INTEGRATED ANNUAL REPORT

2015

axtel

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Letter to Shareholders

In 2015, at Axtel we continued to strengthen our growth strategy throughout the Mexican Information Technologies and Communication market, investing in cutting-edge technology, offering quality services, and meeting the expectations of our customers. At the same time, we contribute to improving the communities we work with. As part of this strategy, at the end of the year we announced the merger with Alestra, allowing us to constitute a stronger and more competitive company.

The financial results of 2015 position us as a company that works under a strategy of stability and profitability. This year, total revenues amounted to MXN $10.15 billion, four percent less than in 2014. The foregoing, due to factors such as the elimination of charges for domestic long distance in compliance with the Telecommunications Reform, which entered into force on January 1, 2015.

Regardless of the revenue shortfall, gross profit was MXN $7.85 billion, five percent more than registered in 2014; while adjusted EBITDA amounted to MXN $3.13 billion, compared to MXN $3.02 billion in 2014. Regarding the market we serve, we ended the year with 1,371,000 Revenue Generating Units (RGUs).

In order to meet the demand and to position ourselves with greater strength within the Mexican market, in the last quarter of 2015 we announced the merger with Alestra, a subsidiary of ALFA, a transaction completed in February 2016. In this way we created a new entity still keeping the name Axtel, which trademarks are Axtel, serving the consumer market, and Alestra, serving the corporate and government market. This strategic decision combines the best of both companies, allowing us to have greater capacity to offer products and services.

Pro forma combined revenues of the new entity exceed MXN $16 billion, with a portfolio of more than half a million customers in all segments. It employs directly 7,000 people and indirectly more than 30,000 throughout the value chain.

We have also continued driving social, environmental, and corporate government issues during this year, as we have in previous years. This has placed us as one of 30 companies forming part of the Mexican Stock Exchange's Sustainable CPI for the fourth year running.

We continue to offer services to the most disadvantaged communities in Mexico, with coverage and infrastructure for municipal and state governments in schools, hospitals, and libraries, providing Internet and telephone services at the lowest prices, and thereby encouraging social development.

As for environmental issues, in 2015 we voluntarily reported our greenhouse gas emissions to the Carbon Disclosure Project (CDP) in order to reaffirm our commitment to reduce the environmental impact of our operations, optimizing processes, using energy from renewable sources, and modernizing our fleet. In 2015, the Axtel Foundation celebrated 10 years of contributing to the community, providing resources and support to various institutions throughout Mexico. Among the achievements of the year stands out the fact that more than 1,100 employees joined our volunteer programs, allowing us to benefit 11,946 people.

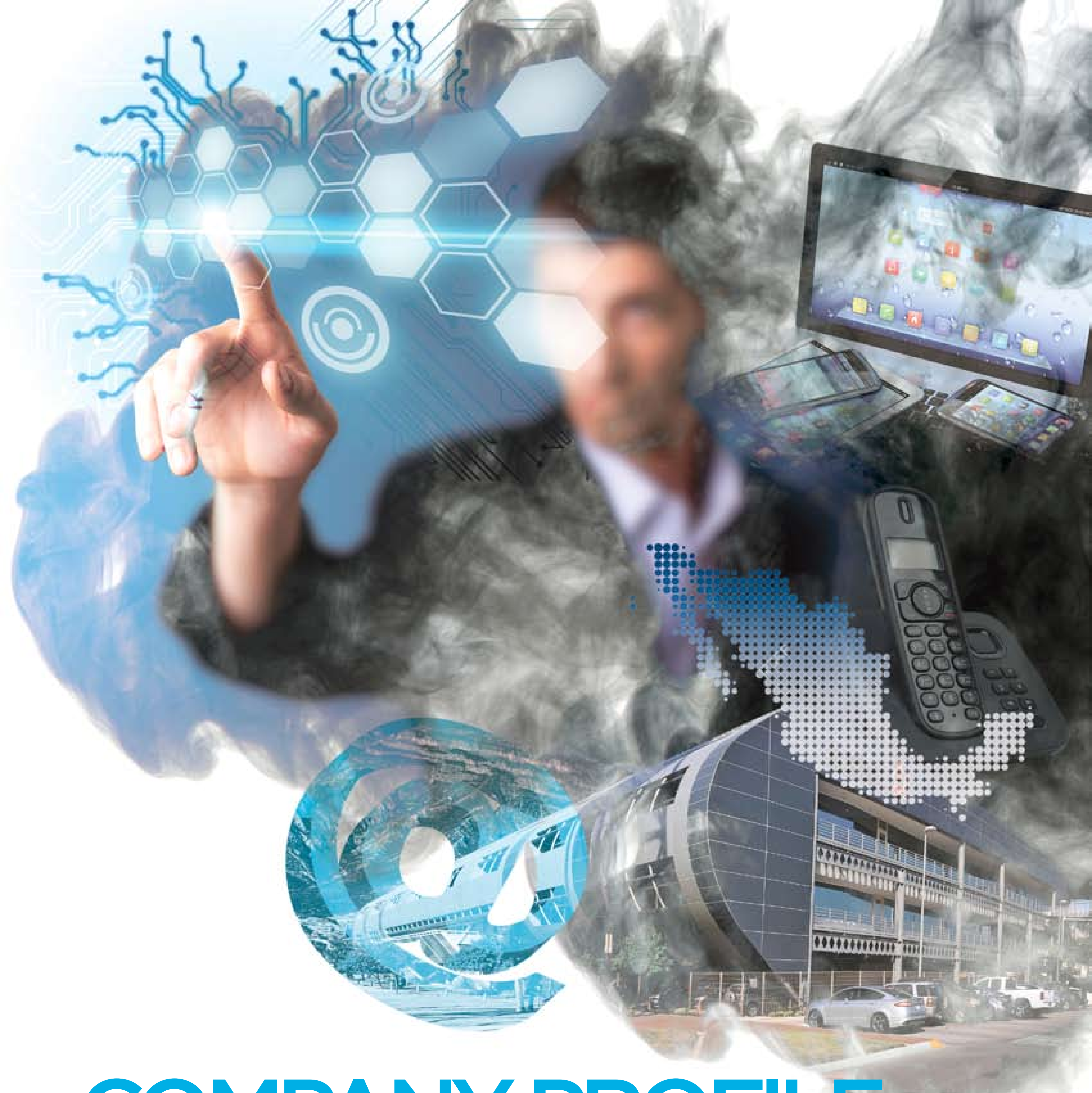
Dear shareholders, the initiatives undertaken in 2015 have enabled us to consolidate as a leading Information Technology and Communication company in Mexico. Therefore, we commit ourselves to keep working with professionalism and passion, offering the best state-of-the-art Telecom and Informatics solutions nationwide, so that our growth and profitability remain constant in the coming years.

We thank all our stakeholders for the trust they have placed in Axtel
and all employees who work in this company with pride.

San Pedro Garza García, N.L., México, March 4th, 2016

ÁLVARO FERNÁNDEZ GARZA
Co-President of the Board of Directors

TOMÁS MILMO SANTOS
Co-President of the Board of Directors

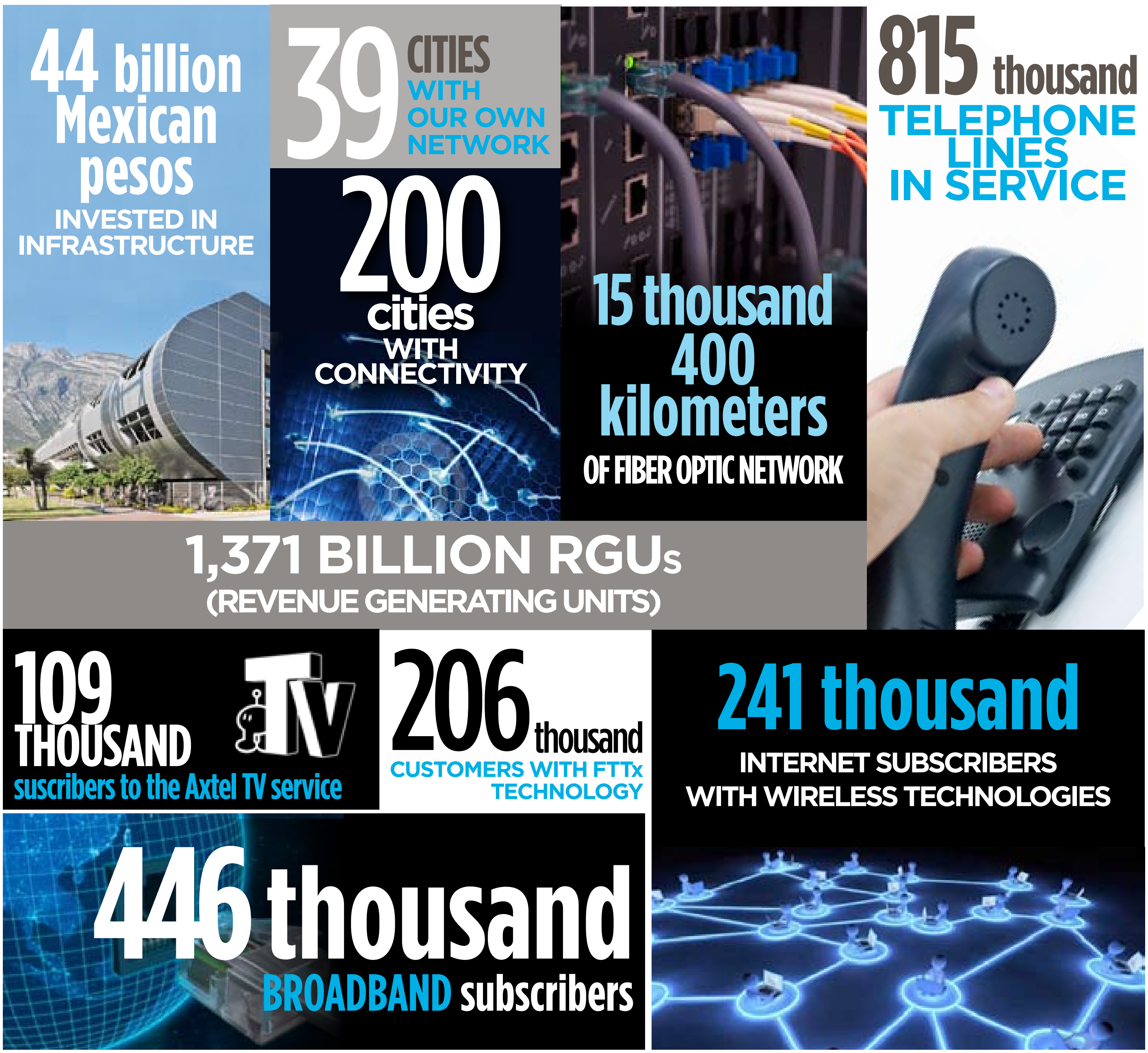


COMPANY PROFILE

We seek to contribute to a more sustainable future with our working and environmental practices, providing innovative solutions in an HONEST, ETHICAL, and RESPONSIBLE way, which bring access to Information and Communication Technologies within reach of everyone in society.

Global Sustainability Strategy

Relevant data 2015



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Axtel Profile

Modern telecommunications allow people to connect anywhere on the Planet, bringing us closer to what is most important, and contributing to improving quality of life, while also bringing social and economic benefits to Mexico.

At Axtel, we offer Information and Communication Technologies (ICT) for the most important markets in Mexico: business, government, small and medium business, and residential, with a robust offer of solutions, backed up by a network infrastructure of 39 thousand 751 kilometers and 6 thousand 500 square meters of white floor that support our portfolio.

Since 2015, our business has been working on an important organizational change which was finalized on February 15, 2016. From this date, Axtel became a subsidiary of Alfa, which holds 51 percent of its capital. The merger between Alestra and Axtel has led to the formation of an organization with the capacity to create greater value for all our stakeholders. We now have two commercial brands: Alestra, which offers business and government services; and Axtel, which deals with residential and small businesses.

We continue to uphold our commitment to providing sustainable development in all our operations. In 2011 we adhered to the United Nations Global Compact, the biggest social responsibility initiative in the world; since 2013 we have formed part of the Sustainable CPI of the Mexican Stock Market (BMV, by its name in Spanish); we have been recognized as a Socially Responsible Business by CEMEFI since 2008; and since 2013 we have held a Certificate of Environmental Quality Business issued by PROFEPA.

We are listed on the Mexican Stock Market since 2005 with shares represented by Certificates of Ordinary Participation (COPs) under the name “AXTELCPO”.

Website:
www.axtelcorp.mx

Website of our offer for business and government markets:
www.alestra.mx

Website of our commercial offer for mass market
www.axtel.mx

Our activities are supported by various areas which allow us to best handle the markets we serve. These are the Data Centers, Operation Centers, Sperto Centers, an Innovation Hub, and the Contact Centers.

DATA CENTERS

These offer a safe and reliable space to accommodate servers, storage equipment, and applications, with the highest quality technology and operational efficiency which allows us to ensure their function thanks to resources of infrastructure, systems, processes, and highly-specialized personnel.

These efficiently integrate functions, processes, tools, and people to offer technology, operation, and administration, as well as a diverse range of services, solutions, equipment, and infrastructure which support our offer. We have Network, Security, IT Administration Services, Helpdesk, and System Support Service Operation Centers, as well as a National Repair Center, Business Care Center, Work Center and Video Operation Center.

OPERATION CENTERS

SPERTO CENTERS

These are centers dedicated to existing and potential business and government customers who are users of Information and Communication Technologies, and their aim is to help them analyze their needs and evaluate how their business can be transformed. They are located in Monterrey, Mexico City, and Querétaro.

This is located in the Monterrey Innovation and Technology Campus and has two unique spaces to motivate creativity, encourage collaboration, and generate ideas, converting them into valuable solutions through applying and developing technology: Business Innovation and Technology Innovation.

INNOVATION HUB

CONTACT CENTERS

Specialized in interaction with customers, they offer telephony operations, automatic call distribution, and systems integration to administrate solutions with an excellent level of availability and service, from highly-qualified staff.

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Axtel Services

- **39 thousand 751 total km** of network
- **28 thousand 150 km** of Long Distance (LD) transport network
- **5 thousand 730 km** of metropolitan network
- **5 thousand 871 km** of FTTx network

MISSION

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

VISION

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

TEAMWORK... Our Strength

We are certain of the power of synergies, so we gain our strength through coordinated teamwork and constant communication, in order to achieve a common aim.

RESPECT... Our Commitment

People are our most valuable asset, so we encourage personal and professional development based on an inclusive and respectful environment.

CUSTOMER FOCUS... What Distinguishes Us

We understand that our customers are the center of our business, so we focus on reaching goals to exceed their expectations, seeking their permanent satisfaction, enabling us to form long-term relationships.

INNOVATION... Our Passion

Our passion is innovation, so we are constantly seeking new ways of doing things, always thinking towards the future and keeping simplicity and agility as our priorities.

QUALITY... Our Standard

We are an organization of excellence, so we have established superior standards that govern all our practices, to ensure optimum quality in all our processes and services.

INTEGRITY... Our Pillar

Our operation is based on the transparency of all our actions, and in forging relationships of trust, thereby generating a permanent commitment to society, contributing to its reinforcement.

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Corporate Governance

The highest body regulating our Corporate Governance is the Board of Directors, made up of leaders and experts in the Information and Communication Technologies industry. Their joint efforts and experience helps Axtel to be a company of excellence which seeks to generate value for its stakeholders and ensure its sustainability over time.

Under the Stock Market Law and the current status of the Society, the Board of Directors is integrated by 13 board members and four alternates who are in functions since the date of the merging. Today six board members and one alternate member are independent for complying with the Stock Market Law requirements. The Audit and Corporate Practices Committee is integrated by three independent board members and an independent alternate member.

Álvaro Fernández Garza and Tomás Milmo Santos are Co-Presidents of the Board of Directors of Axtel, carrying out management, leadership, and business execution for the company, according to the policies, strategies, and guidelines approved by the Board of Directors.

Board members and their respective alternates were designated in the General Shareholders Meeting by owners of shares with limited or restricted voting rights, which individually or in conjunction have 10 percent of the company's capital. Election is made based on article 26 of the Stock Market Law (LMV, by its name in Spanish), taking into account their experience, skills, and professional prestige, whose performance is evaluated at least once a year.

The president of the committee who carries out functions in terms of company practices and audit is designated and/or removed from its role exclusively by the General Shareholders Meeting, and may not preside over the Board of Directors.

The process by which the Board of Directors prevents and manages conflicts of interest is established in the social statutes of Axtel under the Authorization of Acquisition of Stock.

Among the primary functions of the Board of Directors are:

- **Administrate, identify,** and **mitigate** potential risks both internal and external to which Axtel is exposed.
- **Establish** and **manage** the business strategy.
- **Monitor** compliance with current laws, including the Stock Market Law (LMV).
- **Approve** policies, guidelines, and significant operations, including loan and guarantee policies.
- **Name** the CEO, managers, and other officials of Axtel, and indicate their faculties, obligations, working conditions, and remunerations.
- **Formulate** internal working regulations.
- **Name** and **remove** external auditors for the company, establish the Audit and Corporate Practice Committee, and define guidelines for internal control and audit.
- **Review** accounting policies, financial statements, and the presentation of reports to the General Shareholders Meeting, among others.

Board of Directors

SALVADOR ALVA GÓMEZ (1A)
June 4, 1951

Axtel Board Member since February 2016. President of the ITESM System. Member of the Boards of Endeavor and Proeza.

ALEJANDRO MIGUEL ELIZONDO BARRAGÁN (2)
October 14, 1953

Board Member for Axtel since February 2016. Director of Development for Alfa. Board Member for Arca Continental, Banregio Grupo Financiero, Indelpro, and Polioles.

ÁLVARO FERNÁNDEZ GARZA (2)
March 27, 1968

Co-Chair of Axtel's Board of Directors since February 2016. CEO of Alfa. Board Member of Alfa, Alpek, Nemak, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, Monterrey University (UDEM), Georgetown University (Latin American Board), and the Monterrey Museum of Contemporary Art. Chairman of the Advisory Board of the Roberto Garza Sada Center at the UDEM.

FRANCISCO GARZA EGLOFF (1)

September 5, 1954

Board Member for Axtel since February 2016. CEO of Arca Continental. Board Member for Grupo Industrial Saltillo, Grupo AIEn, Banco Banregio, and Banco Holandés Rabobank, as well as for the Engineering and Architecture Division at Tecnológico de Monterrey and for the UANL Foundation.

JUAN IGNACIO GARZA HERRERA (1)

November 26, 1966

Board Member for Axtel since February 2016. CEO of Xignux. Board Member for BBVA Bancomer (Northeast Region), the Mexican Board of Businessmen (CMHN), the University of Monterrey, ICONN, Cleber, and the Instituto Nuevo Amanecer.

ARMANDO GARZA SADA (2)

June 29, 1957

Board Member for Axtel since February 2016. Chairman of the Board of Directors for Alfa, Alpek, and Nemak. Board Member for Cemex, FEMSA, Frisa Industrias, Grupo Financiero Banorte, Grupo Lamosa, Liverpool, Proeza, and ITESM.

FERNANDO ÁNGEL GONZÁLEZ OLIVIERI (2)

October 2, 1954

Executive Vice-president of Finance and Administration CEO of CEMEX..

BERNARDO GUERRA TREVIÑO (1A)

February 24, 1965

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

RAMÓN ALBERTO LEAL CHAPA (2)

May 31, 1969

Board Member for Axtel since February 2016. CFO of Alfa. Member of the Executive Board for the UDEM.

ENRIQUE MEYER GUZMÁN (1A)

January 7, 1960

Board Member for Axtel since February 2016. CEO of Cemix and Ovniver. Board Member for the University of Monterrey, Bancomer, Banamex, the Institute of Technology and Higher Education at Monterrey, EGADE, Farmacias Benavides, and CAINTRA.

TOMÁS MILMO SANTOS (2)

November 3, 1964

Co-chair of the Board of Directors for Axtel. Board Member for Cemex, the Institute of Technology and Higher Education at Monterrey, and Promotora Ambiental. He chairs the Board of Tec Salud and the Citizen Educational Alliance for Nuevo León.

THOMAS LORENZO MILMO ZAMBRANO (2)

July 9, 1935

Was Co-founder and Chairman of the Board for Grupo Javer and Incasa, Chairman of the Board of Directors and CEO of Carbonífera San Patricio and Carbón Industrial.

PAULINO JOSÉ RODRÍGUEZ MENDIVIL (2)

April 21, 1951

Board Member for Axtel since February 2016. Director of Human Capital and Services for Alfa. Board Member for Campofrío Food Group. Member of the National Board for COPARMEX and the Business Coordinator Board.

RICARDO SALDÍVAR ESCAJADILLO (1)

November 21, 1953

Board Member for Axtel since February 2016. Chairman and CEO of The Home Depot Mexico. Board Member for FEMSA, Cluster de Vivienda Monterrey, Asociación Nacional de Tiendas de Autoservicio y Departamentales (ANTAD), the American Chamber of Commerce, División Monterrey and the ITESM's Talent and Culture Committee.

ALBERTO SANTOS BOESCH (2)

August 26, 1971

CEO of Empresas Santos. Board Member for Grupo Tres Vidas Acapulco, Grupo Maseca, Interpuerto de Monterrey, Fundación Santos y de la Garza Evia, Instituto Nuevo Amanecer, UDIA A.C., and En Nuestras Manos.

(1) Independent Board Member
(2) Proprietary Board Member
(A) Audit and Corporate Practices Committee

Alternate Board Members

JOSÉ ANTONIO GONZÁLEZ FLORES (2)
May 5, 1970

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

PATRICIO JIMÉNEZ BARRERA (2)
October 29, 1965

Board Member for the Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega.

MAURICIO MORALES SADA (1)
September 6, 1961

Axtel Alternate Board Member since February 2016. Chairman and founder of MG Capital. Executive Committee Member for ITESM's Business Development Program.

MARIO HUMBERTO PÁEZ GONZÁLEZ (2)
October 28, 1950

Axtel Alternate Board Member since February 2016. CEO of Sigma Alimentos. Board Member for Campofrío Food Group.

(1) Independent Board Member
(2) Proprietary Board Member
(A) Audit and Corporate Practices Committee

G4-2, G4-14, G4-45, G4-46, G4-47

Risk Management

Like any company, at Axtel we are exposed to both internal and external risks which may have repercussions on our company's performance if they are not identified and dealt with in a timely manner. We therefore have methods in place which allow us to identify and adequately analyze these risks.

We carry out these methods through Internal Audit area, part of General Management, which is responsible for monitoring Axtel's Internal Control System.

During 2015, 20 relevant risks in 31 processes were identified, of which 100 percent were reviewed promptly, concluding that they did not influence the performance of our company.

Along 2015 the Board of Directors met on four occasions, in order to analyze impacts, risks, and opportunities of economic, social, or environmental nature, as well as other relevant topics for the business.

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Axtel Operational Structure

AXTEL OPERATIONAL STRUCTURE		
SUBSIDIARY	ACTIVITY	PERCENTAGE OF OWNERSHIP
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 servicess	**100%**
Axtel Capital S. de R.L. de C.V. ("Axtel Capital")	Administrative services	**100%**

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MANAGEMENT TEAM

ROLANDO ZUBIRÁN SHETLER
63 years

CEO OF AXTEL

- Acted as CEO of Alestra from 1999 through February 2016.
- With more than 30 years of experience in the Latin American telecommunications market, he has held various management positions in Mexico, Brazil, and Argentina.
- He is an Industrial Engineer trained at the National Autonomous University of Mexico, he has a Master's of Science in Operations Research from the University of Southern California, and he is a Doctor in Philosophy, specialized in Management, by the Autonomous University of Nuevo León.

ROGELIO ANCIRA GARZA
46 years

EXECUTIVE DIRECTOR OF TECHNOLOGY AND INNOVATION

- Prior to joining Axtel, he worked as Director of Technology and Innovation at Alestra, a company which he joined in 1996, and where he held positions of Director of the Small Business and Consumer Unit and Director of Systems.
- He has a Bachelor's in Computational Systems Management from the Monterrey Institute of Technology and Higher Education, and a Master's in Management from the University of Austin, Texas.

ADRIÁN CUADROS GUTIÉRREZ
45 years

EXECUTIVE DIRECTOR OF COMMERCIAL IT

- Before joining this company, he worked for Alestra since 1996, where he was responsible for IT Sales Management and Director of Sales for Institutional Accounts.
- He is a graduate of Engineering in Electronics and Communications from the Monterrey Institute of Technology and Higher Education, and holds a Master's in Management from ITESM, as well as having completed the Executive Program at IPADE.

FELIPE CARLOS CANALES TIJERINA
57 years

EXECUTIVE DIRECTOR OF FINANCE

- Held this role at Axtel from 2009 through January 2016.
- He was Director of Finances and Management at Sigma, a subsidiary business of Alfa.
- He held various executive positions during his 30-year career at Alfa.
- He was a member of the Board of Directors at Alestra, Director of Corporate Planning and Financial Studies, and Corporate Treasurer for Alfa Corporate.
- He graduated in Industrial Engineering from the Monterrey Institute of Technology and Higher Education, and has a Master's in Business Management from Wharton School at the University of Pennsylvania.

ANDRÉS E. CORDOVEZ FERRETTO
47 years

EXECUTIVE DIRECTOR OF INFRASTRUCTURE AND OPERATIONS

- Acted as Executive Director of Technology and Operations at Axtel from 2013 through January 2016.
- Before this, he was Director of Information Technology and Processes.
- During his 24 years of professional experience, he has held various executive positions in diverse national and multinational telecommunications, financial, and service companies.
- He is a Computational Systems Engineer trained at the Monterrey Institute of Technology and Higher Education, and he holds a Diploma in Higher Management from IPADE.

ANTONIO DE NIGRIS SADA
50 years

EXECUTIVE DIRECTOR OF MASS MARKETS

- Held various positions within Axtel, such as Executive Director of Consumer Affairs, Northern Regional Director for the Mass Market, Director of Operations, and Director of Service Delivery at a national level since September 1999.
- Before joining Axtel, he acted as Director of Banking Business and Negotiations at BITAL (now HSBC) and in Financial Leasing Institutions (Prime Internacional).
- He graduated as an Industrial Engineer from Anáhuac University.

BERNARDO GARCÍA REYNOSO
57 years

EXECUTIVE DIRECTOR FOR PLANNING AND DEVELOPMENT

- From Alfa, which he joined in 1985, he came to Alestra in 1996 and performed various roles such as Director of Business Sales, Unit Director of Residential Business, Director of Sales to Large Businesses and Affiliates, Director of Sales Management and Commercial Strategy, Director of Strategic Alliances, Sub-Director of Human Resource Planning, and Director of Management and Human Resources.
- He is a graduate of Industrial and Systems Engineering from the Monterrey Institute of Technology and Higher Education, and he has a Master's in Business Management from the IMD Business School in Lausanne, Switzerland.

ALEJANDRO IRIGOYEN RÍOS
63 years

EXECUTIVE DIRECTOR OF SYSTEMS AND PROCESSES

- Previously formed part of the Alfa Group which he joined in 1975, and Alestra, which he joined.
- In 1996 and where he acted as Director of Operations and Systems and as leader of the Innovation Program.
- He holds a Bachelor's in Engineering and Business Management from the Autonomous University of Nuevo León, and a Master's in Science from the University of Utah; he also completed IPADE's AD2 Executive Business Program.

