ANNUAL INTEGRATED REPORT 2018

axtel

CONTENT

MESSAGE FROM THE CEO

102-14

Indubitably, 2018 was a year of significant changes that saw the election of a new president and the renegotiation of trade agreements, resulting in the Treaty between Mexico, the United States and Canada, or USMCA, which, once approved by the respective congresses of the participating countries, will replace the North American Free Trade Agreement.

Despite the uncertainty caused by the Mexican presidential elections and USMCA negotiations, which resulted in modest economic activity in Mexico, our company maintained its position as a market leader and finalized deals that significantly strengthened our competitiveness and sustainability.

2018 was a pivotal year for Axtel. In December we reached a definitive agreement regarding the sale of our residential fiber optic business (FTTx), which serves six cities, for 4,713 million pesos to Grupo Televisa S.A.B. and its subsidiaries. This divestment will allow us to achieve the goal we set out to at the time of the merger of Alestra and Axtel in 2016, of focusing on commercial strategies and operations for providing ICT solutions to the corporate and government sectors.

Furthermore, seeking to maximize on our economic and human resources, and improve the quality of our customer relations, we began the process of Digital Transformation at Axtel. In the second quarter, we launched the Axtel Digital Innovation initiative to optimize the use of resources and improve customer interaction and opportunities, so as to accelerate growth and increase the profitability of our revenues.

Three years after the merger of Alestra and Axtel, in 2018 we successfully completed the consolidation of our management and billing systems for corporate and government sector clients into a new technological platform.

To enhance the quality of the service we provide, we have implemented a new model for interacting with our corporate and government sector clients. We have also set up the Axtel Academy, an internal technological training department with a focus on accelerating the adoption of knowledge and developing digital skills that contribute to improving our value proposition.

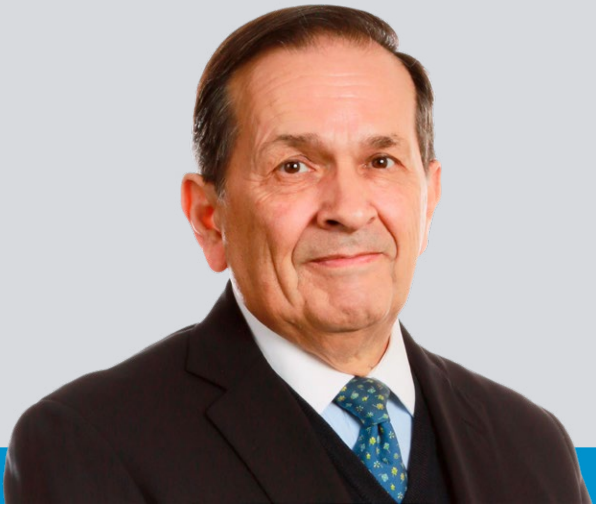
Consistent with our position as a leading IT services provider in Mexico, this year we established alliances with important global companies such as Microsoft and Amazon to strengthen our presence in the market as a provider of hybrid, private and public clouds. These alliances are in line with our strategy of becoming a market leader in cloud services, of which we are pioneers, having been at the forefront of the industry in Mexico for almost 10 years.

The corporate and government sectors reported positive results last year. Recurring revenue from these segments increased by six percent, contributing to a 2 percent growth in the company's total revenue in 2018, with respect to 2017. In addition, by increasing operating efficiency we were able to optimize resources and increase EBITDA by 20 percent, if we do not take into account the sale of our telecom towers, or seven percent, excluding the merger expenses incurred in 2017.

Last year, we proactively managed the various financial risks faced by Axtel and made progress in terms of non-strategic asset monetization projects to improve our capital structure.

Before the year-end, we made a partial prepayment of a bank loan for 4,350 million pesos with resources from the sale of our fiber business (FTTx), which reduced our credit balance by 73 percent, from over 5,920 million pesos to approximately 570 million pesos, thus improving the company's

"We continue to encourage and implement sustainability initiatives aimed at mitigating our impact on the environment, strengthening our dialogue with the community, and establishing programs in our value chain in accordance with international standards and practices."



financial profile by reducing the level of leverage and financial expense and extending the average life of its debt from 4.7 to 5.7 years. We will continue to evaluate alternatives to further improve our capital structure.

In order to reduce exposure to foreign exchange risk, in August we refinanced a $172 million dollar-to-peso loan on very competitive terms over 10 years.

An important initiative in 2018 was the commencement of Red Compartida (Shared Network) operations. We believe that this next-generation network will help bring about more attractive options for businesses and consumers in Mexico, stimulate increased productivity in the country's economy and enable the creation of innovative business models that favor digital adoption and promote social well-being.

Our startup accelerator program, NAVE, which is the first accelerator program to be set up by an ICT corporation in Mexico, successfully produced its third class of graduates. This open innovation initiative has allowed us to learn about and participate in the entrepreneurial ecosystem of Mexico's ICT sector, and that of other countries. We will continue to support businesses that have potential for growth and that are aligned with the ICT services we offer to businesses and governments.

In 2018, we continued to encourage and implement sustainability initiatives aimed at mitigating our impact on the environment, strengthening our dialogue with the community, and establishing programs in our value chain in accordance with international practices and standards.

For the eighth consecutive year, we reaffirmed our commitment to the United Nations Global Compact and for the eleventh year running we received the *Empresa Socialmente Responsable* recognition for being a socially responsible company.

We have also appeared on the Mexican Stock Exchange's Sustainability Index (IPC Sustentable) since 2013, and as of 2017 we have formed part of the Dow Jones Sustainability Index MILA Pacific Alliance (DJSI MILA).

We begin 2019 with a fully-focused strategy, an improved capital structure, and major ongoing projects and initiatives to enhance Axtel's business prospects in the short and long term. We are committed to maximizing the value of our assets and positioning the Company in sectors where we can stand out and, therefore, create value for our shareholders.

On behalf of the Board of Directors and the executive management team, I would like to express our gratitude for your trust and support; I also wish to thank our customers for their loyalty, as well as our suppliers and our family of employees, without whose contribution we would be unable to maintain our position as the leading ICT services provider in Mexico.

San Pedro Garza García, N.L., Mexico, February 26, 2019.

ROLANDO ZUBIRÁN SHETLER,
CHIEF EXECUTIVE OFFICER

2018
IN NUMBERS

12,788 MILLION PESOS
in income

4,393 MILLION PESOS
of EBITDA

7,644
stakeholders

29 TONS
of CO_2e emissions avoided thanks to our Paperless program

12 HOURS
on average of training per employee

OVER 18,000
corporate and government sector clients

33 INNOVATION
initiatives encouraged

OUR NETWORK

40,400
kilometers of fiber optic network

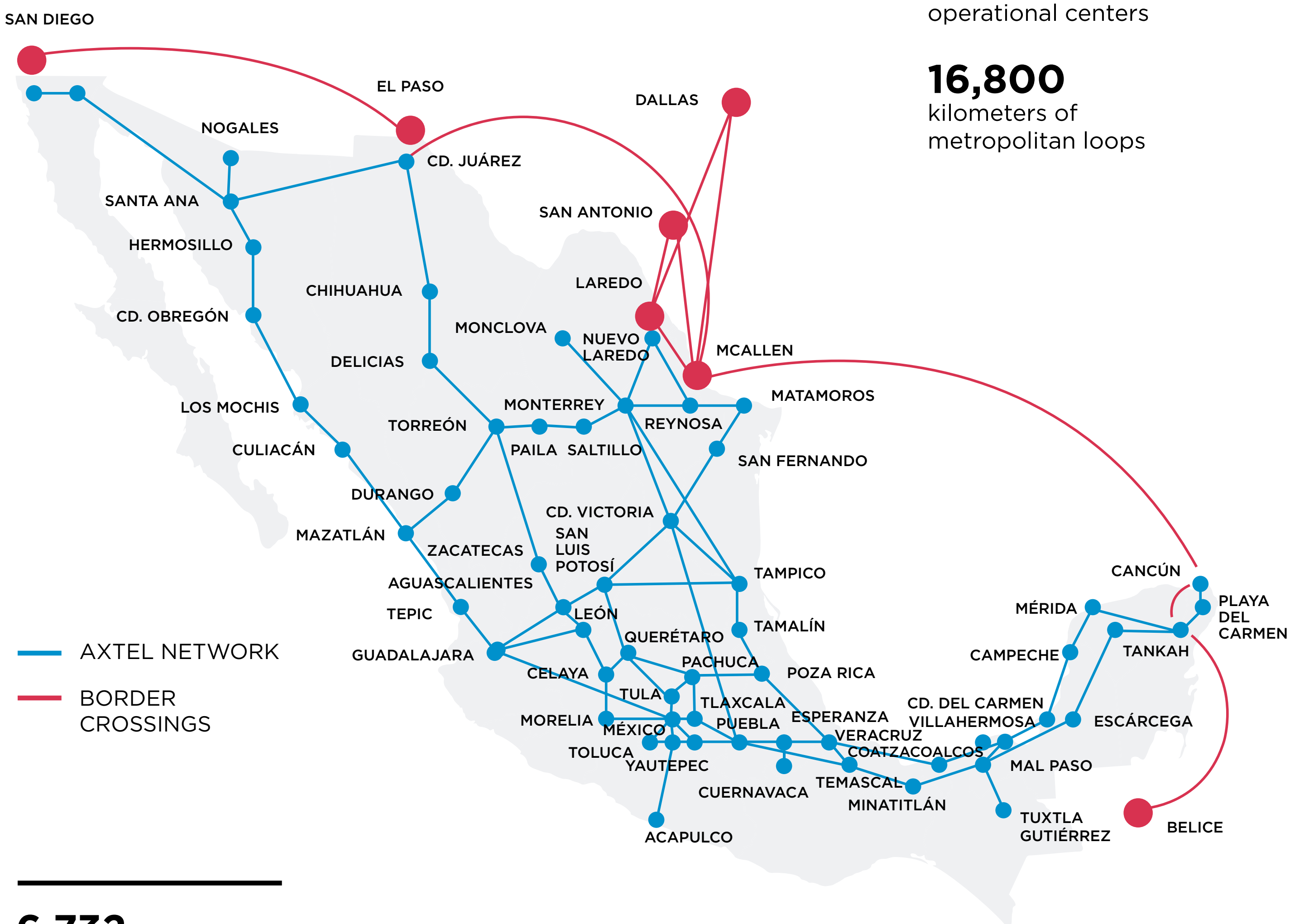
61
cities with Ethernet Data services

59
cities with local service

22,200
kilometers of transportation (LD)

5
operational centers

16,800
kilometers of metropolitan loops



6,732
m² of white floor in six data centers

Microwaves for last mile connectivity and metropolitan coverage

7, 10.5, 15, 23 y 38 GHz
corporate sector

On December 17, 2018, the Company signed a definitive agreement for the sale of its residential fiber optic business (FTTx), which services Monterrey, San Luis Potosi, Aguascalientes, Mexico City, Ciudad Juarez and the municipality of Zapopan. Axtel transferred 227,802 residential and micro-enterprise customers, 4,432 kilometers of fiber optic network and other fiber optic assets in the aforementioned cities to the buyer. The operations subject to the transaction have been classified as discontinued as they meet the requirements of IFRS 5 “Non-current assets held for sale and discontinued operations” and have therefore been reported separately in the 2018 and 2017 consolidated income statements as a comparative statement.

PROFILE

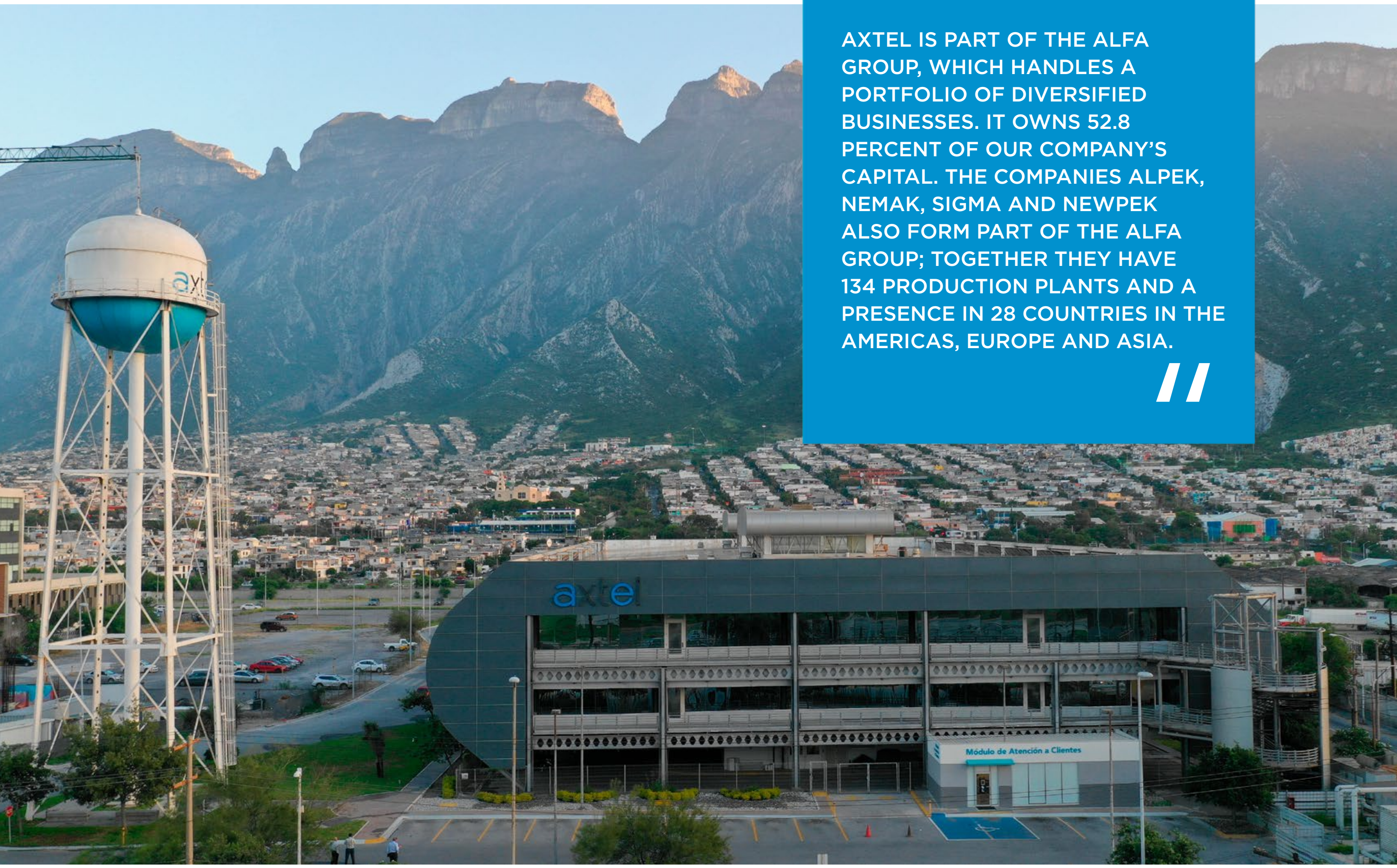
102-3, 102-6, 102-16

Our position at the forefront of the information and communication technology industry is what sets us apart. At Axtel we offer our clients a wide range of products and services through a diverse portfolio, that allow them to enhance the efficiency of their operations.

"WE ACHIEVE THIS WITH A FOCUS ON SUSTAINABILITY. WE TAKE CARE OF THE RESOURCES USED IN OUR OPERATIONS IN ORDER TO MAINTAIN ECONOMIC, SOCIAL AND ENVIRONMENTAL EQUILIBRIUM. THIS HAS POSITIONED US AMONG MEXICO'S LEADING COMPANIES.

FOR THE PAST SIX YEARS, WE HAVE BEEN ONE OF THE 30 COMPANIES TO APPEAR ON THE MEXICAN STOCK EXCHANGE'S SUSTAINABILITY INDEX (IPC) AND SINCE 2017 WE HAVE BEEN INCLUDED IN THE DOW JONES SUSTAINABILITY INDEX MILA PACIFIC ALLIANCE (DJSI MILA) THANKS TO OUR SUSTAINABLE OPERATION PRACTICES.

AXTEL IS PART OF THE ALFA GROUP, WHICH HANDLES A PORTFOLIO OF DIVERSIFIED BUSINESSES. IT OWNS 52.8 PERCENT OF OUR COMPANY'S CAPITAL. THE COMPANIES ALPEK, NEMAK, SIGMA AND NEWPEK ALSO FORM PART OF THE ALFA GROUP; TOGETHER THEY HAVE 134 PRODUCTION PLANTS AND A PRESENCE IN 28 COUNTRIES IN THE AMERICAS, EUROPE AND ASIA."



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MISSION:

Enable organizations to increase their productivity through digitization.

VISION:

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

VALUES[1]:

Teamwork... ***Our strength***

Respect... ***Our commitment***

Customer focus... ***Our differentiator***

Innovation... ***Our passion***

Quality... ***Our standard***

Integrity... ***Our pillar***

"

[1] Learn more about Axtel's Values:
https://axtelcorp.mx/filosofia/

SUSTAINABILITY

102-20, 102-29, 102-31

Over the years we have evolved in terms of the way we understand and implement sustainability. We have developed processes with a business approach that allow us to take action, establish indicators and evaluate our environmental, social and financial performance by adopting best practices to prevent and mitigate our impact on the environment.

This approach is embodied by the **Axtel Sustainability Strategy.**

> **"WE SEEK CONTRIBUTING TO A MORE SUSTAINABLE FUTURE WITH OUR LABOR AND ENVIRONMENTAL PRACTICES, AND BY PROPOSING, IN AN HONEST, ETHICAL AND RESPONSIBLE WAY, INNOVATIVE SOLUTIONS THAT PUT INFORMATION AND COMMUNICATIONS TECHNOLOGY WITHIN THE REACH OF SOCIETY."**

Economic Strategy

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

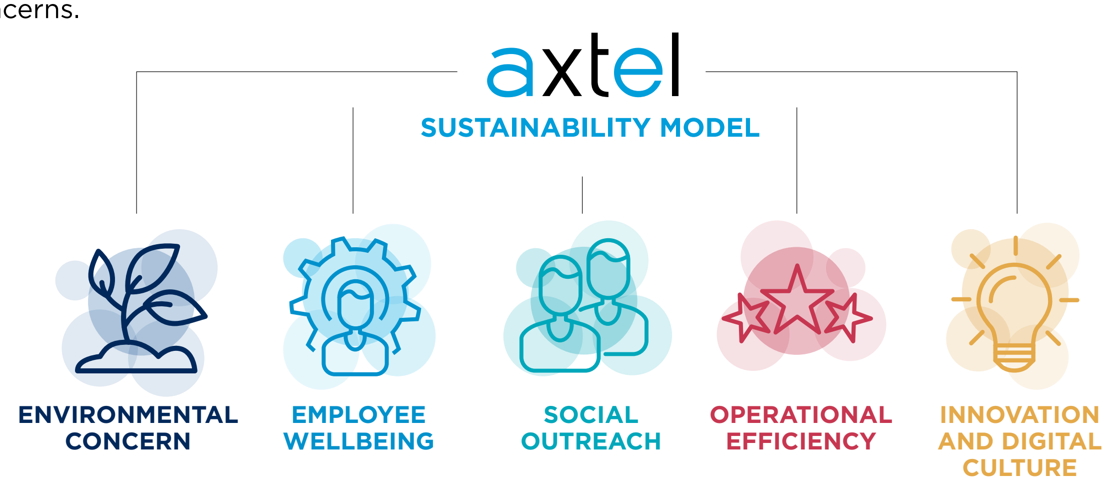
Social Strategy

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

Environmental Strategy

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

This strategy serves as the frame of reference and action for all initiatives aimed at continuously improving the performance of our organization, while the **Axtel Sustainability Model** is the combined tool that allows us to comprehensively coordinate five of the company's fundamental concerns.



