2.2%
(Loss) Net profit / earnings	-18.1%	23.4%	-7.0%	-19.1%	-3.0%
Interest coverage	3.5	3.3	2.6	3.6	3.4
Liabilities / Equity	2.7	1.6	3.0	2.8	1.9
Total Personnel	6,900	6,791	6,541	8,024	9,007

Quarterly EBITDA (million MXN)



Quarterly sales (million MXN)

Broadband subscribers (thousands) by quarter

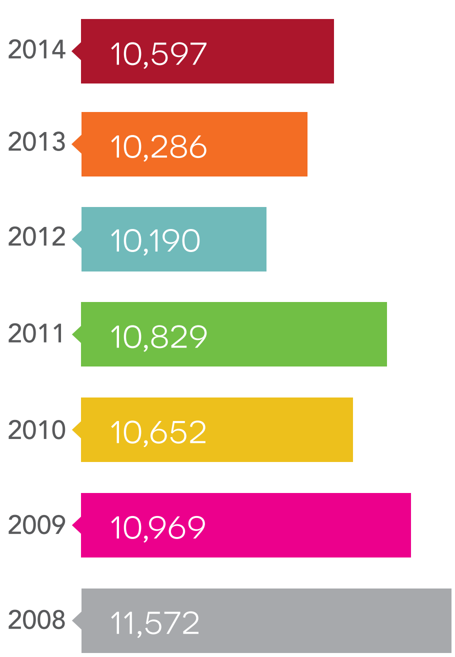
8 The sum of voice lines, broadband Internet subscribers and video subscribers that generate recurring revenues for the company.

Economic Performance reported according to Mexican Financial Information Standards (thousands of MXN)

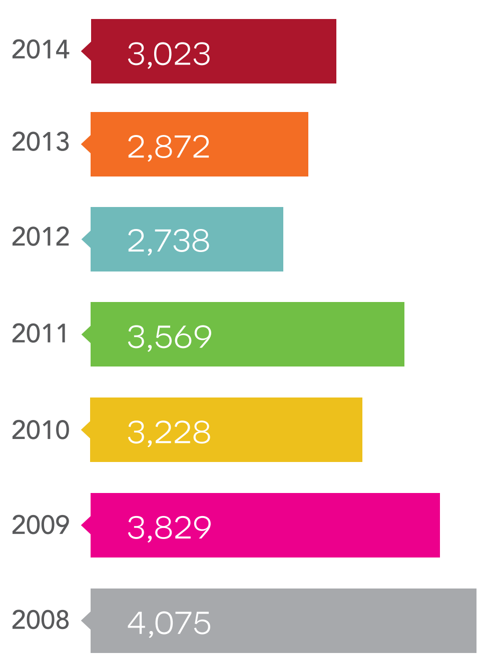
Concept		2011	2012	2013	2014
Economic Value Generated (VEG)	Income	10,829,405	10,189,732	10,286,494	10,597,003
	Earning due to Interests	22,340	21,967	16,229	16,615
	Other Earnings			3,111,948	
	VEG	10,851,745	10,211,699	13,414,671	10,613,618
Economic Distributed Value (VED)	Operating Costs	-328,622	-458,001	-815,961	-845,224
	Acquired Services *(Outsourcing)*	-427,981	-425,474	-398,487	-400,168
	Social Benefits (Payroll and Derivates)	-2,020,598	-1,956,608	-1,759,615	-1,838,729
	Taxes paid	-25,245	-68,028	-75,380	-52,205
	Payment to fund suppliers	-969,724	-1,038,946	-756,135	-720,303
	Community Investments (Donations)	-22,068	-14,702	-10,510	-12,984
	Other Expenses	-419,450	-199,987	-78,844	-87,670
	VED	-4.213,688	-4,161,646	-3,894,932	-3,957,283
Retained Economic Value	VEG + VED	6,638,057	6,050,053	9,519,739	6,656,335

Information starting in the year 2012 has been prepared under International Financial Reporting Systems (IFRS). Information in 2010 and prior has been prepared under the Mexican Financial Reporting Standards (NIF in Spanish).

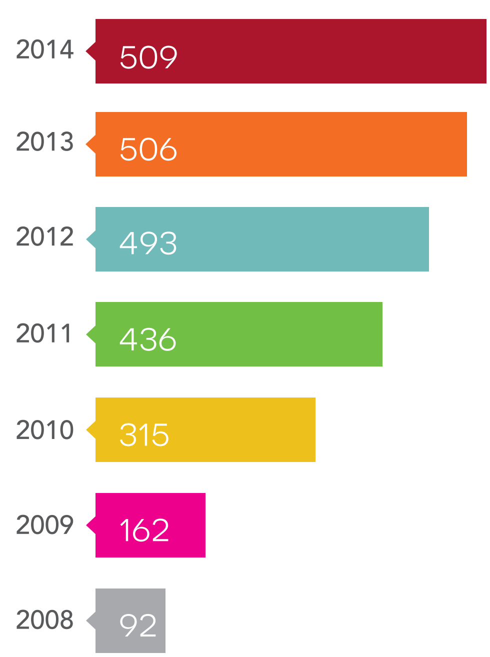
Annual sales (million MXN)



Annual EBITDA (million MXN)



Broadband subscribers (thousands)



Comments and Analysis of the Administration regarding the Operating Results and Financial Situation of the Issuer

Operation Results for years ended December 31, 2014 and 2013

Revenues

For the twelve month period ended December 31, 2014, total revenues reached Ps. 10,597 million, compared with Ps.10,287 million for the year ended 2013, an increase of Ps. 311 million, or 3%.

Axtel's revenues derive from the following services:

Local Services.
Revenue from local services for the twelve month period concluded on December 31, 2014 added up Ps. 2,970 million, compared with Ps. 3,208 million recorded for the same period of the previous year, a reduction of Ps. 239 million or 7% explained by Ps. 102, Ps. 39 and Ps. 98 million reductions in monthly rents, measured services and fixed-to-mobile revenues, respectively. The decline in revenues of fix to mobile calls and in measured service is due to declines in volume and prices.

Long Distance Services.
For the twelve month period concluded on December 31, 2014, revenue for long distance totaled Ps. 1,016 million compared to Ps. 1,140 million recorded for the same period of 2013, a decrease of Ps. 124 million or 11%, due to an 8% decline in price.

Internet & Video
For year 2014, revenues for Internet and video services amounted Ps. 1,337 million, a 28% increase compared with year 2013, mainly due to a 14% increase in internet to the mass market and the new pay-tv service which started in January 2013, due to the good performance of Axtel X-tremo offers based on our FTTH or fiber to the home network.

Data and Networks.
For the twelve month period concluded on December 31, 2014, revenue for networks and data services reached Ps. 1,898 million, from Ps. 1,860 million in 2013, an increase of Ps. 38 million, or 2%, explained by a 6% increase in private lines.

Integrated Services and Equipment Sales.
Revenues totaled Ps. 1,779 million for year 2014, compared with Ps. 1,884 million during 2013, representing a Ps. 105 million or 6% decrease. This is mainly explained by a 64% decrease in equipment sales which have a lower margin than integrated services.

International Traffic.
The revenue for completion of international traffic added up Ps. 1,234 million in the twelve month period ended on December 31, 2014, a 62% increase compared to the same period for 2013, explained by an increases in transit traffic, or traffic that does not terminate in Mexico, which has a higher price.

Other Services.
For the twelve month period ended December 31, 2014 revenue from other services added up Ps. 364 million, a 6% decrease from Ps. 387 million recorded on the same period in 2013.

Operating Metrics

RGUs and Customers.
As of December 31, 2014, RGUs (Revenue Generating Units) added up one million 511 thousand, similar to the 2013 figure. During 2014, net additions totaled 7 thousand compared to 13 thousand during the previous year. As of December 31, 2014, customers totaled 605 thousand, a decrease of 35 thousand or 5% compared to the same date in 2013.

Voice RGUs (Lines in Service).
As of December 31, 2014, the lines in service added up 908 thousand, which represents a decrease of 28 thousand lines compared to December 31, 2013. During 2014, gross additional lines reached 210 thousand compared to 207 thousand during 2013. Disconnections during 2014 and 2013 reached 238 thousand and 267 thousand respectively. As of December 31, 2014, residential lines represented 58% of total lines in service.

Broadband RGUs (Broadband Subscribers).
Broadband subscribers reached 509 thousand as of December 31, 2014. During this year, broadband subscribers increased 3 thousand compared to 13 thousand the previous year. As of December 31, 2014, WiMAX or wireless subscribers reached 330 thousand, compared to 358 thousand a year ago, while Axtel X-tremo, or FTTH, subscribers reached 179 thousand compared to 148 thousand a year ago. The slower pace in broadband additions is mainly due to the acceleration in WiMAX disconnections during the second semester of 2014 that could not be totally compensated with additions of FTTH subscribers. Broadband penetration reached 56% at the end of 2014, compared to 54% a year ago.

Video RGUs (Video Subscribers).
As of December 31, 2014, video subscribers reached 94 thousand, compared to 61 thousand a year ago; the penetration of video in our FTTH subscribers' base increased from 41% in 2013 to 52% in 2014.

Cost of Revenues and Expenses

Cost of Revenues.
During the twelve month period ended December 31, 2014, the cost of revenues reached Ps. 3,097 million, an increase of Ps. 113 million with respect to 2013, explained by increases in costs related to international traffic service due to an increase in transit traffic volume, or traffic that does not terminate in Mexico, which has a higher price and, likewise, a higher cost.

Gross Profit.
Gross profit is defined as revenues minus cost of sales. For the twelve month period ended December 31, 2014, the gross profit reached Ps. 7,500 million, from Ps. 7,302 million recorded in 2013, a 3% increase. This was mainly due to increases in the gross profit of internet and video services, partially mitigated by a decline in local service.

Operating Expenses.
For the twelve month period ended December 31, 2014, the operating expenses totaled Ps. 4,477 million from Ps. 4,430 million for the same period in 2013, a 1% increase due to a 4% increase in personnel and 12% increase in maintenance expenses, partially compensated by decrease in rents and marketing. Personnel expenses represented 41% of the total expenses for the twelve month period ended December 31, 2014.

Adjusted EBITDA.
The adjusted EBITDA, defined as gross profit plus expenses for net interest, taxes, depreciation and amortization, and adjusted for extraordinary non-recurrent income and expenses reached Ps. 3,023 million, compared to Ps. 2,872 million for the same period in 2013. As a percentage of revenues, the margin was of 28.5% for 2014, 61 basis points higher than the margin for 2013.

Depreciation and Amortization.
The depreciation and amortization for the twelve month period ended on December 31, 2014 was of Ps. 3,435 million, compared to Ps. 3,219 million for the same period in 2013, an increase of Ps. 217 million.

Operating income (loss).
For the twelve month period ended December 31, 2014, the operating loss reached Ps. 500 million, compared to an operating income of Ps. 2,687 million in 2013, a Ps. 3,186 million variation mainly due to the gain related to the telecommunication towers sale in January 2013.