RICARDO J. HINOJOSA GONZÁLEZ
49 years

EXECUTIVE DIRECTOR OF BUSINESS MARKET

- Formed part of Alfa which he joined in 1988. Later, in 1997, he joined Alestra, where he acted as Commercial and Marketing Director and held various executive positions in the areas of Marketing, Corporate Sales, and Planning and Control.
- He is Computational Systems Engineer trained at the Monterrey Institute of Technology and Higher Education, and he has a Master's in Business specializing in Marketing from the University of California.

RAÚL ORTEGA IBARRA
59 years

EXECUTIVE LEGAL AND REGULATORY DIRECTOR

- Acted as Director of Regulatory Issues for AT&T in Mexico and joined Alestra in 1996, where he had responsibility in various areas such as the International Business and Communications Unit.
- He is a graduate of Public Accounting from the Ibero-American University, with studies in Political Economic and Management at Stanford University.

JOSÉ ELOY VALERIO TREVIÑO
55 years

EXECUTIVE DIRECTOR OF HUMAN CAPITAL

- He has 30 years' work experience, 20 of which are in director roles. He was the Chairman of the Executive Association of Human Resources (ERIAC), Board Secretary for the North American Human Resource Management Association (NAHRMA), and Board Member for academic, governmental and non-governmental organizations.
- Within Axtel, he was Director of Human Resources, Executive Director for Management and Human Resources, and Executive Director of Talent and Organizational Culture.
- He has a Bachelor's in Management from the Autonomous University of Nuevo León and a Master's in Management from the Monterrey Institute of Technology and Higher Education.

ARTURO VÁZQUEZ SILVEYRA
46 years

EXECUTIVE DIRECTOR OF STRATEGIC GOVERNMENT ACCOUNTS

- Joined Axtel in 1999 where he acted as Business Sales Manager and formed a commercial business sales team.
- During a 16-year career at Axtel he held various executive positions in Corporate Sales and Customer Service in the Northwest.
- He has been Director of Sales and Service of Monterrey, Business and Government Sales and Service for the North, and Federal, State, and Municipal Government Sales and Service. He is a Board Member for COPARMEX, the N.L. American Chamber of Commerce, CANIETI, CIAPEM, and CUDI.
- He is an Engineer in Computational Systems trained at the Universidad Regiomontana, and has a Master's in Business Management from ITESM.

Directors' Benefit Scheme

COMPONENT	OBJECTIVE AND ALIGNMENT WITH STRATEGY	DESCRIPTION
BASE SALARY	To attract and retain talent	Salaries are reviewed annually based on business results, macroeconomic environment, salary surveys, and performance.
FIXED REMUNERATION (BENEFITS)	To meet with the legal framework and ensure competitiveness in the market.	Christmas bonus, vacation pay, grocery vouchers, and car bonus.
VARIABLE COMPENSATION	To remunerate for meeting individual and group objectives. To reinforce the Management Team's alignment with the interests of shareholders, and ensure competitiveness regarding the market.	Quarterly and annual bonus scheme in accordance with meeting operational and strategic objectives.
SOCIAL BENEFITS	To provide stability to the executive and face any contingencies. To retain talent.	Insurance for major medical expenses, life insurance, emergency medical insurance, and checkups.

G4-35

Audit and Corporate Practice Committee

The Audit and Corporate Practice Committee is responsible for monitoring the company's management, financial and administrative conduction and execution. It is the body that advises Internal and External Audit of actions to take related to important financial issues, avoids conflicts of interest at the highest level of governance, and maintains communication of directives with the Board of Directors, to which it directly reports.

It is made up of four independent members:
Bernardo Guerra Treviño (president), Salvador Alva Gómez, Enrique Meyer Guzmán, Mauricio Morales Sada (alternate), and Carlos Jiménez Barrera (secretary, without the character of board member).

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Sustainability Management

Inside the Executive Management of Talent and Culture lies the Sustainability Management, which periodically reports progress on objectives set out during the year around economic, environmental, and social matters to the Board of Directors.

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Business Ethics and Human Rights

Our Code of Ethics covers the highest standards of personal and working ethics, under which directors, managers, and employees must govern their actions in relation to the company.

The Code provides a guide on subjects related to behavior at work, communication, conflicts of interest, hiring staff, handling confidential information, environmental responsibility, promotion and sales, and it also defines ethical obligations towards the company, investors, customers, creditors, suppliers, competitors, government, and the authorities.

In order to manage the correct application of the Code of Ethics, Axtel has a Transparency Mailbox available to its employees, customers, suppliers, shareholders, investors, the community, and all stakeholders. This is a mechanism to report possible irregularities and non-compliance with our policies, procedures, guidelines, and Code of Ethics, and it is available 24 hours a day, 365 days a year.

The Transparency Mailbox allows us to consolidate an atmosphere of transparency, integrity, and ethics in all our actions. Complaints received are reviewed by the Audit Department for follow-up and resolution, ensuring the confidentiality and privacy of personal information of whoever submitted the comments.

These reports may be submitted anonymously and are confidential. Available channels for communication are:

E-mail:
transparenciaaxtel@axtel.com.mx
buzon@alfa.com.mx

Free telephone numbers:
01 800 087 0909
01 800 265 2532
1 866 482 1957 (UNITED STATES AND CANADA)

For timely follow-up, reports are reviewed by the responsible of Internal Audit.

Process for receipt and handling of complaints:

The complaint is lodged.

Internal Audit receives it.

The complaint is analyzed to establish sanctions in accordance with the Code of Ethics and Auditing procedures.

Sensitive cases are reviewed by the Internal Audit responsible.

Reports are prepared to be presented to the Management team and the Audit Committee.

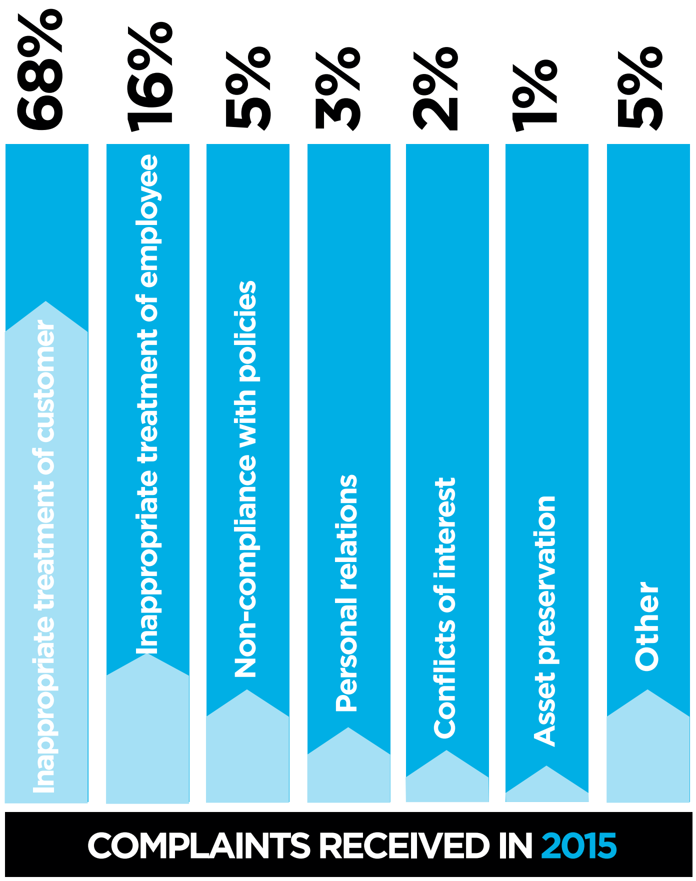
G4-50, G4-SO5, G4-SO7, G4-SO8

Complaints received during 2015

In 2015 we received 113 complaints which were handled and followed up. One of these did not proceed as it lacked grounds. During the fiscal year we received no complaints related to incidents of discrimination, nor for human rights reasons.

Also during the 2015 fiscal year, two cases of corruption were detected among staff, who were sanctioned but were not subject to prosecution. During this period, possible practices of a supplier against the Code of Ethics were assessed, which were highlighted during an audit.

We received no complaints about behavior of disloyal competition or monopolistic practices in 2015. Neither did we receive significant fines or sanctions for regulatory reasons, and we were not subject to sanctions against Axtel or Avantel derived from non-compliance with legislation or regulations on telecommunications from the Federal Telecommunications Institute or the Federal Commission of Economic Competition.



G4-HR2, G4-HR3, G4-HR4, G4-HR5, G4-HR6, G4-HR7, G4-HR9, G4-SO4, G4-SO5

At Axtel, we strive to drive the values we believe in, which we reinforce through training for all our employees. An example of this is the Axtel Code of Ethics course we have delivered since 2012, through which all participants gain knowledge of this important institutional document, in order to apply it to their daily work and behavior within the organization, including guidelines on anti-corruption practices. To date, more than 7 thousand employees have participated in this program and passed the course.

Furthermore, we deliver a course on Culture of Legality to security staff in Mexico City and Monterrey, in which 80 percent of the security staff we employ were trained. Also 600 employees in Service Delivery and Network and Infrastructure Maintenance (NIM) areas, attended a workshop on this subject.

We have an Internal Working Regulation formulated in compliance with the Federal Working Law of Mexico, which sets out sanctions for non-compliance with the Code of Ethics.

We have also developed a permanent inspection program for external contractors to ensure that their staff meets requirements for age, documentation, and personal protection equipment when carrying out interior and exterior installation work for us.

In terms of human rights, we reject any act of discrimination, child exploitation, or forced work, and we ensure that all people we work with are protected from abuse, coercion, and threats. This is maintained by our Code of Ethics and our policies for Diversion and Inclusion, Contracting and Hiring Personnel, as well as in our Transparency Mailbox.

SUSTAINABILITY

Everything we do at Axtel has the primary purpose of **INNOVATING** communication and information processes and technologies in order to connect the people and organizations we serve and contribute to a more **SUSTAINABLE** future.

G4-15

Sustainability Statement

We define sustainability as environmental, social, financial, and corporate governance practices which allow us to improve our corporate behavior in order to ensure our permanence in the market, conserve nature, and collaborate on the social development of Mexico, both now and in the future.

Our Model

We coordinate the ethical, social, and environmental performance of the company through our Sustainability Model and the Axtel Sustainability Policy.

Sustainability Strategies

Global Sustainability Strategy

We seek to contribute to a more sustainable future with our working and environmental practices, providing innovative solutions in an honest, ethical, and responsible way, which bring access to information and communication technologies within reach of the society.

1 Economic Strategy

Our commitment is to honestly run our technological, economic, and financial resources to operate efficiently under strict risk control and following legislation, which allows the successful and sustainable growth of the company.

2 Social Strategy

We encourage the sustainable development of our society, acting to benefit our employees and external communities, and providing them with tools which allow them to access better education and health opportunities, as well as an upstanding lifestyle.

3 Environmental Strategy

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

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

Materiality

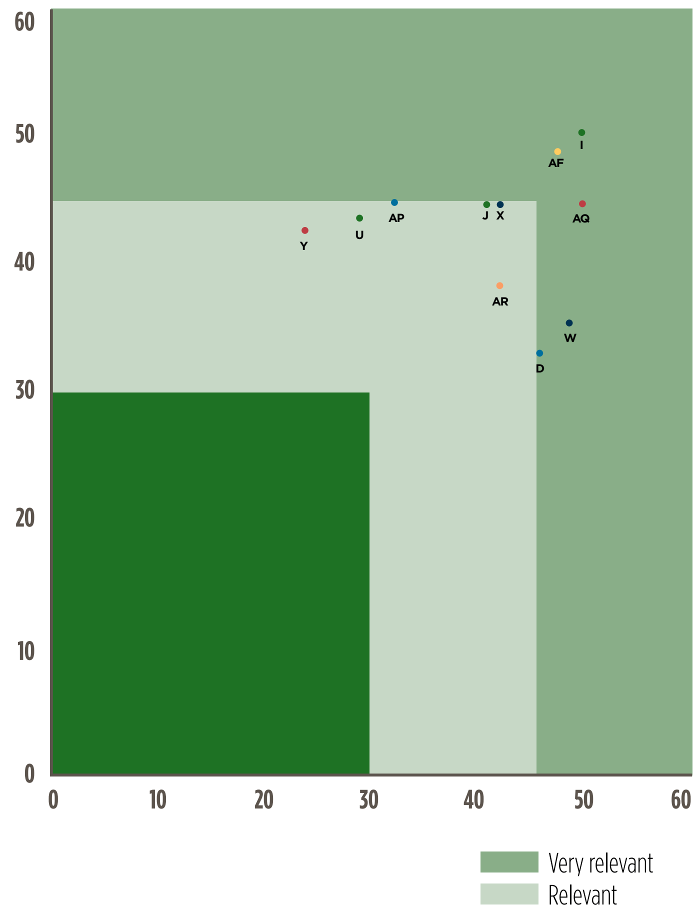
We consider that understanding the ethical, social, working, community, and environmental aspects is imperative for our strategic planning and establishment of goals. However, we know that it is extremely important to consult our stakeholders in order to hear their opinions and know whether we are on the right track with sustainability. As such, we carried out a massive consultation in 2015, with employees, customers, and managers of Axtel, in which 1 thousand 347 people participated.

The information gathered in that consultation exercise has allowed us to determine the content of our Report. We also considered the following sources to establish the most relevant aspects:

- Objectives and strategy of our business.
- Requirements of organizations and institutions such as the Mexican Stock Market (BMV, Sustainable CPI), the Carbon Disclosure Project (CDP), the Secretary for the Environment and Natural Resources (SEMARNAT), and the Federal Environmental Protection Agency (PROFEPA), among others.
- Global Reporting Initiative guidelines (GRI G4).
- Principles of the UN Global Compact.
- National and international sustainability initiatives such as the Global Standards Initiative (GSI) and Sustainalytics.
- Analysis of best sustainable practices for nine telecommunications companies at a national level.

The stakeholder consultation was done by means of personal interviews with 11 executive directors and Axtel area directors, and an online survey with a sample of employees and customers. The results of this consultation were prioritized and validated by the Sustainability Management and incorporated into management for its measurement and follow-up.

Axtel materiality matrix



SUSTAINABILITY

Very relevant themes

Key	Theme	Related indicators	Internal coverage	External coverage
D	Operate under ethical principles	G4-56, G4-SO3, G4-SO4,G4-SO5	X	X
I	Guarantee profitability of the company	G4-EC1, G4-EC2, G4-EC3, G4-EC4	X	-
W	Maintain communication with stakeholders	G4-24, G4-25, G4-26, G4-27	-	X
AF	Ensure customer satisfaction	G4-PR5	X	-
AQ	Axtel's Culture and Organizational Values	G4-56	X	-

Relevant themes

Key	Theme	Related indicators	Internal coverage	External coverage
J	Risk management of service interruptions	N/A	X	-
U	Consult communities on installation of infrastructure	IO 7 (Sector supplement)	-	X
X	Maintain a good relationship with communities	G4-24, G4-25, G4-26, G4-27	-	X
Y	Follow environmental laws	G4-EN29, G4-EN34	X	X
AP	Responsible communication and marketing	G4-PR3	X	X
AR	Axtel's sustainability model and policy	N/A	X	-

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

Stakeholders

At Axtel, we are keen to maintain communication with people who influence or are influenced by our organization, as such, we have created 10 broad groups with whom we have established suitable channels of communication in order to achieve an efficient bidirectional interaction.

Stakeholders	Current communication mechanisms	Expectations	Key themes or initiatives dealt with
Employees	Website Employee intranet Board meetings Meetings with Directors Mass media communications News and press releases Surveys and consultations Suppliers' portal Customer care centers Publicity Social networks	Recognition of results, training and professional development, health and wellbeing at work, salaries and competitive benefits, secure working conditions, innovation, and communication.	Annual 360° evaluation, alignment of objectives recognition of long service, volunteer, health, education, and leisure programs, personal security prevention programs, family day, results-based incentives, trade agreements for employees.
Shareholders and investors		Profitable and sustainable growth; transparency of information, rendering of accounts, director-level access, responsibility and consequences among decisions and results (accountability).	Strategic planning, external audit, identification of risks, solid corporate governance structure, and Code of Ethics.
Customers		Quality of service, prompt communication and care, reliable and timely information on offers for products and services, innovation, legality, price according to the value of the product, support and advice, and care for the environment.	Customer satisfaction model, release of information, service and sales via social networks, specialized post-sales service, service-trained staff, certification of contact centers, electronic billing.
Suppliers		Development of suppliers, diffusion of sustainable business practices, compliance with policies and legislation in force, and care for the environment.	Communication of anticorruption no-gift policies, Code of Ethics, environmental and social evaluation of suppliers.
Government and Regulatory Bodies		Compliance with applicable laws, rules, and regulations, investment, job creation, social health coverage, and analysis of proposed legislation.	Collaboration with authorities, compliance with legislation in force, participation in intermediary bodies. transparency.

<table>
<tr><th>Stakeholders</th><th>Current communication mechanisms</th><th>Expectations</th><th>Key themes or initiatives dealt with</th></tr>
<tr><td>Civil Society Groups and Organizations</td><td rowspan="5">Website
Employee intranet
Board meetings
Meetings with Directors
Mass media communications
News and press releases
Surveys and consultations
Suppliers' portal
Customer care centers
Publicity
Social networks</td><td>Alliances and support, feedback, contribution to social and economic development, job creation, and encouraging education.</td><td>Volunteer, participation in non-governmental bodies and mixed-representation social programs (government, private initiative, and community).</td></tr>
<tr><td>Competitors</td><td>Fair competition, compliance with agreements and standards, participation in committee and industry chambers, respect for legality and ethical actions.</td><td>Participation in sector forums and industry chambers, constant communication, and facilitation of dialogue.</td></tr>
<tr><td>Media</td><td>True and timely information, transparency, rendering of accounts, and compliance with legislation in force.</td><td>Constant dialogue and implementation of media relations program.</td></tr>
<tr><td>Communities</td><td>Protection of the environment, investment in social development projects, job creation, mutually beneficial relationships, effective communication channels, respect for dress and culture, and compliance with legislation in force.</td><td>Volunteer program, Axtel Foundation, participation in sector meetings.</td></tr>
<tr><td>Unions</td><td>Compliance with legislation in force and with the collective working contract, safe and secure working conditions.</td><td>Mixed comissions of health and safety participation in sector meetings, open and permanent channels of communication, periodic training, assurance of healthy and safe working conditions.</td></tr>
</table>

Social Bonding

As part of our relationship-building activities with communities, in December 2015 we organized our traditional Christmas campaign to collect bedspreads donated by our employees. More than 100 employees donated 722 bedspreads in Cancún, Mexico City, Ciudad Juárez, Ciudad Victoria, Chihuahua, Culiacán, Durango, Guadalajara, Hermosillo, Mexicali, Nuevo Laredo, Puebla, Tampico, Tijuana, and Torreón.

These bedspreads were delivered to different institutions who work with vulnerable population groups.

G4-12, G4-EC9, G4-EN32, G4-EN33, G4-LA14, G4-LA15, G4-HR4, G4-HR5, G4-HR6, G4-HR10, G4-HR11, G4-SO9, G4-SO10

Suppliers

Axtel's Supply Chain is a crucial factor in our operation and for the punctual and efficient delivery of our services. We nurture our relationships with suppliers and go through careful selection procedures to ensure continuity in product and service delivery.

We are supported by our Provider Selection Policy and we carry out continuous assessments and reviews both in warehouses and in the field to verify the quality of the materials being acquired.

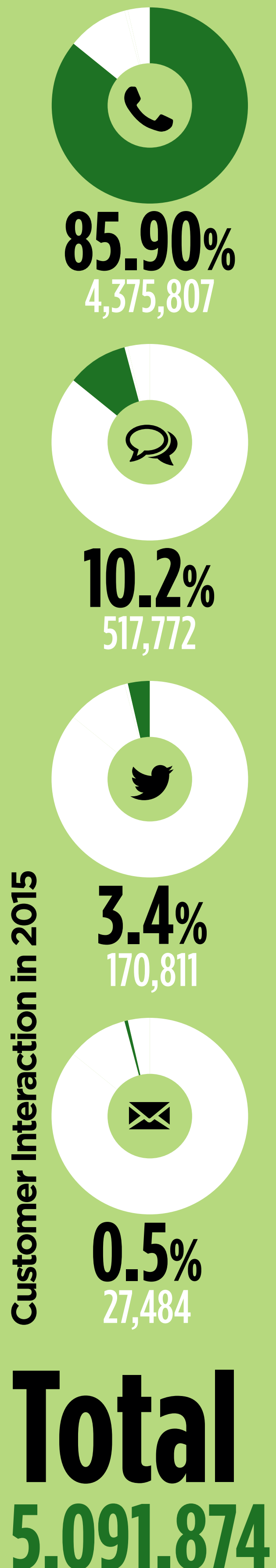
In 2015 we carried out transactions with 787 providers, 94 percent of which were Mexican and 6 percent were from outside the country, with a budget of 2,693 billion pesos (83 percent of the expenditure) and 541 million pesos (17 percent of expenditure) respectively. The 75 percent of the budget assigned to purchasing was spent with small and medium business (SMEs).

In 2015 we also carried out an exhaustive sustainability assessment of our main suppliers. This was carried out through an online survey in which 222 business participated (85 percent of them SMEs), representing 12.1 percent of total Axtel's Supply Chain. The group was assessed on environmental criteria, working practices, ethics, human rights, and social repercussions.

Among the most outstanding findings of this study, the following results were obtained:

- Some **97.74** percent are free of **child labor**; the remaining **2.26** percent offer contracts to **people aged between16 and 18 years old**, which is not breaking Mexican labor laws.
- Some **82.88** percent of suppliers have **non-discriminatory working practices**.
- Some **78.37** percent have policies or programs which guarantee **human rights**, and **100 percent** of them subscribe to compliance agreements for the Axtel Code of Ethics and Human Rights Policy, a crucial requirement for providing products and services to the company.
- Some **53.15** percent of suppliers have identified **environmental impacts**.
- Some **24.75** percent have community outreach **programs** in the areas where they operate.

This consultancy is a good reference for understanding the sustainable practices of our suppliers and establishing actions to support their development. As such, during 2016 we will be carrying out an approval process of the policies and processes aligned with Alfa in order to improve and optimize Axtel's relationship with the Supply Chain.



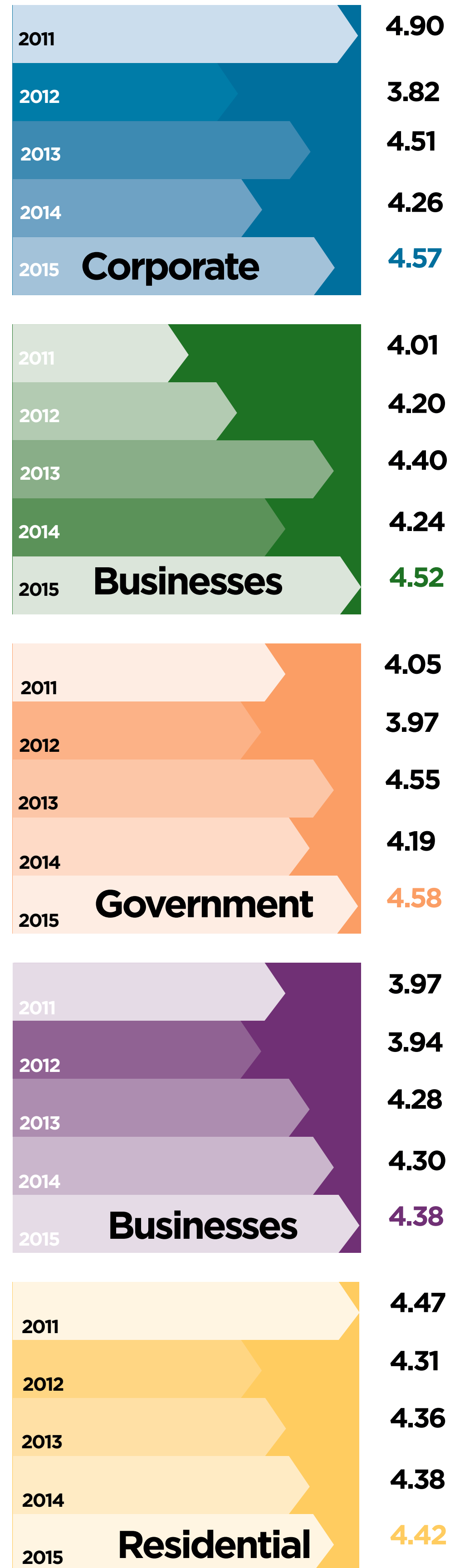
G4-PR5

Customer Satisfaction

Our business is centered on providing excellent services which meet the needs and requirements of our customers, and we therefore have communication mechanisms which allow us to maintain contact with anyone who expresses doubts, complaints, service failures, technical problems, opinions, or any other matters.

These access mechanisms are made up of mailboxes in the Personalized Service Modules, Customer Care Centers, the Website, social networks, and service calls.

Furthermore, we carried out phone surveys about our service in which participated 7 hundred 680 active Axtel customers who experienced pre-sales, sales, service delivery, customer service, dealing with service failure, use and functionality, billing and payments, and collections.



Quality

In terms of the quality of our processes, during October and November 2015, various studies were carried out to understand the status of productivity in the area of Axtel Service Delivery, with the support of engineering students from the Monterrey Technical Institute at Puebla and Monterrey Campuses, using Green Belt and Lean Six Sigma methodology.

The aim of the students' participation was to identify areas of opportunity to meet customer satisfaction, reducing the times and costs of different processes. These opportunities for improvement will be implemented soon by the Axtel Center for Excellence and Quality.

We will continue reinforcing our links with educational institutions such as this in order to offer young people the opportunity to get involved in real business problems and propose innovative solutions.

FOUNDATION

At Axtel we believe in young and enterprising talent, because we know that it is necessary for society to get better and better. We are not looking for direct **BENEFIT**, our calling is to support the community, generate **SOCIAL DEVELOPMENT** by seeking synergies with institutions we have a heartfelt connection with.

fundación axtel

G4-SO1

Actions and Commitments

The Axtel Foundation is the social investment mechanism by which we carry out our commitment to act beyond the responsibility of our own operation, with the aim of contributing from our reach to make Mexico a more solidary country.

The Axtel Foundation celebrated ten years of operation in 2015, time during which resources have been channeled to organizations who run community programs, supporting various causes aligned with environment, human, and community development, and with special interest in projects which center on young people.

In order to ensure objectivity when assigning resources, we hold a Tender for Co-investment in Social Projects through an annual call, in which we invite institutions to participate from all cities where Axtel operates.

As part of what we do, we also seek to transform the ways that civil society organizations think and act. Therefore, we help them develop supported proposals, while also driving them to measure their impact through generating reports, which in turn help us to follow up the support we provide.

CITY	BENEFITED PEOPLE
Acapulco	142
Aguascalientes	718
Cancún	102
Celaya	170
Chihuahua	300
Ciudad Juárez	269
Coatzacoalcos/Minatitlán	372
Cuernavaca	88
Ciudad Victoria	65
Culiacán	365
Durango	174
Guadalajara	248
Hermosillo	402
Irapuato	196
León	200
Mazatlán	194
Mérida	180
Mexicali	120
México-Uxmal	312
Morelia	345
Monterrey	3312
Pachuca	385
Puebla	70
Saltillo	50
San Juan del Río	220
San Luis Potosí	720
Tampico	180
Tijuana	450
Toluca	480
Torreón	190
Veracruz	250
Villahermosa	177
Zacatecas	500

AXTEL FOUNDATION

During 2015 we granted resources for 2.9 million pesos, which benefited 11 thousand 946 people in 33 cities.