Furthermore, we have set out a **Sustainability Policy** that translates best practices for ensuring and maintaining the growth of our organization; offering innovative products and services; promoting the personal and professional development of our employees and their families; contributing to the social needs of the country; as well as conserving natural resources, into guidelines.

The **Corporate Communication and Sustainability Management Team** leads sustainable management and participates in the Sustainability and Environmental Committees in which all of ALFA group companies are involved. This management team reports to the Executive Human Capital Management Team and one of its duties, among others, is to report to the Board of Directors on the Company's economic, social and environmental performance.

Working towards 2020

INNOVATION AND DIGITAL CULTURE

We add value for our clients and employees by ensuring the best Information Security practices and seeking innovative options for continuous improvement within the Information Technology market.

EMPLOYEE WELLBEING

We strive to improve our working environment, encourage the training and development of our employees, as well as to ensure that the company operates in safe and healthy environments.

SOCIAL OUTREACH

We establish positive relationships with our community that allow us to take part in its social development and establish links that facilitate interaction between our company and society.

ENVIRONMENTAL CONCERN

We are focused on mitigating our impacts on the environment, decreasing energy and water consumption, as well as reducing waste and greenhouse gas emissions.

OPERATIONAL EFFICIENCY

We seek to provide our customers with a unique experience and the highest quality standards, as well as to drive new technologies.

"WE HAVE BEEN SIGNATORIES TO THE UNITED NATIONS GLOBAL COMPACT SINCE 2011."

In addition to our dedication to contributing to a more sustainable future, we are committed to global initiatives that pursue the same end, such as the United Nations's Global Compact and Sustainable Development Goals, hence we have aligned our strategies and operations with their universal principles.

SUBJECT	GLOBAL COMPACT PRINCIPLE
Human Rights	**1.** Businesses should support and respect the protection of internationally recognized fundamental human rights within their sphere of influence. **2.** Companies must ensure that they are not complicit in human rights abuses.
Labor	**3.** Businesses should support freedom of association and the effective recognition of the right to collective bargaining. **4.** Businesses should uphold the elimination of all forms of forced or compulsory labor. **5.** Businesses should uphold the abolition of child labor. **6.** Businesses should uphold the elimination of discrimination in employment and occupation.
Environment	**7.** Businesses should support a precautionary approach to environmental challenges. **8.** Businesses should undertake initiatives to promote greater environmental responsibility. **9.** Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anticorruption	**10.** Businesses should work against all forms of corruption, including extortion and bribery.

SUSTAINABLE DEVELPMENT GOALS

THE GLOBAL GOALS
For Sustainable Development

Materiality

102-21, 102-46, 102-47

Consistent with our biannual materiality assessment, this report follows the 2017 assessment, which was carried out according to the methodology recommended by the Global Reporting Initiative (GRI), for understanding the issues that may impact our operation, profitability, market position, reputation and the adding value for our stakeholders.

We consulted more than 13,000 people externally and more than 1,200 employees and executives within Axtel. We also carried out an analysis of global trends in the telecommunications sector. As a result, we were able to define the following material concerns:

- Information security: network accesses, information storage, personal data protection and confidentiality.
- Innovation in terms of connectivity and mobility in products and services.
- Compliance with environmental legislation.
- Environmental protection innovations in products and services: sustainable mobility, energy efficiency, waste reduction and conservation of natural resources.
- Customer satisfaction.
- Ethical behavior and compliance with regulations and legality: transparency, anti-corruption and anti-bribery.
- Respect for human rights: non-discrimination, prevention of forced and child labor and prevention of harassment.
- Employee training, education and professional development.

COVERED WITHIN THE ORGANIZATION.

COVERED OUTSIDE THE ORGANIZATION.

Following consultations within the company, during 2018 there was a change in material concerns caused by the sale of our residential fiber optic business. The following concerns ceased to be material:

- Assurance of continuity and quality in telephony, television and Internet services.
- Customer health and safety, since this concern regarded the radio bases.
- Biodiversity, as this issue was related to the installation of fiber optics.

METHODOLOGY RECOMMENDED BY GRI

Inclusion of stakeholders: we consulted our most representative stakeholders and received a wide response, which assures us that their opinions and expectations on Axtel's sustainability concerns will be included.

Context of sustainability: we considered issues relevant to our industry at a global level and the latest trends, even going beyond those included in the GRI guide.

Materiality: The concerns that are most relevant to Axtel's stakeholders are reflected in this Report.

Exhaustiveness: In this report we present our achievements in terms of each material concern during 2018.

Stakeholders

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

We maintain close, respectful and open relationships with our stakeholders.

Our employees, shareholders, investors, customers, suppliers, governing and regulatory bodies and communities constitute the groups with whom we most directly relate and with whom we maintain constant communication via:

- **E-mail**
- **Company intranet**
- **Corporate portal: comments to the CEO**
- **Meetings and briefings**
- **Surveys**
- **Social media**
- **Advertising**
- **Supplier portal**
- **Company website**
- **Press releases**

STAKEHOLDER	KEY ISSUES AND CONCERNS RAISED	AXTEL'S ACTIONS IN THIS REGARD
Employees	Leadership and leadership exercises; managerial promotion process and professional development plans, fairness and equal opportunities; work-life balance, distance work or working from home schemes, employer-employee relationships; energy saving programs, recycling and encouragement of activities to strengthen our culture of sustainability.	We offered training programs based on professional development plans and used job posting to foster the growth and development of our staff; we continued to train leaders and conduct campaigns to promote equality and non-discrimination at work as part of our employment philosophy; we encouraged recycling, waste separation and energy saving, we implemented a breast-feeding program for moms and dads of children aged 0-12 months, we held a sustainability summer camp for employees' children and encouraged volunteering activities.
Suppliers	Digitalization of our interaction with suppliers.	In order to optimize and enhance the efficiency of our interactions with suppliers using digitization tools, we implemented and will continue to use RPA (Robot Process Automation). When using the tool for the first time, suppliers automatically upload the necessary information to instantly register or change their details in accordance with the company's operational guidelines and with real-time interaction towards the necessary platforms and/or validations.
Government and regulatory bodies	In 2018 we entered into talks with the Federal Telecommunications Institute regarding the right to charge mobile interconnection tariffs. In order for Axtel, in its capacity as a Full Virtual Mobile Operator, to obtain the right to charge mobile interconnection rates, we promoted interconnection procedures with mobile and fixed operators.	As a result of these procedures, resolutions were reached, and in compliance with these resolutions, we executed and signed interconnection agreements.
Customers	Service failures, rapid response and resolution of incidents and needs, customer service.	We seek to reduce failures and make services more easily available through preventive plans and continual improvement processes; we provide customer service staff with training in the technologies and services we offer. We have restructured, both in terms of customer service and service operations, so as to be more flexible when resolving failures, thereby providing a better customer experience while looking to increase productivity through digital transformation and automation tools.
Communities	Create strategies and actions that have social, economic and/or environmental benefits.	We participate in social and environmental initiatives and promote volunteer efforts among our employees. In collaboration with Reforestamos México, we reforested 1.6 hectares of El Cimatario National Park in Querétaro, we joined the "Soy Honesto Hoy" campaign organized by the Civic Council of Nuevo León and we participated in SumaRSE Network, as well as in fund raising and charitable initiatives for organizations such as Ciudad de los Niños and Nuevo Amanecer.
Shareholders and investors	Foreign exchange risk and leverage level of the company.	In order to mitigate the foreign exchange risk derived from the uncertainty caused by the change of government in Mexico, the renegotiation of the Free Trade Agreement and other external macroeconomic factors, we refinanced a loan from dollars to pesos for US$172 million on competitive terms over 10 years. In addition, we negotiated more than 600 million dollars in Forward hedges to fix the exchange rate of the obligations denominated in dollars for the next six to 12 months, as well as the principal of the credit that was refinanced from dollars to pesos, the committed Capex and interest on the bond matures in 2024. In December 2018, we sold part of our residential fiber business, using net resources from the operation to prepay a bank loan and, consequently, reduce leverage.

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

102-18, 102-19, 102-22, 102-23, 102-24, 102-25, 102-26, 102-35, 102-36

A decisive factor in a company like Axtel is competent and efficient leadership. Strong leadership ensures correct decision making and sets out the path that economic, social and environmental strategy will follow. It also governs the rights and responsibilities of those who lead the company. Through our Corporate Governance structure2 we ensure the generation of long-term value through policies, procedures and guidelines that contribute to transparency, accountability, integrity, responsibility, compliance with our values and ethics.

Our highest level of governance is the Board of Directors, which together with the CEO, is responsible for ensuring all the aforementioned tasks are carried out and executed properly.

The Board of Directors is made up of 14 regular directors and four alternate directors, all of whom are esteemed businessmen with extensive professional experience and career trajectories and who have been selected in accordance with the provisions of Mexico's Securities Market Act (LMV – for its acronym in Spanish), the Axtel company bylaws, Code of Ethics, the Code of Principles and Best Practices of the Corporate Government of the Business Coordinating Council, the OECD Corporate Governance Guidelines and the UN Global Compact Principles.

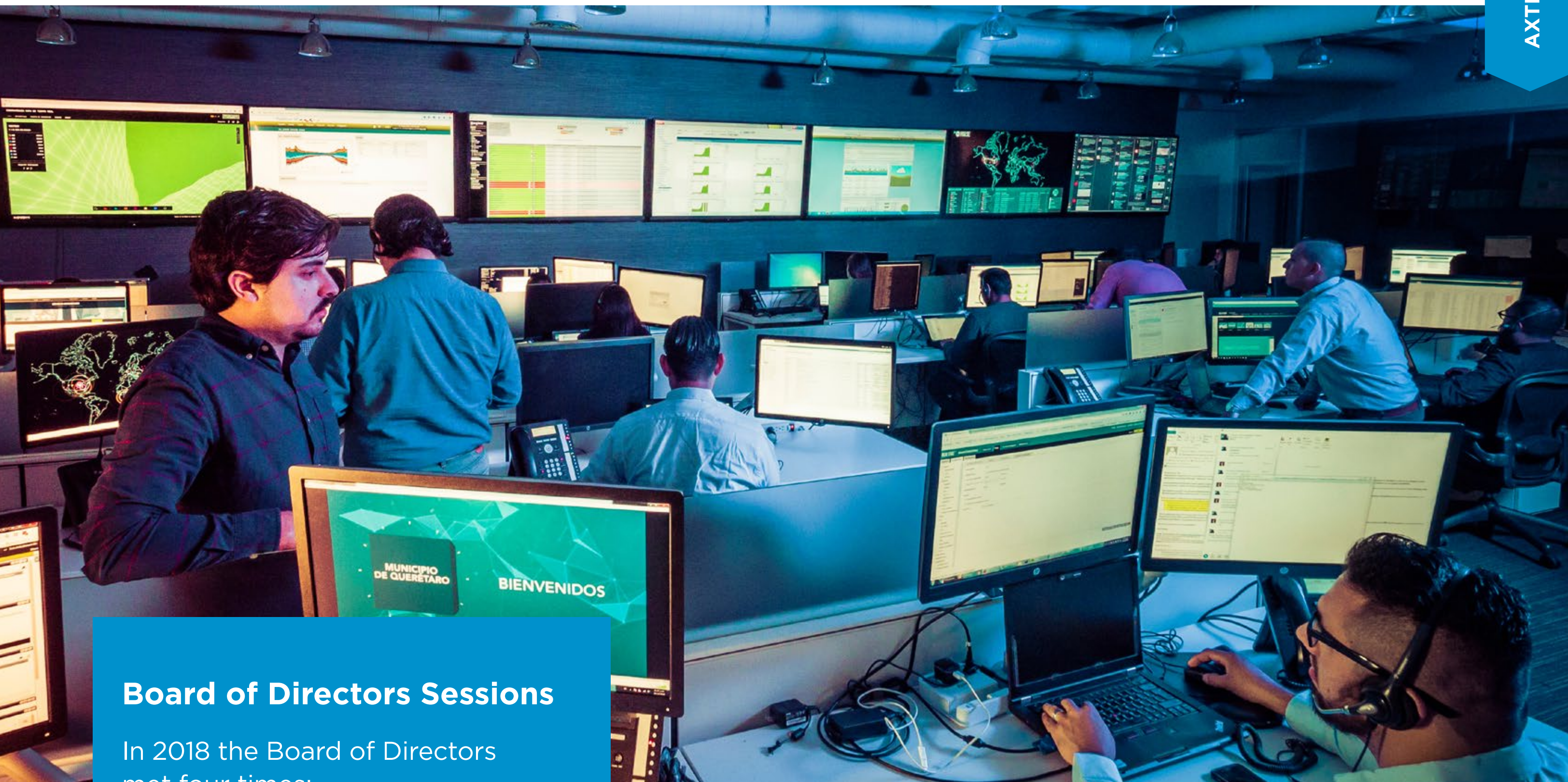
> "AXTEL'S DIRECTORS AND CHIEF EXECUTIVE OFFICER WERE APPOINTED AND APPROVED BY THE ORDINARY GENERAL OF SHAREHOLDERS' MEETING ON FEBRUARY 27, 2018."

The main responsibilities of the Board of Directors

- Monitoring compliance with applicable laws, including the LMV;
- Identifying, managing and mitigating potential internal and external risks;
- Appointing and removing the CEO and setting forth his or her powers, duties, working conditions and remuneration;
- Appointing and removing the Company's external auditors;
- Appointing members of auditing and corporate practice committees;
- Defining monitoring and auditing guidelines;
- Defining the company's economic, social and environmental goals and strategies;*
- Managing, conducting and executing the Company's business;*
- Reviewing accounting policies, financial statements, and reporting to the General Shareholders' Meeting.

*Tasks shared with the CEO of Axtel.

[2] Learn more about our Corporate Governance: https://www.axtelcorp.mx/inversionistas/gobierno-corporativo



Board of Directors Sessions

In 2018 the Board of Directors met four times:

January 27 with
100%
in attendance

April 24 with
87%
in attendance

August 1st with
100%
in attendance

November 1st with
87%
in attendance

Average annual attendance
93.5%

The Board of Directors receives support from the Audit and Corporate Practices Committee in the performance of its duties. An independent director serves as chairman of the Committee, which is made up of three independent regular directors and one independent alternate director.

The Audit and Corporate Practices Committee studies and issues recommendations to the Board on matters related to audits such as: the selection and determination of the external auditor's fees, coordination with the company's internal auditing department and the study of accounting policies. It is also responsible for maintaining communication between the senior management team and the Board of Directors and for avoiding conflicts of interest.

In addition, it issues recommendations to the Board on matters related to corporate practices such as: conditions for hiring top-level executives, as well as severance payments in the event of their dismissal and remuneration policies, among others.

The remuneration received by members of the Board of Directors is defined in accordance with our Salary Administration Policy and extensive market and internal equity analysis. At Axtel we do not offer bonuses or hiring incentives for Board members; in the event of dismissal, any severance and/or reimbursements owed are made in accordance with the provisions of the Federal Labor Act.

BOARD MEMBERS

ÁLVARO FERNÁNDEZ GARZA
March 27, 1968

Member and Co-Chair of the Axtel Board of Directors since February 2016. CEO of ALFA S.A.B. de C.V. Chair of the Board of the University of Monterrey (UDEM). Member of the Boards of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, Vitro and Museo de Arte Contemporáneo de Monterrey. He has a degree in Economics from the University of Notre Dame, and a Master's in Administration from ITESM and an MBA from Georgetown University.

TOMÁS MILMO SANTOS
November 3, 1964

Member and Co-Chair of the Axtel Board of Directors since February 2016. He was CEO of the company from 1994 to February 2016, he has been a Director since 1994 and was Chair of the Board of Directors from 2003 to February 2016.
He is a member of the Board of Directors of CEMEX, ITESM, and Promotora Ambiental. He is also Chair of the Board of Tec Salud and Alianza Educativa Ciudadana por Nuevo León.
He has a Bachelor's degree in Business Economics from Stanford University.

ALEJANDRO MIGUEL ELIZONDO BARRAGÁN
October 14, 1953

Member of the Axtel Board of Directors since February 2016. Director of Development at ALFA. He is a member of the Board of Directors of Arca Continental, Indelpro and Polioles. He has a degree in Electrical Mechanical Engineering from ITESM, and a Master's in Administration from Harvard University.

ARMANDO GARZA SADA
June 29, 1957

Member of the Axtel Board of Directors since February 2016. Chair of the Board of Directors of ALFA S.A.B. de C.V. Chair of the Boards of Directors of Alpek and Nemak. Member of the Boards of BBVA Bancomer, CEMEX, FEMSA, Grupo Lamosa, Liverpool, Proeza and ITESM. He is a graduate from the Massachusetts Institute of Technology and has a Master's degree in Business Administration from Stanford University.

FERNANDO ÁNGEL GONZÁLEZ OLIVIERI
October 2, 1954

Member of the Axtel Board of Directors since February 2016. Executive Vice President of Finance and Administration, and Chief Executive Officer of CEMEX. He has a Bachelor's degree and a postgraduate degree in Administration from ITESM.

PATRICIO JIMÉNEZ BARRERA
October 29, 1965

Member of the Axtel Board of Directors since February 2018. Member of the Board of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega. He is a Public Accountant from ITESM.

PAULINO JOSÉ RODRÍGUEZ MENDÍVIL
April 21, 1951

Member of the Axtel Board of Directors of since February 2016. Director of Human Capital at ALFA. Member of the Board of Directors of Campofrío Food Group, COPARMEX and the Business Coordinating Council.
He has a degree in Industrial and Systems Engineering and a Master's Degree in Energy Techniques from the University of the Basque Country, Spain.

ALBERTO SANTOS BOESCH
August 26, 1971

Member of the Axtel Board of Directors since February 2016. Chair and CEO of Ingenios Santos, S.A. de C.V. Member of the Boards of GRUMA, BBVA Bancomer, Interpuerto de Monterrey, ITESM Development Committee, Instituto Nuevo Amanecer, Renace, Philanthropic Network of Graduates and Friends of ITESM, Committee of the Advisory Board of the Faculty of Political Sciences and Public Administration of the Autonomous University of Nuevo Leon (UANL) and Unidos por el Arte contra el Cáncer Infantil (UNAC).
He has a degree in International Studies from the University of Monterrey (UDEM).