Comprehensive Financial Result

The comprehensive financing cost was of Ps. 1,954 million in 2014, compared to a gain of Ps. 737 million in 2013 mainly due to the foreign exchange loss from the devaluation of the Mexican peso in 2014 and the gain in 2013 resulting from the debt exchange concluded on January 2013.

Taxes

In 2014 the income tax benefit was of Ps. 538 million, compared with an income tax of Ps. 1,018 million last year.

Net Income (Loss)

The Company reported a net loss of Ps. 1,919 million in the twelve months ended December 31, 2014, compared with a net gain of Ps. 2,408 million in 2013. This loss is explained by the changes outlined above, including the foreign exchange loss from the devaluation of the Mexican peso relative to the U.S. dollar.

Capital Investments

For the twelve month period ended December 31, 2014, capital investments totaled Ps. 2,837 million, compared to Ps. 2,118 million in the year 2013. This variation reflects the Company's corporate strategy to focus exclusively on projects of greater value for customers, principally the deployment of fiber and cloud-based ICT products for the enterprise and government segment.

Financial Position as of December 31, 2014 and as of December 31, 2013.

Assets

As of December 31, 2014, total assets amounted to Ps. 20,985 million compared to Ps. 19,883 million as of December 31, 2013, an increase of Ps. 1,102 million or 6%.

Cash and Equivalents.
As of December 31, 2014, we had cash and equivalents of Ps. 2,698 million compared to Ps. 1,292 million as of December 31, 2013, an increase of Ps. 1,406 million or 109% due to, among other things, the 2020 Secured Notes reopening for US$150 million and an improvement in working capital.

Accounts Receivable.
As of December 31, 2014, the accounts receivable were Ps. 2,426 million compared with Ps. 2,982 million as of December 31, 2013, a decrease of Ps. 556 million or 19%.

Property, Systems and Equipment, net.
As of December 31, 2014, property, systems and equipment, net, reached Ps. 12,962 million compared with Ps. 13,187 million as of December 31, 2013, a decrease of Ps. 226 million. The property, systems and equipment, without discounting the accumulated depreciation, was Ps. 40,885 million and Ps. 38,148 million as of December 31, 2014 and 2013, respectively.

Liabilities

As of December 31, 2014, total liabilities reached Ps. 15,279 million compared to Ps. 12,355 million as of December 31, 2013, an increase of Ps. 2,924 million, mainly due to the 2020 Secured Notes US$150 million reopening in September 2014.

Accounts Payable and Accrued Expenses.
As of December 31, 2014, the accounts payable and accrued expenses were Ps. 2,347 million compared with Ps. 2,741 million as of December 31, 2013, a decrease of Ps. 394 million, or 14%.

Debt.
As of December 31, 2014, total debt reached Ps. 10,996 million, an increase of Ps. 3,132 million in comparison with the same date in 2013, explained by (i) a Ps. 1,859 million net increase related to the $150 million reopening of the 2020 Secured Notes, (ii) an increase of Ps. 103 million in leases and other financial obligations, (iii) a Ps. 91 million decrease related to the notes' discount, issuance and deferred financing costs, (iv) a Ps. 41 million increase related to the implicit derivative instrument embedded in the Senior Secured Convertible Notes and (v) a Ps. 1,221 million non-cash increase caused by the 11% depreciation of the Mexican peso.

Stockholders' Equity

As of December 31, 2014, the stockholders' equity of the Company totaled Ps. 5,706 million compared with Ps. 7,528 million as of December 31, 2013, a decrease of Ps. 1,822 million or 24%. The capital stock was Ps. 6,728 million as of December 31, 2014 compared to Ps. 6,628 million as of December 31, 2013, a slight increase mainly due to the conversion of some of the Company's Senior Secured Convertible Notes due 2020.

Liquidity and Capital Resources

Historically the Company has relied primarily on vendor financing, the proceeds of the sale of securities, internal cash from operations, funds obtained from the issuance of debt in international markets, and the proceeds from bank debt to fund our operations, capital expenditures and working capital requirements. Additionally, and subject to (i) market conditions, (ii) our liquidity position and (iii) contractual obligations, from time to time, the Company might acquire senior secured and unsecured notes in the open market or in privately negotiated transactions. Although we believe that we would be able to meet our debt service obligations and fund our operating requirements in the future with cash flow from operations, the Company may seek additional financing with commercial banks or in the capital markets from time to time depending on market conditions and the Company's financial requirements. The Company will continue to focus on investments in fixed assets and working capital management, including the collection of accounts receivable and management of accounts payable.

Cash flow

As of December 31, 2014 and 2013, net cash flows derived from operating activities were Ps. 3,440 million and Ps. 2,559 million respectively.

As of December 31, 2014 and 2013 net cash flows (used in) generated by the Company in investing activities were Ps. (2,847) million and Ps. 1,050 million respectively. These amounts reflect investments in property, systems and equipment of Ps. 2,837 million and Ps. 2,118 million for 2014 and 2013 respectively.

As of December 31, 2014 net cash flows (used in) generated by financing activities were Ps. 970 million mainly due to the 2020 Secured Notes reopening and Ps. (2,934) million in 2013.

As of December 31, 2014, the net debt to adjusted EBITDA ratio and the interest coverage ratio of the Company were 2.7x and 3.4x, respectively. Likewise, as of December 31, 2013, the net debt to adjusted EBITDA ratio and interest coverage ratio were 2.3x and 3.3x respectively.

Independent Auditors' Report

(Translation from Spanish Language Original)

(Mexican Pesos [Ps.] except where indicated
U.S. which refers to US dollar)

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, 2014 and 2013 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2014 and 2013 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

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, 2014 and 2013 and the consolidated results of their operations and consolidated cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

(a) As mentioned in notes 2 and 13, on September 17, 2014, the Company completed an offering of secured bonds due in 2020 by U.S.$ 150 million, the bonds were issued at a price of 100.25% of their principal value with the same conditions and interest rates of current bonds.

(b) As mentioned in notes 19 (b) and 19 (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, 2014, 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 $2,251 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. R. Sergio López Lara
February 27, 2015
Monterrey, N.L. México

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

Consolidated Statements of Financial Position

Years ended December 31, 2014 and 2013
(Thousands of mexican pesos)

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

	NOTE		2014	2013
ASSETS				
Current assets:				
Cash and cash equivalents	8	Ps	2,697,835	1,292,263
Accounts receivable, net	9		2,426,167	2,981,732
Refundable taxes			48,629	57,219
Advance to suppliers			112,763	65,578
Inventories			67,097	106,313
Financial instruments	8e		121,999	142,200
Other accounts receivable			104,562	103,699
Other current assets	12		225,331	130,492
Total current assets			5,804,383	4,879,496
Long-term accounts receivable			230,752	333,751
Property, systems and equipment	10		12,961,543	13,187,187
Intangible assets	11		173,962	223,792
Deferred income taxes	15		1,675,202	1,101,937
Investments in associate			8,217	11,640
Other assets	12		131,039	144,849
Total assets		Ps	20,985,098	19,882,652
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities		Ps	2,347,302	2,741,308
Accrued interest			458,822	278,807
Taxes payable			363,351	285,987
Short-term debt	8 y 13b		130,000	-
Current maturities of long-term debt	13a		220,554	308,945
Deferred revenue	14		695,868	583,915
Other current liabilities and payroll accruals			96,018	100,473
Total current liabilities			4,311,915	4,299,453
Long-term debt	13a		10,645.447	7,555,374
Derivative financial instruments	8d		46,952	116,658
Other long term liabilities			216,039	328,297
Employee benefits			25,127	21,330
Deferred revenue	14		33,900	33,900
Total liabilities			15,279,380	12,354,994
Stockholders' equity:				
Common stock	16		6,728,342	6,627,890
Additional paid-in capital	16		644,710	644,710
Reserve for repurchase of own shares	16		90,000	162,334
Retained comprehensive (deficit) earnings	16		(1,757,334)	92,724
Total stockholders' equity			5,705,718	7,527,658
Commitments and contingencies	19			
Total liabilities and stockholders' equity		Ps	20,985,098	19,882,652

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, 2014 and 2013
(Thousands of mexican pesos except for the basic (loss) income per share)

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

	NOTE		2014	2013
Telephone services and related revenues	17	Ps	10,597,003	10,286,494
Operating costs and expenses:				
Cost of sales and services			(3,097,105)	(2,984,573)
Selling and administrative expenses			(4,576,849)	(4,429,798)
Depreciation and amortization	10 and 11		(3,435,082)	(3,218,539)
Gain on sale of communications towers	2 and 10		-	3,111,948
Other operating expenses			(87,670)	(78,844)
Operating (loss) income			(499,703)	2,686,688
Interest expense	10 and 13		(875,745)	(882,454)
Interest income			16,615	16,229
Foreign exchange (loss) gain, net			(1,073,210)	39,682
Result from the exchange of debt, net	2		-	1,568,983
Change in the fair value and settlements of financial instruments, net	8		(21,272)	(5,303)
Net finance costs			(1,953,612)	737,137
Equity (loss) in earnings of associated company			(3,423)	1,992
(Loss) income before income taxes			(2,456,738)	3,425,817
INCOME TAXES:				
Current	15		(34,459)	(50,817)
Deferred	15		572,596	(967,321)
Total income tax benefit (expense)			538,137	(1,018,138)
Net (loss) income		Ps	(1,918,601)	2,407,679
OTHER COMPREHENSIVE INCOME ITEMS:				
Actuarial result	16c		(3,791)	-
Valuation effects of cash flow hedges, net of income taxes	16c		-	29,351
Comprehensive (loss) income		Ps	(1,922,392)	2,437,030
Weighted average number of common shares outstanding			8,871,168,855	8,770,179,989
Basic (loss) income per share		Ps	(0.22)	0.27

Las notas adjuntas forman parte integral de los estados financieros consolidados.