Throughout this 10 year history, we have also responded to urgent necessities, such as natural disasters, moments during which we know that our intervention is extremely valuable for the community.

Another important aspect of the Axtel Foundation has been driving corporate volunteering. Through our connection with the world of business, we understand that part of our responsibility is also to inspire and involve our employees, who, since our foundation, have shared their time, knowledge, and heart to support different programs. This year we have organized 11 community events which involved 1 thousand 141 voluntary employees participating at a national level.

VOLUNTEER DAY

We held for the first time ever the Volunteer Day, an event organized by the Axtel Foundation involving 683 employees and 211 family members nationally.

These 894 volunteers cleaned, painted, and improved the infrastructure of public schools located in 34 cities throughout Mexico, benefiting 8 thousand 930 people. The event took place on November 7th and clocked up 3 thousand 848 hours of community service.

ONE THOUSAND 141

employees participated on different corporate volunteering activities held during the year.

Participating cities

Acapulco
Aguascalientes
Cancún
Celaya
Chihuahua
Ciudad Juárez
Coatzacoalcos/Minatitlán
Cuernavaca
Ciudad Victoria
Culiacán
Durango
Guadalajara
Hermosillo
Irapuato
León
Mazatlán
Mérida
Mexicali
México
Morelia
Monterrey
Pachuca
Puebla
Saltillo
San Juan del Río
San Luis Potosí
Tampico
Tijuana
Toluca
Torreón
Veracruz
Villahermosa
Zacatecas

We form part of various civil society organizations with similar goals to ours and which support similar causes: education, human development, and community development. In 2015, we participated with the Nuevo León Citizen Educational Alliance (AECNL, by its name in Spanish), Young Power, SumaRSE Network Nuevo León, and USAID's Program for Civic Coexistence.

Alianza Educativa Ciudadana por Nuevo León

Cause: Education
Location: Municipalities of Apodaca and Santa Catarina, N.L.
Duration of the project: 2011 to date
This organization coordinates government, business, and civil society efforts to improve the quality of education in the state of Nuevo León. Under this initiative, we adopted the "Adalberto Viesca Sada" Technical Junior High School No. 43 and the "Primero de Mayo" Elementary School, where we improved their infrastructure and equipment, and regenerated and cleaned areas in the schools with the support of Axtel volunteers.

Potencia Joven

Cause: Human development
Location: San Gilberto, Santa Catarina, N.L.
Duration of the project: 2013 to date
We created the Young Power project in conjunction with the Nuevo León Citizen Educational Alliance to attend young people who live in areas of high social risk, equipping them with tools to become agents of change. This project offers psychological treatment and family work to restore the social fabric of the community.

SUMA RSE NUEVO LEÓN

Cause: Community development
Location: Nuevo Leon
Duration: 2011 to date
This is an inter-sector alliance which drives programs of high social impact in synergy with all sectors of the community. As a result of the first intervention, 172 projects of development, empowerment, and citizen participation were launched, benefiting more than 5 thousand 400 people in three communities. We are currently starting initiative 2.0, which will work in six communities in the state for five years.

Strengthening the role of civil society as a strategic actor in the social prevention of violence and crime in conjunction with USAID's Program for Civic Coexistence

Cause: Institutional reinforcement of CSOs
Location: Mexico, Guadalajara, Merida, and Monterrey
Duration: June through December 2015
The Axtel Foundation made an alliance with USAID's Program for Civic Coexistence and acted as the training headquarters in the north of Mexico. In conjunction with the Merced Foundation, Corporate Foundations, the Yucatecan Entrepreneurship Foundation, Indigenous Women's Household Network, Childhood Rights Network, and the Community Radio Network, training was provided to 77 civil society organizations in 23 Mexican states.

Office for the Prevention of Violence and Crime in the Municipality of Guadalupe, N.L.

Cause: Social prevention of violence and crime
Location: Guadalupe, N.L.
Duration: September 2015 to date
The Axtel Foundation works linked to Axtel Volunteers with the activities in the municipality of Guadalupe, Nuevo Leon. Our volunteers participate in activities focused on social prevention, mostly through educational institutions.

Donation of service in contact center

Cause: Donation of Service
Location: Monterrey
Duration: January 2015 to date
The aim of this program is to donate service to civil society organizations with the aim of supporting them in our area of expertise. The pilot phase of this program concluded in 2015, during which we worked with the Instituto Nuevo Amanecer and Cáritas of Monterrey, providing them with services which resulted in great benefits related to: reduction of internal costs for telemarketing campaigns, collecting donations and increasing income from donations, increasing existing donors' loyalty to the organization, improving the image of the organization amongst donors, and database cleaning, among others.

SOCIAL PERSPECTIVE

We encourage the sustainable development of our society, acting to benefit OUR EMPLOYEES and external communities, and providing them with tools which allow them to access BETTER EDUCATION AND HEALTH OPPORTUNITIES, AND AN UPSTANDING LIFESTYLE.

Axtel Social Strategy

PRIORITY APPROACHES			
LABORAL WELLBEING	Promoting healthy habits among employees and their families.	Encouraging physical activity and to follow an adequate nutrition.	Promoting activities to balance work and family life.
CONTRIBUTION TO THE COMMUNITY	Christmas campaign to support communities in need.	Visits and support to civil society institutions to encourage a culture of solidarity between our employees.	Support campaigns in response to natural disasters.
SOCIAL INVESTMENT	Support through Axtel Foundation for projects which contribute to the social development of communities.	Corporate volunteering.	

Thanks to the effort and dedication of our employees, Axtel has established itself as an employer source which offers professional development and personal growth, seeking a healthy balance between work and family.

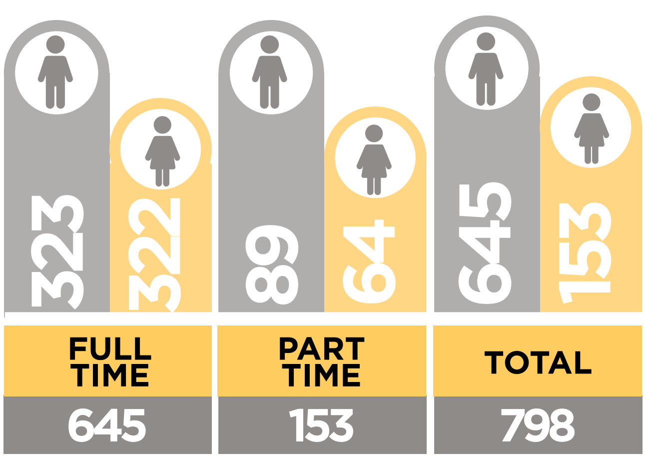
G4-9, G4-10, G4-11, G4-EC3, G4-EC5, G4-EC6, G4-LA1, G4-LA2, G4-LA3, G4-LA9, G4-LA12, G4-LA13, G4-LA14

Workforce

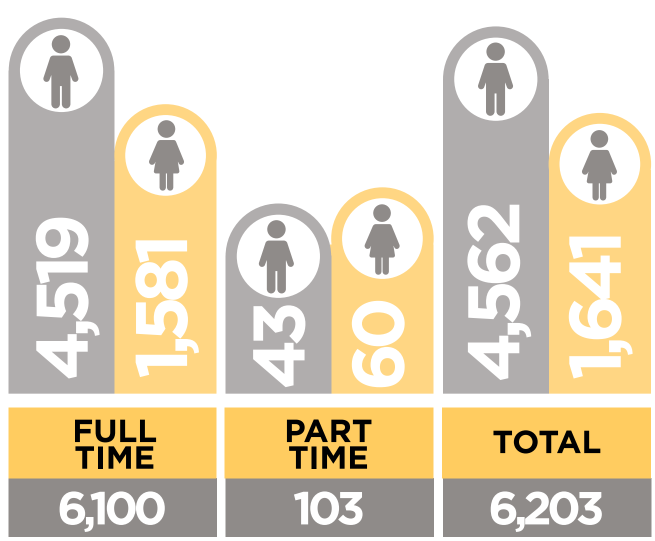
Our workforce is made up of men and women with diverse and complementary interests, skills, and knowledge; they all share one goal: to meet their working objectives in order to contribute, as a team, to the creation of a service offer which satisfies our customers' needs.

In 2015 we summed 7 thousand 001 employees in all cities where we operate, of which 2 thousand 027 are women and 4 thousand 974 are men.

Number of workers by contract type and sex



Number of permanent workers by contract type and sex



Number of workers by employment type, contract, region, and sex

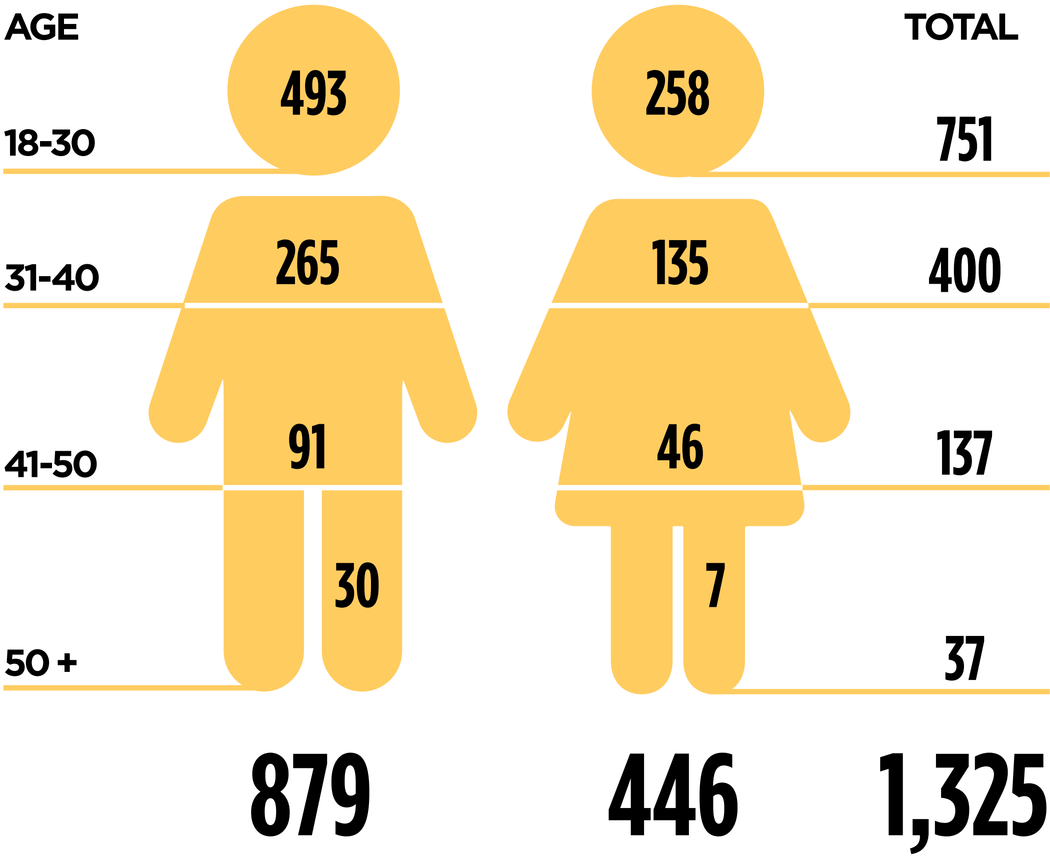
EMPLOYMENT TYPE / CONTRACT REGION	UNIONIZED* FULL TIME		NO UNIONIZED FULL TIME		NO UNIONIZED PART TIME		TOTAL
CENTRAL AND SOUTH MEXICO	459	459	1,304	967	0	0	1,763
		0		337		0	
WEST	257	257	1,067	661	95	57	1,419
		0		406		38	
NORTH	325	325	3,333	2,173	161	75	3,819
		0		1,160		86	
TOTAL	1,041		5,704		256		7,001

* Some 14.86 percent of our workforce is unionized. The minimum notice period for relevant issues is three months.

Employees by age, sex, and region

REGIÓN	AGES 18-30	AGES 31-40	AGES 41-50	AGES 50 +	TOTAL
CENTRAL AND SOUTH MEXICO	369	662	317	78	1,426
	103	163	60	11	337
WEST	522	321	112	20	975
	297	123	21	3	444
NORTH	837	1,081	556	99	2,573
	572	521	140	13	1,246
TOTAL	2,700	2,871	1,206	224	7,001

Labor turnover by age and sex

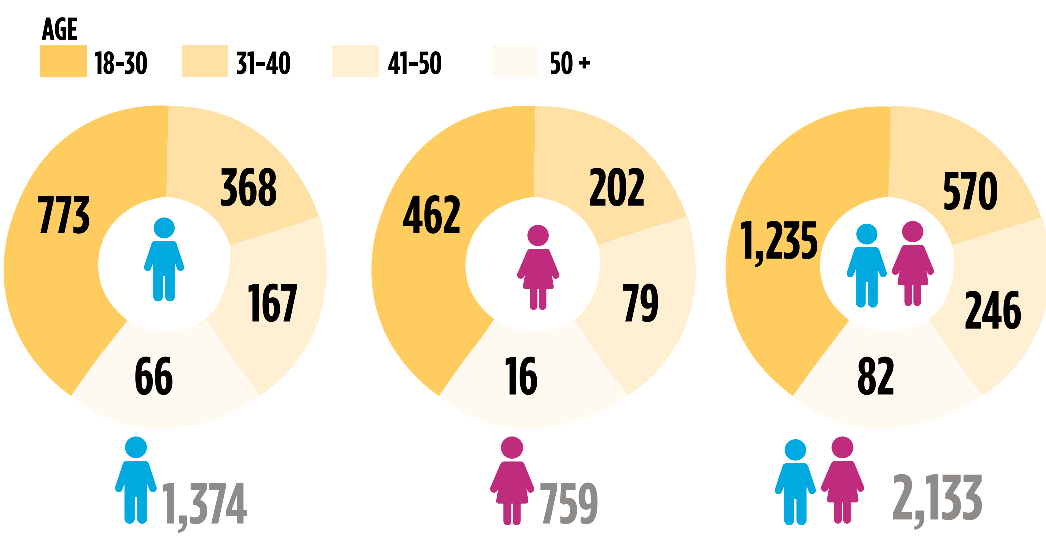


The annual turnover rate was 28.87%

During 2015, for various reasons, 1 thousand 325 employees terminated their working relationship with our company, under terms set out by the law. In that same year, 2 thousand 133 new jobs were taken up.

2,133 Total number of hired employees during 2015

Hired employees in 2015 by age and sex



We favor local development hiring people who come from those cities where Axtel has a presence. Of these, 1 thousand 895 are women and 4 thousand 627 are men.

Executives by geographical region

	Men	Women	Total
Executives from cities where Axtel has presence	4,627	1,895	6,522
Executives from cities where Axtel does not have presence	343	131	474
Executives from other countries	4	1	5
Total	4,974	2,027	7,001

The 84.5 percent of our directors work in the State they originally come from.

Breakdown of directors by age and sex

AGE		30-40	41-50	50 +	TOTAL
EXECUTIVE DIRECTORS	Men	0	3	5	8
	Women	0	0	0	0
DIRECTORS	Men	0	24	7	31
	Women	0	2	0	2
MANAGERS	Men	26	73	15	114
	Women	4	8	1	13

We offer our employees competitive salaries according to the market and above the minimum wage established in Mexico, which is MXN 70.10 pesos per day, exceeding that amount by 445 per cent, thereby ensuring dignified working conditions.

We have more than 80 agreements with suppliers of different products and services to offer preferential benefits to our employees and their families.

Relationship between starting salary at Axtel and minimum wage in Mexico

STARTING SALARY (Men)	STARTING SALARY (Women)	PERCENTAGE DIFFERENCE WITH MINIMUM WAGE
$9,360	$9,360	445%

Social benefits for full time employees

- 30 days of christmas bonus
- 100 percent vacation pay
- 13 percent in grocery vouchers
- Insurance for major medical expense
- Life insurance
- Savings account
- Maternity / paternity leave
- Disability / incapacity cover according to law

At Axtel we give benefits for maternity and paternity, with a very high rejoining rate for both cases.

Number of workers 2015

Employees who had the right to maternity/paternity leave by sex

NUMBER OF WORKERS	247	164	411

Employees who used their right to maternity/paternity leave by sex

NUMBER OF WORKERS	247	164	411

Employees who rejoined the workforce after their maternity/paternity leave by sex

NUMBER OF WORKERS	243	150	393

Employees who rejoined the workforce after their maternity/paternity leave by sex and who were still in their jobs after 12 months

NUMBER OF WORKERS	221	135	356

Rates of reincorporation into work and retention of employees who took maternity/paternity leave by sex

NUMBER OF WORKERS	91%	90 %	91%

We recognize the importance of a balance between work and family, and we are mindful of the difficulty some employees have in commuting to our offices. Since 2012, workers in some of our corporate offices have the option of working from home 15 days a month. We also offer a flexible working scheme where employees can choose their start and finish times according to certain conditions established in terms of their personal needs.

Thanks to this initiative, we encourage a conciliation of working and family life, at the same time we incentivize productivity and effective use of our equipment, and we generate financial savings on gasoline, which helps to reduce CO_2 emissions into the atmosphere.

G4-LA9, G4-LA10, G4-LA11

Training

Our industry and customers activity means constant changes in technology and in ways of doing things, and we therefore seek to update and develop the necessary skills for our employees to do their jobs efficiently.

We have several training options both in person and online, which make maximum use of abilities and contribute to providing a service of excellence.

In 2015 we offered an average of 7.49 hours of training to our employees.

Hours of training by sex and job type

	Men	Women	Total
Directors	30	10	40
Managers	984	701	1,685
Coordinators, deputies, leaders	12,448	5,022	17,470
Analysts	16,079	6,771	22,850
Installation technicians	10,429	0	10,429
Total	39,970	12,504	52,474

SOCIAL PERSPECTIVE

We offered 84 training courses on subjects of leadership, coaching, personal finances, communication, teamwork, personal development, recruitment and selection, and executive skills, attended by 2 thousand 561 people.

TYPE	SCOPE	# OF COURSES	PARTICIPANTS
Executive skills	Managers	1	12
Leadership skills and coaching	Middle managers	1	94
Administrative	Middle managers and employees	2	22
Development of skills	Middle managers and employees	25	789
Leadership	Middle managers and employees	18	946
Personal development	Middle managers and employees	37	698
Total		84	2,561

In 2015, 100 percent of our managerial and leadership staff's performance was evaluated.

Integral Employee Agenda

At Axtel, we hold cultural, educational, and teambuilding events for our employees and their families. Every year we celebrate Family Day, and 2015 was no exception, with 17 thousand 649 people attending the event. We also had an Education Fair attended by 320 employees, and a Health Fair attended by 3 thousand 890 people.

We also organized 74 educational events attended by 3 thousand 600 employees. These included subjects such as general education, stress management, personal habits, leadership, communication, teamwork, and personal development, among others.

As part of the Integral Employee Agenda, we encourage family, health, and educational activities for our employees and their families. During 2015, 6 thousand 562 people participated in these.

Number of attendees at health events for employees and their families

CAMPAIGN	2012	2013	2014	2015
Vaccination	938	1,056	2,320	1,920
Information and prevention	2,950	2,314	2,200	2,400
Family health	346	360	680	600
Various medical services	439	450	523	480
Women's health programs	262	350	572	620
Lectures	250	250	160	150
Nutrition campaigns	497	530	652	685

In 2014, we began our 26.9 Health Program, aimed at executives. According to the World Health Organization (WHO), 26.9 is the body mass index (BMI) required for good health. At Axtel, we are keen for our executives to maintain a healthy balance between their professional and personal lives, and so in 2015 we focused on a program of physical and educational health, and included feedback on work performance.

During 2015, 167 executives participated, of whom 62 percent had a BMI within normal range, compared to only 38 percent who were inside this rank in the previous year.

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

Comprehensive and Occupational Safety

In Axtel we have 79 Health and Safety committees who represent 100 percent of our employees. Through formal agreements, we cover all issues related to health and safety at work, such as the use of individual protective equipment; participation in inspections, audits, and accident investigations; and periodic inspections of our working centers.

In the Industrial Security Area, our accident record remained 12.29 percent lower to the average of the professional and technical services industry, in accordance with the Secretary of Labor and Social Welfare (STPS, by its name in Spanish). Regarding to the accident severity indicator, it was 20 percent lower than the national average registered in the STPS, accumulating so 5 consecutive years without fatal accidents. This was the result of our field collaborator's training program and 231 security talks given nationally in the different work centers of the company, and more than 347 recommendations issued by the 79 Security Commissions operating.

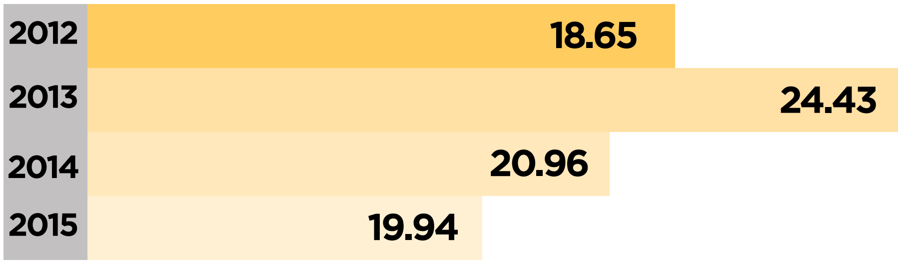
Absentee rates, occupational illnesses, working days lost, and fatalities by region in 2015

	NORTH		WEST		CENTRAL SOUTH		TOTAL
	Men	Women	Men	Women	Men	Women	
Accidents with injuries	53	11	51	4	31	0	150
Number of occupational illnesses	0	0	0	0	0	0	0
Number of accidents at work	53	11	51	4	31	0	150
Days lost	1,345	76	916	28	626	0	2,991
Fatalities	0	0	0	0	0	0	0

Absentee rates, occupational illnesses, and fatalities

	2012	2013	2014	2015
Number of accidents at work	133	139	144	150
Days lost	2,480	3,397	3,019	2,991
Number of occupational illnesses	0	0	0	0
Fatalities	0	0	0	0

Average number of days lost due to accidents



ENVIRONMENTAL PERSPECTIVE

We seek to reduce the negative impact of our operational practices on the ENVIRONMENT, reviewing our procedures, developing new TECHNOLOGIES, and improving our methods, in order to conserve RESOURCES and establish a harmonious relationship with Nature.

Environmental Sustainability Strategy

G4-EN27, G4-EN29, G4-EN34,

We have identified five focal points as a priority to meet our environmental sustainability strategy.

Emissions and energy	Control and reduction of greenhouse gases emissions.	Use of renewable energy sources.
Waste	Measurement and reduction of domestic, special, and hazardous waste.	Sending waste for containment, recycling, and reuse.
Water	Reduction of water consumption in offices and working centers.	
Infrastructure	Improvement of technological infrastructure through installing eco-efficient equipment.	Adoption of environmentally-friendly technologies and products for use in buildings and offices.
Environmental culture	Spreading the positive and negative environmental impact of our operations.	Encouraging an environmental culture among all employees by means of a permanent communication campaign, and with our customers through online billing in order to reduce printing on paper.

In order to improve our energy efficiency, save on water consumption, and reduce the emissions and waste we generate, we seek to encourage an environmental culture among our employees and their families, as well as suppliers, shareholders, and the communities where we have a presence.

At Axtel, we work under the guidelines of our Environmental Policy, applicable to all our operations and aligned with our Sustainability strategy, from where our Waste Management, Energy Saving, and Water Consumption policies are generated. This has contributed to Axtel not being subject to fines or other monetary sanctions due to breach of environmental laws or regulations in 2015, nor have environmental claims been made through formal mechanisms during the same year.

We have an environmental management system based on guidelines established by ISO 14001 standard and the Federal Prosecutor for Environmental Protection (PROFEPA, by its name in Spanish) which includes mapping of processes and forms which each area uses to collect information on environmental issues.

For the first time, we voluntarily participated in the **Carbon Disclosure Project (CDP)**, by reporting our greenhouse gas emissions. The results obtained by our performance place us first in the Mexican telecommunications sector, seventh place among the 10 Mexican businesses that report their emissions, and 19th out of all companies in Latin America.

For the second year running we also present the **Greenhouse Gas Reporting Protocol (GHG)** to the Secretary of the Environment and Natural Resources (SEMARNAT, by its name in Spanish) as part of the GEI Mexico Program, as well as the report of our fleet's greenhouse gas emissions, as we adhere to the **Clean Transport Program** promoted by SEMARNAT and the Secretary for Communications and Transport.

2015 progress on environmental goals

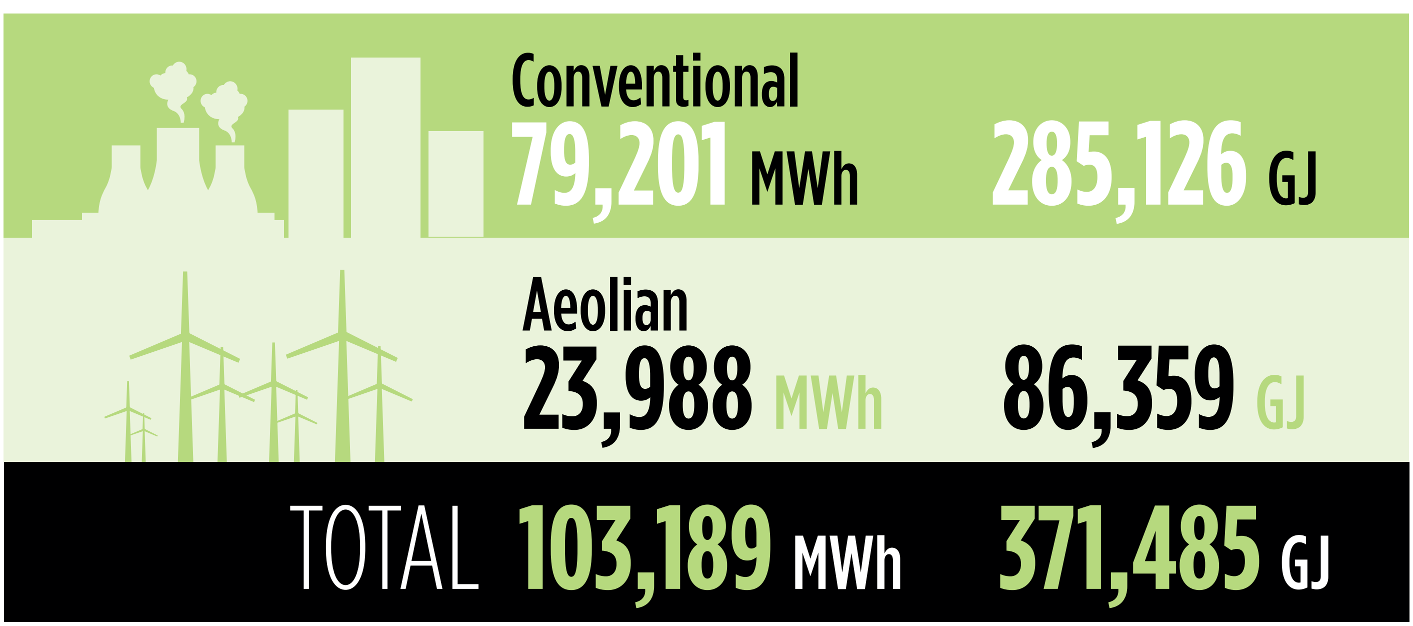
ASPECT	IMPACT	SCOPE	PERCENTAGE OF PROGRESS SINCE BASE YEAR (2012)	GOAL PERFORMANCE	REDUCTION GOAL FOR 2020	METHOD
Water	Low	National	—	—	5%	Changing to water saving faucets, internal water saving and care campaign.
Total emissions	Medium	National	33%		35%	Aeolian energy, reduction in fuel use.
Waste	Medium	National	76.13%		80%	Recycling program, paperless billing, communication campaign.
Fuel	Medium	National	32.82%		35%	Efficient routes, Clean Transport program, Carpool program.
Electrical energy	Medium	National	0.50%		0.50%	Changing lights, energy saving campaign.