INDEPENDENT BOARD MEMBERS

SALVADOR ALVA GÓMEZ
June 4, 1951

Member of the Axtel Board of Directors since February 2016. President of ITESM since 2011. He worked with PepsiCo for 24 years as a member of the Executive Committee and President of the company in Latin America.
He is an active member of the Board of Proeza, Endeavor and the Museo de Arte Contemporáneo de Monterrey.
He has a degree in Chemical Engineering from the Universidad Nacional Autónoma de México (UNAM) and a Master's

FRANCISCO GARZA EGLOFF
September 5, 1954

Member of the Axtel Board of Directors since February 2016. Member of the Board of Directors of Arca Continental, Grupo Industrial Saltillo, Grupo Alen, Banco Banregio, as well as the Department of Engineering and Architecture at ITESM and the UANL Foundation.
He has a degree in Chemical Engineering and Administration from ITESM, and has undertaken studies in Senior Management at The Panamerican University Business School (IPADE).

JUAN IGNACIO GARZA HERRERA
November 26, 1966

Member of the Axtel Board of Directors since February 2016. General Manager of Xignux. Former President of COMCE Noreste. He has served as Board Member in Xignux, The Mexican Council of Business People (CMHN), BBVA Bancomer (Regional Noreste), UDEM, ICONN, Cleber and Instituto Nuevo Amanecer, A.B.P. He is President of the Nuevo Leon Transformation Industry Chamber. He has a degree in Mechanical Engineering and Administration from ITESM and a Master's degree in Administration from the University of San Francisco.

BERNARDO GUERRA TREVIÑO
February 24, 1965

Member of the Axtel Board of Directors since February 2016. Founding partner of Morales y Guerra Capital Asesores (MG Capital). Member of the Board of Directors of Promotora Ambiental, Grupo Ahorro Famsa and Fibra Monterrey. He has a degree in Industrial and Systems Engineering from ITESM.

ENRIQUE MEYER GUZMÁN
January 7, 1960

Member of the Axtel Board of Directors since February 2016. Chair of the Board and Chief Executive Officer of Grupo CEMIX. Board member of UDEM, BBVA Bancomer, Banamex, Vinoteca, Silica Desarrollo, Fondo Emblem, Neoalimentos, Beliveo and Chairman of the Board of Club Industrial.
He is has a degree in Industrial and Systems Engineering from ITESM and a Master's degree in Business Administration from Stanford University.

RICARDO SALDÍVAR ESCAJADILLO
November 20, 1952

Member of the Axtel Board of Directors since February 2016. Private investor. Member of the Boards of FEMSA and ITESM. He was President and CEO of The Home Depot Mexico, a position he held for eighteen years until his retirement in June 2017. Previously, he has worked in various ALFA Group companies for nearly 20 years. He has a degree in a Mechanical Engineering from ITESM and a M.Sc in Systems Engineering from Georgia Tech and a Diploma in Senior Management from IPADE.

ALTERNATE BOARD MEMBERS

JOSÉ ANTONIO GONZÁLEZ FLORES
May 5, 1970

Alternate Board Member of Axtel since February 2016. Executive Vice President of Finance (CFO) at CEMEX.
He has a degree in Industrial and Systems Engineering from ITESM and a Master's degree in Business Administration from Stanford University.

THOMAS LORENZO MILMO ZAMBRANO
July 9, 1935

Alternate Board Member of Axtel since February 2018. He was co-founder and Chairman of the Board of Directors of Grupo Javer and Incasa. He was Chairman of the Board and Chief Executive Officer of Carbonífera San Patricio y Carbón Industrial, and served as a member of CEMEX's Board of Directors until 1996.

MAURICIO MORALES SADA
September 6, 1961

Alternate Board Member of Axtel since February 2016. President and founding member of MG Capital.
Member of the Board of Maquinaria Diesel, S.A. since 2005.
He has a degree in Mechanical Engineering from ITESM.

INDEPENDENT ALTERNATE BOARD MEMBER

MARIO HUMBERTO PÁEZ GONZÁLEZ
October 28, 1950

Alternate Board Member of Axtel since February 2016. CEO of Sigma Alimentos. Chairman of the Board of Campofrío Food Group. He has a Certified Public Accountant qualification and a Master's degree in Administration from ITESM and a further Master's degree in Administration from Tulane

"THANKS TO OUR ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE, IN ADDITION TO THE ACHIEVEMENTS OF OUR CORPORATE GOVERNMENT, WE HAVE BEEN RECOGNIZED BY THE MEXICAN STOCK EXCHANGE'S SUSTAINABILITY INDEX (IPC) SINCE 2013 AND BY THE DJSI MILA SINCE 2017."

EXECUTIVE TEAM

ROLANDO ZUBIRÁN SHETLER
66 years old
CEO

He has been Chief Executive Offcier of Axtel since February 2016. He previously served as CEO of Alestra, from January 1999 to February 2016. He has over 30 years of experience in the Latin American telecommunications market and has held various management positions in Mexico, Brazil and Argentina.
He has a degree in Industrial Engineering from the National Autonomous University of Mexico (UNAM), an M.Sc in Operations Research Engineering from the University of Southern California and a Ph.D. in Management from the Autonomous University of Nuevo Leon.

CARLOS GUILLERMO BUCHANAN ORTEGA
59 years old
Executive Officer of Human Capital

He served as Managing Partner of B&S Consultores and was Director of Human Resources at Alestra. He has served as Human Resources Director at Telefónica Movistar,
Commercial Banking of Grupo Financiero Bancomer, Bimbo, Black & Decker and Prolec G.E. He is a former Executive Chairman of ERIAC Human Capital. He is a Board Member of UDEM, Employability Advisor at Tec Milenio, Member of the Study Group and Guest Monitor for IPADE's D1, D2 and Medex programs. He has worked as a lecturer and professor at UDEM, ITESM and the Jesuit University of Guadalajara (ITESO).
He has a Bachelor's Degree in Psychology and a Master's Degree in Organizational Development and Administration from UDEM, as well as postgraduate degrees from IPADE and Kellogg University.

ANDRÉS EDUARDO CORDOVEZ FERRETTO
50 years old
Executive Officer of Infrastructure and Operations

He has served as Axtel's Executive Technology and Operations Officer from October 2013 to January of 2016. Prior to which he was Director of Information Technology and Processes. Throughout his 24 years of professional experience he has held various executive positions in a range of telecommunications and financial services companies, both within Mexico and abroad, in which his responsibilities have ranged from technology, innovation, operations, customer service and sales.
He has a degree in Computer Systems Engineering from ITESM and was awarded a diploma in Senior Management from IPADE; he has also undertaken executive development courses at the Universities of Wharton, Stanford and the London Business School.

ADRIÁN CUADROS GUTIÉRREZ
48 years old
Executive Officer of Government Sector

He served as Executive Director of IT Solutions (February 2016 to December 2017). He joined Alestra in February 1996, where he served as Director of Engineering, Chief Technology Officer, Director of Government Sales and Director of IT Services Sales. He also held various positions at AT&T Mexico from July 1993 to January 1996.
He has a degree in Electronics and Communications Engineering and a Master's degree in Administration from ITESM He studied Executive Education Programs at IPADE and Stanford University.

ADRIÁN DE LOS SANTOS ESCOBEDO
50 years old
Chief Financial Officer

He has served as Acting Director of the Finance Office. He held the position of Director of Corporate Finance and Investor Relations at Axtel until February 15, 2017. Prior to joining Axtel in April 2006, he worked at Operadora de Bolsa y Banca Serfin (now Santander Mexico) an Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York.
He has a Bachelor's Degree in Business Administration from ITESM and a Master's Degree in Finance from Boston College's Carroll School of Management.

BERNARDO GARCÍA REYNOSO
60 years old
Executive Officer of Planning and Development

He joined ALFA in 1985 and joined Alestra in January 1996, holding various positions such as Deputy Director of Human Resources Planning, Director of Strategic Alliances, Director of Sales Administration and Commercial Strategy, Director of Corporate Sales, Director of Sales to Large and Affiliated Companies, Director of Residential Marketing, Director of the Residential Business Department and Director of Administration and Human Resources.
He has a degree in Industrial and Systems Engineering from ITESM and an MBA from IMD International in Lausanne, Switzerland.

RICARDO J. HINOJOSA GONZÁLEZ
52 years old
Executive Officer of Enterprise Marketing

He joined ALFA in 1988 and in 1997 he joined Alestra, where he served as Commercial and Marketing Director.
He has held various executive positions.
He has a Bachelor's Degree in Computer Administration Systems and a Master's Degree in Business Administration with a major in Marketing from the University of California.
He has also undertaken specialized studies in management at IPADE, Wharton University and Tuck Business School.

RAÚL ORTEGA IBARRA
62 years old
Legal and Regulatory Executive Director

Since 1996 he has served as Director of Government and Legal Relations at Alestra, where he was also Director of the International Business and Communications Department from 2001 to 2007. Prior to which, he was Director of Regulatory Affairs
at AT&T Corp. in Mexico. He led and founded representative offices of Mexican business organizations in Washington,
D.C. He is a graduate of the Iberoamerican University and has undertaken executive studies in Political Economy and Management at
Stanford University.

Compensation plan for the executive team

COMPONENT	OBJECTIVE AND ALIGNMENT WITH STRATEGY	DESCRIPTION
Alignment with business strategy	Fulfill social, environmental and economic objectives.	Remuneration awarded based on the fulfillment of objectives per department.
Base salary	Attract and retain talent.	Salaries are reviewed each year based on business results, the macroeconomic environment, salary surveys and performance.
Fixed compensation (benefits)	Comply with the legal framework and ensure competitiveness vis-à-vis competition.	End-of-year bonus, vacation bonus and grocery store bonus.
Variable retribution	Reward the fulfillment of individual objectives and those of the team, strengthen the alignment of the executive management team with the interests of the shareholders and ensure competition.	Annual bonus plan based on the fulfilment of operational and strategic goals.
Social benefits	Provide executives with wealth stability, face contingencies and retain talent.	Major medical expenses insurance, life insurance, emergency medical insurance, and periodic medical checkups.

Risk management

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

Like any organization, at Axtel we face financial, market, regulatory, legal, infrastructure, technological, environmental and social risks, that in some cases are specific to our business or industry and in others are caused by external factors related to the economy at large, politics and society. For this reason, each year we carry out a risk assessment to identify risks and develop strategies that allow us to prevent or mitigate them.

With the support of strategic areas, the Senior Management Team incorporates potential risks into the annual plan so that they can in turn be analyzed by the Board of Directors during its meetings.

Furthermore, we periodically review risks through our Risk Management Program to ensure that they are always relevant and reflect the reality in which we live.

Operational structure

102-45

SUBSIDIARY	COUNTRY	HOLDING PERCENTAGE 2018
Axtel, S.A.B. de C.V. (Holding Company)(3)	México	100
Servicios Axtel, S.A. de C.V.(1)	México	100
Alestra Comunicación, S. de R.L. de C.V.(3)	México	100
Avantel, S. de R.L. de C.V. ("Avantel")(3)	México	100
Axes Data, S.A. de C.V.(1)	México	100
Contacto IP, S.A. de C.V.(1)	México	100
Instalaciones y Contrataciones, S.A. de C.V.(1)	México	100
Servicios Alestra, S.A. de C.V.(1)	México	99.98
Ingeniería de Soluciones Alestra, S.A. de C.V.(1)	México	100
Alestra USA, Inc.(2)	United States	100
S&C Constructores de Sistemas, S.A. de C.V. ("S&C")	México	100
Alesre Insurance Pte, Ltd.(4)	Singapore	100
Strategies in Tecnología Corporativa, S.A. de C.V. ("Estratel")(3)	México	100
Servicios Alestra TI, S.A. de C.V.(1)	México	100

(1) Companies providing administration services.
(2) Lease of telecommunications equipment and infrastructure.
(3) Telecommunications services provider.
(4) Company without value adding activities.

BUSINESS ETHICS

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

We acknowledge the importance of operating in accordance with our business philosophy, the regulations of the places where we render services and conduct business, as well as the strictest standards of integrity and ethics so that we way consistently provide our customers with the best digital experience and extend the utmost standard of service to our stakeholders.

The principles, behaviors and attitudes that all our employees must follow are outlined in our **Code of Ethics**[3], which also sets forth that the working environment in our company must be respectful and conducive to human rights, equality and diversity and free from conflicts of interest, bribery, corruption, discrimination and harassment. Our Anti-Corruption Policy is an institutional document that complements and reinforces the Code of Ethics. It contains clear guidelines on preventing and sanctioning acts of corruption, should they occur.

> **"THE CODE OF ETHICS APPLIES TO EMPLOYEES, EXECUTIVE OFFICERS, MANAGERS, LEADERS, DEPARTMENTAL MANAGERS, COORDINATORS, CONSULTANTS, OUTSOURCED PERSONNEL, CONTRACTORS AND ANY PERSON WHO RENDERS PROFESSIONAL SERVICES AT AXTEL."**

To guarantee the enforcement of the Code of Ethics within Axtel, we developed an infographic4 of its 16 general principles.

Furthermore, each year our employees reinforce their understanding of its contents and sign a letter of acceptance in which they promise to comply with the code. In 2018, 5,109 employees received training on Axtel's Code of Ethics and 4,281 received training on anti-corruption policies and procedures.

In the same vein, we work to strengthen compliance with our Code of Ethics in our value chain. We carry out a constant inspection program of our contractors, by means of which we ensure that they are not employing minors and that all their personnel have the necessary personal protective equipment to guarantee their safety.

Our commitment to fighting corruption led us to join the initiative, ***Soy Honesto Hoy* (I'm Honest Today)** in 2018, which seeks to combat corruption through spreading messages, good practices and encouraging the adoption of principles that we share with all our employees. In addition, we identified five key positions within the company to whom we provide workshops on legality and anti-corruption.

[3] Read our Code of Ethics:
https://axtelcorp.mx/codigo-de-etica/

[4] View our infographics:
https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Codigo_de_Etica_Infografia.pdf

For incidents of non-compliance with our policies, regulations or Code of Ethics, we have set up the **ALFA Transparency Mailbox** for our employees, customers, suppliers, shareholders, investors and the community. This is a totally confidential and anonymous tool, where claims may be filed via various communication channels:

E-MAIL:
buzon@alfa.com.mx

TOLL-FREE TELEPHONE LINES:
01 800 265 2532 (México)
1 866 482 1957 (United States)
y 1 866 238 2860 (Canada)

WHATSAPP/SMS:
+52 1 81 2353 9583

WEB PAGE:
www.alfa.com.mx/buzon.html

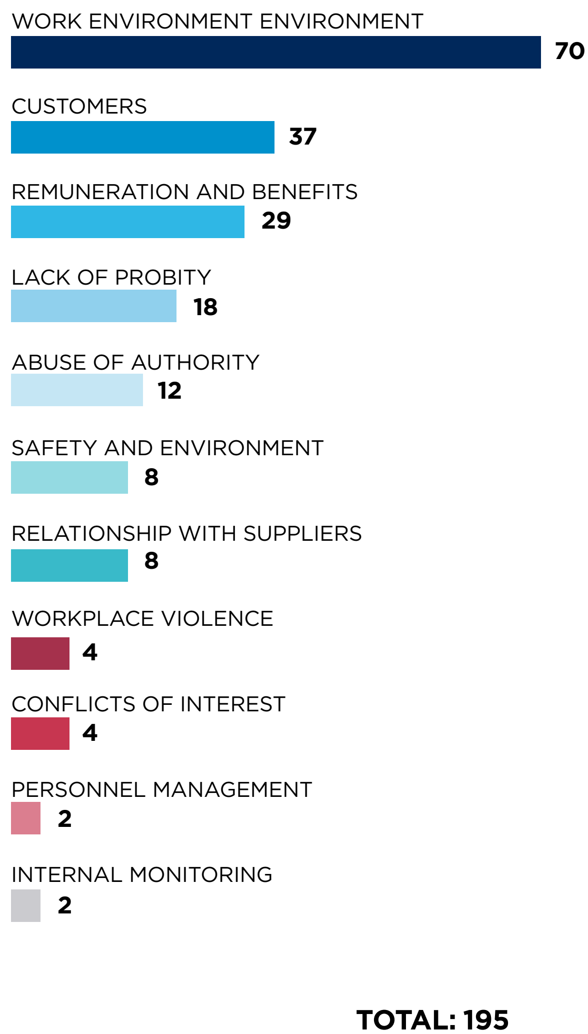
Process for receiving and dealing with complaints

Complaints received

In addition to the Transparency Mailbox, our employees can approach the representatives of the Human Resources Department to clarify any issues related to ethical and legal conduct or the integrity of the organization.

In 2018, we received 195 complaints, all of which were addressed and resolved by ALFA's Internal Audit Department.

No cases of corruption, discrimination, human rights violations, privacy or client data leaks were reported.



Human rights

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

In the same way as we are committed to integral and ethical business, at Axtel we promote respect for human rights in all our spheres of influence and reject any acts of discrimination, child exploitation, forced labor, abuse, coercion or threats.

This stance is supported by our:

- Code of Ethics
- Supplier Code of Conduct
- ALFA Transparency Mailbox
- Human Rights, Diversity and Inclusivity Policy[5]
- Personnel Recruitment and Selection Policy
- Adherence to the United Nations Global Compact

In this regard, in 2018 we provided training for 5,016 employees and 78 percent of our security personnel on human rights policies and procedures, through a course in which we invited employees to experience Axtel's values and explained, through everyday examples, how to respect human rights. We also reinforced knowledge of the Company's policies.

[5]Axtel's Human Rights Policy:
https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Politica_Derechos_Humanos.pdf

OPERATIONAL EFFICIENCY

102-2, 102-6, 103-1, 103-2, 103-3

We are constantly seeking to innovate, position ourselves at the cutting-edge in terms of our products and services, and provide an optimum standard of service to our customers.

> "THREE YEARS AFTER THE MERGER, OUR COMPANY'S PROCESSES, PROCEDURES AND TOOLS ARE NOW CONSOLIDATED."

We provide the public and private sector with solutions that we seperate into the following categories:

- Cloud and Data Centers
- Collaboration
- Systems Integration and Application Management
- Security

Digital Government
We integrate information and communication systems to enhance the efficiency of the various levels of public administration.

Digital Education
We provide resources to strengthen learning processes.

Digital Health
We offer on-site security, staff communication and medical record digitization solutions for hospitals and clinics.

Cloud and Data Centers

We offer a cloud service with unlimited capacity, universal accessibility through applications, flexibility and technical support, which is supported by our six world-class Data Centers, strategically located in Monterrey, Queretaro, Guadalajara and Mexico City.