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

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013
(Thousands of mexican pesos)

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

		2014	2013
Cash flows from operating activities:			
Net (loss) income	Ps	(1,918,601)	2,407,679
Adjustments for:			
Income taxes		(538,137)	1,018,138
Foreign exchange loss (gain), net		1,073,210	(39,682)
Depreciation		3,380,966	3,167,254
Amortization		54,116	51,285
Impairment loss recognized on trade receivables		173,941	199,524
Gain on sale of property, system and equipment		(1,312)	(1,716)
Allowance for obsolete and slow-moving of inventories		1,967	25,773
Gain on sale of communications towers		-	(3,111,948)
Equity (loss) in earnings of associated company		3,423	(1,992)
Interest expense		875,745	882,454
Amortization of premium on bond issuance		(1,601)	(2,090)
Result from the exchange of debt, net		-	(1,568,983)
Fair value gain and settlement of financial instruments		21,272	5,303
		3,124,989	3,030,999
Movements in working capital:			
Increase (decrease) in accounts receivable and other accounts receivable		393,665	(645,708)
Increase (decrease) in inventories		39,215	(842)
(Decrease) increase in accounts payable and other accounts payable		(491,729)	337,071
Increase (decrease) in deferred revenue		111,953	(47,383)
Cash generated from operating activities		3,178,093	2,764,137
Taxes paid		(52,205)	(75,380)
Net cash from operating activities		3,125,888	2,598,757
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,837,222)	(2,118,210)
Sale of property, systems and equipment		5,176	3,164,046
Payments of in financial instruments		(19,924)	-
Other assets		4,752	4,205
Net cash (used in) generated from investing activities		(2,847,218)	1,050,041
Cash flows from financing activities:			
Interest paid		(720,303)	(756,135)
Exchange of debt		-	(1,326,887)
Proceeds of notes		1,887,747	442,014
Proceeds of bank loans		460,000	-
Payments of bank loans		(330,000)	(1,042,116)
Other loans, net		(327,401)	(173,375)
Proceeds from issuance of capital stock		-	384
Payments of derivative financial instruments		-	(77,982)
Net cash flow generated from (used in) financing activities		970,043	(2,934,097)
Net increase in cash and cash equivalents		1,248,713	714,701
Cash and cash equivalents at beginning of the year		1,292,263	597,201
Effects of exchange rate fluctuations on cash and cash equivalents held		156,859	(19,639)
Cash and cash equivalents at the end of the year	Ps	2,697,835	1,292,263

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, 2014 and 2013
(Thousands of mexican pesos)

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

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained comprehensive earnings (Deficit)	Total stockholders' equity
Balances as of December 31, 2012	Ps	6,625,536	644,710	162,334	(2,344,306)	5,088,274
Increase of capital stock (note 16a)		2,354	-	-	-	2,354
Comprehensive income (note 16c)		-	-	-	2,437,030	2,437,030
Balances as of December 31, 2013		6,627,890	644,710	162,334	92,724	7,527,658
Increase of capital stock (note 16a)		100,452	-	-	-	100,452
Change on reserves for repurchase of own shares		-	-	(72,334)	72,334	-
Comprehensive loss (note 16c)		-	-	-	(1,922,392)	(1,922,392)
Balances as of December 31, 2014	Ps	6,728,342	644,710	90,000	(1,757,334)	5,705,718

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

At December 31, 2014 and 2013
(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. and Subsidiaries (AXTEL and/or The Company) was incorporated in México as a corporation. The corporate domicile of the Company is located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

The Company's consolidated financial statements for the years ended December 31, 2014 and 2013, include The Company and its subsidiaries (collectively referred as "the Company" and individually as "entities of the Company")

The Company is engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls and pay-tv services. A concession is required to provide these services and carry out the related activities, (see notes 5 (k) and 11). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years.

(2) Significant events

On September 17, 2014, The Company completed the reopening of its secured bonds issuance due in 2020 for United States of America dollar (U.S.) $150 million at a priced at 100.25% of the principal amount with the same terms and interest rates of the secured notes due in 2020 referred to in the following paragraphs.

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

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

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

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

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

(3) Consolidation of financial statements

Based on IFRS 10, *"Consolidated Financial Statements"*, the consolidated financial statements include those of Axtel, and those of the entities over which it exercises control on the financial and operating policies. The subsidiaries included in the consolidated interim financial statements are presented as follows:

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

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

(4) Basis of preparation

a) Statement of compliance

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

This consolidated financial statements was authorized for issue by the Company's Director of Administration on February 27, 2015.

Under the Mexican General Corporation Law ("Ley General de Sociedades Mercantiles") and bylaws of the Company, shareholders are empowered to amend the financial statements after its issuance. The accompanying financial statements will be submitted for approval at the next Shareholders' Meeting.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except for certain financial instruments which were recorder at fair value and the liability recognized for employee benefit since this is recognized at the present value of the obligation.

c) Functional and presentation currency

These consolidated financial statements are presented in thousands of mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps.", are thousands of Mexican pesos; likewise, references to dollars or U.S. $, or USD refer to thousands of dollars of the United States of America and has been rounded to the nearest unit (M$), unless indicated otherwise..

d) Presentation of the consolidated statement of comprehensive income

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

The Company presents the result from operating activities since considers it as a significant performance measurement for users of financial information. Revenues and costs that are of an operational nature are presented in this item.

e) Presentation of the consolidated statement of cash flows

The consolidated statements of cash flows of the Company are presented using the indirect method.

(5) Significant accounting policies

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

a) Transactions eliminated on consolidation

The balances and transactions between the entities of the Company, as well as unrealized income and expenses, have been eliminated in preparing the consolidated financial statements.

b) Foreign currency transactions

Based on IAS 21, *"Effects of changes in foreign currency"* ("IAS 21"), transactions in foreign currencies are converted to the respective functional currencies of the entities of the Company at exchange rates prevailing at the dates of operations. Monetary assets and liabilities denominated in foreign currencies at the reporting date are converted back to the functional currency at the exchange rate at that date. The gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency converted at the exchange rate at end of period being reported.

c) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months. At December 31, 2014 and 2013, include cash equivalents consisting of money market for Ps. 1,560,804 and Ps. 633,916, respectively.

d) Financial assets

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

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

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

Financial assets are classified within the following specific categories: "financial assets at fair value with changes through profit or loss" and "accounts receivable and other accounts receivable". The classification depends on the nature and purpose thereof and is determined upon initial recognition.

Financial assets valued at fair value through profit or loss

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

Accounts receivable and other accounts receivable

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as "Accounts receivable". According to IAS 39, *"Financial Instruments: Recognition and valuation"* ("IAS 39"), concepts within this category have no explicit cost and are recognized at amortized cost, it means, the net present value of accounts receivable at the date of transaction. Due to their short maturity, the Company recognizes initially these accounts at original value less allowance for doubtful accounts. Allowance for doubtful accounts and impairment of other accounts receivable are recognized in the selling and administrative expenses in Statement of Comprehensive Income. Interest income is recognized applying the effective interest rate method.

Effective interest method

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

Write-off of financial assets

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.

e) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

f) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

If the hedging instrument matures or is sold, terminated or exercised without replacement or continuous financing, or if its designation as a hedge is revoked, any cumulative gain or loss recognized directly within other comprehensive income in stockholders' equity from the effective date of the hedge, remains separated from equity until the forecasted transaction occurs when it is recognized in income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in stockholders' equity is immediately carried to profit and loss. Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying. The derivative instrument is divided into a short-term portion and a long-term portion only if a reliable assignation can be performed. At December 31, 2014 and 2013, the Company has no open positions of cash flow hedges.

Embedded derivatives

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

g) Fair value of financial instruments

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

h) Inventories and cost of sales

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

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

i) Investments in associates and other equity investments

Investments in associates are 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.

j) Property, systems and equipment

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

Depreciation

or other amount that replaces cost, less its salvage value.

The salvage value of an asset is the estimated amount that an entity would currently obtain from disposal of an item, after deducting the estimated costs of disposal, if the asset were already in the expected condition at the end of its useful life. The Company's practice is to use its assets until they are no longer useful since in the industry in which the Company operates, it is not common to perform equipment sales to competitors.

Depreciation is recognized in profit or loss using the straight-line method according to estimated useful life of each type of asset, since it shows in a better way the expected usage pattern of the future economic benefits included in the assets.

Leased assets are depreciated over the term of the lease agreement or the useful life of the assets, the smaller, unless there is reasonably certain that the Company will acquire ownership of the leased assets at the end of the lease agreement

The estimated average useful lives for the current periods are as follows:

	Useful life
Building	25 years
Computer equipment	3 years
Transportation equipment	4 years
Furniture and fixtures	10 years
Network equipment	6 to 28 years

Useful lives and salvage values are reviewed at each year end and adjusted, if necessary.

Subsequent costs

The cost of replacing a component of an item of property, systems and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will inflow to the Company, and 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 through consolidated profit or loss statement into selling and administrative expenses.

Borrowing costs

Borrowing costs directly related to the acquisition, construction of production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. 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.

k) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight-line method during the period in which the economic benefits are expected to be obtained. Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. At December 31, 2014 and 2013, respectively, the Company had no intangible assets with an indefinite life registered in accounting. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

l) Impairment of non-financial assets

The Company reviews 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).

The recoverable amount is the higher of fair value less its disposal cost and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects market conditions and specific risks to each asset or the CGU.

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

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

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Provisions

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

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

o) Employee benefits

Short-term employee benefits

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

p) Statutory employee profit sharing

According to Mexican labor law, the Company must distribute the equivalent of 10% of its annual taxable income as employee statutory profit sharing in those legal entities with employees. This amount is recognized in the consolidated statement of comprehensive income within the selling and administrative expenses.

q) Income taxes

The income tax includes current and deferred tax. The current and deferred tax are recognized in profit or loss, except that it relates to a business combination, or items recognized directly in equity or in other comprehensive income or loss.

The current tax comprises the expected tax payable or receivable. The income tax for the year is determined according to legal and taxation requirements for companies in Mexico, using tax rates enacted at the reporting date, and any adjustment to tax payable regarding of previous years for each of the legal entities of the Company.

Deferred tax is registered under the asset and liability method, which compares book and tax values of assets and liabilities of the Company, and deferred taxes (assets or liabilities) derived from the differences between those values are recognized. Taxes are not recognized for the following temporary differences: the initial recognition of assets and liabilities in a transaction other than a business combination and does not affect the accounting or tax result, and differences relating to investments in subsidiaries and joint ventures to the extent that is probably not reverse in the foreseeable future. Additionally, no deferred taxes are recognized for taxable temporary differences arising from the initial recognition of goodwill. Deferred taxes are calculated using rates that are expected to apply to temporary differences when they are reverted, based on enacted laws at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset tax assets and liabilities, and correspond to income taxes imposed by the same tax authority and for the same tax entity, or on different tax entities, but they intend to settle tax assets and liabilities on a net basis, or their tax assets and liabilities are realized simultaneously.

A deferred tax asset for tax loss carryforwards, tax credits and deductible temporary differences are recognized to the extent that it becomes probable that taxable future profits will be available to be applied against. Deferred tax assets are reviewed at the reporting date and are reduced to the extent that realization of the related tax benefit is no longer probable.

r) Revenue recognition

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

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

- *Integrated services* – At the moment when the client receives the service.
- *Income from interconnection* – Based on the traffic of minutes and generated by approved rates by Federal Telecommunications Institute *(Instituto Federal de Telecomunicaciones or "IFETEL")* or private agreements.

s) Earnings per share

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

t) Segments

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

(6) Recently Issued Accounting Standards

There are several IFRS issued at the date of these consolidated financial statements, that have not yet been adopted, which are listed below. Except as otherwise indicated, the Company expects to adopt these IFRS when they become effective.