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

Energy

Energy is one of our most important resources to provide the products and services we offer, and our most significant environmental impact is therefore centered on this area.

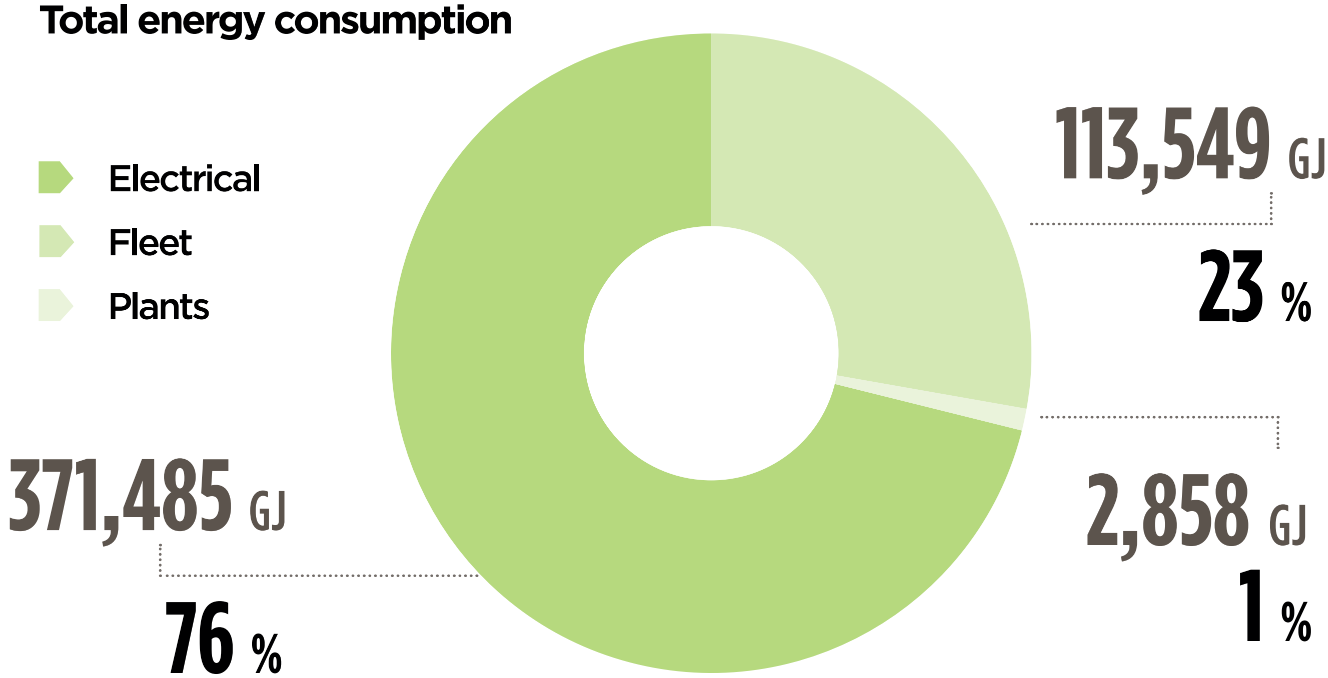
Energy consumption by source



Other energy type

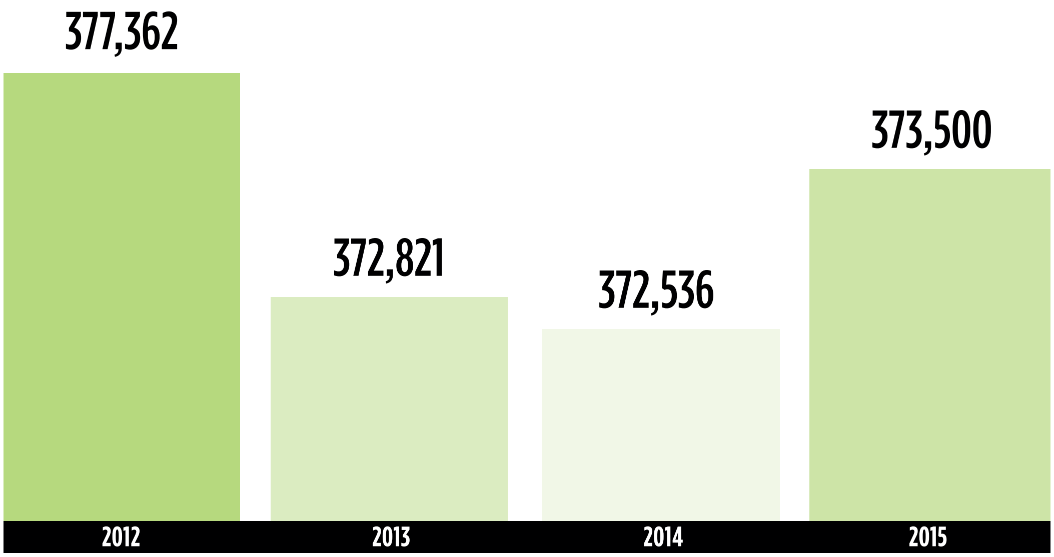
	Fleet	Electrical plants
Diesel	27,974 Lts 1,064 GJ	50,675 Lts 1,928 GJ
Gasoline	3,405,710 Lts 112,474 GJ	5,119 Lts 169 GJ
Gas	305 Lts 11 GJ	20,879 Lts 761 GJ

Total energy consumption



Total 487,892 GJ

Internal energy consumption (Gigajoules)



We have managed to achieve a 1.02 percent reduction in our **internal energy** consumption since the base year. One of our environmental sustainability goals is to reach 1.5 percent through implementing various energy saving initiatives in our operations.

At Axtel we measure our energy consumption per employee and per square meter in order to determine our efficiency and design or implement reduction initiatives.

Measuring energy consumption per employee and by square meter, added to fuel consumption, allows us to calculate emissions by unit, in order to determine the actual efficiency of our operations and corroborate the success of our initiatives.

Energy intensity[1]

	Indicator	Unit	Percentage of change
Per employee	14.74	MWh/employee	1.19%
Per square meter	0.77	MWh/m^2	14%

[1] In order to obtain indicators of energy intensity, we used consumption of both conventional electric and aeolian energy, as well as electricity-generating plants. The emissions produced by electric energy consumption and the electricity-generating plants were the base from which emissions per employee and square meter were obtained.

- **Employee:** 7 mil 001
- **Square meter:** 153,156.19 m^2 of the business, including buildings and base station

G4-EN15, G4-EN16, G4-EN17, G4-EN18, G4-EN19 y G4-EN30

Greenhouse Gas Emissions

At Axtel we are mindful that the environmental impact we generate is not only based on our operation, but also on the activities of our employees.

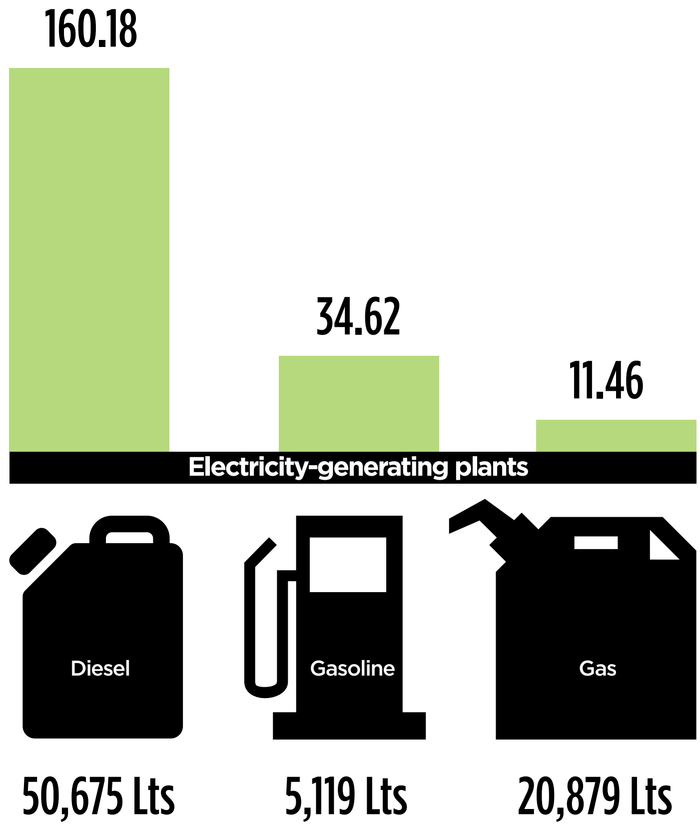
We generate emissions by using fuel (Scope 1), electrical energy consumption (Scope 2), and indirect emissions as a result of executive travel and employee commuting (scope 3).

Scope 1

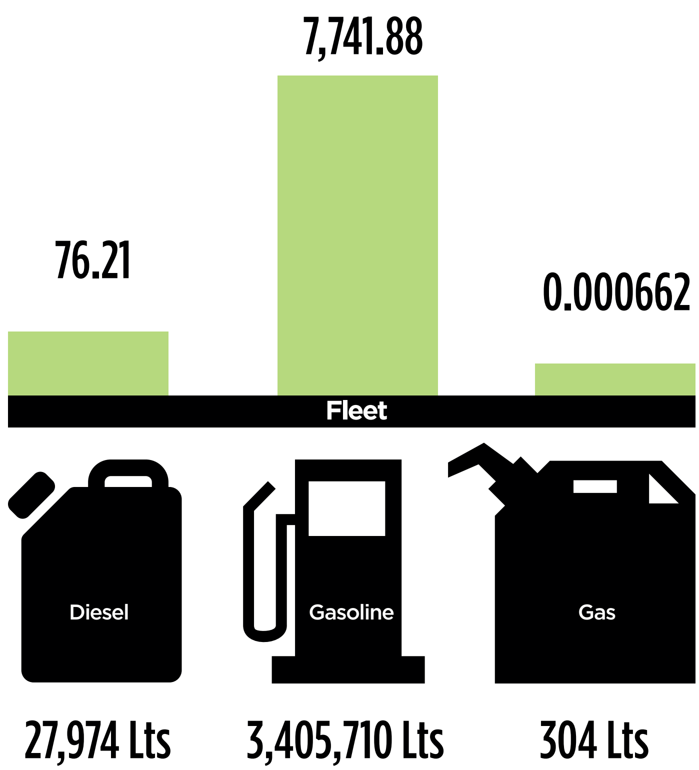
Regarding the fleet and the electrical plants (Scope 1), we calculated a reduction in consumption of 34 percent since the base year of 2012. Some 7 thousand 818 tons of CO_{2eq} emissions were generated by the fleet, which means a reduction of 507 tons of CO_{2eq} compared to 2014, thanks to route efficiency and improvement.

In order to combat climate change and improve efficiency in our operations, we have installed GPS in all of our **fleet** vehicles, configured to issue alerts for speed, permitted revolutions, hard braking, overtaking of other vehicles and define its career. Infractions are recorded on a virtual platform which helps to detect any need for driver training on sustainable driving practices. Technical disposals and methods have been implemented to control the units' speed, establishing a maximum motor speed, which allows a weekly consumption control, limited to 75 liters, generating important fuel, savings.

Emissions by fixed source (TonCO2eq)



Emissions by mobile source (TonCO2eq)

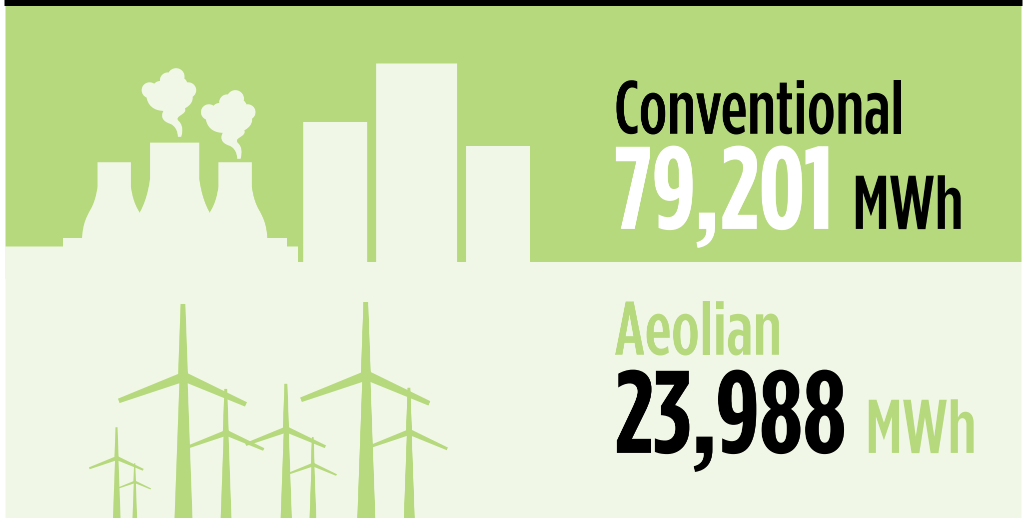


Scope 2

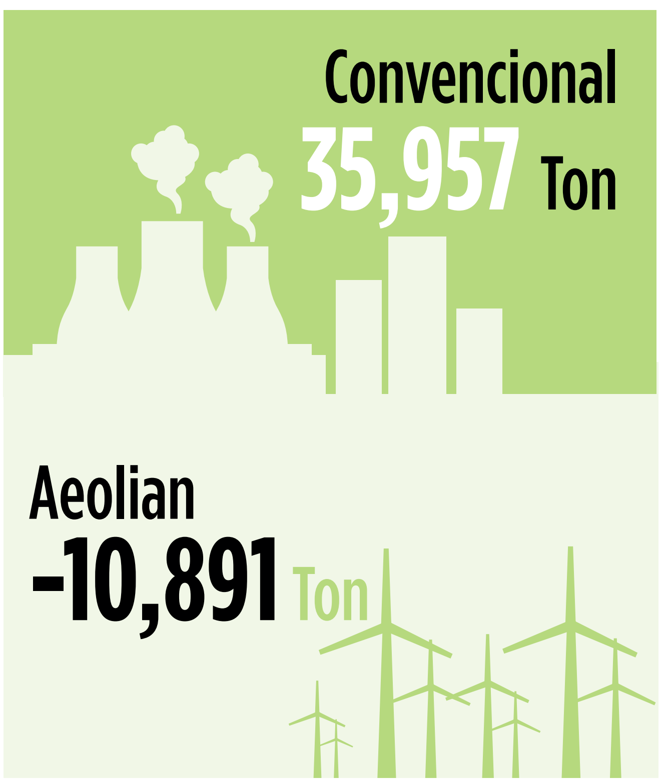
In 2015 various anomalies were seen in the CFE (Federal Electricity Commission) meters, because of which the adjustments made caused an increase in electric consumption nationally compared to 2014.

Thanks to our clean energy use, greenhouse gas emissions have been reduced by 32 percent since 2012. We incorporated aeolian energy into our processes in 2014, and in December 2015, we included geothermal energy, the benefits of which will be reflected until next year.

Electrical energy



Electrical energy emissions (TonCO$_{2eq}$)



Reinforcement Program for Electro-mechanical and Technological Infrastructure

In 2015 we invested 2 million 48 thousand dollars into the Reinforcement Program for Electro-mechanical and Technological Infrastructure, the aim of which is to replace obsolete equipment such as battery banks (US (1.17 million dollars), Power Distribution Units, PDUs (214.9 thousand dollars), lighting changes (73.3 thousand dollars), and air conditioning (583.8 thousand dollars).

This investment took place in 16 cities in Mexico, where more than a thousand pieces of equipment were replaced and sent for recycling, reuse, and disposal. We will continue replacing equipment in the first quarter of 2016, with a 800 thousand dollars investment planned.

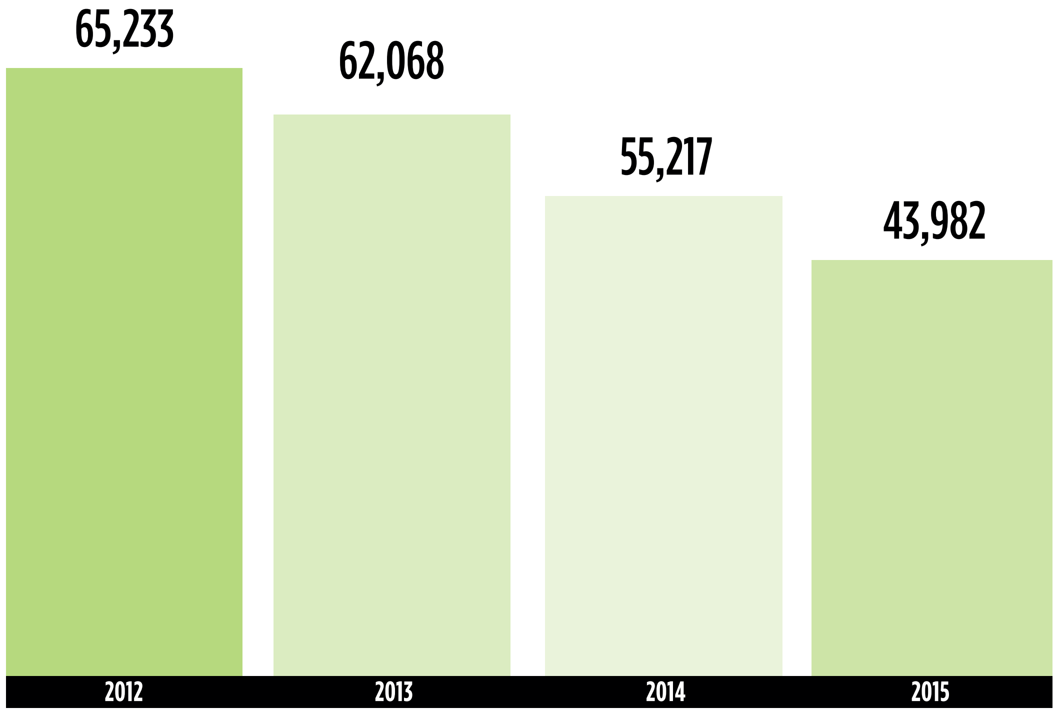
Thanks to this program, energy consumption will be reduced, as well as greenhouse gases by 2 percent per year nationally, in Data Centers, Hubs and Switches, and Network Maintenance and Infrastructure.

Furthermore, free cooling systems have been installed in the cities of Aguascalientes, Ciudad Juarez, Chihuahua, Guadalajara, Hermosillo, Leon, Matamoros, Mexico City, Monterrey, Puebla, Queretaro, Reynosa, San Luis Potosi, Tampico, Toluca, and Torreon to regulate the temperature in the Operation Centers.

Emissions reduction (Scope 1 and 2)

Our CO_{2eq} emissions have been reducing since 2012, and we have achieved a reduction of 33 percent (21 thousand 253 tons of CO_{2eq}). In 2015 we managed to reduce emissions by 11 thousand 253 tons of CO_{2eq} compared to 2014.

Emissions of CO_{2eq} Tons



Conscious about the impacts of our operation on the environment, we measure the intensity of our greenhouse gas emissions, in order to get a number that serves as a reference and help us determine any variation about the established indicator based on collaborators, square meters, fleet, and given services.

Intensity of emissions GHG[2]

	Indicator	Unit	Percentage of change
Per employee	6.28	Ton CO_2 /employee	21.5%
Per square meter	0.27	Ton CO_2/m^2	25.7%
Per fleet vehicle	4.01	Ton CO_2/vehicle	3.64%
Per service	0.010	Ton CO_2/service	6.93%

Percentage of change in indicators compared to 2014.

2 The emissions produced by conventional electric energy consumption and power generating plants were the base to obtain the emissions per employee and square meter.

For the indicator of emissions per fleet vehicle and service, we used emissions from fuel consumption by the fleet.

- **Employees:** 7 thousand 001
- **Meters squared:** 153,156.19 m2 of the business, including buildings and base stations
- **Fleet vehicles:** thousand 948 vehicles
- **Services:** 797 thousand 098 services

Scope 3

Emissions generated from executive travel and employee commuting (Scope 3) both nationally and internationally were 335 tons of CO_{2eq}.

We promote the use of technology and initiatives to reduce our employees moving around and thereby reducing CO_{2eq} emissions as a result as part of scope 3. In 2015 we formed part of the Carpool project, in which our employees coordinated their commute between home and work. With the 11 thousand 003 journeys recorded in Monterrey alone, we avoided the emission of 15.7 tons of CO_{2eq}. We are currently working on an internal application for staff use which will allow collective journeys to be made to and from work.

ENVIRONMENTAL PERSPECTIVE

[3] We started measuring greenhouse gas emissions in 2011. In 2012, we improved the data collection methodology leading to more reliable calculations. We therefore took 2012 as the base year.

Emission factors and methodologies used obtained from:

- *GHG emissions from 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).*
- *Stationary Combustion Tool, CESPEDES (2015).*
- *Transport Tool, CESPEDES (2015).*

G4-EN8, G4-EN9, G4-EN10, G4-EN22

Water

At Axtel we are aware of the importance of conserving water for future generations, and so in 2015, we installed water-saving faucets in our buildings' bathrooms and implemented an internal communication program of awareness about responsible water use.

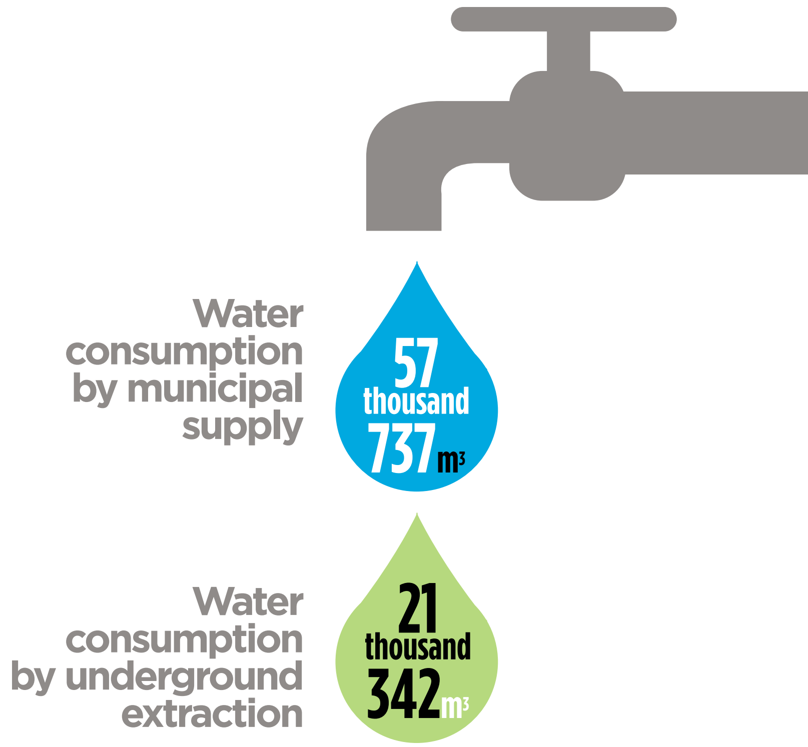
Water consumption was 79 thousand 079 m3 which was ultimately disposed of through sanitary drainage. In 2016, we propose to reduce consumption by 5 percent in our administrative facilities.

The results presented for previous years have variations due to a change in the measuring methodology.

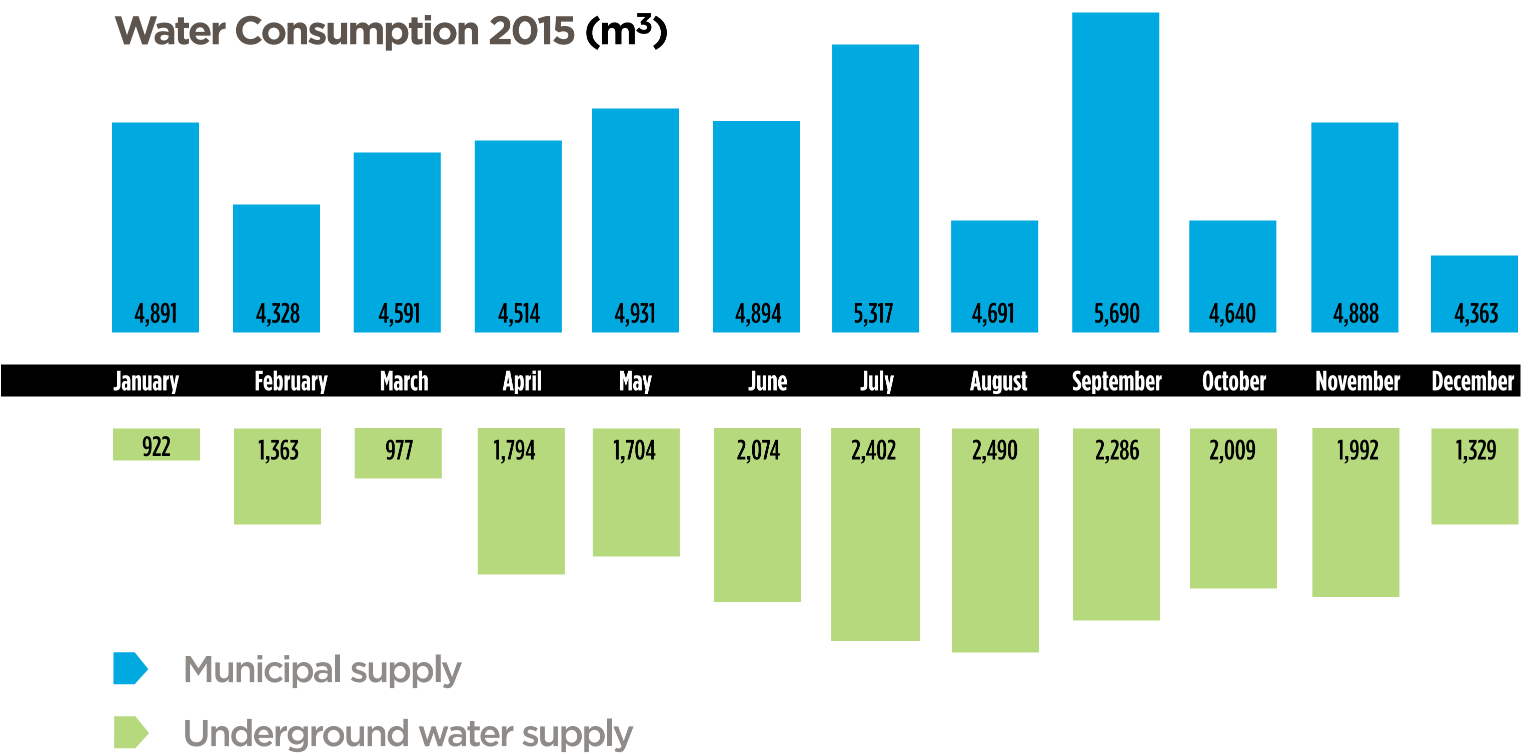
An example of the efforts we make to contribute to water conservation is our participation in the **Monterrey Metropolitan Water Fund (FAMM)** since 2013; this is a project made up of four universities, 23 businesses, 16 civil society organizations, and 16 government institutions.