The Unified Communications service from the Alestra Cloud helps companies evolve their work spaces by offering advanced collaboration tools in a fast and efficient way, providing solutions for companies that are spread out geographically and need to make quick decisions through various communication channels. The cloud service is highly available and has the utmost technological security standards. It is offered from a platform hosted by our facilities.

> "IN 2018 WE FORGED AN ALLIANCE WITH MICROSOFT AND AMAZON, THE MOST IMPORTANT CLOUDS SERVERS IN THE WORLD, TO OFFER OUR CLIENTS A NETWORK CONNECTED WITH DEDICATED LINES, MAKING IT THE FIRST OF ITS KIND IN LATIN AMERICA."

Our Data Centers are closed and secure spaces, which together comprise more than 6,700 m^2 of white floor, built and fitted out according to international standards and managed with the best practices in terms of security, energy efficiency, communication, cooling units and specialized personnel.

All our Data Centers are certified by ICREA (the International Computer Room Experts Association), Uptime Institute, CEED and the highest international standards such as TIA- 942, ICREA-Std-132, BICSI-002, ASHRAE, The Green Grid Guidelines, NFPA, ISO 9000, ISO 20000 and ISO 27001. In 2018, our Alestra Green Data Centers I and II in Querétaro received the “DCD Awards Latin America 2018” in the category, Innovation in Improving Energy Efficiency, for their cogeneration systems, which enable them to generate their own energy supply.

Moreover, our Querétaro Data Center and the Business Continuity Management System department were certified to **ISO 22301:2012 Business Continuity Management System**. This certification guarantees adequate management in the face of disruptive events, minimizing their impact on the organization and ensuring continuity in critical operations.

As part of our activities for the aforementioned certification, we established a Business Continuity Committee, with the aim of promoting system improvements, training key personnel and developing policies and objectives.

Objectives

- Establish preventive measures to maintain the continuity of services and business processes.
- Define strategies for the early recovery of critical services in the face of disasters.
- Align business with best business continuity practices.
- Limit losses and achieve adequate system recovery in the event of a disaster.
- Meet the recovery targets set within the organization.

In 2019 we will seek to increase the scope of the HOC (Holistic Operation Center) certification, as well as to develop the Business Continuity Management System in order to improve resilience in the Company.

To strengthen our relationship with our customers and suppliers, for the last 10 years we have operated **Sperto Centers**. These are spaces where we give demonstrations, talks and guided tours to visitors so that they can learn about our high technology services. In 2018 we received 2,100 visitors in our centers located in Queretaro, Monterrey and Mexico City, more than 900 of whom were customers.

This year we launched new virtual and augmented reality experiences as part of the Querétaro and Monterrey tours using an application that displays animations with additional information. Meanwhile, in Monterrey we introduced the Internet of things into a robot vacuum cleaner controlled by a cell phone app that connects to the Sperto Center wireless network. In Mexico City and Monterrey we installed the latest telepresence technology through the Cisco IX500 model. telepresencia con el modelo IX500 de Cisco.

Collaboration

We facilitate the management of voice, data, video, network, systems and business application channels with services provided from the Cloud, which can be used from anywhere and on any device and therefore remove the need to invest in specialized equipment. Our tools enable videoconferencing services, telepresence, instant and voice messaging and applications for Contact Centers.

Systems Integration and Application Management

Infrastructure Systems Integration. Computing, storage, backup, monitoring, administration, DRP (Disaster Recovery Plan), high availability platforms, private and hybrid clouds and environment migration.

Application Management. Operations outsourcing, monitoring, incident management, problems and changes in business applications such as ERP, CRM and databases.

Security

To combat the risks faced by our customers, we design solutions to protect their computer equipment, networks and systems against cyber threats or attacks. We do this by providing, operating, managing and monitoring all their information security infrastructure. We offer vulnerability analysis, security consulting, managed Intrusion Prevention Systems, as well as managed web filtering and firewall services.

Connectivity

We offer our corporate clients point-to-point or point-to-multipoint communication, VPN services, Ethernet and Private Lines, including secure simultaneous transmission of voice, data and video information. We also protect Internet links against cyber threats through Clean Pipes. Furthermore, we offer a portfolio of managed network solutions such as Managed Routers, Managed LAN WLAN Switches, through which we provide benefits through the monthly lease of equipment, such as equipment design, implementation, support, maintenance, operation and management.

For our MSME clients, in addition to telecommunications, we offer services and tools to help professionalize their ICT platforms.

We guarantee the satisfaction of all our clients, as well as excellence in our service thanks to our technological infrastructure and our highly qualified personnel.

MARKETS SERVED

102-4, 102-6, 102-7

We support a range of sectors in their digital transformation so that they may harness technology to improve their productivity and efficiency. We are currently undergoing a high technology evolution and economic uncertainty serves to reinforce the need for technology in order to help companies and governments increase their productivity and efficiency. For this reason, our company has an optimistic outlook on a global environment in which technology will prevail as the key tool for facing any economic situation.

At the end of 2018 we made the strategic decision to sell our residential business, therefore 2017 was the last year in which we reported information on this market segment. In 2019 we will continue to offer connectivity services to the corporate and government sectors.

Through our wide variety of products and services, we serve customers who have particular needs and to whom we offer tailor-made solutions that we classify in two markets:

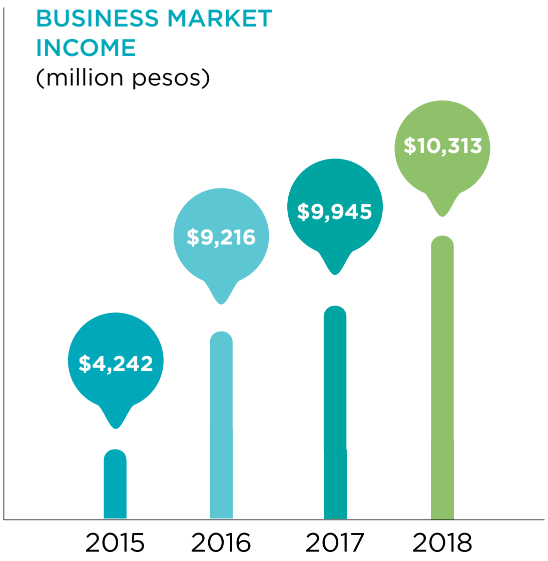
1 **Business market**

2 **Government sector market**

Business market

102-4, 102-6, 102-7

> **WE STRIVE TO DISTINGUISH OURSELVES AS THE BEST OPTION IN THE MEXICAN MARKET FOR OUR CORPORATE SECTOR CLIENTS THROUGH OUR POSITION AT THE CUTTING-EDGE OF TECHNOLOGY AND OUR ROBUST PORTFOLIO WITH OVER 120 COLLABORATIVE, MANAGED NETWORK, SECURITY AND IT SOLUTIONS.**



In 2018 we made adjustments in a number of areas related to this range of solutions:

- **Collaboration:** we connected our employees to their colleagues through a cloud solution.
- **Managed networks:** we improved our response times, which are now faster, more agile and preventive.
- **Security:** we developed advanced solutions to find out the location of each employee's address and avoid hacking.
- **IT:** we signed agreements with Microsoft and Amazon, the most important cloud servers in the world.

Alestra NOW 2018

For the ninth consecutive year, we presented the latest industry trends at the most important technological forum held in Mexico.

With over 4 thousand decision makers in attendance, in 2018 we took this forum to the cities of Guadalajara, Querétaro, Monterrey, Tijuana and Mexico City.

Among the main technological initiatives presented at this event were Big Data, and three forms of Artificial Intelligence: virtual assistants, contact centers, recognition administration and recommendation engines and the Internet of Things.

Government sector market

102-4, 102-6, 102-7

The public sector makes up 20 percent of the company's revenue, which is why we make significant efforts to provide the most competitive and efficient service in the market for all levels of government.

We continue to bid for cutting-edge products and services with our broad portfolio, capacity to offer managed services, the quality and talent of our team, as well as financial strength, which places us in prime position in the public sector.

Our priorities in terms of the government sector focus on delivering greater value and consolidating the operational excellence of our value chain supported by digital transformation. In this way we deliver solutions that make it easier to serve more users through greater coverage, provide services faster, boost competitivity and reinforce computer security.

At Axtel we provide value-added services that help the Mexican Government digitize its processes and innovate the services it provides citizens with.

We have found that our portfolio of solutions will enable us to transform various government departments through our strategy that focuses on the following initiatives:

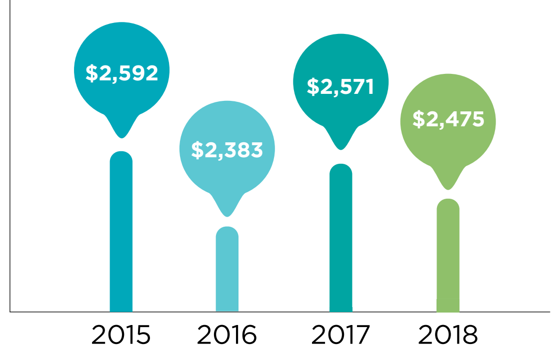
- **Solutions Strategy**
  - Digital services for government
  - Government Cloud
  - Government cybersecurity
- **Focus**
  - Digital collaboration
  - Inclusive government
  - Governance and e-Justice
  - Digital smart city

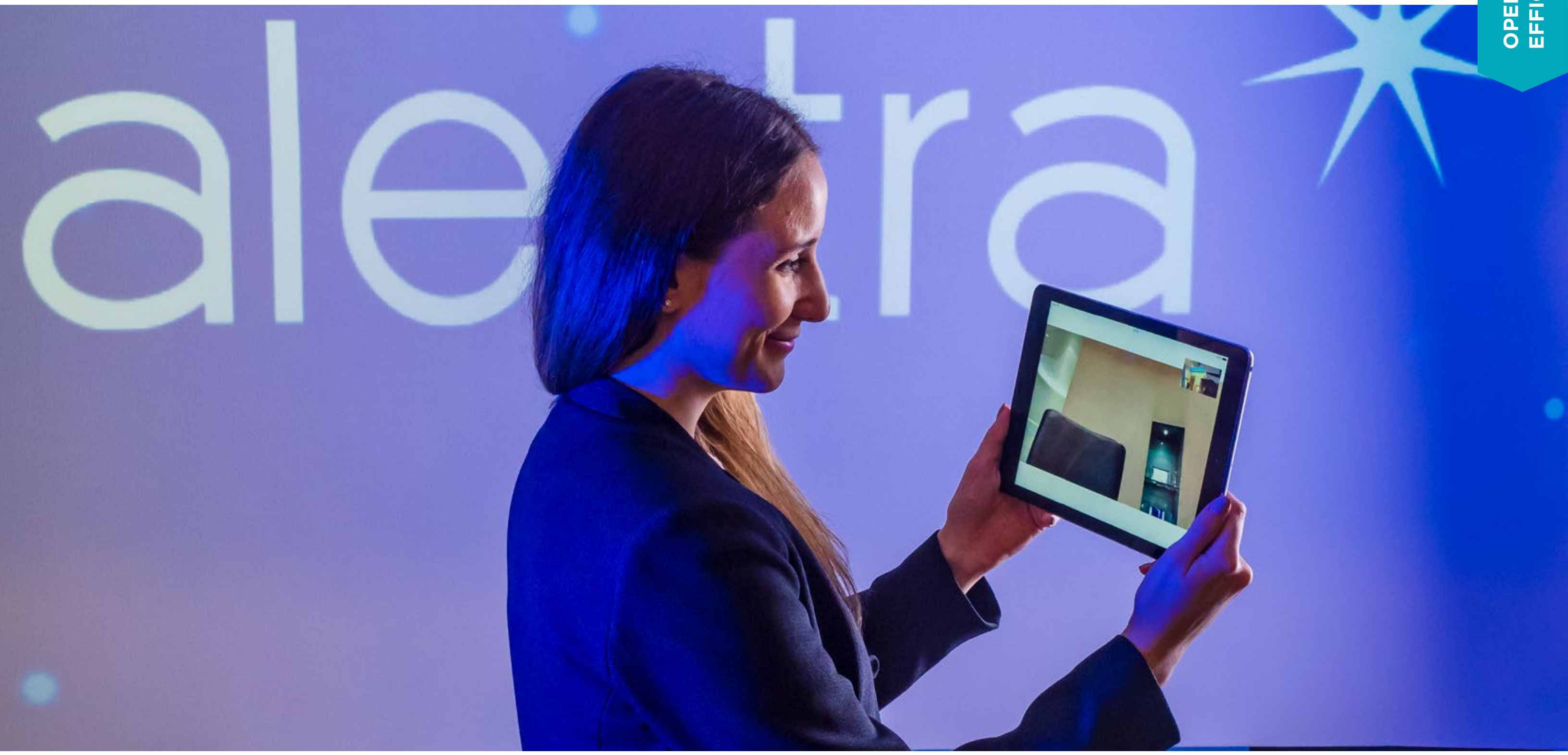
In this way our strategy will contribute to facilitating the digital transformation of the public administration at federal and state level, in order to focus on citizens and enable the following through our experience and portfolio of solutions:

a) A decrease in expenditure and the total cost of the services contracted by the government.
b) Inclusivity and the reduction of inequality.
c) The combatting of corruption through process traceability.
d) The provision of a government model that facilitates the management of public security.

> "This year, the Axtel-Ultrasist consortium launched a technology platform for the Mexican Single Window for Foreign Trade as a Service (VUCEM – acronym in Spanish) that simplifies General Customs Administration processes. **THIS DIGITAL SOLUTION LED TO THE TAX ADMINISTRATION SYSTEM (SAT – ACRONYM IN SPANISH) BEING AWARDED THE U-GOB 2017 PRIZE IN THE CATEGORY OF E-ECONOMY PROJECT AND MADE MEXICO THE FIRST COUNTRY ON THE CONTINENT TO SET UP A PLATFORM OF THIS KIND.** The Single Window for Foreign Trade as a Service was also the winner of the Alfa Innovation Awards in 2018 in the product or service category. According to the Organization for Economic Cooperation and Development (OECD) Mexico's Single Windows are among the 8 best in the world."

GOVERNMENT SECTOR MARKET REVENUES
(million pesos)





CUSTOMER EXPERIENCE

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

In order to provide the best customer experience, we work to continually strengthen our technological infrastructure, provide personalized service to each of our customers, and establish long-term relationships with suppliers that adhere to Axtel's principles, policies, and values.

We carry out customer satisfaction surveys using the tools Net Promoter Score (NPS) and Churn6, which allow us to ensure adequate monitoring and the constant improvement of the service we offer.

One Axtel

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

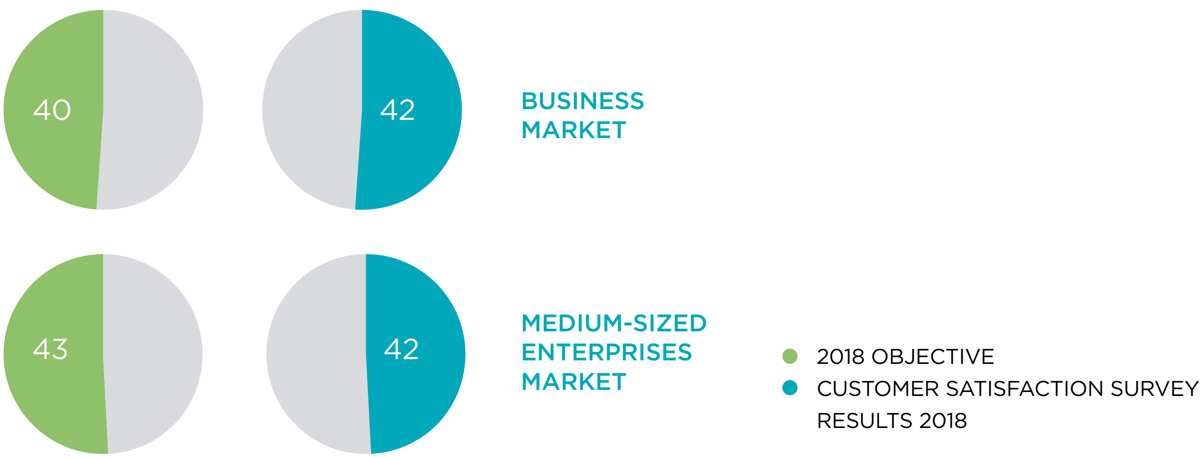
With the aim of unifying customer service, we set up **One Axtel**, which allows us to provide a comprehensive post-sales experience to both Telecommunications and IT customers, ensuring that the same standard of service is received regardless of the product purchased.

"IN 2018, WE RECORDED AN AVERAGE MARKET TURNOVER PERCENTAGE OF 1.6% PER MONTH."

[6]Churn measures customer migration, turnover or cancellation over a period of time.

We improved our customer satisfaction indicators by eight points among corporate sector clients and four points among medium-enterprise clients in comparison with 2017.

CUSTOMER SATISFACTION INDEX OBJECTIVES

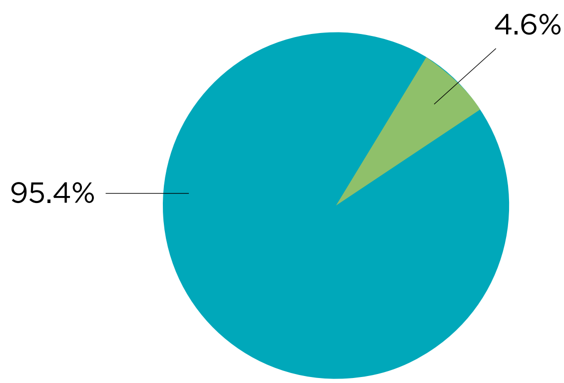


Suppliers

To provide customers with our wide range of solutions, we work with over a thousand suppliers. We ask our suppliers to certify the adherence of their products to the **Supplier Selection Policy** and **Code of Ethics for Suppliers**[7] to ensure that, throughout our supply chain, the highest standards of service quality, integrity and social responsibility are met.

In 2018 we carried out transactions worth over 5 billion pesos[8] cwith 1,018 national and international suppliers[9].

PROPORTION OF EXPENDITURE ALLOCATED TO SUPPLIERS ACCORDING TO THEIR ORIGIN



- NATIONAL
- INTERNATIONAL

NOTA: We define suppliers that provide services for all our operations in Mexico as local.

Every three months we carry out warehouse assessments of the materials we purchase. We would like to stress that, in order to report inappropriate behavior on the part of Axtel employees as well as our suppliers, the **ALFA Transparency Mailbox** must be used.