- IFRS 9, *Financial instruments*: classification and measurement ("IFRS 9"). Phase 1: during 2009 and 2010, the IASB issued the chapters of IFRS 9 relating to the classification and measurement of financial assets and liabilities, and incorporated limited amendments in July 2014 for the classification and measurement of financial assets. Phase 2: in July 2014, the IASB added to IFRS 9 the impairment requirements related to the accounting for expected credit losses on an entity's financial assets and commitments to extend credits. Phase 3: in November 2013, the IASB added to IFRS 9 the requirements related to hedge accounting. As intended by the IASB, IFRS 9 will replace IAS 39 in its entirety. IFRS 9 requires an entity to recognize a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and includes a category of financial assets at fair value through other comprehensive income for simple debt instruments. In respect to impairment requirements, IFRS 9 eliminates the threshold set forth in IAS 39 for the recognition of credit losses.

  Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized, instead, an entity always accounts for expected credit losses, and changes in those expected losses through profit or loss. In respect to hedging activities, the requirements of IFRS 9 align hedge accounting more closely with an entity's risk management through a principles-based approach. Nonetheless, the IASB provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 until the IASB completes its project on the accounting for macro hedging. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in this standard at the same time. The Company is currently evaluating the impact that IFRS 9 will have on the classification and measurement of its financial assets and financial liabilities, impairment of financial assets and hedging activities. Currently, the Company is in the process of evaluating this IFRS.

- In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers ("IFRS 15"). The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1) Identify the contracts(s) with a customer, which is an agreement between two or more parties that creates enforceable rights and obligations; Step 2): Identify the performance obligations in the contract, considering that if a contract includes promises to transfer distinct goods or services to a customer, the promises are performance obligations and are accounted for separately; Step 3) Determine the transaction price, which is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;
- Step 4): Allocate the transaction price to the performance obligations in the contract, on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and Step 5) Recognize revenue when (or as) the entity satisfies a performance obligation, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). IFRS 15 also includes disclosure requirements that would provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 will supersede all existing guidance on revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted considering certain additional disclosure requirements. The Company is currently evaluating the impact that IFRS 15 will have on the recognition of revenue from its contracts with customers.

New IFRS adopted on reporting period

Beginning in 2014, the Company adopted the following IFRS and several rules that are effective in future periods, but chose to adopt them in advance:

- Amendments to IFRS 10 and IFRS 28, Consolidated Financial Statements and Investment in associates.
- Amendments to IFRS 32, Offsetting of financial assets and financial liabilities.
- Amendments to IFRS 36, Impairment of Assets.
- Amendments to IFRS 19, Employee Benefits.
- Amendments to IFRS 16, Property, Plant and Equipment , and to IFRS 38 Intangible Assets.

The adoption of the new standards, improvements and modifications did not represent a significant impact in the financial statements of the Company.

(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. Accounting estimates changes are prospectively recognized.

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

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

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) *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.

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

g) *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		2014	2013
FINANCIAL ASSETS			
Cash and cash equivalents	Ps	2,697,835	1,292,263
Accounts receivable		2,426,167	2,981,732
Financial instruments		121,999	142,200
Advance to suppliers		112,763	65,578
Other current assets		225,331	130,492
FINANCIAL LIABILITIES			
Derivative financial instruments	Ps	46,952	116,658
Accrued interest		458,822	278,807
Short-term debt		130,000	-
Long-term debt		10,866,001	7,864,319
Accounts payable and accrued liabilities		2,347,302	2,741,308

a) Financial risk management objectives

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

b) Market and interest rate risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, sill affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

For interest rate risk, management has a risk management committee which discusses, among other things, whether each of the loans contracted either for working capital or to finance investment projects should be (according to market conditions and the functional currency of the Company) contracted with fixed or variable rate.

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2014 and 2013, are as follows:

		(THOUSANDS OF US DOLLARS)	
		2014	2013
Current assets	U.S. $	130,803	68,719
Current liabilities		(102,231)	(106,615)
Non-current liabilities		(726,992)	(574,480)
Foreign currency liabilities, net	U.S. $	(698,420)	(612,376)

The U.S. dollar exchange rates as of December 31, 2014 and 2013 were Ps. 14.71 and Ps. 13.07, respectively. As of February 27, 2015, the exchange rate was Ps. 14.92.

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

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

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

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

As mentioned in note 2, at January 31, 2013 the Company paid in full the remaining balance of the syndicated loan, interest and related derivative transactions by 77,982 related to that credit.

At December 31, 2014 and 2013, respectively, the Company had no current open positions.

c) Market sensitivity analysis

Exchange rate sensitivity analysis

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

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

If the peso strengthens 10% against the U.S. dollar, the profit for the year ended December 31, 2014 and equity would increase by Ps. 934,486.

If the peso weakens 10% against the U.S. dollar, profit for the year ended December 31, 2014 and equity would decrease by Ps. 1,027,935.

d) Embedded derivatives

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

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

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

	(THOUSANDS OF U.S. DOLLARS)	
Convertible Notes – liability	December 31, 2014	December 31, 2013
Face value	22,189	22,189
Options converted (note 16a)	(8,016)	(154)
	14,173	22,035
Fair value of conversion option recognized as a derivative financial instrument	(9,738)	(9,738)
Accrued interest	5,015	1,275
Carrying amount of convertible notes	9,450	13,572

	(THOUSANDS OF U.S. DOLLARS)	
Convertible Notes – Derivative financial instrument	December 31, 2014	December 31, 2013
Fair value of conversion option at initial balance	8,921	9,738
Gain in change of fair value for the period	(5,731)	(817)
Fair value of conversion option at year end	3,190	8,921

For the year ended December 31, 2014 the change in fair value of derivative financial instruments resulted in an unrealized gain of $ 61,473, recognized in the comprehensive financing within the change in the fair value and settlements of financial instruments, net.

e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated “Zero Strike Calls” that have a notional of 26,096,700 CPOs of Axtel’s shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. During the months of October, November and December of 2014, the Company acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. 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		2014	2013
Bank of America Merrill Lynch	30,384,700 CPO’s	Receives in cash the market value of the notional amount	Ps	102,700	142,200
Corporativo GBM, S.A.B. de C.V.	5,639,336	Receives in cash the market value of the notional amount	Ps	19,299	-

For the years ended December 31, 2014 and 2013 the change in the fair value of the Zero Strike Calls resulted in an unrealized (loss) gain of (Ps. 40,201) and Ps. 53,781, respectively, recognized in the net finance cost within the change in the fair value and settlements of financial instruments, net.

f) Equity price risk sensitivity analysis

The sensitivity 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, 2014 would increase by Ps. 12,176.

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

- Profit and equity for the year ended December 31, 2014 would decrease by Ps. 11,069.

g) Credit risk management

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

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

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

- Company A represented 5%, and 9% of the Company's accounts receivable as of December 31, 2014 and 2013, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2014 and 2013 were 0% and 3%, respectively.

- Company B represented 5%, and 10% of the Company's accounts receivable as of December 31, 2014 and 2013, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2014 and 2013 were 1% and 0%, respectively.

- Company C represented 5% of the Company's accounts receivable as of December 31, 2014 and 2013. Additionally, revenues associated with Company C for the year ended December 31, 2014 and 2013 were 1% and 0%, respectively.

- The Credit risk in investments on demand and in derivative financial instruments is minimal, since the counterparties are banks with high credit ratings assigned by international qualified agencies.

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

h) Liquidity risk management

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with 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.

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

		Less than 1 year	1 - 2 years	2 - 3 years	3 - 4 years	4 - 5 years	5 + years
December 31, 2014							
Variable interest rate instruments	Ps	158,499	21,934	13,979	7,702	-	-
Fixed interest rate instruments		1,130,525	1,049,144	1,777,453	898,450	2,372,833	8,594,932
	Ps	1,289,024	1,071,078	1,791,432	906,152	2,372,833	8,594,932
December 31, 2013							
Variable interest rate instruments	Ps	29,050	13,571	11,755	4,940	-	-
Fixed interest rate instruments		713,615	752,371	761,727	1,341,575	611,927	7,634,415
Capacity lease		179,171	-	-	-	-	-
	Ps	921,836	765,942	773,482	1,346,515	611,927	7,634,415

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

i) Fair value of financial instruments

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

	December 31, 2014		December 31, 2013	
Financial liabilities	Carrying amount	Fair value	Carrying amount	Fair value
FINANCIAL LIABILITIES HELD AT AMORTIZED COST:				
Senior Unsecured Notes with maturity in 2017	741,758	741,684	659,029	598,069
Senior Unsecured Notes with maturity in 2019	1,497,262	1,497,112	1,330,272	1,063,819
Senior Secured Notes with maturity in 2020	8,016,203	7,775,717	5,160,680	4,889,744
Senior Secured Convertible Notes with maturity in 2020	139,097	139,097	177,481	177,481
Other long-term financing	602,582	664,440	407,965	400,139
Capacity lease	-	-	168,554	172,397
Accrued interest	458,822	458,822	278,807	278,807

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

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

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

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

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

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

The Company applies the guidance in IFRS 13, Fair Value Measurement ("IFRS 13") to determine the fair value of financial assets and financial liabilities recognized or disclosed at fair value. IFRS 13 requires fair values in addition to those already required or permitted by other IFRS, and is not intended to establish valuation standards or affect valuation practices outside financial reporting. Under IFRS 13, the fair value represents a "Selling Price", which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date, considering the credit risk the counterparty valuation.

The concept of Selling Price is based on the assumption that there is a market and participants in this for the specific asset or liability. When there are no market and / or market participants, IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority pricing calculations that deal with data entry but significant unobservable (Level 3 measurement).

The three levels of hierarchy are as follows:

- The level 1 data are quoted prices in active markets (unadjusted) for identical assets or liabilities that the Company has the ability to negotiate at the date of measurement. A quoted price in an active market provides the most reliable evidence of fair value and is used without adjustment for determining fair value whenever it is available.

- Level 2 data are data other than quoted prices in active markets that are directly or indirectly observable for the asset or liability that are mainly used to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data include stock prices, interest rates and certain yield curves, implied volatility, credit spreads, and other data, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair value by interacting applicable Level 2 data, the number of instruments and / or other relevant terms of the contracts, as applicable.

- Level 3 data are those that are not observable for the asset or liability. The Company uses this data to determine fair value when there is no Level 1 or Level 2 data, in valuation models such as discounted cash flows.

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Financial assets				
Zero strike calls	121,999	-	-	121,999
Financial liabilities				
Derivative financial liabilities	-	46,952	-	46,952
	December 31, 2013			
Financial assets				
Zero strike calls	142,200	-	-	142,200
Financial liabilities				
Derivative financial liabilities	-	116,658	-	116,658

(9) Accounts receivable, net

Accounts receivable, net consist of the following:

		2014	2013
Accounts receivable	Ps	5,008,936	5,388,862
Less allowance for doubtful accounts		2,582,769	2,407,130
Accounts receivable, net	Ps	2,426,167	2,981,732

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2014 and 2013.