The aim of the FAMM is to preserve ecosystems in the high basins and underground water filtration areas to ensure quality and quantity in water supply for the city of Monterrey, at the same time as reducing the risk of flooding disasters.

This Fund is part of the Latin American Alliance of Water Funds, created in 2011 by The Nature Conservancy, FEMSA Foundation, Inter-American Development Bank, and the Fund for the World Environment in order to create and strengthen Water Funds in the region.



Water Consumption 2015 (m³)



G4-EN1, G4-EN2, G4-EN23, G4-EN25, G4-EN28

Waste Management

We are constantly seeking to reduce waste production in our admin offices and waste of the materials we use in daily operations.

We base this on Official Mexican Regulations, legislation, and environmental regulations in force, as well as that established in our Waste Management Policy to collect, transport, and finally dispose of ink cartridges, toner, batteries, and computer equipment.

Materials used by weight and volume

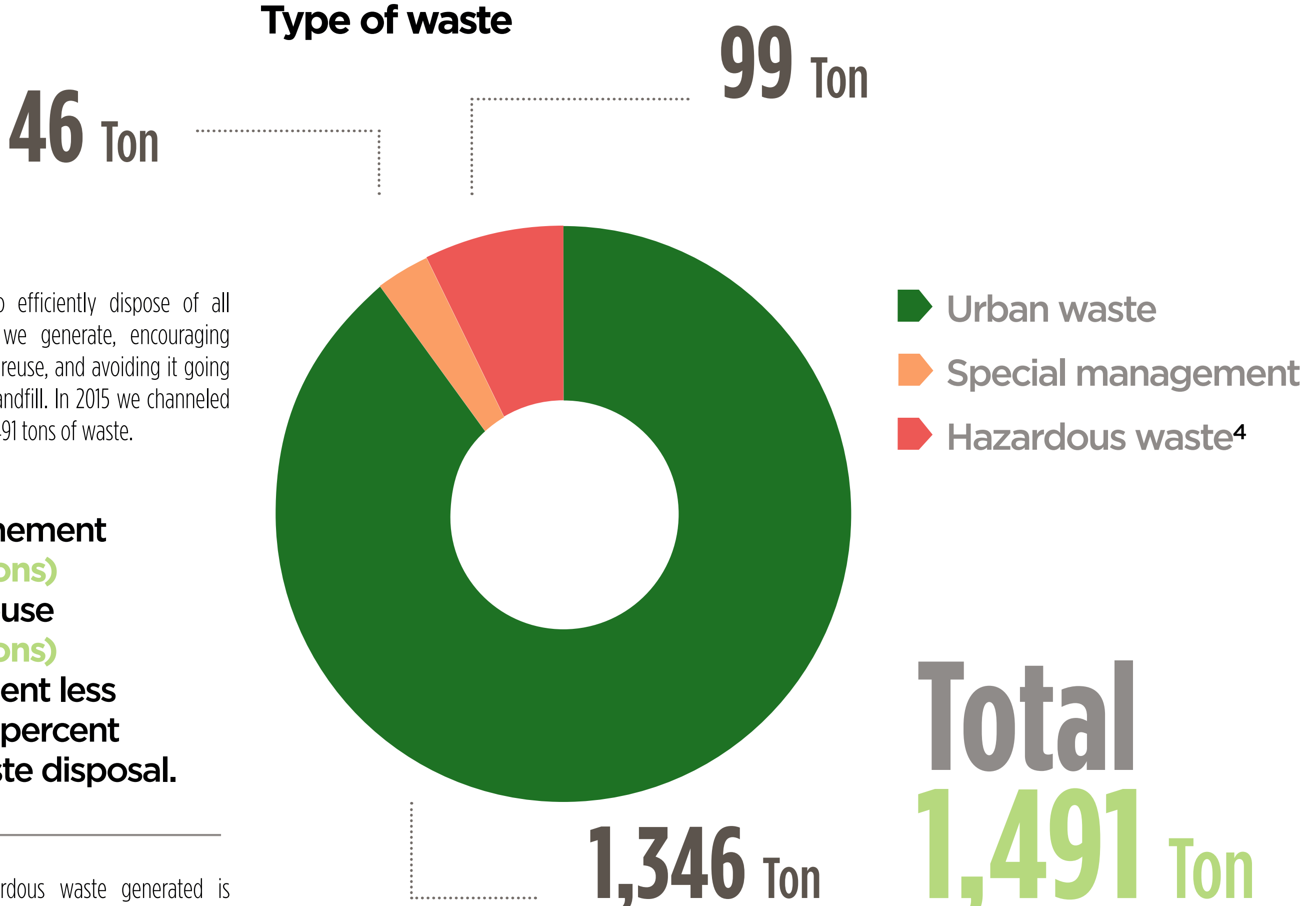
Renewable (Tons)	
Cardboard	17.17
Plastic	4.66
Aluminum/ Metals	68.08
Paper	3.56
Glass	1.25
Total	94.72 Ton

Non-Renewable (Liters)	
Diesel	78,649
LP gas	21,183
Gasoline	3,410,828
Total	3,510,660 Lts

Treatment method

		Urban waste	Special management	Hazardous waste	TOTAL
Recycling	13%	95	-	98	193
Reuse	0%	0	5.2	-	5
Landfill	3%	51	-	-	51
Garbage	81%	1,200	-	-	1,200
Containment	0%	-	4.8	0.09	5
Destruction	3%	-	36	0.78	37

Type of waste



We seek to efficiently dispose of all the waste we generate, encouraging recycling or reuse, and avoiding it going directly to landfill. In 2015 we channeled 1 thousand 491 tons of waste.

Confinement (4.8 Tons) and reuse (5.2 Tons) represent less than 1 percent of waste disposal.

Total 1,491 Ton

[4] Any hazardous waste generated is transported to Mina, Nuevo Leon for authorized and specialized confinement.

Initiatives launched to mitigate our environmental impact.

National Program for FTTx Equipment Recovery

This project started in 2015 to reuse FTTx (Fiber To The Home) equipment before it finishes its useful life.

It allowed us to reduce our negative impact on the environment through plastic and metal use, as well as consumption of non-renewable resources.

Thanks to this initiative, 132 thousand 979 pieces of equipment were recovered and reviewed, of which 86 percent were able to be reused, while the remaining 14 percent was diagnosed as irreparable and sent for responsible disposal for recovery of materials and recycling.

This program contributed to a reduction of waste generation by 8.2 percent nationally.

It was implemented in the cities of Aguascalientes, Ciudad Juarez, Guadalajara, Leon, Mexico, Monterrey, Puebla, Queretaro, San Luis Potosi, and Toluca.

Technology	Total pieces of equipment diagnosed	Total pieces of irreparable equipment	Percentage of equipment recovered
ONT (Optical Network Terminal) Fiber Optic Equipment.	74,540	8,716	88%
STB (Set-Top Box) Digital Receiver for TV	58,439	9,347	84%
Total	**132,979**	**18,064**	**86%**

Year	Tons of paper not printed
2011	4.16
2012	9.08
2013	16.86
2014	28.61
2015	34.29

Paperless Billing System

Electronic billing significantly increased in 2015, as 19 percent of our customers chose this initiative, which meant not having to print 3 million 265 thousand 430 bills in that year.

Since this program started in 2011, we have saved 93 tons of paper, as 54.4 percent of our bills are now sent electronically, saving an estimated 1 thousand 581 trees.

Total 93 Ton

FINANCIAL PERSPECTIVE

Our commitment is to HONESTLY run our technological, economic, and financial resources to operate efficiently under strict risk control and following legislation, which allows the successful and sustainable GROWTH of the company. Economic Sustainable Strategy

G4-EC1

Financial Performance

Over the past few years, Axtel's financial results have shown a trend of sustained growth, primarily due to our business strategy and discipline in financial management. 2015 was no exception, given that we recorded a gross profit of 7,851 million pesos, 5 percent more than recorded in the same period of the previous year.

In the business and government sector, we reported income of 5,820 million pesos, 15 percent more than in 2014, while in the consumer sector income reached 3,316 million pesos, 11 percent more than the previous year. In the data and network services, income of 2,018 million pesos were recorded, an increase of 6 percent from reported in 2014.

In terms of our operational flow or Adjusted UAFIRDA, we recorded 3,131 million pesos, 4 percent higher than the 3,023 million pesos reported in the same period for 2014. Furthermore, we totaled one million 371 thousand Revenue Generating Units (RGUs*) at the close of December 2015.

In terms of the subscriber database for Axtel TV, at the end of the year there were 109 thousand, 16 percent more than in 2014, while demand for subscription to Axtel X-tremo rose to 206 thousand, compared to 179 thousand reported the previous year.

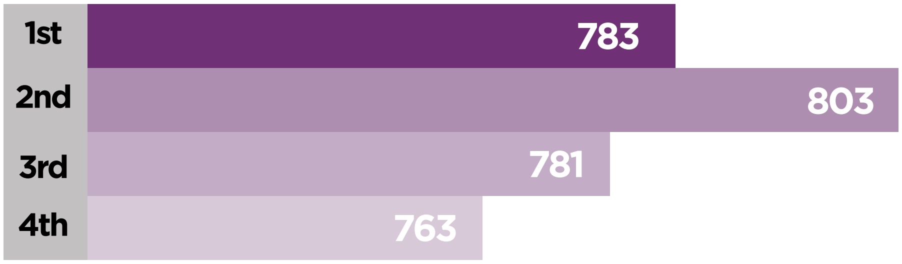
We are convinced that the trend for growth will remain, thanks to the new phase of our merger with Alestra. This new Company will certainly put us in a more solid competitive position which will bring greater perspectives for profitable and sustained growth.

- RGUs: the total number of phone lines, broadband Internet, and video subscribers which generate recurrent income for the business.

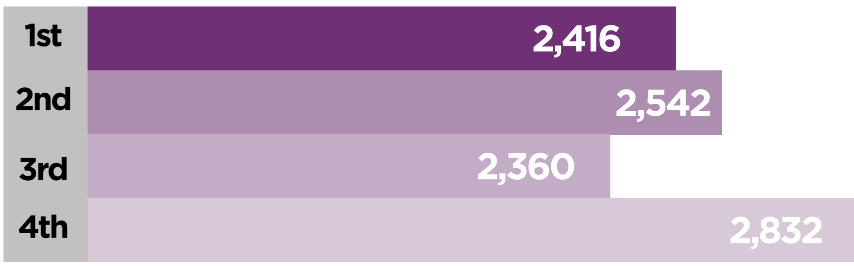
Outstanding Data

RESULTS (millions of pesos)	2015	2014	2013	201
Income	10,150	10,597	10,286	10,190
Profit (Loss) of operation	609	(500)	2,687	(535)
Net profit (Loss)	(1,718)	(1,919)	2,408	(709)
FINANCIAL SITUATION (MILLIONS OF PESOS)				
Total assets	21,929	20,985	19,883	20,500
Total debt	17,809	15,279	12,355	15,412
Shareholders' equity	4,120	5,706	7,528	5,088
CASH FLOW OF THE OPERATION (MILLIONS OF PESOS)				
Adjusted UAFIRDA	3,131	3,023	2,872	2,738
INDICATORS				
EBITDA / Income	30.8%	28.5%	27.9%	26.9%
Profit (Loss) of operation / Income	6.0%	-4.7%	26.1%	-5.2%
Net profit (loss) / income	-16.9%	-18.1%	23.4%	-7.0%
Interest coverage	2.5	3.5	3.3	2.6
Liabilities / Equity	4.3	2.7	1.6	3.0
Total staff	**7,001**	**6,900**	**6,791**	**6,541**

EBITDA per quarter (millions of pesos)



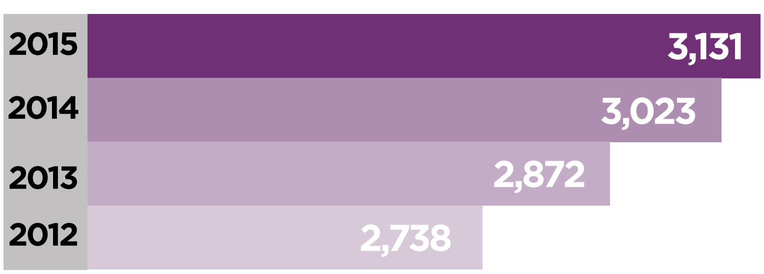
Sales per quarter (millions of pesos)



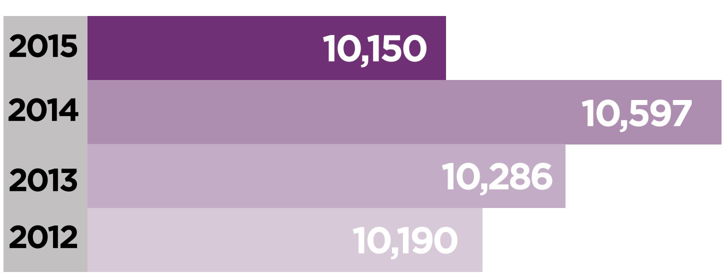
Broadband subscribers (thousands) per quarter RGUs

Financial performance reported to the Mexican Financial Information Standards (thousands of Mexican pesos)					
CONCEPT		**2012**	**2013**	**2014**	**2015**
Economic Generated Value (EGV)	Income	10,189,732	10,286,494	10,597,003	10,150,438
	Income from interest	21,967	16,229	16,615	36,929
	Other income	-	3,111,948	-	534,240
	(EGV)	10,211,699	13,414,671	10,613,618	10,721,607
Distributed Economic Value (DEV)	Operational costs	-2,854,785	-2,984,573	-3,097,105	-2,299,862
	Outsourcing	-425,474	-398,487	-400,168	-415,875
	Social benefits (Payroll and Derivatives)	-1,956,608	-1,759,615	-1,838,729	-1,939,511
	Taxes paid	-68,028	-75,380	-52,205	-85,964
	Payments to fund suppliers	-1,038,846	-756,135	-720,303	-1,165,405
	Investments in the community (Donations)	-14,702	-10,510	-12,984	-12,017
	Other expenses	-199,987	-78,844	-87,670	-437,321
	(VED)	-6,558,430	-6,063,544	-6,209,164	-6,355,955
Economic Value Retained	EGV and DEV	3,653,269	7,351,127	4,404,454	4,365,652

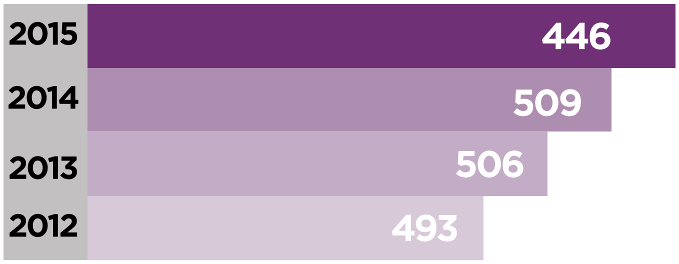
EBITDA per year (millions of pesos)



Sales per year (millions of pesos)



Broadband subscribers (thousands) RGUs



CUSTOMERS

Consumer Market	2015	2014	2013	2012	2011
FTTx	196.9	175.7	147.4	100.0	47.8
Wireless	317.2	433.6	497.5	616.3	717.8
Total (thousands of customers)	514.1	609.3	644.9	716.3	765.6

Business Market	2015	2014	2013	2012	2011
Business	7.6	6.8	6.8	6.5	5.9
Government	0.2	0.2	0.4	0.4	0.4
Total (thousands of customers)	7.9	7.0	7.2	6.9	6.4

INCOME

Consumer Market	2015	2014	2013	2012	2011
FTTx	1,672	1,439	1,027	627	197
Wireless	1,645	2,134	2,497	3,055	3,341
Total (millions of pesos)	3,316	3,572	3,523	3,682	3,539

Business Market	2015	2014	2013	2012	2011
Business	4,242	4,782	4,495	4536	5,599
Government	2,592	2,243	2,268	1,971	1,692
Total (millions of pesos)	6,834	7,025	6,763	6,508	7,291

Management's Discussion and Analysis of Financial Condition and Operation Results of the Company

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

REVENUES

For the twelve month period ended December 31, 2015, total revenues reached Ps. 10,150 million, compared with Ps.10,597 million for the year ended 2014, a decrease of Ps. 447 million, or 4 percent.

Axtel's revenues derive from the following services:
* Due to the Telecommunications Reform, as of January 1st, 2015, domestic long distance charges were eliminated. Therefore, revenue services previously reported under "local" and "long distance" categories have been re-grouped in 2015 under two new categories: "rents" and "voice services".

Rents

Revenue for rents in 2015 added up Ps. 2,204 million, compared with Ps. 2,399 million recorded for the same period of the previous year, a reduction of Ps. 194 million or 8 percent mainly explained by a 10 percent reduction in the average number of customers.

Voice

For year 2015, revenue for voice services totaled Ps. 1,135 million compared to Ps. 1,587 million recorded for 2014, a decrease of Ps. 451 million or 28 percent. More than half of this decline is explained by lower prices for fix-to-mobile calls and decreases in revenues of domestic long distance calls to both fixed and mobile lines due to the elimination of domestic long distance charges in 2015

Internet and Video

For year 2015, revenues for Internet and video services amounted Ps. 1,482 million, an 11 percent increase compared with year 2014, due to a 2 percent increase in internet to the mass market and a 47 percent increase in pay-tv service, due to the good performance of Axtel X-tremo offers based on our FTTx, or fiber to the home, network.

Data and Networks

For 2015, revenue for networks and data services reached Ps. 2,018 million, from Ps. 1,898 million in 2014, an increase of Ps. 120 million, or 6 percent, mainly explained by a 15 percent increase in private lines.

Integrated Services and Equipment Sales

Revenues totaled Ps. 2,800 million in year 2015, compared with Ps. 1,779 million during 2014, representing a Ps. 1,021 million or 57 percent increase. This is due to a greater amount of revenues flowing from existing and new projects closed during 2015 with both enterprise and government entities and an extraordinary high level of equipment sale in 2015.

International Traffic

The revenue for completion of international traffic added up Ps. 274 million in 2015, a 78 percent decrease compared to the same period for 2014, explained by the elimination of transit traffic, or traffic that does not terminate in Mexico, which has a higher price and by decreases in rate and volume of fix-to-mobile calls.

Other Services

For year 2015 revenue from other services added up Ps. 237 million, a 35 percent decrease from Ps. 364 million recorded on the same period in 2014.

OPERATING METRICS

RGUs and Customers

As of December 31, 2015, RGUs (Revenue Generating Units) added up one million 371 thousand, compared to one million 511 thousand as of the end of 2014. During 2015, net disconnections totaled 140 thousand compared to 7 thousand net additions during the previous year, due to a greater number of disconnections of customers with wireless technologies. As of December 31, 2015, customers totaled 521 thousand, a decrease of 84 thousand or 14 percent compared to the same date in 2014.

Voice RGUs (Lines in Service)

As of December 31, 2015, lines in service added up 815 thousand, which represents a decrease of 93 thousand lines or 10 percent compared to December 31, 2014. During 2015, gross additional lines reached 169 thousand compared to 210 thousand during 2014. Disconnections during 2015 and 2014 reached 262 thousand and 238 thousand respectively. As of December 31, 2015, residential lines represented 53 percent of total lines in service.

Broadband RGUs (Broadband Subscribers)

Broadband subscribers reached 446 thousand as of December 31, 2015. During this year, broadband subscribers decreased 62 thousand compared to 3 thousand additions the previous year. As of December 31, 2015, wireless subscribers reached 241 thousand, compared to 330 thousand a year ago, while Axtel X-tremo, or FTTx, subscribers reached 206 thousand compared to 179 thousand a year ago. The broadband disconnections are mainly due to the acceleration in WiMAX disconnections during 2015 that could not be totally compensated with additions of FTTx subscribers. Broadband penetration remained in 55 percent throughout the year.

Video RGUs (Video Subscribers).

As of December 31, 2015, video subscribers reached 109 thousand, compared to 94 thousand a year ago; the penetration of video in our FTTH subscribers' base increased from 52% in 2014 to 53% in 2015.

COST OF REVENUES AND EXPENSES

Cost of Revenues
For year 2015, the cost of revenues reached Ps. 2,300 million, a decrease of Ps. 797 million with respect to 2014, explained by decreases in costs related to international traffic service due to the eliminations of transit traffic, or traffic that does not terminate in Mexico, which has a higher price and likewise a higher cost, and due to the elimination of interconnection rates paid to the preponderant operator.

Gross Profit
Gross profit is defined as revenues minus cost of sales. For 2015, the gross profit reached Ps. 7,851 million, from Ps. 7,500 million recorded in 2014, a 5 percent increase. This was mainly due to increases in the gross profit of integrated services, partially mitigated by a decline in rent and voice services.

Operating Expenses
For 2015, the operating expenses totaled Ps. 4,720 million from Ps. 4,477 million for 2014, a 5 percent increase due to a 5 percent increase in personnel and increases in maintenance and rent expenses. Personnel expenses represented 41 percent of the total expenses for year 2015.

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. 3,131 million, compared to Ps. 3,023 million for the same period in 2014. As a percentage of revenues, the margin was of 30.8 percent for 2015, 232 basis points higher than the margin for 2014, mainly due to improved margins for voice services due to the elimination of interconnection rates paid to the preponderant operator and a decrease in low-margin international traffic revenues.

Depreciation and Amortization
The depreciation and amortization for 2015 was of Ps. 2,619 million, compared to Ps. 3,435 million for 2014, a decrease of Ps. 817 million due to lower capital investments in recent years and also to a larger proportion of investments in fiber which increases the average life of our assets.

Operating income (loss)
For the 2015, the operating income reached Ps. 609 million, compared to an operating loss of Ps. 500 million in 2014, a Ps. 1,109 million variation mainly explained by the agreement with America Movil in the first quarter of 2015 and a lower level of depreciation and amortization in year 2015.

Comprehensive Financial Result, net
The comprehensive financing cost was of Ps. 2,695 million in 2015, compared to a cost of Ps. 1,954 million in 2014 mainly explained by the increase in interest expense due to the step-up scheme in the 2020 Senior Secured Notes and the higher FX loss during 2015 due to a 15 percent depreciation of the peso against the U.S. dollar.

Taxes
In 2015, the income tax benefit was of Ps. 367 million, compared with an income tax of Ps. 538 million last year.

Net Income (Loss)
The Company reported a net loss of Ps 1,718 million in 2015, compared with a net loss of Ps. 1,919 million in 2014. This loss is explained by the changes outlined above including the comprehensive financial result.

Capital Investments
For the twelve month period ended December 31, 2015, capital investments totaled Ps. 2,011 million, compared to Ps. 2,837 million in the year 2014. This decline 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, 2015 and as of December 31, 2014

Assets
As of December 31, 2015, total assets amounted to Ps. 21,929 million compared to Ps. 20,985 million as of December 31, 2014, an increase of Ps. 944 million or 4 percent.

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

Accounts Receivable
As of December 31, 2015, the accounts receivable were Ps. 2,893 million compared with Ps. 2,426 million as of December 31, 2014, an increase of Ps. 467 million or 19 percent.

Property, Systems and Equipment, net
As of December 31, 2015, property, systems and equipment, net, reached Ps. 13,216 million compared with Ps. 12,962 million as of December 31, 2014, an increase of Ps. 255 million, or 2 percent. The property, systems and equipment, without discounting the accumulated depreciation, was Ps. 43,657 million and Ps. 40,885 million as of December 31, 2015 and 2014, respectively.

Liabilities

As of December 31, 2015, total liabilities reached Ps. 17,809 million compared to Ps. 15,279 million as of December 31, 2014, an increase of Ps. 2,529 million, mainly due to the 15% depreciation of the Mexican peso which increases the peso amount of the debt denominated in dollars.

Accounts Payable and Accrued Expenses

As of December 31, 2015, the accounts payable and accrued expenses were Ps. 2,677 million compared with Ps. 2,347 million as of December 31, 2014, an increase of Ps. 330 million, or 14 percent.

Debt

As of December 31, 2015, total debt increased Ps. 1,986 million in comparison with fourth quarter 2014, explained by (i) a Ps. 154 million decrease related to the conversion of some 2020 Secured Notes, (ii) an increase of Ps. 261 million in leases and other financial obligations mostly related to a Ps. 386 million increase in a capacity lease (IRU), (iii) a Ps. 26 million increase related to the notes' discount, issuance and deferred financing costs, (iv) a Ps. 51 million increase related to the implicit derivative instrument embedded in the Senior Secured Convertible Notes and (v) a Ps. 1,801 million non-cash increase caused by the 15 percent depreciation of the Mexican peso.

Stockholders' Equity

As of December 31, 2015, the stockholders' equity of the Company totaled Ps. 4,200 million compared with Ps. 5,706 million as of December 31, 2014, a decrease of Ps. 1,586 million or 28 percent. The capital stock was Ps. 6,862 million as of December 31, 2015 compared to Ps. 6,728 million as of December 31, 2014, a slight increase mainly due to the conversion of some of the Company's Senior Secured Convertible Notes due 2020.

Cash flow

As of December 31, 2015 and 2014, net cash flows derived from operating activities were Ps. 3,120 million and Ps. 3,126 million respectively.

As of December 31, 2015 and 2014 net cash flows (used in) generated by the Company in investing activities were Ps. (1,925) million and Ps. (2,847) million respectively. These amounts reflect investments in property, systems and equipment of Ps. 2,011 million and Ps. 2,837 million for 2015 and 2014 respectively.

As of December 31, 2015, net cash flows (used in) generated by financing activities were Ps. (1,565) million compared to Ps. 970 million in 2014 mainly due to the 2020 Secured Notes reopening in 2014.

As of December 31, 2015, the net debt to adjusted EBITDA ratio and the interest coverage ratio of the Company were 3.3x and 2.5x, respectively. Likewise, as of December 31, 2014, the net debt to adjusted EBITDA ratio and interest coverage ratio were 2.7x and 3.4x respectively.

KPMG

Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Axtel, S.A.B. de C.V., and subsidiaries (the Company), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014 and the consolidated statements of comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Axtel, S.A.B. de C.V., and subsidiaries, as of December 31, 2015 and 2014 and the consolidated results of their operations and consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

Emphasis paragraphs

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

(a) As referred in note 22 a), on December 15, 2015 the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respectives Boards of Directors and Shareholders. In addition, on January 11, 2016 the Mexican Banking and Securities Comission (Comisión Nacional Bancaria y de Valores) ("CNBV") issued the exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016.

(b) As referred in note 22 a), on January 15, 2016, the Company signed a credit facility of U.S. 500 million and Ps.4,759 million to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in January 2019 for the portion in pesos and until February 2021 for the dollar portion.

(c) As referred in note 2 a), during 2015, the Company entered in several agreements about disputes held with other telecom carriers, as mentioned below:

i. Through March 18 and May 27, 2015, the Company signed settlement with different mobile and long distance carriers by which it was agreed to terminate various disputes related to interconnection services. The benefit, net of legal fees and other incremental expenses, amounted Ps.534 million and is included in comprehensive income.