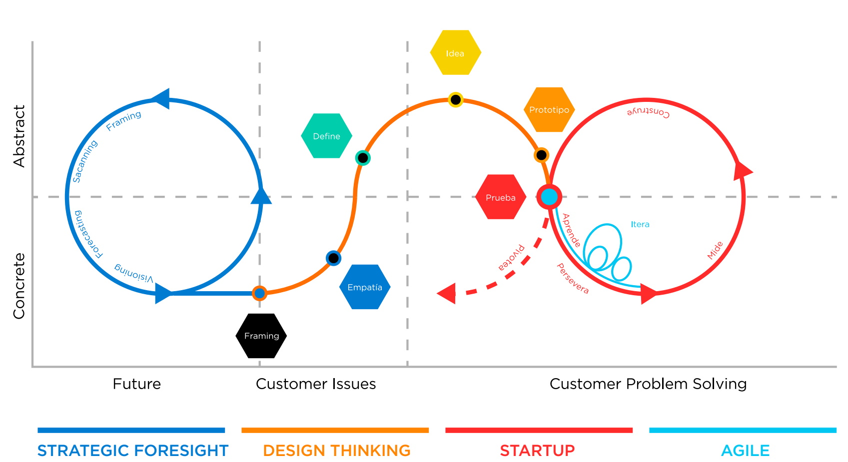
[7] https://axtelcorp.mx/grupos-de-interes/
[8] For payments to suppliers made in dollars, the exchange rate is 19.23 Mexican pesos per U.S. dollar.
[9] In 2017 we reported all of our active suppliers; however, in 2018 we are making adjustments to report only those with whom we make transactions during the year.

INNOVATION AND DIGITAL CULTURE

103-1, 103-2, 103-3

> "TECHNOLOGY COMPANIES AND THE CONCEPT OF INNOVATION ARE INSEPARABLE, THEREFORE AT AXTEL WE ARE CONSTANTLY EVOLVING, NOT ONLY TO MAINTAIN OUR POSITION AT THE CUTTING-EDGE OF THE MARKET, BUT TO ALWAYS REMAIN ONE STEP AHEAD."

The **Axtel Innovation Model** is the heart of our innovation program.

FOCUS	INNOVATION PROCESS	RESULTS
INTRAPRENEURSHIP OPEN INNOVATION CUSTOMER SERVICE		CONTINUAL IMPROVEMENT DIGITAL INNOVATION DISRUPTIVE INNOVATION TECHNOLOGY PARTNERS INNOVATIVE CLIENTS

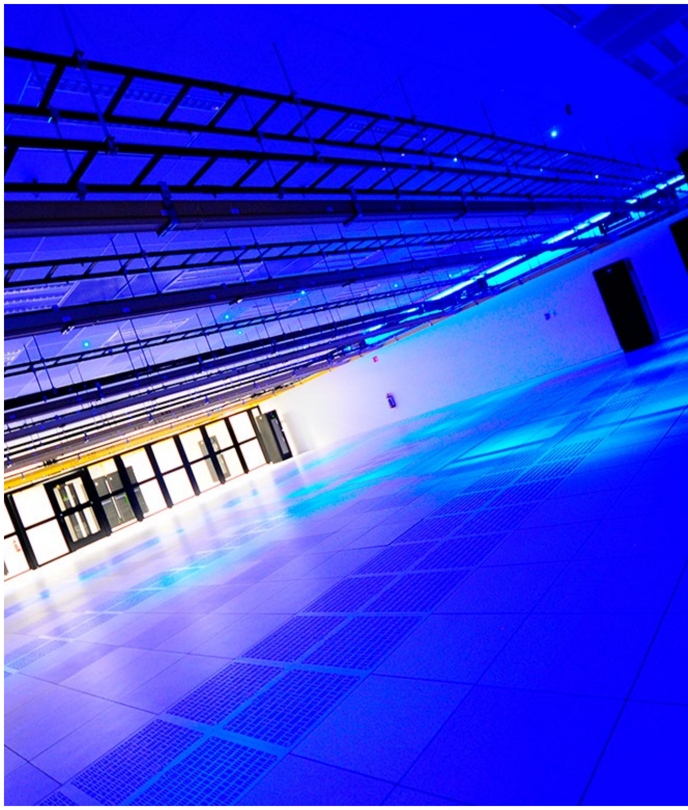
DIGITAL SPACE	INNSIGHT
PHYSICAL SPACE	INNOVATION HUB
CORPORATE ACCELERATOR	NAVE
TECHNOLOGY LABORATORY	AXTEL LABS

Strategic Foresight

We define and prioritize the innovation initiatives that we carry out within the company through Foresight methodology, which allows us to identify global technology trends, visualize future scenarios and generate innovation opportunities for the benefit of our stakeholders.

In 2018, the Innovation department contributed, by means of an ALFA initiative, to the creation of a global Foresight strategy, with the aim of complementing the strategic planning of the Group's companies through the visualization of future scenarios.

We also launched the Foresight Observatory, an internal communication tool with articles of interest on the technological megatrends that impact our industry and contribute to the internal development of our employees.



Innsight

In 2015, we launched Innsight, our technological innovation tool, to encourage the voluntary participation of our employees in contributing suggestions in the following four areas:

1. **Cost and expense savings**
2. **Investment savings**
3. **Increase in revenue**
4. **Processes that impact our clients**

In order to take part, employees form multidisciplinary teams, consolidate ideas and publish them on the Innsight Platform, where a group of experts review the suggestions to determine which will be implemented during the year. As a result, in 2018, 35 percent of the organization participated by uploading ideas, getting involved through comments and evaluating and implementing valuable ideas that generated over 130 million pesos for the company.

HUB de Innovación

Our Innovation HUB is located within the Innovation and Technology Campus of Monterrey (CIT – acronym in Spanish) and aims is to encourage the generation of ideas and their subsequent materialization. Business Innovation is where creativity, collaboration and the generation of ideas takes place; while Technology Innovation is where ideas turn into prototypes and real solutions for our portfolio.

During 2018 we supported the teams in the development of innovative ideas thought up by Axtel's employees, among which stand out the Single Window Project (VUCEM), which won an ALFA Innovation Award, the creation of the Axtel Academy and the establishment of the e-fast project to make service deliveries more agile.

Through these spaces we want our stakeholders to see how the Axtel Innovation Program works for themselves, for this reason we welcome visitors and carry out demonstrations outside the CIT facilities.

This year we received visits from clients, delivered workshops and launched external events such as:

- iWeek with Tecnológico de Monterrey.
- HUB nights based around digital transformation and blockchain.
- Amazon Alexa and IBM trainings.
- Elastic Search Conference.

More than 700 people participated in these events. Innovation spaces were also inaugurated in other buildings such as: the innovation room in Campus Axtel, the collaborative space in the CIT Bunker and the collaborative space in the MTY Digital HUB.

NAVE Accelerator

We encourage open innovation among teams from outside our company as we believe that this allows us to reach new frontiers in our strategic evolution.

Every year the NAVE accelerator platform drives scaleups10 related to the megatrends of mobility, cybersecurity, the Internet of things, artificial intelligence, Big Data and blockchain with the purpose of generating joint businesses that generate added value for Axtel and allow for accelerated growth of scaleups.

In 2018, the third class of NAVE participants successfully graduated, which translates as the acceleration of seven companies aligned with Axtel. The accelerated companies that were selected to forge alliances in 2018 were:

TOC: A company specializing in the development of identity verification technologies and applications derived from biometric technology.

LEFORT: A Financial Robot in the Cloud that automatically processes, validates and registers every transaction of your business (RPA - Robotic Process Automation).

DESCIFRA: A Big Data platform that analyzes multiple variables to identify and manage the best locations for your business or the launch of new products.

The trend is to continue focusing the efforts of the NAVE Accelerator on scaleups, as these are companies that already have a tried and tested product in the market but that need assistance in order to grow.

[10] ***Scaleups:*** **legally constituted companies that have been operating for over two years and that may have already received investment and whose business model is defined and scalable.**

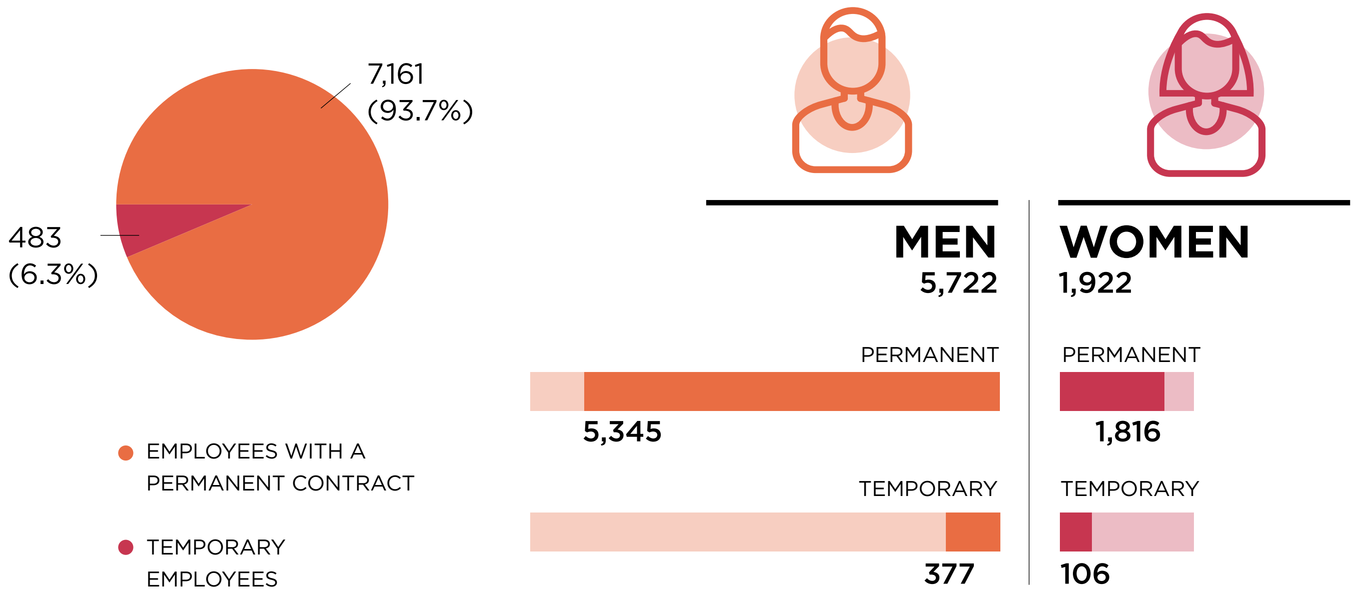
EMPLOYEE WELLBEING

102-7, 102-8, 102-41, 202-1, 401-1, 401-2, 401-3, 404-2, 405-1

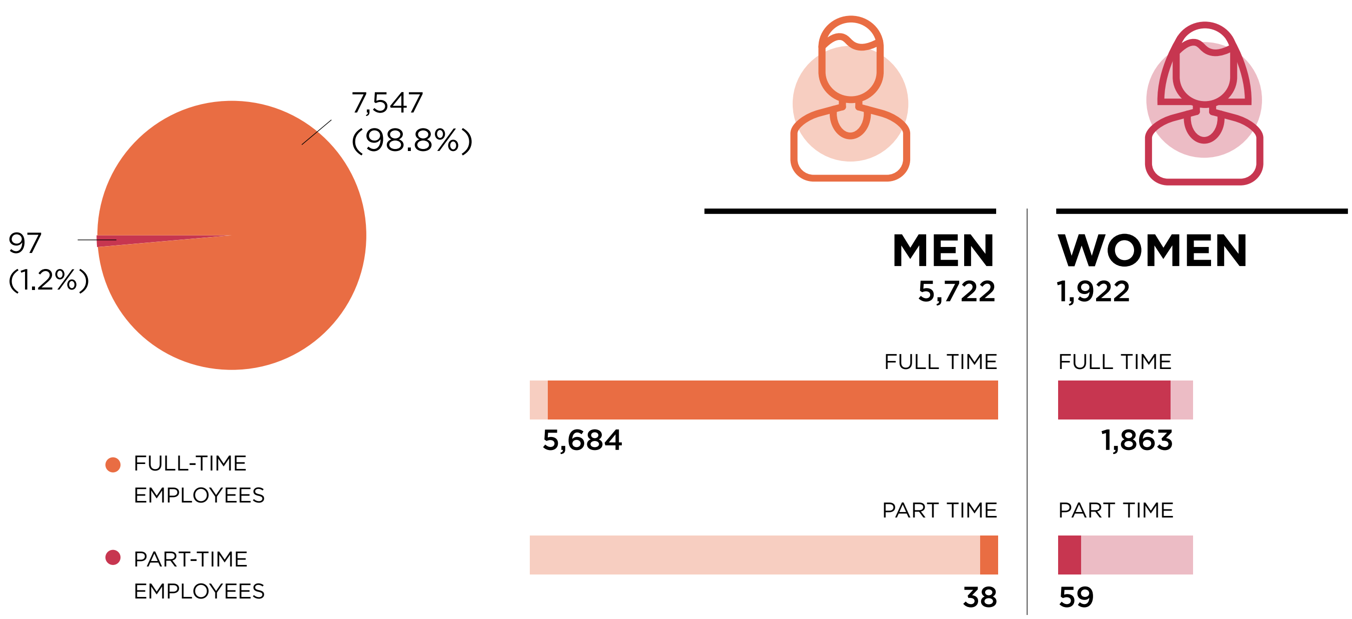
Our company is made up of personnel who are highly-skilled in their field of work and in the industry in which we provide services. We constantly strive for the integral well-being of our employees and offer them the best health and safety conditions so that they can carry out their work to an excellent standard. We provide them with both the necessary physical tools and knowledge as well as opportunities to develop their skills, so that they may grow personally and professionally.

"7,644 EMPLOYEES, 1,922 WOMEN AND 5,722 MEN, WORK DILIGENTLY AND PROFESSIONALLY EACH DAY TO PROVIDE OUR CUSTOMERS WITH TELECOMMUNICATIONS AND IT SOLUTIONS THAT MEET THEIR NEEDS."

NUMBER OF EMPLOYEES BY CONTRACT TYPE AND GENDER



NUMBER OF EMPLOYEES BY WORKDAY AND GENDER



NUMBER OF EMPLOYEES BY TYPE OF EMPLOYMENT, CONTRACT TYPE, REGION AND GENDER

REGION	UNIONIZED		NON-UNIONIZED				TOTAL
	FULL-TIME		PART-TIME		FULL-TIME		
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	
CENTRAL MEXICO	393	0	0	0	1,467	475	2,335
NORTHERN MEXICO	276	0	34	48	2,820	1,189	4,367
WESTERN MEXICO	176	0	4	11	552	199	942
TOTAL	**845**	**0**	**38**	**59**	**4,839**	**1,863**	**7,644**

In 2018 we stopped hiring employees through outsourcing, with the aim of enhancing the sense of belonging and strengthening cohesion among our teams.

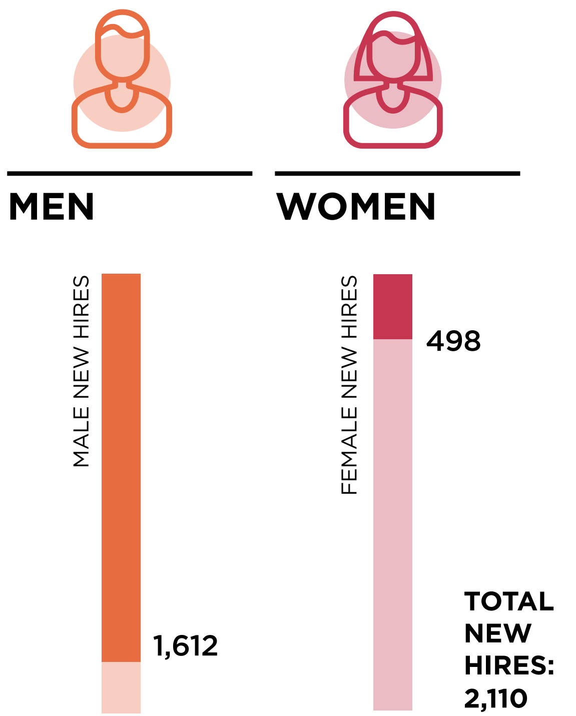
The benefits we offer all our employees exceed the statutory benefits established by Mexican legislation. For example, we give our employees twice the number of days' pay in their end-of-year bonus than the amount established by law, major medical expenses insurance, life insurance, savings funds, 20 days leave for personal matters, disability or incapacity coverage, as well as maternity and paternity leave. This year we authorized maternity leave for 91 employees and paternity leave for 134 employees, of whom 98 and 100 percent respectively, returned to work.

Our salaries are competitive in comparison with the rest of the market. Our employees at the lowest end of the pay scale earn 298 percent more than the Mexican minimum wage.

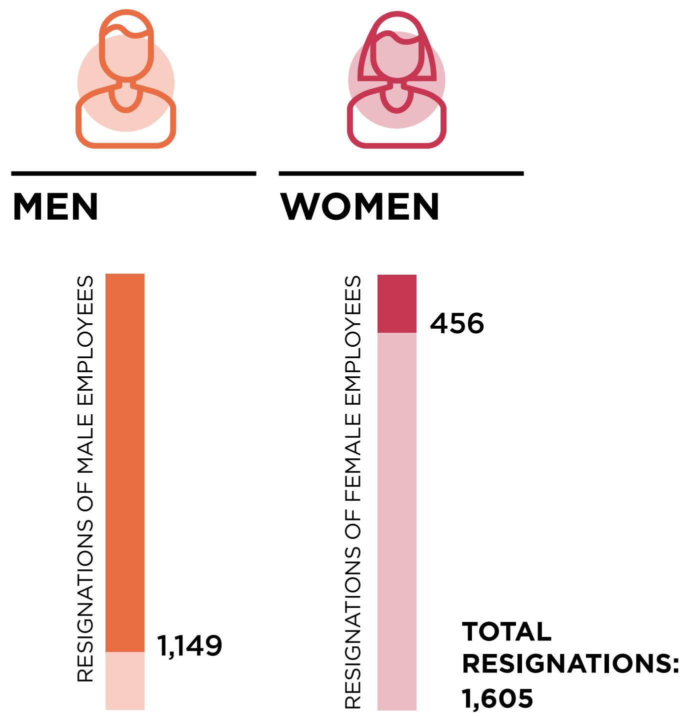
We provide our employees or who are about to retire or leave the company with a "Personal Resilience Skills Development Workshop" in which they are provided with tools for the next stage of their personal development, as well as a "Future Growth" program, which helps personnel create a life and career plan.

In 2018 we awarded our employees who have dedicated their time, knowledge and professional skills to Axtel with an acknowledgement of their loyalty for having completed 10 years at Axtel: 361 male employees and 75 female employees received this award nationwide.

NEW HIRES BY GENDER



TURNOVER BY GENDER



NEW HIRES BY REGION, GENDER AND AGE

	Age	MEN	WOMEN
NORTHERN MEXICO	18-30 YEARS	339	139
	31-40 YEARS	220	65
	41-50 YEARS	111	41
	+50 YEARS	61	8
WESTERN MEXICO	18-30 YEARS	51	20
	31-40 YEARS	53	19
	41-50 YEARS	34	12
	+50 YEARS	18	1
CENTRAL MEXICO	18-30 YEARS	176	58
	31-40 YEARS	308	94
	41-50 YEARS	144	35
	+50 YEARS	97	6

TURNOVER BY REGION, GENDER AND AGE

	Age	MEN	WOMEN
NORTHERN MEXICO	18-30 YEARS	220	106
	31-40 YEARS	207	80
	41-50 YEARS	96	33
	+50 YEARS	45	10
WESTERN MEXICO	18-30 YEARS	68	39
	31-40 YEARS	50	27
	41-50 YEARS	22	11
	+50 YEARS	18	3
CENTRAL MEXICO	18-30 YEARS	86	33
	31-40 YEARS	192	72
	41-50 YEARS	89	37
	+50 YEARS	56	5

The rate of new hires in 2018 was **27.6%**.