Movement in the allowance for doubtful accounts.		2014	2013
Opening balance	Ps	2,407,130	2,207,537
Allowance for the year		173,941	199,524
Effect of exchange rate		1,698	69
Balances at period end	Ps	2,582,769	2,407,130

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:		2014	2013
60 - 90 days	Ps	17,786	22,130
90 - 120 days		28,591	26,054
120 + days		2,536,392	2,358,946
Total	Ps	2,582,769	2,407,130

Aging of past due but not impaired		2014	2013
Corriente	Ps	949,172	1,260,468
1 - 30 days		139,937	139,769
30 - 60 days		183,037	201,352
60 - 90 days		37,523	22,322
90 + days		417,467	518,901
Total	Ps	1,727,136	2,142,812

(10) Property, systems and equipment

Property, systems and equipment are as follows:

		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806
Additions		-	579	24,301	143	682,033	-	1,659,608	2,366,664
Transfer of completed projects in progress		-	105,617	988	19,903	2,004,020	4,465	(2,134,993)	-
Transfer to assets held for sale		-	-	-	-	240,451	-	-	240,451
Disposals		-	-	(32,987)	(76)	(78,787)	-	-	(111,850)
Balance as of December 31, 2013	Ps	430,990	3,382,097	387,713	241,069	32,417,894	429,612	858,696	38,148,071
Additions	Ps	-	152,125	4,465	6	458,514	-	2,548,101	3,163,211
Transfer of completed projects in progress		-	161,252	4,723	16,632	2,212,733	583	(2,395,923)	-
Disposals		-	(2,131)	(20,900)	(55)	(18,231)	-	-	(41,317)
Balance as of December 31, 2014	Ps	430,990	3,693,343	376,001	257,652	35,070,910	430,195	1,010,874	41,269,965

Depreciation and impairment		Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2012	Ps	121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Depreciation of the year		14,286	128,810	64,089	14,752	2,914,961	30,356	-	3,167,254
Disposals		-	-	(31,752)	-	(14,385)	-	-	(46,137)
Assets held for sale		-	-	-	-	184,955	-	-	184,955
Balance as of December 31, 2013	Ps	136,084	1,359,352	321,494	178,269	22,637,701	327,984	-	24,960,884
Depreciation of the year		14,284	126,316	45,036	17,577	3,152,790	24,963	-	3,380,966
Disposals		-	(2,053)	(20,115)	(30)	(11,230)	-	-	(33,428)
Balance as of December 31, 2014	Ps	150,368	1,483,615	346,415	195,816	25,779,261	352,947	-	28,308,422
Property, systems and equipment, net at December 31, 2013	Ps	294,906	2,022,745	66,219	62,800	9,780,193	101,628	858,696	13,187,187
Property, systems and equipment, net at December 31, 2014	$	280,622	2,209,728	29,586	61,836	9,291,649	77,248	1,010,874	12,961,543

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

During the year ended December 31, 2014 and 2013 the Company capitalized Ps. 36,847 and Ps. 34,461, respectively of borrowing costs in relation to Ps. 709,293 and Ps. 492,996 in qualifying assets. Amounts were capitalized based on a capitalization rate of 9.85% and 9.28%, respectively.

For the year ended December 31, 2014 and 2013 interest expenses are comprised as follows:

		2014	2013
Interest expense	Ps	(912,592)	(916,915)
Amount capitalized		36,847	34,461
Net amount in consolidated statements of comprehensive income	Ps	(875,745)	(882,454)

As of December 31, 2014, certain financial leases amounting to approximately Ps. 23 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2014 and 2013 amounts to Ps. 3,380,966 and Ps. 3,167,254, respectively.

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

(11) Intangible assets

Intangible assets with defined useful lives consist of the following:

		Telephone concession rights AXTEL	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2012	$	571,520	110,193	58,982	21,045	30,030	87,330	879,100
Disposals		-	-	-	-	-	(14,161)	(14,161)
Balances as of December 31, 2013 and 2014	$	571,520	110,193	58,982	21,045	30,030	73,169	864,939

Amortización y deterioro		Telephone concession rights AXTEL	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2012	$	396,931	60,106	34,498	11,010	17,337	70,596	590,478
Amortization		30,307	10,018	4,080	1,672	2,886	1,706	50,669
Balances as of December 31, 2013	$	427,238	70,124	38,578	12,682	20,223	72,302	641,147
Amortization		30,307	10,018	4,080	1,672	2,886	867	49,830
Balances as of December 31, 2014	$	457,545	80,142	42,658	14,354	23,109	73,169	690,977
Intangible assets, net at December 31, 2013	$	144,282	40,069	20,404	8,363	9,807	867	223,792
Intangible assets, net at December 31, 2014	$	113,975	30,051	16,324	6,691	6,921	-	173,962

Concessions rights of the Company

The main concessions of the Company are as follows:

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

Concessions allow the Company to provide basic local telephone service, domestic long distance telephony, purchase or lease network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any kind, the purchase and leasing network capacity from other countries, including digital circuits income, value added services, operator services, paging and messaging services, data services, video, audio and video conferencing, 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, 2014 the values of the trade name “Avantel” and of customer relationships were fully amortized.

(12) Other assets

Other assets consist of the following:

		2014	2013
Prepaid expenses	Ps	276,738	208,307
Guarantee deposits		48,307	45,634
Others		31,325	21,400
Other assets		356,370	275,341
Current portion of other assets		225,331	130,492
Other long-term assets	Ps	131,039	144,849

(13) Long-term debt

a) Long-term debt as of December 31, 2014 and 2013 consist of the following:

		2014	2013
U.S. $ 275 in aggregate principal amount of 7 5/8 % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$ 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on secured bond and a convertible bond.	Ps	741,758	659,029
U.S.$ 490 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S.$ 224.6 and U.S.$167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S.$ 358.6 and U.S.$ 22 million dollars on secured bond and a convertible bond.		1,497,262	1,330,272
Senior Secured Notes in a principal amount of U.S.$ 544.6 and U.S.$ 394.6 million dollars as of 2014 and 2013, respectively, with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		8,016,203	5,160,680
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S.$ 22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		139,097	177,481
Discount on note caused by Senior Secured Notes payable in the amount of U.S. $ 36 million at an initial interest rate of 7% will increase to 9% due 2020		(24,228)	(28,994)
Premium on Senior Unsecured Notes with an aggregate principal of U.S.$ 490 million with an interest rate of 9%, due in 2019.		10,817	7,444
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.		-	168,554
Other long-term financing with several credit institutions with an average interest rates of 6% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos with maturities between three to four years.		602,582	407,965
Debt issuance and deferred financing costs		(117,490)	(18,112)
Total long-term debt		10,866,001	7,864,319
Less current maturities		220,554	308,945
Long-term debt, excluding current maturities	Ps	10,645,447	7,555,374

Annual installments of long-term debt are as follows:

Year		Amount
2016	Ps	209,585
2017		883,395
2018		20,231
2019		1,497,837
2020 and thereafter		8,034,399
	Ps	10,645,447

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

For the year ended December 31, 2014 and 2013, the interest expense was Ps. 912,592 and Ps. 916,915 respectively. (see note 10).

On September 17, 2014, The Company completed the reopening of its secured bonds issuance due in 2020 for U.S. $ 150 million at a priced at 100.25% of the principal amount, on the same terms and interest rates of the secured notes due in 2020 referred to in the following paragraphs.

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

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

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

b) Bank loans

On March 28, 2014 the Company entered into a promissory note with Banco Nacional de Mexico, S.A. by which received a loan of Ps. 130,000, with an interest rate of TIIE plus 3.5 percentage points annually. This loan matures until June 2015.

On December 13, 2013 the Company entered into a credit facility with Banco Mercantil del Norte, S.A. by which received a loan of Ps. 130,000 in August 2014, with an interest rate of TIIE plus 3.50 percentage points annually. This loan was paid in full so in September 2014.

On October 8, 2013 the Company entered into a credit facility with Banco Monex by which received a loan of Ps. 200,000 in August 2014, with an interest rate of TIIE plus 3.50 percentage points annually. This loan was paid in full so in September 2014.

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of December 31, 2014 and February 27, 2015, the Company was in compliance with all covenants contained in its debt agreements.

(14) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2014 and 2013 are as follows:

		2014	2013
Banamex			
Telecommunication service revenues	Ps	540,652	584,759
Interest expense		6,980	21,202
Other related parties:			
Rent expense	Ps	29,698	37,281
Installation service expense		30,225	46,177
Others		5,369	5,211

The balances with related parties as of December 31, 2014 and 2013, included in accounts payable are as follows:

		2014	2013
ACCOUNTS PAYABLE SHORT-TERM:			
GEN Industrial, S.A. de C.V. (2)	Ps	52	58
Neoris de México, S.A. de C.V. (2)	Ps	505	-
		557	58

The balances with related parties as of December 31, 2014 and 2013, included in deferred revenues are as follows:

		2014	2013
DEFERRED REVENUES SHORT-TERM:			
Banco Nacional de México, S.A. (1)	Ps	460,526	457,478
DEFERRED REVENUES LONG-TERM:			
Banco Nacional de México, S.A. (1)	Ps	33,900	33,900

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

(2) *Mainly administrative services.*

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2014 and 2013 were as follows:

		2014	2013
Short-term employee benefits paid	Ps	72,094	94,584

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

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

According to current tax legislation during 2013, companies were required to pay higher tax between IT and IETU. If the caused tax was IETU, your payment is considered definitive and not subject to recovery in future periods. Under the IT Law in force effective until December 31, 2013, the income tax and flat tax rate was 30% and 17.5%, respectively. The IT Law effective from 1 January 2014 establishes an income tax rate of 30% for 2014 and beyond.

The income tax benefit (expense) is as follows:

		2014	2013
Current income tax	Ps	(34,459)	(50,817)
Deferred income tax		572,596	(967,321)
Income tax benefit (expense)	Ps	538,137	(1,018,138)

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

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

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

	2014	2013
Statutory income tax rate	(30%)	30%
Inflationary effects	(2%)	3%
Non-deductible effects from allowance for doubtful accounts	9%	(2%)
Non-deductible expenses	1%	(2%)
Changes in tax rates	-	(1%)
Changes in laws	-	(7%)
Recognition of initial deferred IT on subsidiaries	-	8%
Recognition of the tax effect of tax losses previously not recognized	-	1%
Effective tax rate	(22%)	30%

The main differences that gave rise to the deferred income tax assets as of December 31, 2014 and 2013 are presented below:

		2014	2013
DEFERRED TAX ASSETS:			
Net operating loss carry forwards	Ps	1,257,927	824,229
Allowance for doubtful accounts		367,482	522,188
Accrued liabilities and others		362,947	547,230
Premium on bond issuance		3,245	2,233
Property, systems and equipment		312,239	-
Total deferred tax assets	Ps	2,303,840	1,895,880
DEFERRED TAX LIABILITIES:			
Telephone concession rights	Ps	40,466	52,698
Property, systems and equipment		-	69,526
Long-term debt		549,342	549,342
Fair value of derivative financial instruments		28,123	41,898
Intangible and other assets		10,707	80,479
Total deferred tax liabilities		628,638	793,943
Deferred tax assets, net	Ps	1,675,202	1,101,937

The roll forward for the net deferred tax asset as of December 31, 2014 and 2013 are presented below:

		2013	Effects on profit and loss	Effects on stockholders' equity	2014
Net operating loss carry forwards	Ps	824,229	433,698	-	1,257
Allowance for doubtful accounts		522,188	(154,706)	-	367,482
Accrued liabilities and others		547,230	(184,952)	669	362,947
Premium on bond issuance		2,233	1,012	-	3,245
Property, systems and equipment		(69,526)	381,765	-	312,239
Telephone concession rights		(52,698)	12,232	-	(40,466)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(41,898)	13,775	-	(28,123)
Intangible and other assets		(80,479)	69,772	-	(10,707)
	Ps	1,101,937	572,596	669	1,675,202

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

As of December 31, 2014, the tax loss carry forwards and the tax on assets expire as follows:

Year		Tax loss carry forwards	Tax on assets
2015	Ps	-	3,944
2016		-	7,234
2017		-	28,374
2018		361,008	-
2020		161,541	-
2021		1,924,064	-
2022		534,969	-
2023		577,622	-
2024		1,691,853	-
	Ps	5,251,057	39,552

At December 31, 2014, non-recognized deferred tax assets is Ps. 764,290, of which Ps. 317,390 relate to tax loss carry forwards, Ps. 407,348 relate to estimating doubtful accounts and Ps. 39,552 to tax on assets.