II. After agreements mentioned above, as described in notes 21 b) and 21 c), there are still contingencies related to interconnection costs rates for other exercises with mobile and long distance carriers. As of December 31, 2015, the difference between the amounts paid by the Company and the amounts billed by mobile carriers and one of their main suppliers amount to approximately Ps.257 million and Ps.468 million, respectively, before value added tax. At the date of this report, the Management of the Company and its legal advisor consider that they have enough elements to be favored in trials related to such contingencies.

(d) As referred in note 7 a), starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of certain types of assets from the network infrastructure. The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526 million in depreciation expense compared to 2014.

KPMG Cárdenas Dosal
Oficinas en el Parque Torre II
Blvd. Díaz Ordaz 140 Pte.
Piso 8 Col. Santa María
64650 Monterrey, N.L.

Teléfono: +01 (81) 81 22 18 18
www.kpmg.com.mx

KPMG Cárdenas Dosal, S. C.

C.P.C. R. Sergio López Lara
March 4, 2016
Monterrey, N. L., México

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

Consolidated Statements of Financial Position
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

Assets	Note		2015	2014
Current assets:				
Cash and cash equivalents	8	Ps.	2,575,222	2,697,835
Accounts receivable, net	9		2,893,017	2,426,167
Refundable taxes			19,824	48,629
Advance to suppliers			52,648	112,763
Inventories			53,069	67,097
Financial instruments	8e		378,099	121,999
Other accounts receivable			103,699	104,562
Other current assets	12		151,511	225,331
Total current assets			**6,227,089**	**5,804,383**
Long-term accounts receivable			128,613	230,752
Property, systems and equipment, net	10		13,216,179	12,961,543
Intangible assets, net	11		124,999	173,962
Deferred income taxes, net	17		2,103,961	1,675,202
Investments in associate			8,212	8,217
Other assets	12		119,586	131,039
Total assets				
Liabilities and Stockholders' Equity		**Ps.**	**21,928,639**	**20,985,098**
Current liabilities:				
Accounts payable and accrued liabilities		Ps.	2,676,819	2,347,302
Accrued interest			545,208	458,822
Value Added Tax and other taxes payable			642,530	363,351
Short-term debt	8 y 13b		130,000	130,000
Current maturities of long-term debt	13a		375,656	220,554
Deferred revenue	16		509,415	695,868
Other current liabilities			57,343	96,018
Provisions	15		190,100	-
Total current liabilities			**5,127,071**	**4,311,915**
Long-term debt	13a		12,475,950	10,645,447
Derivative financial instruments	8d		65,222	46,952
Other long term liabilities			112,340	216,039
Employee benefits			28,231	25,127
Deferred revenue	16		-	33,900
Total liabilities			**17,808,814**	**15,279,380**
Stockholders' equity:				
Common stock	18		6,861,986	6,728,342
Additional paid-in capital	18		644,710	644,710
Reserve for repurchase of own shares	18		90,000	90,000
Retained comprehensive deficit	18		(3,476,871)	(1,757,334)
Total stockholders' equity			**4,119,825**	**5,705,718**
Commitments and contingencies	21			
Total liabilities and stockholders' equity		**Ps.**	**21,928,639**	**20,985,098**

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

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

Consolidated Statements of Comprehensive Income
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos except for the basic loss per share)

	Note		2015	2014
Telephone services and related revenues	**19**	**Ps.**	**10,150,438**	**10,597,003**
Operating costs and expenses:				
Cost of sales and services			(2,299,862)	(3,097,105)
Selling and administrative expenses	19		(4,719,771)	(4,476,849)
Depreciation and amortization	10 y 11		(2,618,567)	(3,435,082)
Effect of settlements with telecom carriers	2a		534,240	-
Other operating expenses			(437,321)	(87,670)
Operating income (loss)			**609,157**	**(499,703)**
Interest expense	10 y 13		(1,236,308)	(875,745)
Interest income			36,929	16,615
Foreign exchange loss, net			(1,659,066)	(1,073,210)
Change in the fair value of financial instruments, net	8		163,706	(21,272)
Net finance costs			**(2,694,739)**	**(1,953,612)**
Equity in loss of associated company			(5)	(3,423)
Loss before income taxes			**(2,085,587)**	**(2,456,738)**
Income taxes				
Curren	17		(61,305)	(34,459)
Deferred	17		428,537	572,596
Total income tax benefit			**367,232**	**538,137**
Net loss		**Ps.**	**(1,718,355)**	**(1,918,601)**
Other comprehensive income items				
Actuarial resul	18c		(1,182)	(3,791)
Comprehensive loss		**Ps.**	**(1,719,537)**	**(1,922,392)**
Weighted average number of common shares outstanding			9,185,204,571	8,871,168,855
Basic loss per share		**Ps.**	**(0.19)**	**(0.22)**

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

Axtel, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

		2015	2014
Cash flows from operating activities:			
Net loss	**Ps.**	**(1,718,355)**	**(1,918,601)**
Adjustments for:			
Income taxes		(367,232)	(538,137)
Foreign exchange loss, net		1,659,066	1,073,210
Depreciation		2,563,348	3,380,966
Amortization		55,219	54,116
Impairment loss recognized on trade receivables		154,621	173,941
Gain on sale of property, system and equipment		(256,467)	(1,312)
Allowance for obsolete and slow-moving of inventories		12,047	1,967
Equity in loss of associated company		5	3,423
Interest expense		1,236,308	875,745
Amortization of premium on bond issuance		(2,213)	(1,601)
Fair value change and settlement of financial instruments		(163,706)	21,272
		3,172,641	**3,124,989**
Movements in working capital:			
(Increase) decrease in accounts receivable and other accounts receivable		(430,559)	393,665
Decrease in inventories		14,028	39,215
Increase (decrease) in accounts payable and other accounts payable		670,539	(491,729)
(Decrease) increase in deferred revenue		(220,352)	111,953
Cash generated from operating activities		**3,206,297**	**3,178,093**
Taxes paid		(85,964)	(52,205)
Net cash from operating activities		**3,120,333**	**3,125,888**
Cash flows from investing activities:			
Acquisition and construction of property, systems and equipment		(2,011,430)	(2,837,222)
Sale of property, systems and equipment		129,823	5,176
Increase in financial instruments		(34,918)	(19,924)
Other assets		(8,893)	4,752
Net cash used in investing activities		**(1,925,418)**	**(2,847,218)**
Cash flows from financing activities:			
Interest paid		(1,165,405)	(720,303)
Proceeds of notes		-	1,887,747
Proceeds of bank loans		-	460,000
Payments of bank loans		-	(330,000)
Other loans, net		(399,611)	(327,401)
Net cash flow (used in) generated by financing activities		**(1,565,016)**	**970,043**
Net (decrease) increase in cash and cash equivalents		**(370,101)**	**1,248,713**
Cash and cash equivalents at the beginning of the year		2,697,835	1,292,263
Effects of exchange rate fluctuations on cash and cash equivalents held		247,488	156,859
Cash and cash equivalents at the end of the year	**Ps.**	**2,575,222**	**2,697,835**

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

Axtel, S.A.B. DE C.V. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
Years ended December 31, 2015 and 2014
(Thousands of Mexican pesos)

		Capital stock	Additional paid-in capital	Reserves for repurchase of own shares	Retained comprehensive earnings (Deficit)	Total stockholders equity
Balances as of December 31, 2013	**Ps.**	**6,627,890**	**644,710**	**162,334**	**92,724**	**7,527,658**
Increase of capital stock (note 18a)		100,452	-	-	-	100,452
Change on reserves for repurchase of own shares		-	-	(72,334)	72,334	-
Comprehensive loss (note 18c)		-	-	-	(1,922,392)	(1,922,392)
Balances as of December 31, 2014		**6,728,342**	**644,710**	**90,000**	**(1,757,334)**	**5,705,718**
Increase of capital stock (note 18a)		133,644	-	-	-	133,644
Comprehensive loss (note 18c)		-	-	-	(1,719,537)	(1,719,537)
Balances as of December 31, 2015	**Ps.**	**6,861,986**	**644,710**	**90,000**	**(3,476,871)**	**4,119,825**

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

Axtel, S.A.B. DE C.V. Y SUBSIDIARIAS
Notas a los Estados Financieros Consolidados
Años terminados al 31 de diciembre de 2015 y 2014
(En miles de pesos mexicanos)

(1) REPORTING ENTITY

Axtel, S.A.B. de C.V. and Subsidiaries (AXTEL and/or The Company) was incorporated in México as a corporation. The corporate address of the Company is Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

The Company's consolidated financial statements for the years ended December 31, 2015 and 2014, includes The Company and subsidiaries (collectively referred as "the Company" and individually as "entities of the Company")

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

(2) SIGNIFICANT EVENTS

a) Agreements about disputes related to interconnection services

During 2015, the Company entered in several agreements about disputes held with other telecom operators, as mentioned below:

- On March 18, 2015 the Company signed a settlement with América Móvil, S.A.B. de C.V., ("AMX") and its subsidiary Radiomóvil Dipsa S.A. de C.V. ("Telcel"), in which the parties agreed to terminate disputes relating with interconnection services. As part of the agreement, Axtel and Telcel entered into interconnection agreements for the period 2005-2015. Also Axtel, Telcel and Telefonos de Mexico S.A.B. de C.V. ("Telmex") agreed to the withdrawal of several disputes on interconnection issues.
  Derived from these agreements and after settled in favor and against the various amounts that were in dispute and/or unpaid, the Company signed agreements for marketing or resale of telecommunications services and for access and use of some infrastructure with Telcel and Telmex, respectively.

- Another agreement was also held on the same day, the Company and Iusacell Group ("Iusacell") signed an agreement whereby both parties are terminated disputes relating to interconnection services for 2005-2010. During the agreement, the Company and Iusacell also signed several trade agreements for telecommunications infrastructure for mutual benefit.

- Finally, on May 27, 2015, the Company signed an agreement with Pegaso PCS, S.A. de C.V. ("Telefonica Mexico") in which the parties agreed to terminate disputes relating to interconnection services for the period of 2005 to 2011.

Derived from these agreements and after settled in favor and against the several amounts that were in dispute and/or unpaid, the Company obtain a benefit, net of legal fees and other incremental expenses, of Ps. 534,240 included in the Statement of Comprehensive Income within operating costs and expenses, in the effect of agreements with telecom operators item.

b) Issuance of secured bonds

On September 17, 2014, The Company completed the reopening of the secured bonds issuance due in 2020 for 150 million United States dollars (U.S.) priced at 100.25% of the principal amount with initial interest rate of 8% which will be increase to 9% starting in the second year, and due in 2020. Interest is payable semi-annually in February and August of each year.

(3) CONSOLIDATION OF FINANCIAL STATEMENTS

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

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

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

(4) BASIS OF PREPARATION

a) Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Company's Executive Administrative Director of Administration on March 4, 2016.

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

b) Basis of measurement

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

c) Functional and presentation currency

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

d) Presentation of the consolidated statement of comprehensive income

The Company has elected to analyze expenses recognized in profit and loss based on functions, as the Company believes that in this way the information presented is reliable and more relevant. The Company presents the operating income (loss) since considers it as a significant performance measurement for users of financial information. According to IFRS, the inclusion of subtotals as "operating income (loss)" and the arrangement of the income statement differ significantly by industry and company, according to specific needs. Income and costs that are of an operational nature are presented in this item.

The "Other operating expenses" item in the income statement consists mainly of income and expenses that are not directly related to the main activities of the Company, or that are non-recurring nature, such as costs of settlement of staff and clean-up of old balances.

e) Presentation of the consolidated statement of cash flows

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

The statements of cash flows present cash inflows and outflows, excluding unrealized foreign exchange effects, and the following transactions that did not represent generation or use of cash:

- Increase in Property, systems and equipment during 2015 for approximately Ps.534,755, related to a capacity lease agreement (IRU), note 13 (a).
- Increase in Property, systems and equipment during 2015 and 2014 for approximately Ps.112,979 and Ps.287,084, respectively, related to financial leases note 13 (a).
- Swap of fiber optic, amounting to Ps.141,921 arising from agreement signed with Iusacell, as mentioned in note 2 (a).
- Increase in common stock for Ps.133,645 and Ps.100,452 during 2015 and 2014, respectively, related to the conversion option of bonds mentioned in notes 13 (a) and 18 (a).

(5) SIGNIFICANT ACCOUNTING POLICIES

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

a) Transactions eliminated in consolidation

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

b) Foreign currency transactions

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

c) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months. At December 31, 2015 and 2014, include cash equivalents consisting of money market for Ps. 2,324,527 and Ps. 1,560,804, respectively.

d) Financial assets

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

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

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

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

Financial assets valued at fair value through profit or loss

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

Accounts receivable and other accounts receivable

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

Effective interest method

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

Write-off of financial assets and financial liabilities

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

e) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

f) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

If the hedging instrument matures or is sold, terminated or exercised without replacement or continuous financing, or if its designation as a hedge is revoked, any cumulative gain or loss recognized directly within other comprehensive income in stockholders' equity from the effective date of the hedge, remains separated from equity until the forecasted transaction occurs when it is recognized in income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss recognized in stockholders' equity is immediately carried to profit and loss. Derivatives designated as hedges that are effective hedging instruments are classified based on the classification of the underlying. The derivative instrument is divided into a short-term portion and a long-term portion only if a reliable assignation can be performed. At December 31, 2015 and 2014, the Company has no open positions of cash flow hedges.

Embedded derivatives

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

g) Fair value of financial instruments

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

h) Inventories and cost of sales

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

Cost of integrated services consists in internal and external engineering services, as well as materials and equipment required to provide them.

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

i) Investments in associates and other equity investments

Investments in associates are initially valued at acquisition cost, and subsequently, using the equity method, when the Company exercise significant influence over the associate.

Among other factors, significant influence is evident when the Company: a) has, directly or through subsidiaries, more than 20% of the share capital of the entity; b) has the ability, directly or indirectly, to influence the administrative, financial and operating policies of an entity; or c) is the recipient of the risks and benefits of the investment.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost.

j) Property, systems and equipment

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

Depreciation

Depreciation is calculated on the amount susceptible to depreciate, corresponding to cost of an asset, or other amount that replaces cost, less the salvage value.

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

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

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

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

- Building **25 years**
- Computer equipment **3 years**
- Transportation equipment **4 years**
- Furniture and fixtures **10 years**
- Network equipment **6 a 28 years**

Useful lives and salvage values are reviewed at each year end and adjusted, if necessary (See note 7(a)).

Subsequent costs

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

Borrowing costs

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

k) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight-line method during the period in which the economic benefits are expected to be obtained.

Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. As of December 31, 2015 and 2014, respectively, the Company had no intangible assets with an indefinite life registered in accounting. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

l) Impairment of non-financial assets

The Company reviews the carrying amounts of tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU).

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

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

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

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Provisions

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

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

o) Employee benefits

Short-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

p) Statutory employee profit sharing

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

q) Income taxes

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

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

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

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

r) Revenue recognition

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

- **Telephony, internet and pag – tv, Services.** ustomers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services, according to the individual offer of each client.
- **Activation.** At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.
- **Equipment.** At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- **Integrated services.** At the moment when the client receives the service.
- **Income from interconnection.** Based on the traffic of minutes and generated by approved rates by Federal Telecommunications Institute (Instituto Federal de Telecomunicaciones or "IFETEL") or private agreements.
- **Income from real estate construction.** Revenues and costs from contracts for long-term projects are recognized using the percent of completion method. If, during the term of the project, the Company estimates that incurred costs plus remaining costs to be incurred, exceed total revenue, the expected loss is recognized in results immediately.
- **Deferred revenue.** Advance payments or unearned revenue, are initially recorded on the balance sheet as a liability, until the services have been rendered or products have been delivered, it is recognized as revenue on the income statement, in this moment the liability decrease. In addition, the liability account is reduced by refunds made to customers.

s) Earnings per share

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

t) Segments

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

(6) RECENTLY ISSUED ACCOUNTING STANDARDS

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

- IFRS 9, Financial instruments: classification and measurement ("IFRS 9"). IFRS 9 sets forth the guidance relating to the classification and measurement of financial assets and liabilities, to the accounting for expected credit losses on an entity's financial assets and commitments to extend credits, as well as the requirements related to hedge accounting, and will replace IAS 39, Financial instruments: recognition and measurement ("IAS 39") in its entirety. IFRS 9 requires an entity to recognize a financial asset or a financial liability when, and only when, the entity becomes party to the contractual provisions of the instrument. At initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, and includes a category of financial assets at fair value through other comprehensive income for simple debt instruments. In respect to impairment requirements, IFRS 9 eliminates the threshold set forth in IAS 39 for the recognition of credit losses. Under the impairment approach in IFRS 9 it is no longer necessary for a credit event to have occurred before credit losses are recognized, instead, an entity always accounts for expected credit losses, and changes in those expected losses through profit or loss. In respect to hedging activities, the requirements of IFRS 9 align hedge accounting more closely with an entity's risk management through a principles-based approach. Nonetheless, the IASB provided entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 until the IASB completes its project on the accounting for macro hedging. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in this standard at the same time. The Company is currently evaluating the impact that IFRS 9 will have on the classification and measurement of its financial assets and financial liabilities, impairment of financial assets and hedging activities. Effects of the adoption of this standard have not been estimated with reasonability. Nonetheless, the Company is not considering an early application of IFRS 9.

- In May 2014, the IASB issued IFRS 15, Revenue from contracts with customers ("IFRS 15"). The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services, following a five step model: Step 1) Identify the contracts(s) with a customer, which is an agreement between two or more parties that creates enforceable rights and obligations; Step 2): Identify the performance obligations in the contract, considering that if a contract includes promises to transfer distinct goods or services to a customer, the promises are performance obligations and are accounted for separately; Step 3) Determine the transaction price, which is the amount of consideration in a contract to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer;
  Step 4): Allocate the transaction price to the performance obligations in the contract, on the basis of the relative stand-alone selling prices of each distinct good or service promised in the contract; and Step 5) Recognize revenue when (or as) the entity satisfies a performance obligation, by transferring a promised good or service to a customer (which is when the customer obtains control of that good or service). A performance obligation may be satisfied at a point in time (typically for promises to transfer goods to a customer) or over time (typically for promises to transfer services to a customer). IFRS 15 also includes disclosure requirements that would provide users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 will supersede all existing guidance on revenue recognition. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted considering certain additional disclosure requirements. The Company is currently evaluating the impact that IFRS 15 will have on its financial information. Effects of the adoption of this standard have not been estimated with reasonability. It is not considered the early adoption of IFRS 15.

- On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), which will supersede all current standards and interpretations related to lease accounting. IFRS 16, defines leases as any contract or part of a contract that conveys to the lessee the right to use an asset for a period of time in exchange for consideration and the lessee directs the use of the identified asset throughout that period. In summary, IFRS 16 introduces a single lessee accounting model, and requires a lessee to recognize, for all leases with a term of more than 12 months, unless the underlying asset is of low value, assets for the "right-of-use" the underlying asset against a corresponding financial liability, representing the net present value of estimated lease payments under the contract, with a single income statement model in which a lessee recognizes depreciation of the right-of-use asset and interest on the lease liability. A lessee shall present either in the balance sheet, or disclose in the notes, right-of-use assets separately from other assets, as well as, lease liabilities separately from other liabilities. IFRS 16 is effective beginning January 1, 2019, with early adoption permitted considering certain requirements. The Company is evaluating the impact that IFRS 16 will have on the recognition of its lease contracts. Effects of the adoption of this standard have not been estimated with reasonability. The Company is not considering the early application of IFRS 16.

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

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the period. These assumptions are reviewed on an ongoing basis using available information. Actual results could differ from these estimates.

Underlying estimates and assumptions are reviewed regularly. Accounting estimates changes are prospectively recognized.

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

a) Useful lives of property, systems, and equipment

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

Starting on January 1, 2015 and, as a result of several comprehensive analysis about changes in the technology of certain assets and new estimates of useful life, the Company adjusted the useful lives of network infrastructure mentioned below:

Type of Network equipment	Previous useful life	New useful life
Commutation	3 to 10 years	5 to 12 years
Power plant and A/C	3 years	5 years
External equipment	10 years	12 years
Transmission	3 to 10 years	5 to 12 years
Fiber optic	10 years	12 years

The adjustment indicated above has been applied prospectively as a change in accounting estimate, resulting in a decrease of approximately Ps.526,675 in depreciation expense compared to 2014.

b) Impairment of non-financial assets

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

c) Allowance for doubtful accounts

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

d) Contingencies

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

e) Deferred tax assets

Deferred tax assets are recognized for the tax loss carryforwards to the extent management believes it is recoverable through the generation of future taxable income to which it can be applied.

f) Financial instruments recognized at fair value

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

g) Financial cost of debt

In cases where debt is contracted and within contractual conditions there are incremental interest rates according to term, The Company uses the weighted average interest rate method to calculate and recognize interest expense of any period, based on the assumption that debt will not be prepaid or renegotiated before maturity.

h) Income taxes effects from uncertain tax possitions are recognized when there is a high probability that the criteria will be based on its technical merit and assuming that authorities will review each possition and have complete knowledge of the relevant information. These possitions are valued on the basis of a cumulative probability model. Each possitions is considered individually, without considering its relationship with another tax procedure. The high probability indicator represents an affirmation of the administration that the Company is entitled to the economic benefits of the tax position. If a tax position is considered low probability of being supported, the benefits of the position are not recognized. Interest and penalties associated with unrecognized tax benefits are part of income taxes expense in the consolidated statements of income.

i) Leases

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

(8) FINANCIAL INSTRUMENTS

Categories of financial instruments

		2015	2014
Financial assets			
Cash and cash equivalents	Ps.	2,575,222	2,697,835
Accounts receivable		5,632,981	5,008,936
Financial instruments		378,099	121,999
Advance to suppliers		52,648	112,763
Other current assets		151,511	225,331
Financial liabilities			
Derivative financial instruments	Ps.	65,222	46,952
Accrued interest		545,208	458,822
Short-term debt		130,000	130,000
Current maturities of long-term debt and long-term debt		12,851,606	10,866,001
Accounts payable and accrued liabilities		2,676,819	2,347,302

(a) Financial risk management objectives

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

(b) Market and interest rate risk

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

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

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2015 and 2014 are as follows:

		(Thousands of US dollars) 2015	2014
Current assets	U.S.	124,523	130,803
Current liabilities		(127,022)	(102,231)
Non - current liabilities		(710,481)	726,992)
Foreign currency liabilities, net	U.S.	(712,980)	(698,420)

The U.S. dollar exchange rates as of December 31, 2015 and 2014 were Ps. 17.20 and Ps. 14.71, respectively. As of March 4, 2016, the exchange rate was Ps. 17.85.

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

(c) Market sensitivity analysis

Exchange rate sensitivity analysis

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

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

If the peso strengthens 10% against the U.S. dollar, the profit for the year ended December 31, 2015 and equity would increase by Ps. 1,115,263.

If the peso weakens 10% against the U.S. dollar, profit for the year ended December 31, 2015 and equity would decrease by Ps. 1,226,789.

(d) Embedded derivatives

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

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

The following summarizes the accounting for the convertible notes and the embedded derivative arising from the conversion option:

	(Thousands of U.S. dollars)	
	December 31, 2015	**December 31, 2014**
Convertible Notes – liability		
Face value	22,189	22,189
Options converted (note 13a)	(18,475)	(8,016)
	3,714	14,173
Fair value of conversion option recognized as a derivative financial instrument	(9,738)	(9,738)
Accrued interest	8,689	5,015
Carrying amount of convertible notes	2,665	9,450
Convertible Notes – Derivative financial instrument		
Fair value of conversion option at initial balance	3,190	8,921
Loss (gain) in change of fair value for the period	601	(5,731)
Fair value of conversion option at year end	3,791	3,190

For the years ended December 31, 2015 and 2014 the change in fair value of derivative financial instruments resulted in an unrealized (loss) gain of (Ps.57,476) and Ps.18,929, respectively, recognized in the comprehensive financing within the change in the fair value and settlements of financial instruments, net.

(e) Other price risks (equity price risk)

During July, August and September 2009, the Company acquired call options denominated "Zero Strike Calls" that have a notional of 26,096,700 CPOs of Axtel's shares. During the months of June and July of 2010, the Company acquired additional Zero Strike Calls for 4,288,000 CPOs of Axtel, on the same conditions, holding 30,384,700 CPOs as of January 1, 2011. During the months of October, November and December of 2014, the Company acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. During 2015 additional Zero Strike Calls for 7,435,646 CPOs were acquired. The underlying of these instruments is the market value of the Axtel's CPOs. The premium paid was equivalent to the market value of the notional plus transaction costs. The strike price established was Ps.0.000001 per option. This instrument is redeemable only in cash and can be redeemed by the Company at any time (considered to be American options), for a six-month period and are extendable.

The terms and fair value of the Zero Strike Calls is included in the following table:

Counterparty	Notional amount	Terms	Fair value Asset	
			2015	2014
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	264,347	102,700
Corporativo GBM, S.A.B. de C.V.	13,074,982 CPOs	Receives in cash the market value of the notional amount	113,752	19,299
			378,099	**121,999**

For the years ended December 31, 2015 and 2014 the change in the fair value of the Zero Strike Calls resulted in an unrealized gain (loss) of Ps.221,182 and (Ps. 40,201), respectively, recognized in the net finance cost within the change in the fair value and settlements of financial instruments, net.

(f) Equity price risk sensitivity analysis

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

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

- Profit and equity for the year ended December 31, 2015 would increase by Ps.37,810.

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

- Profit and equity for the year ended December 31, 2015 would decrease by Ps.34,373.

(g) Credit risk management

- Credit risk refers to the risk that counterparty will default on the contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Company, annually.
- Trades receivable consist of a large number of customers, spread across diverse industries and geographical areas throughout Mexico. Ongoing credit evaluation is performed on the financial condition of accounts receivable.
- Apart from companies A and B, the largest customers of the Company, the Company does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Company A and B should not exceed 20% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty should not exceed 5% of gross monetary assets at any time during the year.
- Company A represented 12%, and 5% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2015 and 2014 were 4% and 0%, respectively.
- Company B represented 2%, and 1% of the Company's accounts receivable as of December 31, 2015 and 2014, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2015 and 2014 were 4% and 1%, respectively.
- The Credit risk in investments on demand and in derivative financial instruments is minimal, since the counterparties are banks with high credit ratings assigned by international qualified agencies.
- The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

(h) Liquidity risk management

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

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

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

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2015							
Variable interest rate instruments	Ps.	170,518	32,395	26,091	8,142	6	-
Fixed interest rate instruments		1,333,841	2,086,527	1,044,447	2,758,644	9,860,087	-
Capacity lease		141,187	117,562	117,562	88,172	-	-
	Ps.	**1,645,546**	**2,236,484**	**1,188,100**	**2,854,958**	**9,860,093**	-
December 31, 2014							
Variable interest rate instruments	Ps.	158,499	21,934	13,979	7,702	-	-
Fixed interest rate instruments		1,130,525	1,049,144	1,777,453	898,450	2,372,833	8,594,932
	Ps.	**1,289,024**	**1,071,078**	**1,791,432**	**906,152**	**2,372,833**	**8,594,932**

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

Fair value of financial instruments

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

	December 31, 2015		December 31, 2014	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities				
Financial liabilities held at amortized cost:				
Senior Unsecured Notes with maturity in 2017	867,173	868,257	741,758	741,684
Senior Unsecured Notes with maturity in 2019	1,750,417	1,750,242	1,497,262	1,497,112
Senior Secured Notes with maturity in 2020	9,371,572	9,370,635	8,016,203	7,775,717
Financing leases	535,423	618,763	602,582	664,440
Capacity lease	385,968	326,943	-	-

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices..
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

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

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

The three levels of hierarchy are as follows:

- **The level 1** data are quoted prices in active markets (unadjusted) for identical assets or liabilities that the Company has the ability to negotiate at the date of measurement. A quoted price in an active market provides the most reliable evidence of fair value and is used without adjustment for determining fair value whenever it is available.
- **Level 2** data are data other than quoted prices in active markets that are directly or indirectly observable for the asset or liability that are mainly used to determine the fair value of shares, investments and loans that are not actively traded. Level 2 data include stock prices, interest rates and certain yield curves, implied volatility, credit spreads, and other data, including data extrapolated from other observable data. In the absence of level 1 data, the Company determines fair value by interacting applicable Level 2 data, the number of instruments and / or other relevant terms of the contracts, as applicable.
- **Level 3** data are those that are not observable for the asset or liability. The Company uses this data to determine fair value when there is no Level 1 or Level 2 data, in valuation models such as discounted cash flows.