The annual turnover rate in 2018 was **21.0%**

AGES:

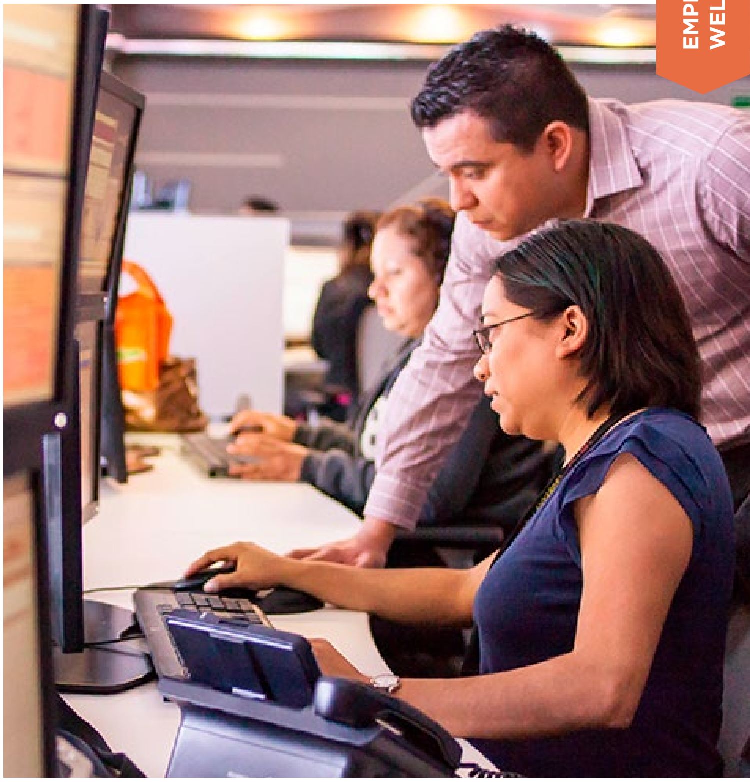
- 18-30 YEARS
- 31-40 YEARS
- 41-50 YEARS
- +50 YEARS

EXECUTIVE TEAM BY AGE AND GENDER

EMPLOYMENT CATEGORY	MEN - 30 YEARS OLD	WOMEN - 30 YEARS OLD	MEN 31 - 50 YEARS OLD	WOMEN 31 - 50 YEARS OLD	MEN + 51 YEARS OLD	WOMEN + 51 YEARS OLD
CEO AND EXECUTIVE MANAGERS	0	0	3	0	5	0
DIRECTORS	0	0	29	1	17	3
MANAGERS	0	0	95	20	43	2
TOTAL	**0**	**0**	**125**	**21**	**68**	**5**

EMPLOYEES BY JOB CATEGORY AND GENDER

JOB CATEGORY	MEN	WOMEN
CEO	1	0
EXECUTIVE DIRECTORS	7	0
DIRECTORS	46	4
MANAGERS	138	22
MIDDLE MANAGEMENT	510	140
EMPLOYEES	376	146
ANALYSTS	3,797	1,567
ASSISTANTS	1	43
UNION MEMBERS	845	0
TOTAL	**5,722**	**1,922**



EMPLOYEE DEVELOPMENT

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

As part of our digital transformation process, we are faced with the challenge of fostering a company culture that reflects the evolution of which we are a part. To achieve this, we have defined three key actions that will allow us to spread this new philosophy to all our employees regardless of their role within the company:

1. Axtel Academy. In 2018 we set up the Axtel Academy, a virtual space from which we offer diploma courses for a specialized sector of the company. In the future, we hope to register the Academy with the Ministry of Public Education, and that certifications and master's degrees will feature among the programs offered.

We set up the Axtel Academy to develop skills that enable Digital Transformation, thereby enabling us to stay ahead of digital megatrends. The Axtel Academy educational model is based on three principles: learning from others, learning by doing, and independent learning.

In 2018 we launched two diploma courses taught by a community of 81 company experts: the Cybersecurity Diploma and the Cloud Solutions Diploma. The Axtel Academy offers a digital learning option that includes sessions with experts through the use of collaborative tools and videoconferencing, all from the student's computer, as well as online learning. At the end of 2018, 202 employees were enrolled on one of these diplomas.

In addition, this year we launched a program to strengthen digital thinking among the Company's executives. Learning in this program is based around challenges.

2. Executive Forum. For the first time, we established a space designed for presenting our digital innovation strategy and the digitization tools we will adopt in our daily work to boost productivity to Axtel executives.

3. Culture model. We are working to spread a unified telecommunications and IT language across all levels of the company that echoes the essence of our business, thus giving us insight into the new era of digitization of which we form part.

> "BY 2020 AXTEL WILL BE A 100% BILINGUAL ICT COMPANY, WHICH WILL HELP POSITION US AS THE MOST IMPORTANT PLAYER IN MEXICO IN TERMS OF THE QUALITY, SERVICE AND LEVEL OF INNOVATION THAT WE OFFER OUR CUSTOMERS."

We invest in the professional development of our staff. In 2018, we allocated over 900 thousand dollars to sales, operations and leadership training alternatives, as well as to working at heights certifications, lead & facilitate, supervisor to coach and technological programs, among others.

AVERAGE HOURS OF TRAINING BY JOB CATEGORY AND GENDER

EMPLOYMENT CATEGORY	TRAINED MEN	TRAINED WOMEN	TOTAL HOURS OF TRAINING	AVERAGE HOURS
DIRECTORS	95%	100%	787	13.3
MANAGERS	99%	96%	12,497	21.0
EMPLOYEES	94%	96%	74,801	12.7
UNION MEMBERS	30%	-	1,033	1.2
TOTAL			**89,118**	**12.05**

Our commitment to continuous improvement has led us to carry out periodic evaluations of our employees in order to identify their strengths, weaknesses and areas of opportunity. In 2018 we evaluated 813 executive directors, managers, departmental leaders, middle managers and employees (11 percent of our workforce).

In addition to promoting the professional development of our employees, we also encourage learning and recreation among their children between the ages of six and eleven, for whom we set up the **Axtel Summer Camp** in Monterrey. The children who participate in the Axtel Summer Camp visit our offices where we organize various activities related to Axtel's operations such as safety, health, hygiene, environment, civic and social responsibility, as well as other recreational activities such as music, yoga, dance and cooking. 35 girls, 33 boys and seven volunteer employees took part in this year's Summer Camp.

Meanwhile, in 2018 we held a Family Day. 10,289 people attended this nationwide event, 3,097 of whom were employees and 7,192 of whom were employee family members.

We constantly encourage awareness raising around sustainability and social responsibility among our employees, their families and other stakeholders. One way in which we do this is through the **ALFA Sustainability Week**. This an annual event that seeks to disseminate environmental, solidarity, financial and socially responsible practices that are relevant for our everyday lives.

During the Sustainability Week held in 2018, we published content on our social media channels, held talks, organized workshops and showed films in the Group's offices related to the theme chosen for the week that year: healthy eating, disability awareness, breast cancer prevention, medicinal gardening workshops, water and energy saving, waste separation and a zero waste day in Axtel. On this occasion, 477 people participated in the ALFA Sustainability Week in Mexico City, Guadalajara and Monterrey.

HEALTH AND SAFETY

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

We conduct physical inspections, audits and training to ensure that our facilities and workspaces are safe for all those who use them, and we draw attention to the mandatory use of personal protective equipment in activities for which it is necessary.

We also make efforts to safeguard the health of our employees through nutrition campaigns, medical services and other activities.

HEALTH AWARENESS FOR EMPLOYEES AND THEIR FAMILY MEMBERS (Participants per campaign)

NUTRITION CAMPAIGN	284	CONFERENCES	321	FAMILY HEALTH	600	VACUNACIÓN	1,472
WOMEN'S HEALTH PROGRAMS	340	MEDICAL SERVICES	83	INFORMATION AND PREVENTION	1,530	CONSULTATIONS THROUGHOUT THE YEAR	+ over 500

During 2018 we invested over 1.2 million pesos in preventive health programs, medical consultations, medications, vaccination and nutrition campaigns for our employees and their families.

In order to guarantee the health and safety of our employees and reiterate the importance of taking care of ourselves in this regard, each year we hold a Health, Safety and Hygiene Week, which is aligned with the International Labor Organization's World Day for Safety and Health at Work. On this day in 2018, we held talks on first aid, road safety and stress and anxiety prevention. Healthcare providers visited some of our officers to provide free dental checkups, eye exams, and stress-relieving massages. In addition, we organized a campaign on what to do in the event of an earthquake.

In the same vein, we encouraged health and wellbeing through different sporting, recreational and social activities. This year, 1,320 employees from Monterrey and Guadalajara took part in races, soccer, ping pong and bowling tournaments.

At Axtel, we do not carry out activities that pose a high risk to the health of our employees. However, despite our efforts to ensure safety, in 2018 we recorded 101 accidents, including minor accidents, which equates to 2,798 days lost and the following incident rates:

- **1.36 frequency of accidents**
- **27.7 days lost**
- **0.0013 absenteeism from work**

It is important to note that our accident frequency rate is below the national average of the Ministry of Labor and Social Security, which is an average of 1.4 accidents. We did not record any fatalities during this period.

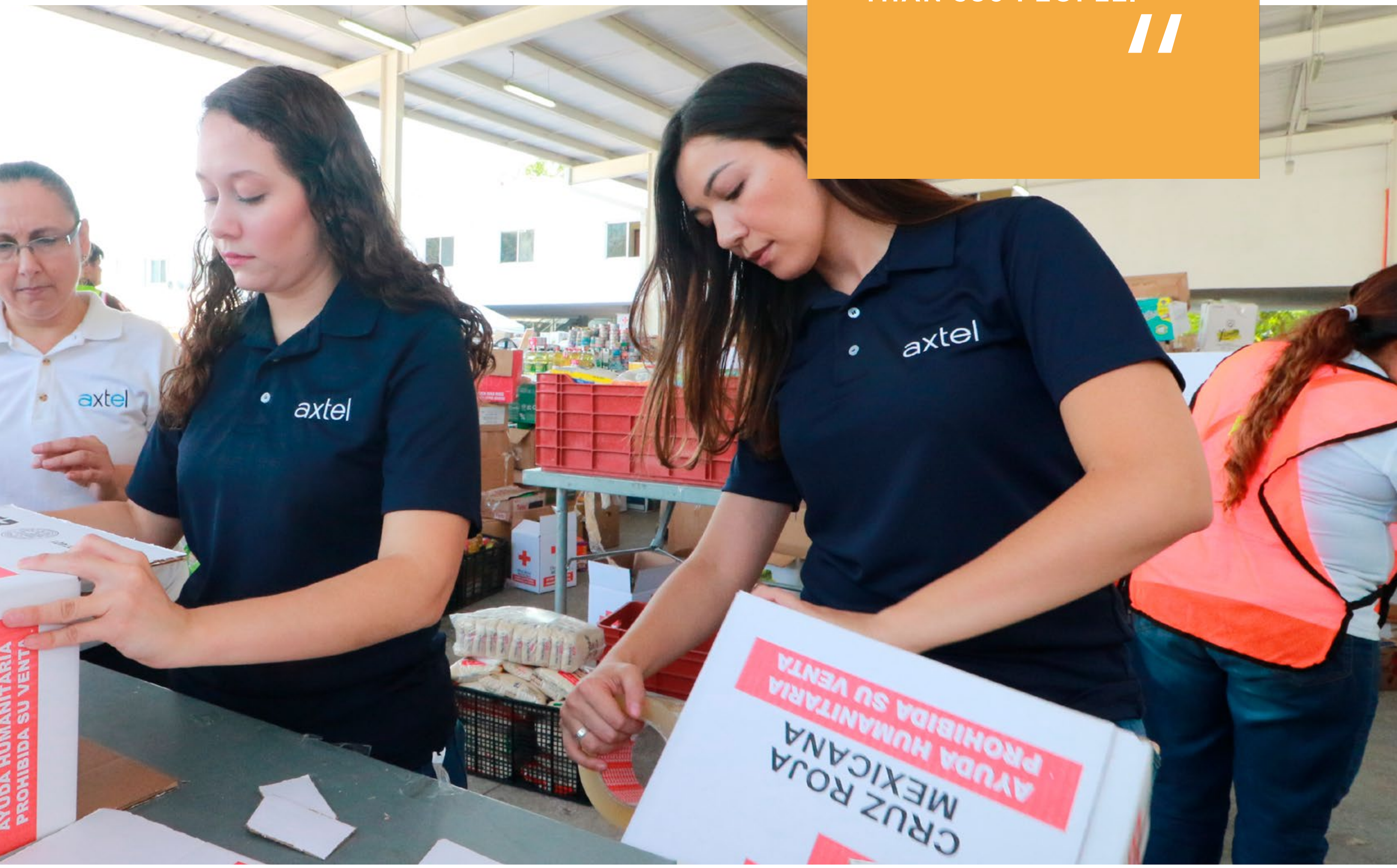
We have 24 Health and Safety Committees that represent 77 percent of our employees, which amounts to, 5,914 people. In 2017 we had 79 Health and Safety Committees, which we reduced to 24 in 2018 due to the fact that we combined the processes and buildings of the committees who performed similar work with the aim of making it easier to issue recommendations and refer responsibility and demands to higher levels within the organization.

SOCIAL OUTREACH

413-1

Our corporate volunteers work alongside civil society organizations and vulnerable communities, donating their time and knowledge to help improve the quality of life of the neighboring population.

> "IN 2018, OVER 220 AXTEL VOLUNTEERS DEDICATED 263 HOURS OF THEIR TIME TO DIFFERENT INITIATIVES SUCH AS REFORESTATION, CHARITABLE WORK AND SPORTING ACTIVITIES, BENEFITING MORE THAN 380 PEOPLE."



Our volunteers participate in ***Escuela para padres* (School for Parents)**, an initiative aimed at parents of ALFA Fundación students that seeks to reinforce parents' understanding of the challenges faced by adolescents today. The school was founed in 2015 thanks to volunteer employees, who were trained by Tecnológico de Monterrey.

In alliance with **Ciudad de los Niños, Nuevo Amanecer** and with the generous contributions of our employees, we offer academic scholarships to young people with academic potential yet limited resources. Employees who wish to do so can donate through a payroll discount.

To mark the celebration of International Charity Day, from September 3 to 7, 2018, we held a **Charity Week** in which we invited organizations such as UNICEF, TECHO, Alianza Anti cáncer, Red Nose, Unidos, Comunidad Down and COMUN to visit Axtel's facilities in Monterrey, Mexico and Guadalajara so that our employees could donate to their causes in cash or in kind.

As part of a new initiative, in conjunction with 50 other companies, organizations, universities and civil society organizations we participated in the campaign **Soy Honesto Hoy** promoted by the Civic Council of Nuevo Leon, that seeks to influence the collective consciousness so that people stop regarding corrupt practices as normal. Through organized and coordinated actions we united efforts, shared knowledge and contributed positive decisions to face this persistent problem faced by our society.

We are also part of the network, **Red SumaRSE** Nuevo León, an initiative in which business allies, government agencies and 27 Mexican companies with a presence in Nuevo Leon participate. This network sets out to improve the quality of life of six communities in the region: the municipalities of Santa Catarina, Guadalupe, San Nicolás de los Garza, García and Monterrey, through the development of self-management skills among community members for the resolution of problems and social crime and violence prevention.

ENVIRONMENTAL CONCERN

103-1, 103-2, 103-3

A culture of protecting and caring for the environment is essential both for a sustainable planet and a sustainable business. We seek to raise awareness about the environment through pro-environmental campaigns. We also seek to maximize on the resources we use in our operations, whilst enhancing cost efficiency.

> "WE BASE OUR ENVIRONMENTAL PROTECTION EFFORTS AROUND INTERNAL POLICIES, PROCEDURES AND GUIDELINES THAT ALLOW US TO MANAGE THE RESOURCES WE NEED TO OPERATE IN A RESPONSIBLE, STANDARDIZED AND ORGANIZED MANNER.
>
> OUR ENVIRONMENTAL POLICY, WHICH IS ALIGNED WITH THE AXTEL SUSTAINABILITY STRATEGY, CONTAINS GUIDELINES TO PREVENT AND REDUCE THE IMPACT OF OUR ACTIVITIES ON THE ENVIRONMENT. OUR ENVIRONMENTAL POLICY SETS OUT THREE SPECIFIC POLICIES, WHICH GOVERN OPERATIONS IN TERMS OF WASTE, ENERGY SAVING, AND WATER CONSUMPTION."

In 2018 we organized an awareness raising campaign about caring for the environment, through which we trained 794 employees. We also started the process for the ISO 14001 certification, for which we offered an induction program to 63 people and trained 10 employees as internal auditors. The audit to assess whether we meet the standards for this certification is scheduled for February 2019.

In collaboration with Reforestemos México, we organized a voluntary reforestation day in El Cimatario National Park in Querétaro, on which 75 employees and their families reforested 1.6 hectares with 1,400 maguey plants (agave salmiana) and 200 mesquite plants (prosopis glandulosa).

We also take part in ALFA's Environmental Committee sessions, in which issues related to the current legislation and regulations are discussed and reviewed, as well as pro-environment initiatives put forward by each of the Group's companies. At the end of each year, the progress and results of the sustainability initiatives implemented are presented in order to analyze the possibility of replicating them.

A significant change in terms of the information presented in previous years corresponds to the sale of our residential fiber optic business (FTTx) in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and the municipality of Zapopan, through which Axtel transferred 227,802 residential and micro-enterprise customers, 4,432 kilometers of fiber optic network and other fiber optic assets related to the residential fiber business in these cities.

This has had an impact on our environmental performance report, since as of 2018 we stopped reporting the information that we did in previous years corresponding to the operation of this sector, such as the fuel consumed by trucks, the generation of certain types of waste and the recovery of equipment.

ENERGY USE

302-1, 302-3, 302-4

Energy is one of the main resources we need to be able to offer our services and to operate. For this reason, we strive to be more energy efficient and opt for alternative energies whenever possible.

We have an internal **Energy Saving Policy**, which sets out the actions we expect to see on the part of our employees regarding the efficient use of electric energy and the consequent reduction of Greenhouse Gas Emissions.

Our principal fuel consumption is down to the electricity generation plants used to back up our facilities and our cogeneration plant for our Data Centers in Querétaro, as well the gasoline used by our executive management team.