(16) Stockholders' equity

The main characteristics of stockholders' equity are described below:

a) Capital stock structure

As of December 31, 2014, the common stock of the Company is Ps. 6,728,342. The Company has 9,067,959,874 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide to its holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a Sociedad Anónima Bursátil de Capital Variable). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 8,970,209,218 are Class "I" Series B. At December 31, 2014 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

		Shares		Amount	
		2014	2013	2014	2013
AUTORIZED AND ISSUED CAPITAL:					
Series A	Ps	97,750,656	97,750,656	73,396	73,396
Series B		8,970,209,218	8,678,441,546	6,654,946	6,554,494

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

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

During July 2008 the Company began a program to repurchase own shares which was approved at an ordinary shareholder meeting held on April 23, 2008 for up to Ps. 440 million. As of December 31, 2008 the Company had repurchased 26,096,700 CPO's (182,676,900 shares). During July, August and September 2009, the CPOs purchased through the repurchase program was resold in the market. At the ordinary shareholder meeting held on April 25, 2014 it was approved to allocate a maximum amount of Ps. 90 million to the share repurchase program.

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. 8,989,419 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 13 establish limitations on dividend payments.

c) Comprehensive income (loss) income

The balance of other comprehensive income items and its activity as of December 31, 2014 and 2013, is as follows:

		2014	2013
Net (loss) income	Ps	(1,918,601)	2,407,679
Other comprehensive income		-	41,811
Actuarial result		(4,460)	-
Effect of income tax		669	(12,460)
Other comprehensive income net of deferred taxes		(3,791)	29,351
Net comprehensive (loss) income	Ps	(1,922,392)	2,437,030

(17) Telephone services and related revenues

Revenues consist of the following:

		2014	2013
Local calling services	Ps	2,969,459	3,208,170
Long distance services		1,015,593	1,139,591
Internet and video		1,337,391	1,043,393
Data and network		1,897,673	1,860,070
Integrated services		1,568,616	1,299,653
Equipment sales		210,314	584,479
International traffic		1,234,024	763,991
Other services		363,933	387,147
	Ps	10,597,003	10,286,494

(18) Construction contract

During August 2014, the Company entered into a construction contract of a building, as well as the necessary equipment thereof according to the technical features described in the contract, amounting Ps. 540,328 plus value added tax. The delivery period of the project is estimated to be completed in August 2015.

Income for the year is recognized following percent of completion which consider recoverable cost plus margin.

At December 31, 2014, income from the construction contract is comprised as follows:

		Income for the year	Cumulative income	Balances of advances	Percent of completion (%)
Construction contract	Ps	34,297	34,297	154,818	6.35%

(19) Commitments and contingencies

As of December 31, 2014, the Company has the following commitments and contingencies:

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

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

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

It is important to note that the constitutionality of the weighted average rate for Grupo Iusacel, Grupo Telefónica and Unefón was already validated by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones).

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

Important to note that, regarding the decision by the courts on the issue of Weighted Average Rate, the Company presented several amparo trials concerning the Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones) ("IFT") has not resolved the request to determine the Weighted Average Rate as substitute interconnection rate to be applied to the termination of interconnection traffic destined for Telcel, Iusacell, Unefon and Grupo Telefonica networks.

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

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

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

This ruling was challenged via amparo trial by Grupo Telefonica, and was solved, at first stage, to dismiss the amparo trial and denying it to Grupo Telefonica.

Therefore, Grupo Telefonica has challenged the first instance judgment, which is pending to be solved by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones).

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

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

The tariffs that the Company was paying prior to the rulings, was of $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers.

As of December 31, 2014, 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. 2,251 million not including value added tax.

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

(c) Interconnection Disagreements – Telmex – Years

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of June 30, 2014, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps. 1,240 million, not including value added tax.

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

In April 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed a direct amparo suit against the ruling issued within the annulment trial, which shall be resolved by the First Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Primer Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones).

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

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

Therefore, Telmex has challenged the first instance judgment, which is pending to be solved by the Second Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Segundo Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones).

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

As of December 31, 2009, there was a letter of credit for 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, 2013, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

(d) Interconnection Disagreements – Grupo Iusacell – Years 2012-2013. In October 2014, IFETEL solved an interconnection disagreement between Grupo Iusacell and the Company (Axtel / Avantel), related to interconnection tariffs for termination services switched to mobile users under the modalities “calling party pays” and “nationwide calling party pays” for the period 2012-2013. In that resolution IFETEL determined tariffs per minute of Ps. 0.3214 for 2012 and Ps. 0.3144 for 2013.

This ruling was challenged by Grupo Iusacell and is pending before the First District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Juzgado Primero de Distrito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones).

As of December 31, 2014, the Company believes that the rates determined by the IFETEL in its resolutions will prevail, and therefore it has recognized the cost, based on these rates.

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

(f) On July 14, 2014, it was published in Mexico’s Official Gazzette (Diario Oficial de la Federación) the new Federal Telecommunications and Broadcasting Law (the “LFTyR”), which entered into force on August 13, 2014. In terms of the LFTyR, and since it was effective, the previous Federal Telecommunications Law and the Federal Radio and Television Law ceased to be effective, and likewise, it was also provided by the same, that all regulations and administrative provisions in such matter which were previously issued, will remain in full force and effect except in what they oppose to the new LFTyR. In accordance with the new LFTyR, there were established new legal obligations for the Company in the field of telecommunications, including the following obligations with respect to:

(a) New rights applicable to users in general, as well as for users with disabilities.
(b) Collaboration with the Justice.

(c) Registration and reporting activities in connection with its active and passive infrastructure. of installation and operation of its public telecommunications network, including the obligation to avoid charges for domestic long distance calls since January 1, 2015, in the field of advertising, and of neutrality of networks in connection with its service of internet access.

Some of these obligations are pending the issuance of the applicable regulations, or that certain date is met or that the Company is in the situation prescribed by the applicable law.

The company took the required actions and controls in order to be in compliance with all the obligations that were born with the entry into force and effect of the LFTyR, and is carrying out the necessary actions in order to comply with the new obligations that are still pending on the issuance of the applicable secondary regulation and/or of the fulfillment of the applicable deadlines.

(d) 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. 2,256 and to other service providers amounting to Ps. 1,093,683.

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

(f) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2014 and 2013 amounted to Ps. 846,608 and Ps. 866,695, respectively.

The annual payments under these leases as of December 31, 2014 are as follows:

		Leases contracts in:	
		Mexican Pesos (thousands)	USD (thousands)
2015	Ps	50,919	27,854
2016		41,135	23,659
2017		30,126	22,480
2018		19,309	20,521
2019		12,516	20,014
2020 and thereafter		46,622	137,954
	Ps	200,627	252,482

Memory parameters

G4-20 / G4-21 / G4-31 / G4-33

AXTEL Integrated Report for 2014 presents the result of the company's performance from January 1st through December 31, 2014. It has been elaborated in accordance to the G4 version of the Global Reporting Initiative (GRI) guidelines with essential conformity, and its information has been verified by an external supplier through interviews and the review of internal documents.

The performance results reflect AXTEL operations including corporate offices, administrative centers, and operations in all the country. It does not include supplier information, unless the document specifies so, nor shows results from shareholders, clients and/or business partners

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Materiality

G4-18 / G4-19 / G4-20 / G4-21

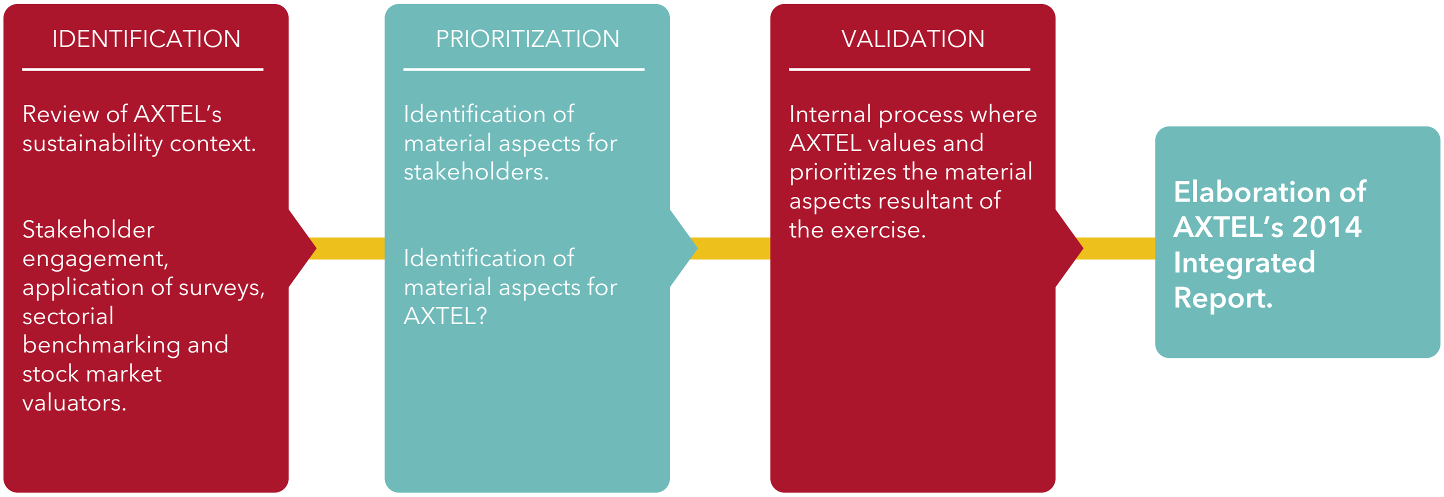
An exhaustive research and consultation process was carried out in 2014 with stakeholders in order to determine materiality of AXTEL Integrated Report for 2014 and identify the relevant topics in regarding our business sustainability.