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	378,099	-	-	378,099
Financial liabilities				
Derivative financial liabilities	-	65,222	-	65,222

	December 31, 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	121,999	-	-	121,999
Financial liabilities				
Derivative financial liabilities	-	46,952	-	46,952

(9) ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consist of the following:

		2015	2014
Accounts receivable	Ps.	5,632,981	5,008,936
Less allowance for doubtful accounts		2,739,964	2,582,769
Accounts receivable, net	**Ps.**	**2,893,017**	**2,426,167**

Given their short-term nature the carrying value of trade accounts receivable approximates the fair value as of December 31, 2015 and 2014.

Movement in the allowance for doubtful accounts.

		2015	2014
Opening balance	Ps.	2,582,769	2,407,130
Allowance for the year		154,621	173,941
Effect of exchange rate		2,574	1,698
Balances at period end	**Ps.**	**2,739,964**	**2,582,769**

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

Aging of impaired trade receivables:

		2015	2014
60 – 90 days	Ps.	13,350	17,786
90 – 120 days		15,988	28,591
120 + days		2,710,626	2,536,392
Total	**Ps.**	**2,739,964**	**2,582,769**

Aging of past due but not impaired

		2015	2014
Current	Ps.	1,232,136	949,172
1 – 30 days		135,311	139,937
30 – 60 days		83,486	183,037
60 – 90 days		54,194	37,523
90 + days		625,690	417,467
Total	**Ps.**	**2,130,817**	**1,727,136**

(10) PROPERTY, SYSTEMS AND EQUIPMENT, NET

Property, systems and equipment are as follows:

	Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2014	**Ps. 430,990**	**3,382,097**	**387,713**	**241,069**	**32,417,894**	**429,612**	**858,696**	**38,148,071**
Additions	-	152,125	4,465	6	458,514	-	2,548,101	3,163,211
Transfer of completed projects in progress	-	161,252	4,723	16,632	2,212,733	583	(2,395,923)	-
Disposals	-	(2,131)	(20,900)	(55)	(18,231)	-	-	(41,317)
Balance as of December 31, 2014	**Ps. 430,990**	**3,693,343**	**376,001**	**257,652**	**35,070,910**	**430,195**	**1,010,874**	**41,269,965**
Additions	-	-	2,411	42	846,169	-	1,985,452	2,834,074
Transfer of completed projects in progress	-	153,437	19,656	3,101	1,679,422	21,614	(1,877,230)	-
Disposals	-	(7,695)	(23,742)	(170)	(29,430)	-	(813)	(61,850)
Balance as of December 31, 2015	**Ps. 430,990**	**3,839,085**	**374,326**	**260,625**	**37,567,071**	**451,809**	**1,118,283**	**44,042,189**

	Land and Building	Computer and electronic equipment	Transportation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Depreciation and impairment								
Balance as of January 1, 2014	**Ps. 136,084**	**1,359,352**	**321,494**	**178,269**	**22,637,701**	**327,984**	-	**24,960,884**
Depreciation of the year	14,284	126,316	45,036	17,577	3,152,790	24,963	-	3,380,966
Disposals	-	(2,053)	(20,115)	(30)	(11,230)	-	-	(33,428)
Balance as of December 31, 2014	**Ps. 150,368**	**1,483,615**	**346,415**	**195,816**	**25,779,261**	**352,947**	-	**28,308,422**
Depreciation of the year	14,287	111,562	16,796	15,397	2,384,169	21,137	-	2,563,348
Disposals	-	(7,623)	(23,513)	(119)	(14,505)	-	-	(45,760)
Balance as of December 31, 2015	**Ps. 164,655**	**1,587,554**	**339,698**	**211,094**	**28,148,925**	**374,084**	-	**30,826,010**
Property, systems and equipment, net at December 31, 2014	Ps. 280,622	2,209,728	29,586	61,836	9,291,649	77,248	1,010,874	12,961,543
Property, systems and equipment, net at December 31, 2015	Ps. 266,335	2,251,531	34,628	49,531	9,418,146	77,725	1,118,283	13,216,179

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

During the year ended December 31, 2015 and 2014 the Company capitalized Ps.44,223 and Ps.36,847, respectively of borrowing costs in relation to Ps.831,303 and Ps.709,293 in qualifying assets. Amounts were capitalized based on a capitalization rate of 10.14% and 9.85%, respectively.

No impairment was recognized for tangible or intangible assets for the years ended December 31, 2015 and 2014. The main assumptions used in calculating use value are as follows:

a) The Company tests for impairment considering asset groups constituting the cash-generating unit (CGU).
b) The Company determines the use value of the CGU by discounting the estimated future cash flows to their present value.
c) Only assets in operation as of December 31, 2015 were considered.
d) The Company believes that it operates in a single operating segment, so evaluates all its operations as a single CGU (see Note 5 (l)).
e) The after tax discount rate used was 10.2%.

Regarding the growth of cash flows included in the model use value, the Company has considered a range of growth in the range from 4.24% to 18.15% for the first 5 years. Year 6 to 9, are no longer considered further growth.

For the year ended December 31, 2015 and 2014 interest expenses are comprised as follows:

	2015	2014
Interest expense	Ps. (1,280,531)	(912,592)
Amount capitalized	44,223	36,847
Net amount in consolidated statements of comprehensive income	**Ps. (1,236,308)**	**(875,745)**

As of December 31, 2015, certain financial leases amounting to approximately Ps. 15 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2015 and 2014 amounts to Ps. 2,563,348 and Ps. 3,380,966, respectively (see note 7 a).

(11) INTANGIBLE ASSETS, NET (SEE NOTE 7 A)

Intangible assets with defined useful lives consist of the following:

	Telephone concession rights Axtel	Telephone concession rights Avantel	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balances as of December 31, 2014 and 2015	**Ps. 571,520**	**110,193**	**58,982**	**21,045**	**30,030**	**73,169**	**864,939**

Depreciation and impairment	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, 2013	Ps. 427,238	70,124	38,578	12,682	20,223	72,302	641,147
Amortization	30,307	10,018	4,080	1,672	2,886	867	49,830
Balances as of December 31, 2014	Ps. 457,545	80,142	42,658	14,354	23,109	73,169	690,977
Amortization	30,307	10,018	4,080	1,672	2,886	-	48,963
Balances as of December 31, 2015	Ps. 487,852	90,160	46,738	16,026	25,995	73,169	739,940
Intangible assets, net at December 31, 2014	**Ps. 113,975**	**30,051**	**16,324**	**6,691**	**6,921**	-	**173,962**
Intangible assets, net at December 31, 2015	**Ps. 83,668**	**20,033**	**12,244**	**5,019**	**4,035**	-	**124,999**

Concessions rights of the Company

The main concessions of the Company are as follows:

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

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

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

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name "Avantel", customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2014 the values of the trade name "Avantel" and of customer relationships were fully amortized.

(12) OTHER ASSETS

Other assets consist of the following:

		2015	2014
Prepaid expenses	Ps.	219,766	276,738
Guarantee deposits		48,307	48,307
Others		3,024	31,325
Other assets		271,097	356,370
Current portion of other assets		151,511	225,331
Other long-term assets	Ps.	119,586	131,039

(13) LONG-TERM DEBT

		2015	2014
a) Long-term debt as of December 31, 2015 and 2014 consist of the following:			
U.S. 275 million in aggregate principal amount of 7 5/8 % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year. During January and 2013, the Company completed the exchange of U.S. 224.6 and U.S. 167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.	Ps.	867,173	741,758
U.S. 490 million in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year. In January 2013, the Company completed the exchange of U.S. 224.6 and U.S.167.4 million of unsecured notes maturing in 2017 and 2019, respectively, for U.S. 358.6 and U.S. 22 million dollars on secured bond and a convertible bond.		1,750,417	1,497,262
Senior Secured Notes in a principal amount of U.S. 544.6 and U.S. 394.6 million dollars as of 2014 and 2013, respectively, with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		9,371,572	8,016,203
Senior Secured Convertible Notes U.S. dollar-indexed principal amount of U.S. 22.2 million dollars with initial interest of 7% will be increased to 9% and maturing in 2020. Interest is payable semi-annually in February and August of each year.		45,856	139,097
Discount on note caused by Senior Secured Notes payable in the amount of U.S. 36 million at an initial interest rate of 7% will increase to 9% due 2020.		(19,462)	(24,228)
Premium on Senior Unsecured Notes with an aggregate principal of U.S. 490 million with an interest rate of 9%, due in 2019.		8,604	10,817
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 534,755 million and expiring in 2019.		385,968	-
Finance leases with several credit institutions with interest rates around 6% for those denominated in dollars; and TIIE (Mexican average interbank rate) plus 3% and 5.5% basis points for those denominated in pesos, with maturities between 3 to 4 years.		535,423	602,582
Debt issuance and deferred financing costs		(93,945)	(117,490)
Total long-term debt		12,851,606	10,866,001
Less current maturities		375,656	220,554
Long-term debt, excluding current maturities	**Ps.**	**12,475,950**	**10,645,447**

Annual installments of long-term debt are as follows:

Year		Amount
2017	Ps.	1,154,853
2018		164,214
2019		1,844,258
2020		9,312,625
	Ps.	**12,475,950**

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

For the year ended December 31, 2015 and 2014, the interest expense was Ps. 1,280,531 and Ps. 912,592 respectively. (See note 10).

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

b) Bank loans

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

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

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

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As mentioned in note 22 (a), the Company paid in full its debt as of December 31, 2015, during February 2016, so the restrictions described herein are exchanged by those set out in the new debt.

(14) TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The transactions carried out with related parties during the years ended as of December 31, 2015 and 2014 are as follows:

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

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

The balances with related parties as of December 31, 2015 and 2014, included in accounts payable are as follows:

		2015	2014
Accounts payable short-term:			
GEN Industrial, S.A. de C.V. **(1)**	Ps.	131	52
Neoris de México, S.A. de C.V. **(1)**		598	505
	Ps.	**729**	**557**

(1) Mainly administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2015 and 2014 were as follows:

		2015	2014
Short-term employee benefits paid	Ps.	259,368	72,094

(15) PROVISIONS

Provisions as of December 31, 2015 are as follows:

		2015
Payroll provisions	Ps.	101,100
Restructuring provisions		89,000
Total	**Ps.**	**190,100**

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

		2015
Initial balance	Ps.	-
Provisions for the year		190,100
Ending balance	**Ps.**	**190,100**

In order to comply with its strategic plans, the Company is conducting a restructuring in some of its operating areas. The cost of this restructuring consists of compensation and employee benefits and is presented within operating income in the statement of comprehensive income.

(16) DEFERRED REVENUE

Deferred revenue as of December 31, 2015 and 2014 are as follows:

		2015	2014
Deferred revenue	Ps.	509,415	729,768
Current portion of deferred revenue		509,415	695,868
Long-term deferred revenue	Ps.	-	33,900

Changes in the balances of deferred revenue for the year are as follows:

		2015	2014
Initial balance	Ps.	729,768	617,815
Increases		616,466	901,482
Recognized in income for the year		(836,819)	(789,529)
Ending balance	Ps.	509,415	729,768

(17) INCOME TAX (IT)

The IT Law effective from 1 January 2014 establishes an income tax rate of 30% for 2014 and beyond.
The income tax benefit is as follows:

		2015	2014
Current income tax	Ps.	(61,305)	(34,459)
Deferred income tax		428,537	572,596
Income tax benefit	Ps.	367,232	538,137

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

	2015	2014
Statutory income tax rate	(30%)	(30%)
Inflationary effects	-	(2%)
Non-deductible effects from allowance for doubtful accounts	4%	9%
Non-deductible expenses	8%	1%
Temporary unrecognized deferred tax assets	1%	-
Other	(1%)	-
Effective tax rate	(18%)	(22%)

The main differences that gave rise to the deferred income tax assets as of December 31, 2015 and 2014 are presented below:

	2015	2014
Deferred tax assets:		
Net operating loss carry forwards	Ps. 1,682,858	1,257,927
Allowance for doubtful accounts	337,749	367,482
Accrued liabilities and others	384,861	362,947
Premium on bond issuance	2,582	3,245
Property, systems and equipment	295,775	312,239
Total deferred tax assets	**Ps. 2,703,825**	**2,303,840**
Deferred tax liabilities:		
Telephone concession rights	28,554	40,466
Long-term debt	549,342	549,342
Fair value of derivative financial instruments	11,257	28,123
Intangible and other assets	10,711	10,707
Total deferred tax liabilities	599,864	628,638
Deferred tax assets, net	**Ps. 2,103,961**	**1,675,202**

The rollforward for the net deferred tax asset as of December 31, 2015 and 2014 are presented below:

		2014	Effects on profit and loss	Effects on stockholders equity	2015
Net operating loss carry forwards	**Ps.**	**1,257,927**	**424,931**	-	**1,682,858**
Allowance for doubtful accounts		367,482	(29,733)	-	337,749
Accrued liabilities and others		362,947	21,692	222	384,861
Premium on bond issuance		3,245	(663)	-	2,582
Property, systems and equipment		312,239	(16,464)	-	295,775
Telephone concession rights		(40,466)	11,912	-	(28,554)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(28,123)	16,866	-	(11,257)
Intangible and other assets		(10,707)	(4)	-	(10,711)
	Ps.	**1,675,202**	**428,537**	**222**	**2,103,961**

		2013	Effects on profit and loss	Effects on stockholders equity	2014
Net operating loss carry forwards	**Ps.**	**824,229**	**433,698**	-	**1,257,927**
Allowance for doubtful accounts		522,188	(154,706)	-	367,482
Accrued liabilities and others		547,230	(184,952)	669	362,947
Premium on bond issuance		2,233	1,012	-	3,245
Property, systems and equipment		(69,526)	381,765	-	312,239
Telephone concession rights		(52,698)	12,232	-	(40,466)
Long-term debt		(549,342)	-	-	(549,342)
Fair value of derivative financial instruments		(41,898)	13,775	-	(28,123)
Intangible and other assets		(80,479)	69,772	-	(10,707)
	Ps.	**1,101,937**	**572,596**	**669**	**1,675,202**

As of December 31, 2015, the tax loss carryforwards expire as follows:

Expiration year	Tax loss carry forwards
2016	Ps. 26,752
2018	368,693
2020	27,302
2021	1,965,011
2022	546,319
2023	558,678
2024	1,727,890
2025	1,520,934
	Ps. 6,741,579

As of December 31, 2015, the unrecognized deferred tax assets are Ps. 823,856, of which Ps. 339,616 relate to tax loss carryforwards and Ps. 484,240 relate to estimated doubtful accounts.

(18) STOCKHOLDERS' EQUITY

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2015, the common stock of the Company is Ps. 6,861,986. The Company has 9,456,140,156 shares issued and outstanding. Company's shares are divided in two classes, Class "I" which represent the fixed minimum portion of the capital stock, and Class "II" which represent the variable portion of the capital stock. The shares that belong to both Class "I" and Class "II" provide the holders the same economic and corporate rights (with the only difference of those rights that may be conferred under applicable law to holders of shares that form part of the variable portion of a Sociedad Anónima Bursátil de Capital Variable). Each of the Classes have two Series: Series "A" and "B"; both Series are indistinct and provide the same corporate and economic rights to its holders. All of the shares issued by the Company have no par value. Of the total shares issued and outstanding, 97,750,656 are Class "I" Series A and 9,358,389,500 are Class "I" Series B. As of December 31, 2015 the Company has not issued any Class "II" shares (neither Series "A" nor Series "B"). As of this date, significantly all of the Series "B" Shares issued by the Company are deposited in a trust (the "CPOs Trust").

	Shares		Amount	
	2014	**2013**	**2015**	**2014**
Authorized and issued common stock:				
Series A	97,750,656	97,750,656	73,396	73,396
Series B	9,358,389,500	8,970,209,218	6,788,590	6,654,946

In connection with the issuance of the convertible bond into shares held on January 31, 2013, and in accordance with the resolutions adopted at the Extraordinary General Meeting of Shareholders on January 25, 2013, the Company issued 972,814,143 Series B shares Class "I" that will be kept in the treasury of the Company, to be subsequently subscribed by the conversion of convertible bonds. During 2015 and 2014 the conversion option was exercised for a total of 388,180,282 and 291,767,672 Class I, Series B shares, respectively, representing an increase of Ps 133,644 and Ps. 100,452 in the common stock of the Company.

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

(b) Stockholders' equity restrictions

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

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

(c) Comprehensive loss

The balance of other comprehensive income items and its activity as of December 31, 2015 and 2014 is as follows:

	2015	2014
Net loss	**Ps. (1,718,355)**	**(1,918,601)**
Other comprehensive income		
Actuarial result	(1,404)	(4,460)
Effect of income tax	222	669
Other comprehensive income net of deferred taxes	(1,182)	(3,791)
Net comprehensive (loss)	**Ps. (1,719,537)**	**(1,922,392)**

(19) TELEPHONE SERVICES AND RELATED REVENUES, SELLING AND ADMINISTRATIVE EXPENSES

Revenues consist of the following:

	2015	2014
Local calling services	Ps. 2,676,097	2,969,459
Long distance services	663,308	1,015,593
Internet and video	1,482,165	1,337,391
Data and network	2,017,964	1,897,673
Integrated services	2,374,393	1,568,616
Equipment sales	425,296	210,314
International traffic	274,259	1,234,024
Other services	236,956	363,933
	Ps. 10,150,438	**10,597,003**

Selling and administrative expenses

Selling and administrative expenses are as follows:

	2015	2014
Payroll and related	Ps 1,939,547	1,838,729
Rents	904,230	846,607
Maintenance	639,696	531,056
Consulting	475,288	458,036
Other	761,010	802,421
	Ps. 4,719,771	**4,476,849**

(20) CONSTRUCTION CONTRACT

During August 2014, the Company entered into a construction contract of a building, as well as the necessary equipment thereof according to the technical features described in the contract, amounting Ps. 540,328 plus value added tax.
Income for the year is recognized following percent of completion method which consider recoverable cost plus margin.
As of December 31, 2015, income from the construction contract is comprised as follows:

	Income for the year	Cumulative income	Balances of advances	Percent of completion (%)
Construction contract	Ps. 506,031	540,328	-	100%

(21) COMMITMENTS AND CONTINGENCIES

As of December 31, 2015, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2011.

In March and May 2015, Axtel signed transaction agreements with Telcel, Iusacell and Telefónica, respectively, in which the parties agreed to terminate disputes related with interconnection services, giving as liquidated and totally paid all amounts in dispute and/or still due for years 2005, 2006, 2007, 2008, 2009, 2010 and 2011. Therefore, there is no longer a contingency for that period, except in the case of Iusacell, in which case the agreement covers the contingencies between the parties until the year 2010.

(b) Interconnection Disagreements – Telmex – Years 2009 to 2013.

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

Until June 2010 Telmex billed the Company for the termination of long distance calls, applying the rates that were applicable prior to the aforementioned resolutions, and after such date, Telmex has billed the resulting amounts, applying the new interconnection rates. As of March 31, 2015, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps.1,240 million, not including value added tax.

Notwithstanding the foregoing, on March 8, 2013, Alestra S. de R.L. obtained a favorable resolution of the Thirteenth Collegiate Court in Administrative Matters of the First Circuit against Telmex, establishing interconnection rates for long distance termination for year 2009, resulting in better tariffs than those offered by Telmex to Axtel in its interconnection agreement. Consequently, and considering that in the interconnection service agreement celebrated by Axtel and Telmex, the Parties settled the obligation for Telmex to offer better conditions to the service provider when a final resolution or sentence from a Court or a competent authority has set interconnection tariffs which results in better conditions than the ones agreed by the Parties in the interconnection service agreement, additionally, the Parties also agreed that the new tariffs offering better conditions for the service provider shall be immediately applicable. Thus, the contingency established in the paragraph above, would be reduced by an estimate of Ps.772 million, resulting in an estimated amount of Ps.468 million.

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

In April 9, 2014, the Upper Chamber of the Federal Court of Tax and Administrative Justice (Sala Superior del Tribunal Federal de Justicia Fiscal y Administrativa), ruled on the annulment trial started by Telmex, in which the validity of the administrative resolution that was being disputed was confirmed in favor of Axtel.

Telmex filed an administrative legal process (Amparo directo) against the ruling issued within the annulment trial, which was resolved by the First Federal Collegiate District Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications (Primer Tribunal Colegiado de Circuito en Materia Administrativa Especializado en Competencia Económica, Radiodifusión y Telecomunicaciones), to the effect that the Federal Court of Fiscal and Administrative Justice issue a resolution duly founded and motivated, according with the studies of the forensic evidence.

Likewise, Telmex filed another administrative legal process (Recurso de Revisión en Amparo Directo) before the Supreme Court of Justice, which is yet to be resolved. By means of that Resource, Telmex claims some unconstitutional issues that were not studied by the First Circuit Court in Administrative Matters Specialized in Unfair Competition, Broadcasting and Telecommunications, in the appeal for review, in which it was ruled that the Federal Court of Fiscal and Administrative Justice shall issue a new resolution duly founded and motivated.

Currently, the Federal Court of Fiscal and Administrative Justice has already issued favorable ruling for Axtel which was challenged by Telmex through an amparo directo again.

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

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

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

Therefore, Telmex has challenged the first instance judgment, which was sent to the Supreme Court of Justice, because of constitutional question, that favorably solved to the constitutionality of the challenged articles by Telmex.

So it is waiting that the file be send to the Collegial Court, to the effect that resolve the issues of legality.

At the date of issuance of the financial statements, the Company believes that the rates determined by Cofetel in the resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for U.S. 34 million issued by Banamex in favor of Telmex for the purpose of guarantee the Company's obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. At the date of issuance of the financial statements, Avantel has been able to recover the entire amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis.

(c) Interconnection Disagreements – Grupo Iusacell and Grupo Telefónica – 2012-2013.

During October 2014 and May 2015, the Federal Telecommunications Institute "Ifetel", which replaced Cofetel, resolved interconnection disagreements to Iusacell and Telefonica with Axtel, respectively, setting interconnection rates for termination services commuted to mobile users under the modalities "calling party pays" and "nationwide calling party pays" for the period 2012-2013. In that resolution IFETEL determined tariffs per minute of Ps. 0.3214 pesos for 2012 and Ps. 0.3144 pesos for 2013.

These rulings were challenged by mobile operators. With regard to the issue of Iusacell the first instance decision it turned out favorable to the interests of the Company. Currently, the case is on appeal to the Collegial Court and is pending. At the date of issuance of these financial statements, the Company and its advisors believe that the rates of IFT resolutions prevail, so has recognized the cost based on these rates.

(d) Interconnection Disagreement. Rates for 2015 – Grupo Iusacell,
Grupo Telefónica, and Nextel. In June 2015, IFT resolved disagreements of interconnection to Iusacell, Telefónica and NII Nigital S. de R.L. de C.V with Axtel setting interconnection tariffs for local services in mobile users and termination in fixed users for 2015, of Ps. 0.2505 for mobile and Ps. 0.004179 for fixed landline.

These resolutions were challenged by mobile operators and by Axtel in a Juicio de Amparo trial, which is pending for resolution. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

(e) Interconnection Disagreement. Rates 2015-2016 – Radio Mobile Dipsa.
In August 2015, IFT setting the interconnection rates which Radio Mobile Dipsa, S.A. de C.V. (Telcel) shall pay to Axtel for fixed landline termination, for Ps. 0.004179 by 2015 and Ps. 0.003088 for 2016.

This resolution was challenged by Telcel in a Juicio de Amparo trial, which is pending for resolution in the first instance. At the date of issuance of the financial statements, the Company believes that the rates determined by the IFETEL in the resolutions will prevail, and therefore it has recognized the cost, based on these rates.

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

(g) There is a contingent liability derived from employee benefits, mentioned in Note 5(o).

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

(a) New rights applicable to users in general, as well as for users with disabilities.
(b) Collaboration with the Justice.
(c) Registration and reporting activities in connection with active and passive infrastructure, of installation and operation of the public telecommunications network, including the obligation to avoid charges for domestic long distance calls since January 1, 2015, in the field of advertising, and of neutrality of networks in connection with its service of internet access.

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

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

(i) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps. 24,000 and to other service providers amounting to Ps. 565,249.

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

(k) According to current tax legislation, the authorities are entitled to examine the five fiscal years prior to the last income tax statement filed.

(l) According to the IT Law, companies carrying out transactions with related parties are subject to certain limitations and requirements, as to the determination of the agreed prices, as these costs should be comparable to those that would be used with independent parties in comparable transactions.

In the event that the tax authorities will review prices and reject the determined amounts, may require, in addition to the collection of the tax and accessories that apply, fines on unpaid taxes, which could be up to 100% on the updated amount of contributions.

(m) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2015 and 2014 amounted to Ps. 904,230 and Ps. 846,608, respectively.

The annual payments under these leases as of December 31, 2015 are as follows:

		Leases contracts in:	
		Mexican Pesos (thousands)	**U.S. dollars (thousands)**
2016	Ps.	41,135	23,651
2017		30,126	22,480
2018		19,309	20,521
2019		12,516	20,014
2020		8,584	17,219
2021 and thereafter		38,867	120,435
	Ps.	**150,537**	**224,320**

(22) SUBSEQUENT EVENTS

a) On December 15, 2015, the Company published a prospectus on the Mexican Stock Exchange, by which made official the intention to conduct a merger agreement between the Company as the merging, with Onexa, SA de C.V. (Onexa) as a merged company. Onexa is the holding company for the capital stock of Alestra, S. de R.L. de C.V. The merger project was approved in January 2016 by the respective Boards of Directors and Shareholders. In addition, the January 11, 2016 the Mexican Banking and Securities Comission (Comisión Nacional Bancaria y de Valores) ("CNBV") issued the necessary exception to proceed with the merger without making a public offering. The merger became effective on February 15, 2016, date when ALFA became the majority stockholder of Axtel.

As a result of the merger described above, Alfa owns approximately 51% of shares representing the outstanding capital of Axtel.