DIRECT CONSUMPTION BY SOURCE (MOBILE AND FIXED)

TYPE		LITRES	GJ
EXECUTIVE BONUSES (MOBILE SOURCES)	Gasoline	234,736	7,385
ELECTRICITY GENERATING PLANTS (FIXED SOURCES)	Gasoline	8,375	263
	Diesel	125,620	4,480
	LP Gas	27,172	658
TOTAL		**395,903**	**12,786**

The infrastructure in our Data Centers in Queretaro has grown, thus allowing us a greater installed capacity to serve a large number of customers.

This increase in capacity had an impact on natural gas consumption in 2018 compared to the previous year, as a second engine was fitted out in the cogeneration plant. This plant currently operates at an average of 65 percent of its capacity.

DIRECT CONSUMPTION BY SOURCE (COGENERATION)

TYPE		MWh	GJ
Cogeneration	Natural Gas	69,877	251,557
TOTAL		**69,877**	**251,557**

Data obtained from electricity and fuel bills, as well as fuel purchase orders for power plants. The energy from the cogeneration system is recorded independently.

INDIRECT CONSUMPTION BY SOURCE

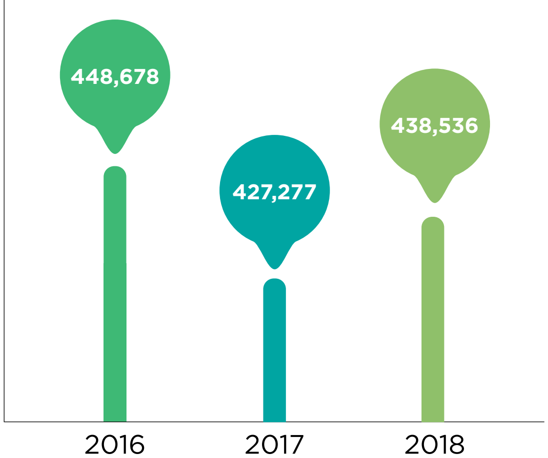
TYPE		MWh	GJ
Electricity	Conventional	121,815	438,536
	Wind	14,882	53,574
	Geothermal	737	2,652
	Solar	35	128
TOTAL		**137,469**	**494,890**

Includes information from our offices and Data Centers.

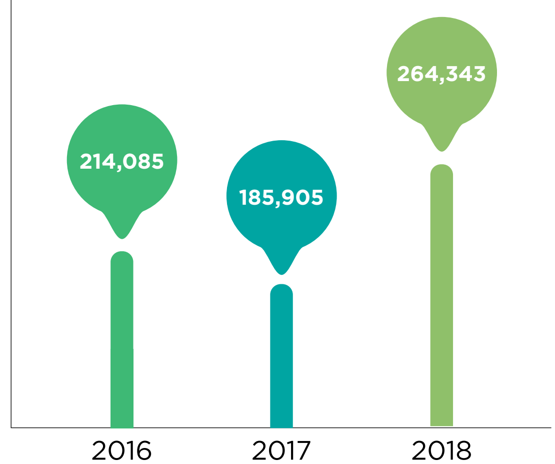
COMMITMENTS 2016 TO 2020

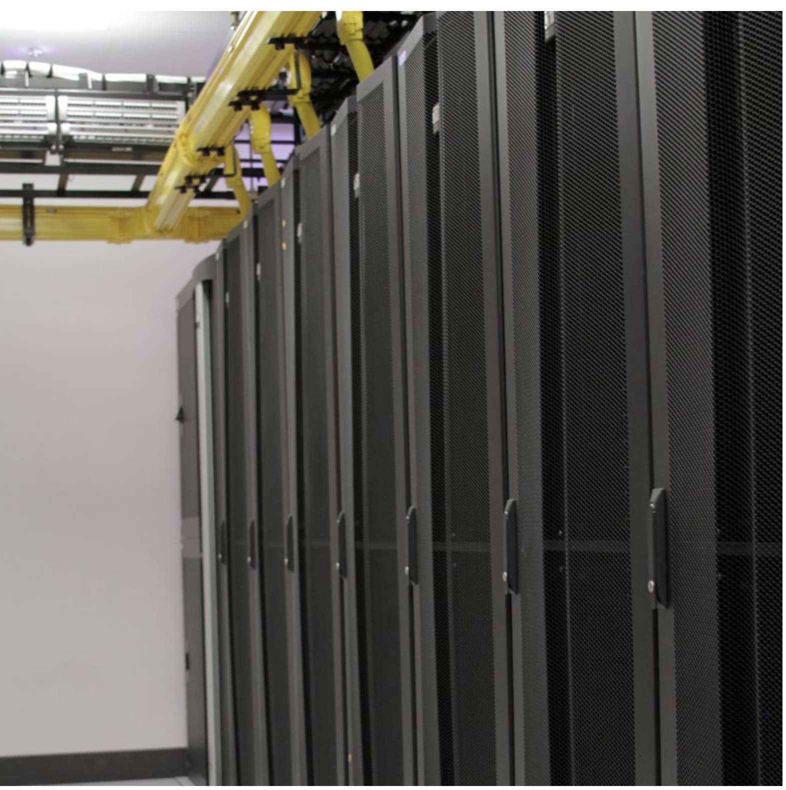
- REDUCE ELECTRICITY CONSUMPTION BY 2 PERCENT.
- REDUCE FUEL CONSUMPTION BY 5 PERCENT.

CONVENTIONAL ELECTRICITY CONSUMPTION (GIGAJOULES)

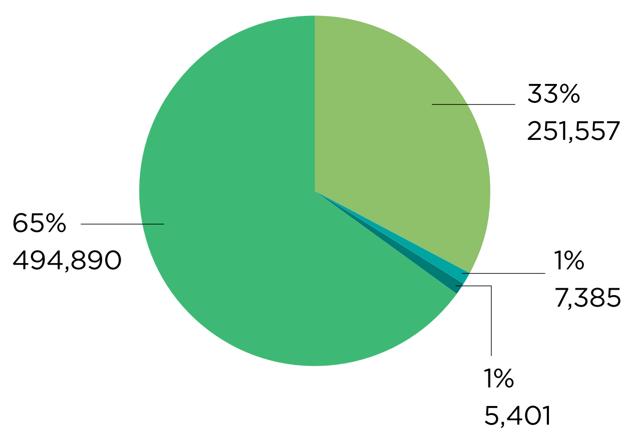


FUEL CONSUMPTION, MOBILE AND FIXED SOURCES (GIGAJOULES)





TOTAL ENERGY CONSUMPTION (GIGAJOULES)



TOTAL: 759,233 GJ

- ELECTRICITY
- COGENERATION
- MOBILE FUEL SOURCES
- POWER PLANTS

ENERGY EFFICIENCY (GIGAJOULES)

SOURCE	2016	2017	2018	PROGRESS 2018 VS 2017
Power Plants	5,128	3,891	5,401	▼ 27.95%
Cogeneration	16,830	58,649	251,557	▼ 76.68%
Electricity	554,251	504,451	494,890	▲ 1.93%
Mobile fuel sources	-	-	7,385	-
TOTAL ENERGY CONSUMPTION	**768,337**	**690,356**	**759,233**	

Consumption of fuel from mobile sources in 2016 and 2017 has not been included as in previous years this category was accounted for in consumption of gasoline by trucks and there is no differentiated data.

Notes on energy consumption calculations:

The base year we used to calculate energy consumption is 2016.

All information for energy calculations was gathered by the company.

The conversion factors used are those established by the Official Gazette of the Federation (DOF).

Energy intensity[11]

Following to the discontinuity of our FTTx Fiber business, we modified the parameter according to which energy intensity is calculated. Previously the parameter was the number of residential subscribers. As of 2018, Company revenues have been used as the parameter.

For the purposes of greater clarity regarding performance and in order to obtain a real comparison of energy intensity, we made a retroactive calculation for the years 2016 and 2017 under this same parameter.

In 2018, 59.37 GJ per billion pesos in revenue were consumed, based on a total of 12,788 million pesos and a total energy consumption of 759,233 GJ. This calculation only includes consumption within the organization.

FOR EVERY BILLION PESOS OF REVENUE THE ENERGY CONSUMED WAS:

2018 — **59.37 GJ/MMDP** (based on $12.788 million pesos in revenue and 759.233 GJ).

2017 — **55.03 GJ/MMDP** (based on $12,544 million pesos in revenue and 690,357 GJ).

2016 — **55.12 GJ/MMDP** (based on $13,937 million pesos in revenue and 768,337 GJ).

GREENHOUSE GAS EMISSIONS

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

Electricity and gas consumption generates Greenhouse Gas Emissions. We are aware of the negative impact of these emissions on the atmosphere, therefore we are working on initiatives to reduce consumption and make our processes more efficient in order to lessen our impact on the environment.

Stemming from our commitment to responsible and transparent management of Axtel's emissions, we reported an inventory of our greenhouse gas emissions and the initiatives we have put in place to reduce them to the Carbon Disclosure Project **(CDP)**.

In addition, for the fifth consecutive year we participated in the **Mexico Greenhouse Gas Program** by submitting a Greenhouse Gas Protocol Report to the Ministry of the Environment and Natural Resources (SEMARNAT – acronym as given in Spanish), which contained a measurement of the greenhouse gases we emit.

[11]The types of energy included are fuel, electricity, heating and cooling.

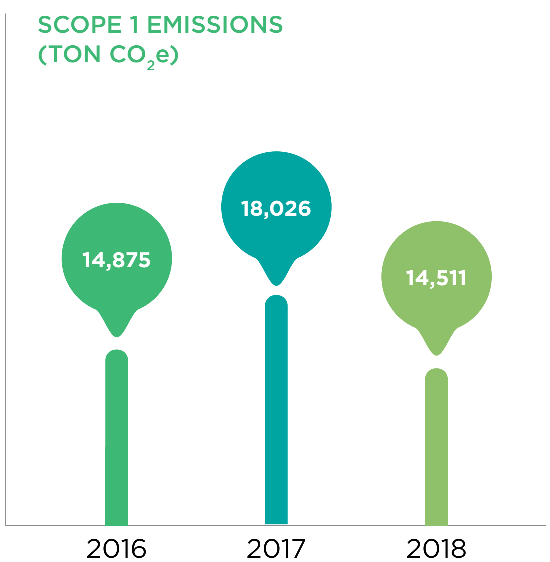
We measured our Scope 1 emissions according to direct emissions, Scope 2 according to indirect emissions caused by electricity consumption and Scope 3 according to other indirect emissions caused by consumption outside the organization.

SCOPE 1 EMISSIONS PER SOURCE (FIXED)

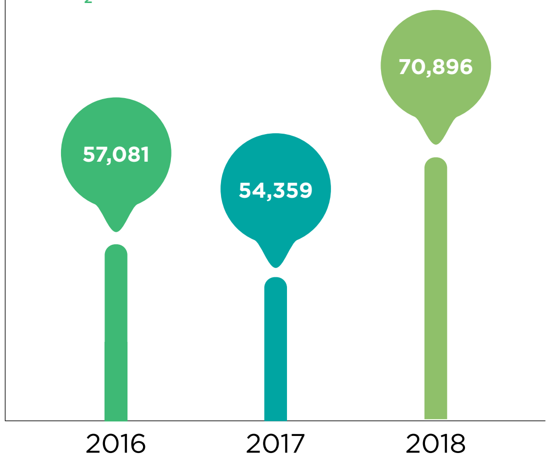
TYPE		LITERS	CO_2	CH_4	N_2O	Ton CO_2e
Electricity Power Plants (fixed sources)	Gasoline	8,375	18.25	0	0.06	19.05
	Diesel	125,620	332	0.01	0.01	337.78
	LP Gas	27,172	41.55	0	0	41.58
TOTAL		**161,168**	**391.81**	**0.01**	**0.07**	**398.42**

SCOPE 1 EMISSIONS PER SOURCE (COGENERATION)

TYPE		M^3	CO_2	CH_4	N_2O	Ton CO_2e
Cogeneration	Natural gas	6,376,828	14,112.33	0.25	0.03	14,113
TOTAL		**6,376,828**	**14,112.33**	**0.25**	**0.03**	**14,113**



SCOPE 2 EMISSIONS (CO_2e TONS)



SCOPE 2 EMISSIONS PER SOURCE

TYPE		MWh	TON CO_2e
Electricity	Conventional	121,815	70,896.61
	Wind	14,882	0
	Geothermal	737	0
	Solar	35	0
TOTAL		**137,469**	**70,896.61**

In 2018 our executives made 4,605 business trips inside and outside Mexico, accumulating 7,292,652 kilometers and indirectly emitting 2,167 tons of CO_2e into the atmosphere.

SCOPE 3 EMISSIONS (TRIPS)

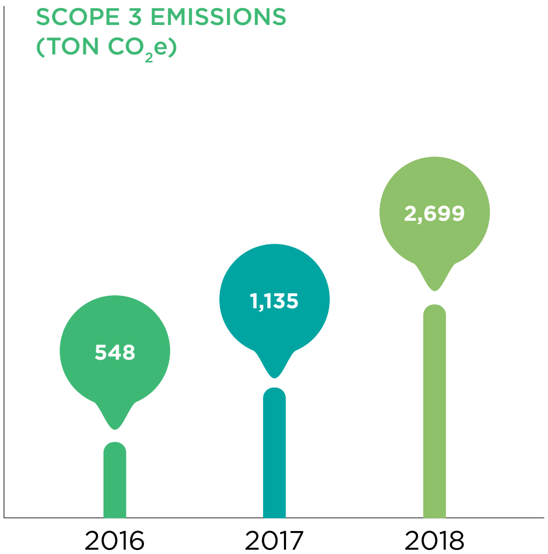
TYPE	Km	Number of trips	TON CO_2e
Nacional	6,896,682	4,544	2,167
Internacional	395,970	61	
TOTAL	**7,292,652**	**4,605**	**2,167**

In 2018, the calculation of the equivalence of air miles was reclassified, therefore it is not comparable with the information reported in 2017.

As part of the benefits we provide our executive managers with, we offer gasoline expenses that we accounted for in our indirect emissions, and which equated to the emission of 532 tons of CO_2e.

SCOPE 3 ISSUES (EXPENSES)

EXECUTIVE TEAM GASOLINE EXPENSES	Litres	CO_2	CH_4	N_2O	Ton CO_2e
TOTAL	234,736	511.75	0.18	0.05	532



Emissions intensity

Following to the discontinuity of our FTTx Fiber business, we modified the parameter according to which energy intensity is calculated. Previously the parameter was the number of residential subscribers. As of 2018, Company revenue has been used as the parameter.

For the purposes of greater clarity regarding performance and in order to obtain a real comparison of energy intensity, we made a retroactive calculation for the years 2016 and 2017 under this same parameter. This calculation only includes emissions generated by the Company.

In 2018, 0.118 tons of CO_2e were emitted for each GJ consumed, based on 88,120 tons of CO_2e per total energy consumption.

FOR EVERY BILLION PESOS IN REVENUE, THE ENERGY CONSUMED WAS:

2018 — **6.97 Ton CO^2e/BILLIONS OF PESOS** (based on $12.788 million pesos in revenue and 89.163 Tons of CO_2e emissions).

2017 — **5.86 Ton CO_2e/BILLIONS OF PESOS** (based on $12.544 million pesos in revenue and 73.520 Tons of CO_2e emissions).

2016 — **5.20 Ton CO^2e/BILLIONS OF PESOS** (based on $13,937 million pesos in revenue and 72,504 Tons of CO_2e emissions).

TOTAL EMISSIONS PER SCOPE
(TONS OF CO_2e EMISSIONS)

SCOPE	2016	2017	2018	PROGRESS 2018 VS 2017
Scope 1	14,875	18,026	14,511	▲ 24.22%
Scope 2	57,081	54,359	70,896	▼ 23.32%
Scope 3	548	1,135	2,699	▼ 57.94%
TOTAL	**72,504**	**73,520**	**88,106**	

Notes on the calculation of emissions:

We used 2016 as the base year for calculating emission reductions is 2016.

For Scope 2 emissions, we used the emission factor of the National Electric System 2017: 0.582 tons of CO^2/MWh

We use the GHG Protocol tool to obtain emission factors and Global Warming Potential (GWP) rates, as well as to calculate emissions.

The consolidation approach used for emissions was operational control.

For the calculation of emissions from the three Scopes (1, 2 and 3), information was compiled by the company.

WATER CONSUMPTION

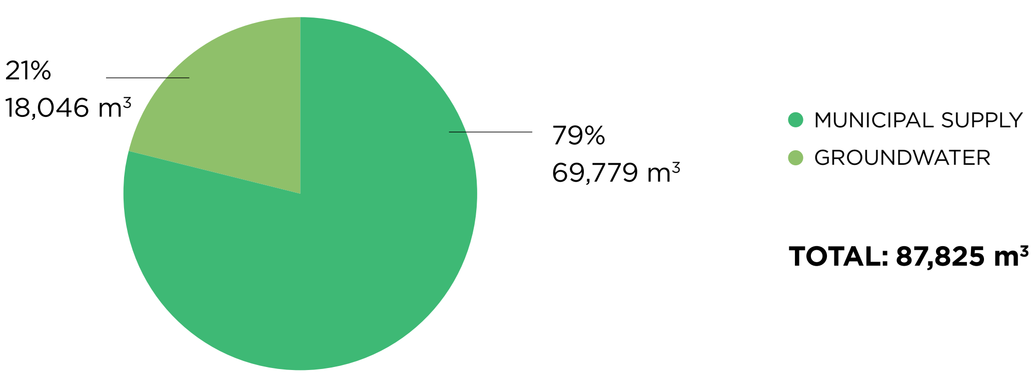
303-1, 303-2, 303-3

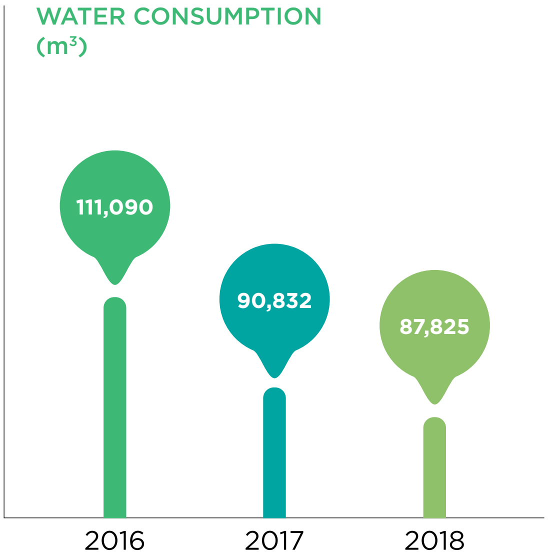
Water is not an essential resource for our business, however, we need it for sanitary facilities and to water the green areas in our facilities. Considering the global water crisis, we encourage conscious and responsible water use.

We have a **Water Efficiency Policy**, which sets forth how we should use and protect this resource within Axtel.

Most of the water we use comes from the municipal supply of the states where we have offices, while the rest is obtained from groundwater.