The activities carried out during this exercise were:

A. Project planning: meetings with the Social Accountability team from AXTEL
B. Preparing for information gathering: mapping and selection of stakeholders, definition of companies to include in the sectorial benchmarking, survey design.
C. Execution: data and research data gathering.
   a. Surveys to a sample of 6 thousand 382 individuals. The groups consulted were: collaborators, investors, media, clients, suppliers and organizations in civil society.
   b. Analysis of 13 enterprises in the sector or similar to carry out the comparison.
   c. Review public information from AXTEL in communication media during 2014.
   d. Review of observations of rating agencies.
D. Materiality definition: with the information obtained in the research, the identification of the indicators to be reported was carried out, which were validated by the Social Accountability area at AXTEL.

After the culmination of this process, the material topics were updated on which AXTEL is reporting its economic, social and environmental performance, with this 2014 report as the result. The principles of balance, comparability, accuracy, punctuality, clarity and reliability

G4-20 / G4-21



Indentified material aspects		
Category	Aspect	Internal or external scope
Company profile	Services and technology	Inside AXTEL
Stakeholders' participation	Stakeholders engagement	Outside AXTEL
Corporate governance	Corporate Governance	Inside AXTEL
	Risks	Inside and outside AXTEL
Ethics and integrity	Ethics	Inside and outside AXTEL
	Fight against corruption	Inside and outside AXTEL
Economic	Market presence	Inside AXTEL
	Financial results	Inside AXTEL
Social performance	Training	Inside AXTEL
	Diversity and equal opportunity	Inside AXTEL
Environment	Environmental regulation compliance	Inside AXTEL
	Energy and emissions	Inside AXTEL
	Waste management	Inside AXTEL
Product Responsibility	Client satisfaction	Inside AXTEL
	Client privacy	Inside AXTEL

GRI Index (G4-32)

GRI G4 Version for essential conformity.

MATERIALITY DISCLOSURES SERVICE MAY 2015 AXTEL, S. A. B. DE C. V.

Field	Indicator	Description / Direct Answer	Page	External Verification
Strategy and Analysis	G4-1	Statement from Chairman of the Board and Chief Executive Officer	03	●
	G4-2	Impacts, risks, and opportunities	15	●
Profile	G4-3	Name of the Organization	07	●
	G4-4	Brands, products and/or services	07, 18	●
	G4-5	Headquarters of the Organization	07	●
	G4-6	Countries where we operate	07	●
	G4-7	Nature of ownership and legal form AXTEL, S. A. B. de C. V.		●
	G4-8	Markets served Mexico City, Monterrey, Guadalajara, Puebla, Toluca, León, Querétaro, San Luis Potosí, Saltillo, Aguascalientes, Ciudad Juárez, Tijuana, Torreón (Laguna Region), Veracruz, Chihuahua, Celaya, Irapuato, Ciudad Victoria, Reynosa, Tampico, Cuernavaca, Mérida, Morelia, Pachuca, Hermosillo, San Juan del Río, Xalapa, Durango, Villahermosa, Acapulco, Mexicali, Cancún, Zacatecas, Matamoros, Nuevo Laredo, Culiacán, Mazatlán, Coatzacoalcos, Minatitlán.	18	●
	G4-9	Scale of the organization	06	●
	G4-10	Employment	38	●
	G4-11	Collective Agreement Non-material.		●
	G4-12	Supply chain in the organization	30	●
	G4-13	Significant changes during the period covered There are no significant changes in the structure, ownership or supply chain in AXTEL during 2014.		●
	G4-14	Precautionary principle	14	●
	G4-15	Social, environmental, and economic programs and initiatives	23	●
	G4-16	Presence in associations Axtel is part of the Chamber of the Electronics, Telecommunications and Information Technologies (CANIETI), where it participates actively promoting topics of interest for all the Telecommunications industry, providing knowledge and strategies that support the improvement of quality and contents in the services offered to the consumers. Besides being members of the following Chambers and Associations: National Chamber of the Cable Telecommunications Industry, CANITEC; Mexican Industrial Chamber Confederation, CONCAMIN; Coordinating Business Council, CCE; Telecom Council of Silicon; TM Forum.		●
Material Aspects and Coverage	G4-17	Operational Structure	07	●
	G4-18	Content definition	94	●
	G4-19	Material aspects	94	●
	G4-20	Coverage / Limitations on scope or coverage / Information inclusion in case of joint ventures	95	●
	G4-21	Coverage / Limitations on scope or coverage / Information inclusion outside of the organization	95	●
	G4-22	Effect of any re-statement of information from prior reports There is no re-statement of information in regards to prior reports.		●
	G4-23	Significant changes related to previous reports There are no significant changes related to previous reports		●
Stakeholders	G4-24	Stakeholders	26	●
	G4-25	Sakeholders selection	26	●
	G4-26	Participation with stakeholders	26	●
	G4-27	Topics emerging from stakeholders	26	●

Field	Indicator	Description / Direct Answer	Page	External Verification
Memory Profile	G4-28	Period covered by report		●
		From January 1st to December 31, 2014		
	G4-29	Date of most recent previous report		●
		2013		
	G4-30	Reporting cycle		●
		The AXTEL Integrated Report is submitted annually		
	G4-31	Contact	94	●
	G4-32	Table of Contents and conformity option	96	●
		The AXTEL Integrated Report is presented for essential conformity		
	G4-33	External verification	94	●
		In AXTEL we submit our report to an external revision process to consolidate credibility and truthfulness of the data in the report towards our stakeholders. The development of this report was accompanied by the verifying firm, Redes Sociales LT, SA de CV,an independet organization whose personnel is trained to evaluate if the reports provides a reasonable and balanced image of AXTEL's sustainable performance, taking into account the veracity of the data included, as well as the general selection of content (materiality). As a result, the verifying firm has turned in a recommendation report to improve our compilation, validation and presentation of data processes about hte company's sustainable performance. There is no evidence that there is a relation between AXTEL and Redes Sociales that may contradict the ethical principles of verification standars such as ISAE 3000.		
Governance	G4-34	Corporate Structure Governance and Committees	13	●
	G4-35	Process of highest governance body in delegating its authority to top management.	15	●
	G4-36	Executive or accountable positions in economic, environmental and social matters	15	●
	G4-37	Corporate governance consultation process	13	●
	G4-38	Corporate Governance	07	●
	G4-39	Corporate Governance	07	●
	G4-40	Corporate Governance assignment and selection	07	●
	G4-41	Conflict of interest management	07, 13, 16	●
	G4-42	Corporate Governance	07	●
	G4-43	Corporate Governance	07	●
	G4-44	Corporate Governance performance assessment	07	●
	G4-45	Identification and management of impacts, risks, and opportunities	15	●
	G4-46	Corporate Governance	15	●
	G4-47	Corporate Governance	15	●
	G4-48	Committee or highest position approving sustainability report		●
		General Director		
	G4-49	Communication of important issues with the highest governance body	13	●
	G4-50	Nature and number of concerns conveyed to the highest governance body	16	●
	G4-51	Compensation policies for the highest governance body and top management	07	●
	G4-52	Processes through which compensation is determined	07	●
	G4-53	Corporate Governance	07	●
	G4-54	Relation between the best compensated individual with average total annual compensation of all workforce		●
		Confidential Information		
	G4-55	Relation between percentage of increase of the best compensated individual with percentage of increase of average total annual compensation of all workforce		●
		Confidential Information		

Field	Indicator	Description / Direct Answer	Page	External Verification
Ethics and Integrity	G4-56	Values, principles, standards, and rules in the organization	07	●
	G4-57	Internal and external mechanisms in counseling in favor of an ethical and lawful behavior	16	●
	G4-58	Internal and external mechanisms to report unethical or illicit behaviors.	16	●
Economic Performance	G4-EC1	Direct economic value generated	54	●
	G4-EC2	Consequences, risks and opportunities due to climate change		
		We do not have the information		
	G4-EC3	Benefit program		
		We do not have the information		
	G4-EC4	Economic support granted by governments		●
		In AXTEL we did not receive economic support from government		
	G4-EC5	Standard entry wage	38	●
	G4-EC6	High executives local hiring	37	●
	G4-EC7	Investments in infrastructure and services provided for public benefit	06	●
	G4-EC8	Indirect economic benefits		●
		Changes in productivity in organiztions, sectors or total economy: Due to the Constitutional Reform and the creation of a new Federal Law for Telecommunications and Radio broadcasting, one of the most significant proposals is opening competition in the telecommunication market to foreign investment. This will contribute positively to the economy and the telecommunications market enabling new competitors to enter and generate new opportunities for the consumers. This will impact so there is no battle for interests on the part of the existing operators and mainly work together in order to offer better services.		
		Economic development in areas with high poverty indices: One of the most important objectives is to realize collaboration projects with governments and the Ministry of Communication and Transportation in order to develop and offer services in areas where there are few telecommunication services suppliers. This as part of the social and rural coverage committment, to promote development and growth of education in information technology and communication of more communities.		
		Economic impact from improvement or deterioration of social or environmental conditions: When realizing service coverage projects in more areas in the country, we consider there will be a positive impact in having services such as Internet. This helps improve education conditions for more people and remain connected with society. This wil increase productivity, starting with schools and libraries, and later in hospitals or enterprises that require this connectivity.		
		Product and service availability for people with low rents: AXTEL, as part of the compliance of its concesion titles, makes available to the SCT, connection of its telecommunications services in low resources zones, where using our own coverage and infrastructure, to collaborate with the municipal and state governments in the development of schools, hospitals, and libraries so they may have Internet services and telephony at lower prices than the ones registered for the rest of the consumers.		
	G4-EC9	Suppliers	30	●
Environmental Performance	G4-EN1	Materials used by weight and volume	51	●
	G4-EN2	Recycled materials		●
		In AXTEL we do not use recycled materials to provide the service offerings in our portfolio.		
	G4-EN3	Internal energy consumption	47	●
	G4-EN4	External energy consumption	47	●
	G4-EN5	Energy intensity	47	●
	G4-EN6	Energy consumption reduction	46	●
	G4-EN7	Reductions in energy requirements for products and services	46	●
	G4-EN8	Total water collection by sources	50	●
	G4-EN9	Water sources affected by collection	50	●
		The water used for consumption in our operations in work centers is collected through the municipal water system for each location.		