Onexa was a holding company whose only asset was its participation in the capital stock of Alestra, which accounted for 99.98% of the capital stock of it. Alestra, meanwhile, is a leader in the market for IT services and telecommunications provider in Mexico. Alestra focuses on the business segment including multinational companies, institutional clients as well as small and medium enterprises. Through its extensive fiber optic network and data centers, Alestra provides managed network services, IT, data, internet and local telephone services and international long distance. In recent years, Alestra has refocused its business strategy, placing more emphasis on the segment of managed network services and IT services such as data centers, cloud services, systems integration and network security

Derived from the above, the Company made the following:

i. On January 15, 2016, the Company signed a credit facility of US 500 million and Ps. 4,759 million pesos to refinance all senior notes maturing in 2017, 2018 and 2020. Redemption became effective on February 19, 2016. The new loan matures in full in January 2019 for the portion in pesos and quarterly principal payments from April 2018 until February 2021 for the dollar portion, and has an interest rate of TIIE + 2% in the first year, TIIE + 2.25% in the second and TIIE + 2.5% in the third, for the portion in pesos; and initial interest rate of Libor + 2.25% which increased to Libor + 3.25% for the portion in dollars.
ii. On January 2016, a restructuring provision for Ps. 234 million was recognized.
iii. On January 2016, an allowance for employee benefits for Ps. 137 million was recognized.

b) On January 2016, the Company paid in full the promissory note with Banco Nacional de Mexico, S.A. whereby, he received a loan of Ps. 130.000 and which generated interest at a rate of TIIE plus 3.5 basis points annually.

c) On February 2016, Axtel signed settlement agreement with Telefonica, concluding disputes relating to interconnection services, liquidating the different amounts in favor and against that were in dispute and / or unpaid for 2012, 2013, 2014 and 2015, so there is no longer any contingency for that period.

G4-13, G4-17, G4-22, G4-23, G4-28, G4-29, G4-30, G4-32, G4-33

Report parameters

The year 2015 was a period of transformation for Axtel, and preparation for becoming a stronger and more robust corporate body. Work began during this year to merge our business with Alestra, so from February 15 2016, we had become a subsidy of Alfa.

In the Axtel Comprehensive Report 2015, as every year, we present performance data corresponding to Axtel's operations, not yet taking Alestra information into account, except where it was indicated that corresponds to both businesses. The subsidiaries about which information is reported are listed under the Axtel Profile, in the section of operational structure. Information regarding Alestra's economic, social, and environmental performance will be included next year.

This document has been prepared in accordance with the Global Reporting Initiative guide in its G4 version of Essential Compliance, and it has been verified by an external provider.

In the case of some environmental indicators (energy, emissions, and water), some data reformulation has taken place, due to a change made to the measuring methodology in order to obtain more precise information.

The Report does not include other entities, businesses, or institutions, nor does it include information on shareholders, clients, or commercial partners. All the information presented corresponds to the period from January 1 to December 31 2015.

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GRI G4 Content Index

GRI Materiality Disclosures AXTEL, S. A. B. de C. V. June 2016 Service

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	EXTERNAL VERIFICATION
		STRATEGY AND ANALYSIS		
G4-1	3	Statement from de most senior decision-maker of the organization, such as CEO, about the relevance of sustainability to the organization and the strategy for addressing it.		Yes, page 114
G4-2	15	Key impacts, risks and opportunities.		
		ORGANIZATIONAL PROFILE		
G4-3	-	Name of the organization.	Axtel, S. A. B. de C. V.	Yes, page 114
G4-4	7	Primary brands, products and services.		Yes, page 114
G4-5	-	Location of the organization's headquarters.	Monterrey, Nuevo León,	Yes, page 114
G4-6	-	Countries where the organization operates.	México	Yes, page 114
G4-7	-	Nature of ownership and legal form.	Axtel, S. A. B. de C. V.	Yes, page 114
G4-8	7	Markets served (with geographic breakdown, sectors served, and types of customers).	Ciudad de México, Monterrey, Guadalajara, Puebla, Toluca, León, Querétaro, San Luis Potosí, Saltillo, Aguascalientes, Ciudad Juárez, Tijuana, Torreón (Región de Laguna), 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.	Yes, page 114
G4-9	35	Scale of the organization, including: total number of employees, total number of operations, net sales, total capitalization and quantity of products or services provided.		Yes, page 114
G4-10	35	Total number of employees by employment contract, type, gender and region.		Yes, page 114
G4-11	35	Percentage of total employees covered by collective bargaining agreements.		Yes, page 114
G4-12	28	Organization's supply chain.		Yes, page 114
G4-13	103	Significant changes during the reporting period (regarding size, structure, ownership, or its supply chain).		Yes, page 114
		PARTICIPATION IN EXTERNAL INITIATIVES		
G4-14	15	Whether and how the precautionary approach or principle is addressed by the organization.		Yes, page 114
G4-15	23, 112	Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses.		Yes, page 114
G4-16	112	Memberships of associations and national or international advocacy organizations in which the organization holds a position on the governance body, participates, provides funding, or views membership as strategic.		Yes, page 114
		MATERIAL ASPECTS AND BOUNDARIES		
G4-17	15, 103	Entities included in the organization's consolidated financial and equivalent statements, and the entities not covered by the report.		Yes, page 114
G4-18	25	Process followed to define the report content and the Aspect Boundaries. How the organization implemented the Reporting Principles for Defining Report Content.		Yes, page 114
G4-19	25	List of material Aspects.		Yes, page 114
G4-20	25	Aspect Boundary within the organization for each material Aspect.		Yes, page 114
G4-21	25	Aspect Boundary outside the organization for each material Aspect.		Yes, page 114
G4-22	103	Effect of any restatements of information provided in previous reports, and the reasons for such restatements.		Yes, page 114
G4-23	103	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.		Yes, page 114

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	EXTERNAL VERIFICATION
	STAKEHOLDER ENGAGEMENT			
G4-24	26	List of stakeholder groups engaged by the organization.		Yes, page 114
G4-25	26	Basis for identification and selection of stakeholders with whom to engage.		Yes, page 114
G4-26	26	Organization's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group.		Yes, page 114
G4-27	26	Key topics and concerns that have been raised through stakeholder engagement.		Yes, page 114
	REPORT PROFILE			
G4-28	103	Reporting period for information provided.		Yes, page 114
G4-29	103	Date of most recent previous report.		Yes, page 114
G4-30	103	Reporting cycle (annual, biennial).		Yes, page 114
G4-31	114	Contact point for questions regarding the report or its contents.		Yes, page 114
	GRI CONTENT INDEX			
G4-32	104, 105	"In accordance" option chosen by the organization, GRI Context Index for the chosen option, and the reference to the External Assurance Report (if that is the case).		Yes, page 114
G4-33	104, 114	Organization's policy and current practice regarding external assurance for the report. Relationship between the organization and the assurance providers.		Yes, page 114
	GOVERNANCE			
G4-34	11	Governance structure of the organization, including committees of the highest governance body and their responsibilities about social, economic and environmental impacts.		Yes, page 114
G4-35	20	Process for delegating authority for economic, social and environmental topics from the highest governance body to senior executives and other employees.		Yes, page 114
G4-36	20	Executive-level positions with responsibility for economic, environmental and social topics, and if the holders report directly to the highest governance body.		Yes, page 114
G4-37	17	Processes for consultation between stakeholders and the highest governance body on economic, social and environmental topics.		Yes, page 114
G4-38	11	Composition of the highest governance body and its committees.		Yes, page 114
G4-39	11	Indicate whether the Chair of the highest governance body is also an executive officer, describing his or her function within the organization's management and the reasons for this arrangement.		Yes, page 114
G4-40	11	Nomination and selection processes for the highest governance body and its committees.		Yes, page 114
G4-41	11, 21	Processes for the highest governance body to ensure conflicts of interest are avoided and managed, indicating if these are disclosed to stakeholders.		Yes, page 114
	HIGHEST GOVERNANCE BODY'S ROLE IN SETTING PURPOSE, VALUES, AND STRATEGY			
G4-42	11	Highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, and policies.		Yes, page 114
	HIGHEST GOVERNANCE BODY'S COMPETENCIES AND PERFORMANCE EVALUATION			
G4-43	11	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, social and environmental topics.		Yes, page 114
G4-44	11	Processes for evaluation of the highest governance body's performance with respect to governance of economic, social and environmental topics. Indicate whether such evaluation is independent or not, and its frequency.		Yes, page 114

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	EXTERNAL VERIFICATION
		HIGHEST GOVERNANCE BODY'S ROLE IN RISK MANAGEMENT		
G4-45	15	Highest governance body's role in the identification and management of impacts, risks and opportunities, and its role in the implementation of due diligence processes. Indicate whether stakeholder consultation is used.		Yes, page 114
G4-46	15	Highest governance body's role in reviewing the effectiveness of the organization's risk management processes.		Yes, page 114
G4-47	15	Frequency of the highest governance body's review of economic, social and environmental impacts, risks, and opportunities.		Yes, page 114
		HIGHEST GOVERNANCE BODY'S ROLE IN SUSTAINABILITY REPORTING		
G4-48	-	Highest committee or position that reviews and approves the organization's sustainability report and ensures that all material Aspects are covered.		Yes, page 114
		HIGHEST GOVERNANCE BODY'S ROLE IN EVALUATING ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE		
G4-49	17	Process for communicating critical concerns to the highest governance body.		Yes, page 114
G4-50	22	Nature and total number of critical concerns communicated to the highest governance body, and the mechanism(s) used to address and resolve them.		Yes, page 114
		REMUNERATION AND INCENTIVES		
G4-51	11	Remuneration policies for the highest governance body and senior executives.		Yes, page 114
G4-52	11	Process for determining remuneration, if consultants are involved, and if they are independent of management.		Yes, page 114
G4-53	11	How stakeholders' views are sought and taken into account regarding remuneration.		Yes, page 114
G4-54	-	Ratio of the annual total compensation for the organization's highest-paid person in each country to the median annual total compensation for all employees, excluding the highest-paid person in the same country.	Confidential information	Yes, page 114
G4-55	-	Ratio of percentage increase in annual total compensation for the organization's highest-paid person in each country to the median percentage increase in annual total compensation for all employees, excluding the highest-paid person in the same country.	Confidential information	Yes, page 114
		ETHICS AND INTEGRITY		
G4-56	9,20	Organization's values, principles, standards and norms, such as code of conduct or code of ethics.		Yes, page 114
G4-57	20	Internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as help or advice lines.		Yes, page 114
G4-58	20	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.		Yes, page 114
		GENERIC DISCLOSURES ON MANAGEMENT APPROACH		
G4-DMA	-	Suppliers management.		Yes, page 114

ECONOMIC PERFORMANCE

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
G4-EC1	58	Direct economic value generated and distributed.			Yes, page 114
G4-EC2	-	Risks and opportunities posed by climate change that have the potential to generate substantive changes in operations, revenue or expenditure.	Not available	7	Yes, page 114
G4-EC3	35	Coverage of the organization's defined benefit plan obligations.			Yes, page 114
G4-EC4	35	Financial aid received from government.	Government aid was not received	1	Yes, page 114
G4-EC5	-	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.			Yes, page 114
G4-EC6	35	Proportion of senior management hired from the local community at significant locations of operation.			Yes, page 114
		INDIRECT ECONOMIC IMPACTS			
G4-EC7	-	Development and impact of infrastructure investments and services supported.	Not available		Yes, page 114
G4-EC8	-	Indirect economic impacts.	Not available		Yes, page 114
		PROCUREMENT PRACTICES			
G4-EC9	28	Proportion of spending on local suppliers at significant locations of operation.			Yes, page 114

INDIRECT ECONOMIC IMPACTS

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
		MATERIALS			
G4-EN1	54	Materials used by weight or volume.			Yes, page 114
G4-EN2	54	Percentage of materials used that are recycled.		7, 8	Yes, page 114
		ENERGY			
G4-EN3	46	Energy consumption within the organization.		8	Yes, page 114
G4-EN4	-	Energy consumption outside of the organization.	Not available	8	Yes, page 114
G4-EN5	46	Energy intensity.			Yes, page 114
G4-EN6	46	Reduction of energy consumption.		8	Yes, page 114
G4-EN7	46	Reductions in energy requirements of products and services.		8,9	Yes, page 114
		WATER			
G4-EN8	53	Total water withdrawal by source.		7,8	Yes, page 114
G4-EN9	53	Water sources affected by withdrawal of water.			Yes, page 114
G4-EN10	53	Percentage and total volume of water recycled and reused.		8,9	Yes, page 114
		BIODIVERSITY			
G4-EN11	-	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not material		Yes, page 114
G4-EN12	-	Significant impacts of activities, products, and services on biodiversity in protected and of high biodiversity value areas.	Not material		Yes, page 114
G4-EN13	-	Habitats protected or restored.	Not material		Yes, page 114
G4-EN14	-	IUCN red list species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not material		Yes, page 114
		EMISSIONS			
G4-EN15	49	Direct GHG emissions (scope 1).	Not available	8	Yes, page 114
G4-EN16	49	Indirect GHG emissions (scope 2).		8	Yes, page 114
G4-EN17	49	Other indirect GHG emissions (scope 3).		8	Yes, page 114
G4-EN18	49	GHG emissions intensity.		8,9	Yes, page 114
G4-EN19	49	Reduction of GHG emissions.		7,8	Yes, page 114
G4-EN20	-	Does not apply because ozone-depleting substances are not emited			Yes, page 114
G4-EN21	-	Does not apply because we dont have significant NOx anbd SOx emissions			Yes, page 114
		EFFLUENTS AND WASTE			
G4-EN22	53	Total water discharge by quality and destination.		8	Yes, page 114
G4-EN23	54	Total weight of waste by type and disposal method.			Yes, page 114
G4-EN24	-	Number and volume of significant spills.	Not material		Yes, page 114
G4-EN25	54	Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III and VIII, and percentage of transported waste shipped internationally.		7	Yes, page 114
G4-EN26	-	Identity, size, protected status and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff.	Not material		Yes, page 114

INDIRECT ECONOMIC IMPACTS

LABOR PRACTICES AND DECENT WORK

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
		PRODUCTS AND SERVICES			
G4-EN27	45	Extent of impact mitigation of environmental impacts of products and services.		8	Yes, page 114
G4-EN28	54	Percentage of products sold and their packaging materials that are reclaimed by category.		8	Yes, page 114
G4-EN29	45	Fines and non-monetary sanctions for non-compliance with environmental laws and regulations.		4	Yes, page 114
		TRANSPORT			
G4-EN30	49	Environmental impacts of transporting products and other goods for the organization's operations, and transporting employees.		7,8	Yes, page 114
		OVERALL			
G4-EN31	-	Environmental protection expenditures and investments by type.	Not material		Yes, page 114
		SUPPLIER ENVIRONMENTAL ASSESSMENT			
G4-EN32	28	Percentage of new suppliers that were examined using environmental criteria.			Yes, page 114
G4-EN33	28	Significant actual and potential negative environmental impacts in the supply chain and actions taken.		7,8	Yes, page 114
		ENVIRONMENTAL GRIEVANCE MECHANISMS			
G4-EN34	45	Number of grievances about environmental impacts filed, addressed and resolved through formal mechanisms.		8	Yes, page 114
		EMPLOYMENT			
G4-LA1	35	Total number and rates of new employee hires and turnover by age group, gender and region.			Yes, page 114
G4-LA2	35	Benefits provided to full-time employees that are not provided to temporary or part-time employees.		6	Yes, page 114
G4-LA3	35	Return to work and retention rates after parental leave, by gender.			Yes, page 114
		LABOR/MANAGEMENT RELATIONS			
G4-LA4	-	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements.	Not material		Yes, page 114
		OCCUPATIONAL HEALTH AND SAFETY			
G4-LA5	42	Percentage of workers represented in formal health and safety committees.		3	Yes, page 114
G4-LA6	42	Type and rates of injury, occupational diseases, lost days, absenteeism and fatalities related to work by region and gender.		1	Yes, page 114
G4-LA7	42	Workers with high incidence or risk of disease related to their occupation.			Yes, page 114
G4-LA8	42	Health and safety topics covered in formal agreements with trade unions.			Yes, page 114
		TRAINING AND EDUCATION			
G4-LA9	36, 41	Average hours of training per year per employee, by gender and employment category.		1	Yes, page 114
G4-LA10	41	Programs for skills management and lifelong learning that support employability of workers and assist them in managing career endings.			Yes, page 114
G4-LA11	41	Percentage of employees receiving regular performance and career development reviews, by gender and employee category.			Yes, page 114
		DIVERSITY AND EQUAL OPPORTUNITY			
G4-LA12	36	Composition of governance bodies and breakdown of employees by category according to gender, age group, minorities and other indicators of diversity.			Yes, page 114
		EQUAL REMUNERATION FOR WOMEN AND MEN			
G4-LA13	36	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation.		1,6	Yes, page 114

HUMAN RIGHTS

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
UPPLIER ASSESSMENT FOR LABOR PRACTICES					
G4-LA14	29, 36	Percentage of new suppliers that were examined in terms of labor practice.		1,6	Yes, page 114
G4-LA15	29	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken.		6	Yes, page 114
LABOR PRACTICES GRIEVANCE MECHANISMS					
G4-LA16	-	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms.	In 2015 two complaints were presented and are being addressed		Yes, page 114
INVESTMENT					
G4-HR1	-	Number and percentage of significant investment agreements and contracts that include human rights clauses.	Not material		Yes, page 114
G4-HR2	22	Total hours of employee training on human rights policies or procedures concerning aspects that are relevant to operations.		1,2,4,5	Yes, page 114
NON-DISCRIMINATION					
G4-HR3	22	Total number of incidents of discrimination and corrective actions taken.		1,2,6	Yes, page 114
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING					
G4-HR4	22,29	Operations and suppliers identified in which freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights.		1,2,4,5	Yes, page 114
CHILD LABOR					
G4-HR5	22,29	Operations and suppliers identified as having significant risk of child labor, and measures taken to contribute to the effective abolition of child labor.		1,2,4,5	Yes, page 114
FORCED OR COMPULSORY LABOR					
G4-HR6	22,29	Operations and suppliers identified as having significant risk for incidents of forced labor, and measures taken to contribute to the elimination of all forms of forced labor.		1	Yes, page 114
SECURITY PRACTICES					
G4-HR7	22	Percentage of security personnel trained in policies and procedures of the organization regarding human rights.		1,2,4,5,6	Yes, page 114
INDIGENOUS RIGHTS					
G4-HR8	-	Number of incidents of violations involving rights of indigenous people and actions taken.	Not material	1,2,4,5,6	Yes, page 114
ASSESSMENT					
G4-HR9	22	Total number and percentage of operations that have been subject to human rights reviews or impact assessments.			Yes, page 114
SUPPLIER HUMAN RIGHTS ASSESSMENT					
G4-HR10	29	Percentage of new suppliers examined using human rights criteria.			
G4-HR11	29	Significant actual and potential negative human rights impacts in the supply chain and actions taken.			Yes, page 114
HUMAN RIGHTS GRIEVANCE MECHANISMS					
G4-HR12	-	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms.	Not material		Yes, page 114

SOCIETY

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
		LOCAL COMMUNITIES			
G4-S01	31	Percentage of operations with implemented local community engagement, impact assessments, and developed programs.			Yes, page 114
G4-S02	-	Operations with significant actual and potential negative impacts on local communities.	Not material		Yes, page 114
		ANTI-CORRUPTION			
G4-S03	-	Number and percentage of operations assessed for risks related to corruption and the significant risks identified.	100%	10	Yes, page 114
G4-S04	21	Communication and training on anti-corruption policies and procedures.			Yes, page 114
G4-S05	21	Confirmed incidents of corruption and actions taken.		10	Yes, page 114
		PUBLIC POLICY			
G4-S06	-	Total value of political contributions by country and recipient.	Not material	2, 10	Yes, page 114
		ANTI-COMPETITIVE BEHAVIOR			
G4-S07	21	Number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.			Yes, page 114
		COMPLIANCE			
G4-S08	21	Monetary value of fines and number of non-monetary sanctions due to non-compliance with laws and regulations.			Yes, page 114
		SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY			
G4-S09	28	Percentage of new suppliers that were examined using criteria for impacts on society.			Yes, page 114
G4-S10	28	Significant actual and potential negative impacts on society in the supply chain and actions taken.			Yes, page 114
		GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY			
G4-S011	-	Number of grievances on society filed, addressed and resolved through formal grievance mechanisms.	Not material		Yes, page 114

PRODUCT RESPONSIBILITY

G4	PAGE	DESCRIPTION	DIRECT RESPONSE	UN GLOBAL COMPACT	EXTERNAL VERIFICATION
		CUSTOMER HEALTH AND SAFETY			
G4-PR1	-	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement.	Not material		Yes, page 114
G4-PR2	-	Number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes.	Not material		Yes, page 114
		PRODUCT AND SERVICE LABELLING			
G4-PR3	-	Type of product and service information required by the organization's procedures for product and service information and labelling, and percentage of significant product and service categories subject to such information requirements.	Not material		Yes, page 114
G4-PR4	-	Number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling.			Yes, page 114
G4-PR5	29	Results of surveys measuring customer satisfaction.			Yes, page 114
		MARKETING COMMUNICATIONS			
G4-PR6	-	Sale of banned or disputed products.	Not material		Yes, page 114
G4-PR7	-	Number of incidents of non-compliance with regulations or voluntary codes concerning marketing communications, including advertising, promotion and sponsorship.	Not material		Yes, page 114
		CUSTOMER PRIVACY			
G4-PR8	-	Number of sustained complaints regarding breaches of customer privacy and losses of customer data. Complaints were not received in 2015			Yes, page 114
		COMPLIANCE			
G4-PR9	-	Monetary value of fines for non-compliance with laws and regulations concerning the provision and use of products and services	Not material	1	Yes, page 114

United Nations Global Compact Principles

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

Certifications 2015

TECHNOLOGY CERTIFICATIONS

Avaya	Platinum Partner
	Small Medium Business Solution
	Unified Communications Solution
	Video Solution
	Enterprise UC Expert Specialization
	Mid Market UC Expert Specialization
	Video Expert Specialization
Cisco	Gold Certified Partner
	Advanced Collaboration Architecture Specialization
	Advanced Enterprise Networks Architecture Specialization
	Advanced Security Architecture Specialization
	Advanced Data Center Architecture Specialization
	Advanced SP Routing Technology Specialization
	Cloud and Managed Services Program Master
	SaaS Conferencing and EIM Resale
	Authorized Technology Provider (ATP)
	Telepresence Video Master Authorized Technology Provider (ATP)
	Identity Services Engine Authorized Technology Provider (ATP)
ICREA	Level V: HSHA-WCQA
	Level IV: HS-WCQA
	Level III: S-WCQA
Uptime Institute	Tier III Certification of Constructed Facility
	Tier III Certification of Design Documents
BCS	Certified Energy Efficient Datacenter Award (CEEDA) Bronze
Fortinet	Platinum Partner
Check Point	Certified Support Provider (CCSP/CSP)
	Specialization / Level: Three Stars
Blue Coat	Elite Partner
SAP	Business Process Outsourcing Provider
HP Enterprise	Silver Partner
Symantec	Platinum Partner
EMC2	Silver Partner
LRQA	ISO 9001:2008
BSI	ISO/IEC 27001:2013
	ISO 20000-1:2011
IMT	Modelo Global CIC (MGCIC)

ENVIRONMENTAL CERTIFICATIONS

Environmental Quality (PROFEPA)
Recognition for Mitigating CO_2eq Emissions. Nuevo León
Program of Action against
Climate Change 2010-2015

DISTINCTIONS

Socially Responsible Business (ESR), CEMEFI
IPC Sustentable BMV

G4-15, G4-16

Associations and Initiatives Adopted by Axtel

- United Nations Global Compact
- OECD Guidelines
- Carbon Disclosure Project (CDP)
- GEI Mexico Program
- Clean Transport Program
- Portability, Numeration, and Signaling Committee coordinated by the Federal Telecommunications Institute (IFT)
- Long-Distance Operators Committee (which was discontinued by the Meeting of the Federal Telecommunications Institute at its 28th Ordinary Meeting held on December 11 2015)

Furthermore, Axtel has subscribed to obligatory initiatives deriving from Agreements, as well as the Federal Law on Telecommunications and Broadcasting in Mexico:

a) Agreement to cease charging national long-distance calls to users by the calls they make to any national destinations from January 1st 2015, published in the Official Diary of the Federation on December 24, 2014.

b) Letter of Minimum Users' Rights in compliance with article 191 of the Federal Law on Telecommunications and Broadcasting, published in the Official Diary of the Federation on July 6, 2015.

c) Guidelines for Collaboration with Justice, in compliance with articles 189 and 190 of the Federal Law on Telecommunications and Broadcasting, published in the Official Diary of the Federation on July 6, 2015.

MEXICO

- CANIETI (National Chamber of the Electronics, Telecommunications, and Information Technology Industries)
- AMIPCI (Mexican Internet Association)
- CCE (Business Board Coordinator)
- Software Board of Nuevo León
- AMCHAM (American Chamber Mexico)

UNITED STATES

- FTTH (Fiber to the Home Council)
- MEF (Metro Ethernet Forum)
- TM Forum

REDES SOCIALES

Independent Review Letter of the AXTEL Annual Integrated Report 2015

Scope of our Work

I am pleased to inform the readers of this AXTEL Annual Integrated Report 2015 that Redes Sociales LT has conducted an independent and impartial review of the preparation processes of the report, as well as of the presentation of its contents. Our work consisted of a limited review of 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). We considered the following reports and standards: The ISAE 3000 ethical principles of independence, the activities stipulated in standard AA1000AS and the GRI publication "The External Assurance of Sustainability Reporting".

Conclusions

The AXTEL 2015 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 contents of the indicators reviewed contain errors or omissions to be in breach of the guides.

During the review process, no situations arose that led one to think that the information collection, validation and analysis processes failed to comply with the principles of traceability, exhaustiveness, comparability and confirmation.

Recommendations

Axtel has been provided with a report of the specific areas of opportunity in each phase of the Report preparation process for internal consultation purposes.

Summary of Activities

- We reviewed that the selection process of indicators to be covered was consistent with the material aspects and the methodologies selected by Axtel for the preparation of its Report.
- Interviews were held with the managers responsible for the preparation phases processes of the Report.
- We compared the 2015 Report with the 2014 Report in terms of the implementation of the recommendation made in the previous review process.
- Finally, we review the level of coverage of the indicators included in the Report and the congruence with the GRI Index Table.

Mariana Martínez Valerio

Redes Sociales en LT S.A. de C.V

T. (55) 54 46 74 84 / contacto@redsociales.com

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. This Review Letter is issued in March 2016 and will remain valid provided that no subsequent modifications are made to the AXTEL Annual Integrated Report.

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Contact Information

Cristina M. Cuéllar García
Sustainability
ccuellar@axtel.com.mx
Tel. +52 81 8114 1244

Adrián de los Santos Escobedo
Investor relations
adelossantos@axtel.com.mx
Tel. +52 81 8114 1128

Julio Salinas Lombard
Media relations
jusalinas@axtel.com.mx
Tel. +52 81 8114 1144

Headquarters
Blvd. Díaz Ordaz Km 3.33, L1
Col. Unidad San Pedro
San Pedro Garza García, N.L.
México, C.P. 66215
www.axtelcorp.mx/sustentabilidad

axtel

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