Field	Indicator	Description / Direct Answer	Page	External Verification
Environmental Performance	G4-EN10	Recycled and reused water Non-material.		●
	G4-EN11	Natural Spaces or high biodiversity areas Non-material.		●
	G4-EN12	Impact on biodiversity Non-material.		●
	G4-EN13	Habitat protection Non-material.		●
	G4-EN14	Affected species and habitats Non-material.		●
	G4-EN15	Direct Greenhouse gas emissions (scope 1)	46	●
	G4-EN16	Indirect emissions while generating energy (scope 2)	48	●
	G4-EN17	Other indirect greenhouse gas emissions (scope 3)	49	●
	G4-EN18	Intensity of greenhouse gas emissions	46	●
	G4-EN19	Reduction of greenhouse gas emissions	44	●
	G4-EN20	Emissions of ozone depleting subtances Operations in AXTEL do not generate ozone depleting substances.		●
	G4-EN21	NOx, SOx, and other significant atmospheric emissions Operations in AXTEL do not produce representative NOx and SOx gases.		●
	G4-EN22	Water discharges	50	●
	G4-EN23	Waste management	51	●
	G4-EN24	Significant spills In 2014 there were no spills generated by our operations.		●
	G4-EN25	Hazardous waste transportation	50	●
	G4-EN26	Water resources Non-material.		●
	G4-EN27	Mitigation of environmental impact	43	●
	G4-EN28	Recovery of packing materials Non-material.		●
	G4-EN29	Fines for non-compliance of environmental regulations In 2014 we did not receive any fines due to non-compliance of environmental regulations		●
	G4-EN30	Environmental impact due to transportation of products and people	47	●
	G4-EN31	Environmental expenses and investments	45,46	●
	G4-EN32	Percentage of new suppliers examined in regards to environmental criteria During 2014 there were no new suppliers for significant transactions.		●
	G4-EN33	Significant, real and potential environmental impacts in supply chain There are no significant impacts, real or potential, identified, in the AXTEL supply chain		●
	G4-EN34	Number of environmental complaints In 2014 there were no environmental complaints		●
Social Performance - Work Practices and Dignity	G4-LA1	Employee hiring and turnover	38	●
	G4-LA2	Employee benefits In AXTEL there are no differences in the benefits granted to full-time and part-time employees. Some of these benefits are life insurance, medical expenses, food bonus, savings, paternity and maternity leave, vacations of 100 percent and 30 days Christmas bonus per year.		●
	G4-LA3	Reincorporation to work and retention for maternity or paternity	38	●

Field	Indicator	Description / Direct Answer	Page	External Verification
Social Performance - Work Practices and Dignity	G4-LA4	Pre-notification of organizational changes and specification in collective agreement The minimum notice period of time related to organizational changes is 12 weeks and is established in our sindicalized collaborators' collective agreement.		●
	G4-LA5	Health and Safety Committees 75 percent of unionized collaborators are represented in health and safety committees .		●
	G4-LA6	Absenteeism and lost days	41	●
	G4-LA7	Health Non-material.		●
	G4-LA8	Health In the Industrial Safety Area, the accident record in 2014 remained 4% lower than the average in professional and technical providing industry, in accordance to the Labor and Welfare Ministry, which represents a decrease of 13% regarding 2013. In regards to the indicator of accident severity, it decreased in 45.42% compared to the national average recorded by the Ministry of Labor and Welfare.		●
	G4-LA9	Training	40	●
	G4-LA10	Training	40	●
	G4-LA11	Professional Development and Performance	40	●
	G4-LA12	Diversity Non-material.		●
	G4-LA13	Ratio of base salary between men and women Confidential information		●
	G4-LA14	Percentage of new suppliers examined in regards to labor criteria During 2014 there were no new suppliers hired with significant transactions.		●
	G4-LA15	Negative, significant, real and potential impacts in work practices in the supply chain During 2014 there were no negative impacts on labor practices in AXTEL supply chain.		●
	G4-LA16	Number of complaints regarding work practices Non-material.		●
Social Performance - Human Rights	G4-HR1	Investment agreements including human rights clauses Non-material.		●
	G4-HR2	Training on human rights	16	●
	G4-HR3	Discrimination incidents	16	●
	G4-HR4	Freedom of association	16	●
	G4-HR5	Actions taken against child exploitation	16	●
	G4-HR6	Actions taken against forced labor	16	●
	G4-HR7	Security personnel training	16	●
	G4-HR8	Indigenous rights In AXTEL there were no cases of human rights violations of the indigenous people during 2014		●
	G4-HR9	Centers assessed based on Human Rights	16	●
	G4-HR10	Suppliers analyzed based on human rights We do not have this information		
	G4-HR11	Negative, significant, real and potential impacts on human rights in the supply chain There are no significant negative impacts on the supply chain in regards to human rights		●
	G4-HR12	Number of complaints related to human rights that have been turned in, addressed and solved through formal conciliation mechanisms. In 2014 there were no complaints received regarding human rights of the collaborators, clients or any other stakeholder		●

Field	Indicator	Description / Direct Answer	Page	External Verification
Social Performance - Society	G4-SO1	Impact on communities	31, 33	●
Social Performance - Society	G4-SO2	Operations with negative significant, possible or real impact in local communities. During 2014 there were no negative impacts due to our operations in the communities where we provide services.		●
Social Performance - Society	G4-SO3	Number and percentage of centers assessed in regards to corruption risks and significant risks detected 100 percent of the work centers are assessed based on corruption risks. During 2014 there were some corruption activities detected by storage personnel, as well as personnel in charge of recording clients or services in the company control systems; as a consequence, the individuals involved were dismissed. Likewise there were reviews carried out on possible piracy practices on services, which at the end were rejected.		●
Social Performance - Society	G4-SO4	Employees trained in anti-corruption policies and procedures	16	●
Social Performance - Society	G4-SO5	Actions taken in response to corruption incidents	16	●
Social Performance - Society	G4-SO6	Contributions to political parties or related institutions. In 2014 there were no financial contributions or in kind given to political parties or related institutions.		●
Social Performance - Society	G4-SO7	Anti-trust and free competition In AXTEL we submitted a complaint to the Federal Communications Institute against our key competitor due to insertion of recordings in calls, which was solved in our favor with a penalty for the competitor for 49 million 320 thousand MXN for anti-trust procedures hindering our productive process in the long distance service markets ending.		●
Social Performance - Society	G4-SO8	Fines and sanctions for legislation and regulations non-compliance In 2014 there were no sanctions or significant fines for this concept.		●
Social Performance - Society	G4-SO9	Percentage of new suppliers examined on social impact criteria During 2014 there were no new suppliers hired with significant transactions.		●
Social Performance - Society	G4-SO10	Significant, real and potential, environmental impacts for society in the supply chain. During 2014 there were no new suppliers hired with significant operations.		●
Social Performance - Society	G4-SO11	Number of claims regarding social impacts During 2014 there were no claims on social impacts.		●
Social Performance - Product Accountability	G4-PR1	Assessment of product life cycle in regards to health and customer safety Non-material.		●
Social Performance - Product Accountability	G4-PR2	Non-compliance of regulations for voluntary codes on health and safety Non-material.		●
Social Performance - Product Accountability	G4-PR3	Information and product labeling Non-material.		●
Social Performance - Product Accountability	G4-PR4	Non-compliance of regulations and voluntary codes on labeling Non-material.		●
Social Performance - Product Accountability	G4-PR5	Customer satisfaction practices	32	●
Social Performance - Product Accountability	G4-PR6	Adherence to voluntary codes in advertising Non-material.		●
Social Performance - Product Accountability	G4-PR7	Incidents related to marketing, advertising, promotion and sponsoring. Non-material.		●
Social Performance - Product Accountability	G4-PR8	Claims for violation of customer data privacy In 2014 we received a claim from IFAI, in regards to a claim submitted by a client in regards to data management. The complaint was addressed in accordance to requirements in this organization. Likewise we received 4 claims from the clients who requested their ARCO rights (access, rectification, cancelation and opposition) out of which 3 were founded and resolved.		●
Social Performance - Product Accountability	G4-PR9	Fines for non-compliance in regulations regarding product and service In 2014 there were no fines received on this concept		●

Certifications and re-certifications 2014

MONTERREY
Tier III Design - Uptime Institute
Level 3 - ICREA
ISO 9001:2008 - BSI
ISO / IEC 27001:2005 - BSI
ISO / IEC 20000 - 1:2011 - BSI

TULTITLAN
Tier III Design - Uptime Institute
Level 3 - ICREA

OTHER CITIES
ISO 9001:2008
ISO 20000 - 1:2011
ISO 27001:2005
Gold Certified Partner

CISCO CERTIFICATIONS 2014
Advanced Collaboration Architecture Specialization
Advanced Borderless Network Architecture Specialization
Advanced Data Center Architecture Specialization
Master Cloud and Managed Services Program (CMSP)
Telepresence Video Master Authorized Technology Provider (ATP)
Identity Services Engine Authorized Technology Provider (ATP)

REDES SOCIALES

Independent Letter of Confirmation of the AXTEL 2014 Annual Integrated Report.

Scope of our Work

We performed an independent and impartial review on the content of the AXTEL 2014 Annual Integrated Report.

Our work consisted of reviewing the content of the report in terms of meeting the performance indicators as determined by the materiality study conducted by the organization, and in compliance with the standards of version G4 of the Global Reporting Initiative, (GRI).

For confirmation purposes, Redes Sociales considered the ethical principles of independence of ISAE 3000, the methodological references of the AA1000AS standard, the GRI publication *'The external assurance of sustainability reporting'*, as well as the guidelines of other standards that AXTEL contemplated in the preparation of its report, such as the principles of the Global Compact.

Summary of Activities

Redes Sociales performed the following verification actions:

- The validation of the materiality determination process and of the selection of the indicators for the development of contents.
- The analysis of the information collection and validation processes.
- Constant feedback with the persons who participated in the preparation of the Report.
- The confirmation of the correct coverage of the indicators included in the Report.
- Comparison of the 2014 report with the 2013 report in terms of the monitoring of programs, the increase of indicators and the consideration of previous recommendations.

Information flow, data traceability and information completeness

- The confirmation of the conceptual and numerical fairness based on a selection of the performance indicators.

Reasonableness of data

Conclusions

· The AXTEL 2014 Annual Integrated Report complies with the general basic and specific contents to comply with the Essential option of the Guide of version G4 of the Global Reporting Initiative for the preparation of Sustainability Reports.

· There was no evidence that the content of the indicators reviewed and the information of AXTEL's sustainable performance contain errors.

· The review process shows in this Report provides a balanced and timely communication of the indicators selected for the verification.

Recommendations

Based on our work, we are able to provide the following general recommendations:

- According to the changes that may arise in the organization or its business environment, we recommend reviewing the validity of the material matters for the preparation of the following report.
- We recommend reviewing the guide *Sustainability Topics for Sectors: What do stakeholders want to know?* in the *'Telecommunication Services'* section in order to detect areas of opportunity for the contents of the 2015 report.

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Statement of independence, competence and responsibility of Redes Sociales LT

Redes Sociales' employees have the levels of skills necessary to confirm the due compliance of the standards used in the preparation of Sustainability Reports; therefore, they are qualified to issue professional opinions on companies' reports

Redes Sociales' responsibility consisted of conducting a limited review of the report. Under no circumstance may our confirmation statement be understood as being an audit report; therefore, we not assume any liability whatsoever on the management and internal control systems and processes from which the information is obtained. AXTEL will also be provided with areas of opportunity and observations detailed in a verification report for internal use.

The preparation of the report, its contents, as well as the procedures and/or systems used for the collection of the information are the responsibility of AXTEL.

axtel

ESR EMPRESA SOCIALMENTE RESPONSABLE

APOYAMOS EL PACTO GLOBAL

AXTEL