WATER SUPPLY BY SOURCE
(m^3)





In compliance with regulations, in 2018 we did not record any effects on sources due to our consumption of groundwater at Campus, the only Axtel facility that consumes water from this source.

The Wastewater Treatment Plant in the Querétaro Data Center processes 620 liters daily and purifies 0.48 kg of organic matter, consuming 0.13 kWh of energy.

WASTE MANAGEMENT AND DISPOSAL

301-2, 301-3, 306-2, 306-4, 103-1, 103-2, 103-3, 307-1

Due to the nature of our business, the materials we use and have at our disposal do not stem from the rendering of our services or solutions, since these are intangible, but result from Axtel's operational activities.

We are committed to the responsible management of the waste we generate. We have a **Recycling Program** that we carry out in the cities where our presence is most significant. During 2018 we recycled 31.92 tons of paper, cardboard, aluminum, metals, plastic, glass and wood.

RECYCLED MATERIALS BY TYPE AND VOLUME (TONS)

Paper and cardboard
29

Plastic
1.43

Wood and organic waste
1.07

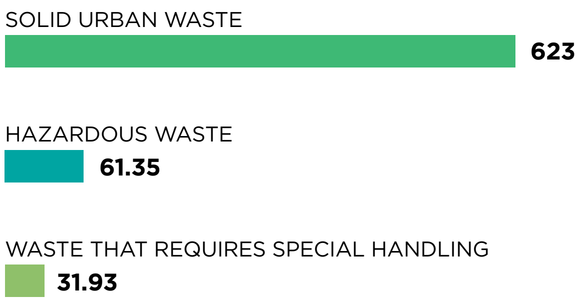
Aluminium and Metals
0.42

TOTAL: 31.92

We appropriately dispose of all the waste we generate, regardless of whether it is hazardous or not, adhering to Mexican Official Standards, the Mexican current environmental legislation and our **Waste Management Policy**.

We generated 716.28 tons of waste, of which 61.35 tons were hazardous and 31.93 tons required special handling, which were sent to the Mariano Escobedo Industrial Park, in Nuevo León, for recycling, confinement or destruction. Also, during last year, 25 tons of optical fiber were sent to confinement.

WASTE GENERATED BY TYPE (TONS)



TOTAL: 716.28

WASTE DISPOSAL

METHOD	TONS
RECYCLING	32
DUMPSTER	623
DESTRUCTION	0
CONFINEMENT	61.4
INCINERATION	0
REUSE	0
LANDFILL TRANSFER	0
TOTAL	**716**

Since 2011, we have encouraged the use of technology to reduce paper use in our billing. This year we sent 3,197,754 electronic invoices, equivalent to 28.88 tons of unprinted sheets of paper, which prevented the felling of 404 trees.

We did not receive any fines or non-monetary sanctions for non-compliance with environmental standards during 2018.

FINANCIAL OUTLOOK

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

At Axtel, we manage economic and financial resources with transparency, ethics and integrity, to drive sustainable business growth and new market development opportunities.

> **"IN 2018 WE CONSOLIDATED IMPORTANT OPERATIONS THAT ENABLED US TO SIGNIFICANTLY IMPROVE OUR CAPITAL STRUCTURE. AT END OF THE YEAR, WE SOLD OUR RESIDENTIAL MARKET FIBER TO THE HOME BUSINESS (FTTX) LOCATED IN MONTERREY, SAN LUIS POTOSÍ, AGUASCALIENTES, MEXICO CITY, CIUDAD JUÁREZ AND THE MUNICIPALITY OF ZAPOPAN, FOR 4,317 MILLION PESOS."**

FINANCIAL PERFORMANCE

Net proceeds from the sale of our residential FTTx bussiness were used to partially prepay a bank loan of 4,350 million pesos, thus reducing the company's credit balance by 73 percent, from 5,920 million pesos to 570 million pesos, contributing to a reduced level of leverage and financial expenses.

In addition, Axtel closed a sale of telecommunication towers to MATC, a subsidiary of American Tower Corporation, for which we received 12 million dollars, on top of the 56 million dollars received for the towers sold by the company in 2017.

In order to mitigate currency exchange risks, in August we refinanced a dollar to pesos loan worth 172 million dollars under competitive conditions over 10 years. Furthermore, we took out a committed 50 million dollar credit line, available in pesos or dollars.

At the end of 2018, our Net Debt to EBITDA ratio was 3.0, whereas, at the end of 2017 it was 3.4. It is worth noting that this decrease was mainly due to the prepayment of the aforementioned bank loan.

NOTABLE DATA

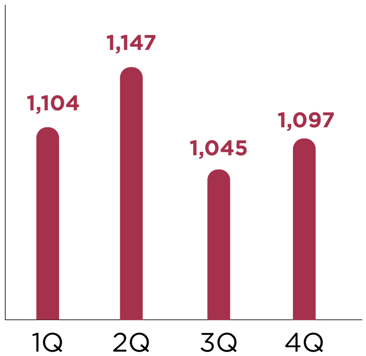
RESULTS (million pesos)	**2015**	**2016**	**2017**	**2018**
Income	10,150	13,937	12,544	12,788
(Loss) Operating income	589	-209	935	695
(Loss) Net income	-1,732	-3,599	62	1,095
FINANCIAL SITUATION (million pesos)				
Total assets	22,199	32,176	30,754	28,156
Total Debt	18,326	29,775	28,261	24,535
Stockholders' equity	3,873	2,400	2,492	3,621
OPERATING CASH FLOW (million pesos)				
EBITDA	3,208	3,673	4,300	4,393
OPERATING CASH FLOW (million pesos)				
EBITDA / Revenues	31.60%	26.40%	34.28%	34.35%
(Loss) Operating income / Revenues	5.80%	-1.50%	7.46%	5.44%
(Loss) Net income / Revenues	-17.10%	-25.80%	0.50%	8.56%
Interest coverage	2.7	2	3.3	2.45
Liabilities / Stockholders' equity	4.7	12.4	11.3	6.8
Total staff	7,001	7,584	7,044	7,644

EBITDA, excluding extraordinary expenses, for the merger is 4,511 million pesos for 2016 and 3,512 million pesos for 2015.

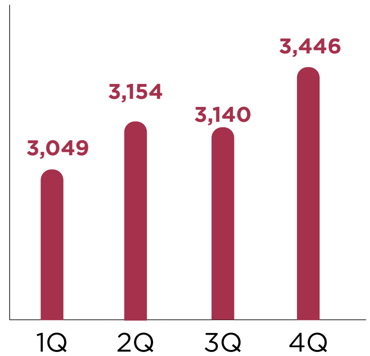
On December 17, 2018, the Company signed a definitive agreement for the divestment of its residential fiber optic business (FTTx) in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and the municipality of Zapopan, for an amount of $4.35 billion pesos to Grupo Televisa S.A.B. and subsidiaries ("Televisa"). Axtel transferred 227,802 residential and micro-enterprise customers to Televisa, in addition to 4,432 kilometers of fiber optic network and other fiber optic assets across these cities.

The residential FTTx business in the remaining cities where the company operates and that were not included in the sale will continue to be operated by Axtel. The Company will continue to seek attractive divestment opportunities for this asset. The operations included in the sale have been classified as discontinued as they meet the requirements of IFRS 5 "Non-current assets held for sale and discontinued operations" and therefore appear separately in the 2018 and 2017 consolidated statements of income as a comparative statement.

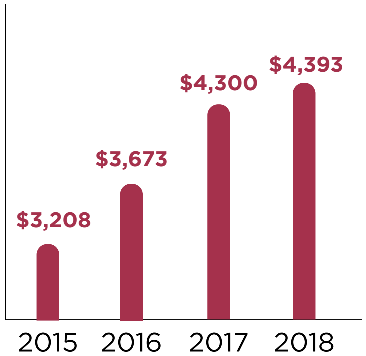
EBITDA PER QUARTER 2018
(million pesos)



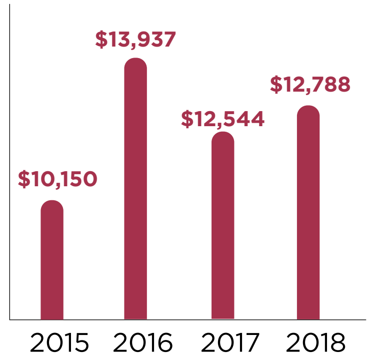
SALES PER QUARTER 2018
(million pesos)



EBITDA PER YEAR
(million pesos)



SALES PER YEAR
(million pesos)



ECONOMIC PERFORMANCE REPORTED UNDER MEXICAN FINANCIAL REPORTING STANDARDS (MILLION MEXICAN PESOS)

ITEM		2015	2016	2017	2018
Generated Economic Value (GEV)	Income	10,150	13,937	12,544	12,788
	Interest income	37	24	57	52
	Other income	0		841	227
GEV		10,187	13,961	13,442	13,067
Distributed Economic Value (DEV)	Operating costs	-1,766	-2,748	-3,441	-3,357
	Acquired services (outsourcing)	-416	-421	-380	-179
	Social benefits (payroll and derivatives)	-1,939	-3,226	-3,353	-2,452
	Paid taxes	-86	-234	-66	-92
	Fund payment to suppliers	-1,165	-712	-710	-278
	Community investments (donations)	-12	-1	-4	0
	Other expenses	-437	-838	-323	-20
DEV		-5,821	-8,180	-8,277	-6,377
Retained Economic Value	Generated economic value (-) Distributed economic value	4,366	5,781	5,165	6,690

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

Operating results for the years ended December 31, 2018 and December 31, 2017

Revenues.

For the twelve-month period ended December 31, 2018, total revenues were Ps. 12,788 million, compared to Ps. 12,544 million in the same period of 2017, an increase of Ps. 244 million or 2%, mainly explained by an 3% increase in enterprise segment revenues.

The revenues of the Company are composed of the following segments:

Enterprise. For the year 2018, revenues amounted to Ps. 10,313 million, compared to Ps. 9,973 million in 2017, an increase of 3%, derived from a 2% and 17% increase in Telecom and IT services, respectively.

Enterprise Telecom. For the year 2018, revenues totaled Ps. 9,002 million, compared to Ps. 8,849 million in 2017, a 2% increase, mainly due to an increase in *Managed Networks* revenues that resulted from a positive performance of Ethernet, VPN and Managed Services; partially mitigated by a decrease of 15% in Voice revenues due to a decline in fixed to mobile revenues and 800s number and international traffic. *Data and Internet* revenues increased 1% due to the growing demand for dedicated internet from existing customers, partially mitigated by a decrease in data revenues.

Enterprise IT. For the year 2018, revenues from the IT segment totaled Ps. 1,311 million, compared to Ps. 1,123 million in 2017, a 17% increase driven by a 26% growth in *hosting, cloud services, managed applications* and *security.*

Government. Revenues for 2018 totaled Ps. 2,475 million, compared to Ps. 2,571 million in 2017, a 4% decline.

Telecom Government. For 2018, revenues reached Ps. 1,174 million, compared to Ps. 1,593 million in 2017, a 26% decrease, mainly due to a 31% reduction in *Managed Networks* revenues, as a result of extraordinary levels of non-recurrent revenues recorded in the fourth quarter of 2017. *Voice* revenues fell 16% due to a decrease in fixed to mobile revenues, as well as a 19% decline in *Data and Internet* revenues due to a lower demand for data.

IT Government. For 2018, IT revenues totaled Ps. 1,301 million, compared to Ps. 979 million in 2017, a 33% increase, due to an 81% and 39% growth in *managed applications* and *security*.

Cost of Revenues, Expenses, EBITDA and Operating Profit

Cost of Revenues. For the year 2018, cost of sales represented Ps. 3,357 million, a 2% decrease compared to Ps. 3,441 million in 2017. This reduction is explained by a 15% decrease in *Telecom* costs, specifically in *Managed Networks* from the government segment and Voice from the enterprise segment; both associated to lower revenue levels. IT costs recorded a 38% increase mainly due to higher costs of *managed applications* and *security* from the government segment.

Gross profit. Gross profit is defined as income minus cost of sales. For the year 2018, gross profit represented Ps. 9,431 million, 4% higher than Ps. 9,103 million in 2017, due to increases in revenues and improved margins in the enterprise segment; partially mitigated by lower levels of revenues and margins in the government sector. The gross profit margin increased from 72.6% to 73.7% year-over-year, mainly due to an improvement in enterprise segment's margins.

Operating expenses. For 2018, operating expenses totaled Ps. 5,320 million, unchanged compared to Ps. 5,333 million recorded in 2017, as the rise in tower leases and salaries were mitigated by decreases in outsourcing expenses and in uncollectible reserves.

Other income (expenses). For the year 2018, other income represented Ps. 282 million, compared to Ps. 530 million in 2017. The figures include Ps. 224 million and Ps. 840 million of other income from the tower sale in 2018 and 2017, respectively. Other income in 2017 was mitigated by merger-related extraordinary expenses of Ps. 429 million.

EBITDA. The EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, reached Ps. 4,393 million in 2018, 2% higher compared to Ps. 4,300 million in 2017. Excluding merger-related expenses and tower sale related income, EBITDA totaled Ps. 4,169 million in 2018 and Ps. 3,888 million in 2017, a 7% increase.

Depreciation, Amortization and Impairment of Assets. The depreciation and amortization for 2018 amounted Ps. 3,697 million, a 10% increase compared to Ps. 3,365 million in 2017, which mainly corresponds to a higher number of assets directly associated to projects from government and enterprise clients.

Operating Income (Loss). For 2018, the Company recorded an operating income of Ps. 695 million compared to Ps. 935 million in 2017, a 26% decrease mainly due to higher level of non-recurring income derived from the tower sale in 2017, as well as increases in depreciation and amortization.

Comprehensive Financial Result, net

The comprehensive financial result rose 82%, from Ps. 914 million in 2017 to Ps. 1,665 million in 2018. This increase is explained by a higher level of interest expense related to higher interest rates. Additionally, during 2018, an exchange rate gain of Ps. 187 million was obtained due to a 0.3% appreciation of the Mexican peso against the US dollar, lower than the Ps. 648 million gain in 2017 associated to a 4.7% appreciation of the Mexican peso.

Taxes

During 2018 the income tax reached Ps. 37 million, compared to Ps. 288 million in the previous year. This variation is due to a tax profit of Ps. 34 million generated in the year 2018 from differed taxes, compared to the Ps. 172 million expense from differed taxes in 2017.

Discontinued Operations

For the years 2018 and 2017, the Company recorded the results of its mass market segment as discontinued operations, given the expectation of divesting the remaining part of the FTTx business and the erosion of the clients' base that receive their services through wireless technologies. The net income tax from the mass market in 2018 was Ps. 2,101 million, higher than the figure of Ps. 329 million recorded in 2017. This increase is due to the Ps. 2,786 million in other income related to the FTTx business sale of the mass market segment in 2018.

Net Income (Loss)

The Company recorded a net income of Ps. 1,095 million in 2018, compared to a net income of Ps. 62 million recorded in 2017. This variation is explained by other income of Ps. 2,786 million related to the sale of the FTTx business of the mass market segment in December 2018.

Capital Investments

For the twelve-month period ended December 31, 2018, the capital investment in property, plant and equipment and intangibles amounted Ps. 1,870 million, compared to Ps. 2,507 million in 2017. Additionally, benefits of Ps. 255 million and Ps. 840 million were recorded from the Tower sales in 2018 and 2017, respectively.

Financial Position as of December 31, 2018 and as of December 31, 2017.

Assets

As of December 31, 2018, total assets reached Ps. 28,156 million compared to Ps. 30,754 million as of December 31, 2017, a decrease of Ps. 2,598 million, or 8%.

Cash and cash equivalents. As of December 31, 2018, cash and cash equivalents totaled Ps. 2,249 million compared to Ps. 1,258 million as of December 31, 2017, a Ps. 991 increase or 79%. Cash at the 2018-year end includes Ps. 1,073 million that will be accrued during the first quarter of 2019 of the added-value tax and provisioned expenses related to the divestment of the FTTx business of the mass market segment.

Accounts Receivable. As of December 31, 2018, accounts receivable amounted to Ps. 2,660 million compared to Ps. 2,680 million as of December 31, 2017, a decrease of Ps. 20 million or 1%.

Property, systems and equipment, net. As of December 31, 2018, property, plant and equipment, net, totaled Ps. 16,106 million compared to Ps. 19,276 million as of December 31, 2017, a decrease of 16% derived mainly from the sale of the FTTx business from the mass market segment. Property, plant and equipment without deducting accumulated depreciation amounted to Ps. 63,272 million and Ps. 66,599 million as of December 31, 2018, and 2017, respectively.

Liabilities

As of December 31, 2018, total liabilities totaled Ps. 24,535 million compared to Ps. 28,261 million in 2017, a decrease of Ps. 3,726 million or 13%, mainly due to the pre-payment of a loan facility.

Accounts Payable and Accrued Expenses. As of December 31, 2018, accounts payable and accumulated liabilities amounted to Ps. 3,547 million compared to Ps. 3,881 million as of December 31, 2017, a decrease of Ps. 334 million, or 9%.

Debt. As of December 31, 2018, total debt including accrued interests decreased Ps. 4,782 million, composed of Ps. 4,755 million in debt reduction and a Ps. 27 million non-cash decrease derived from a 0.3% appreciation of the Mexican peso against the US Dollar, year-over-year. Debt reduction of Ps. 4,755 million is explained by (i) a Ps. 4,539 million decrease related to the prepayments of the Syndicated Bank Facility; (ii) a Ps. 299 million decrease in amortizations of a long-term facility; (iii) a Ps. 105 million increase in other loans and financial leases; and (iv) a Ps. 22 million decrease in accrued interests.

Stockholders' Equity

As of December 31, 2018, the Company's stockholders' equity totaled Ps. 3,621 million compared to Ps. 2,492 million as of December 31, 2017, an increase of Ps. 1,129 million or 45%, due to an increase in accumulated results. The capital stock totaled Ps. 464 million as of December 31, 2018, and 2017.

Cash flow

As of December 31, 2018, cash flow from operating activities reached Ps. 5,411 million, compared to a cash flow of Ps. 4,395 million as of December 31, 2017.

As of December 31, 2018, the Company had generated (used) cash flows from investment activities for Ps. 2,376 million, mainly related to the sale of the FTTx business from the mass market segment and in 2017 of Ps. (2,307) million. The previous amounts reflect investments in property, plant and equipment for the amounts of Ps. 1,870 million and Ps. 2,507 million as of December 31, 2018 and 2017, respectively. The figures exclude the Ps. 225 million and Ps. 840 million benefit related to the tower sale to American Tower Corporation for 2018 and 2017, respectively.

As of December 31, 2018, the cash flow (used in) generated by financing activities was Ps. (6,812) million derived mainly from the Ps. 4,350 pre-payment of the loan facility and in 2017 was Ps. (2,347) million.

As of December 31, 2018, the net debt to EBITDA ratio and the interest coverage ratio of the Company stood at 3.0x and 3.2x respectively, considering the pro-forma interests to the pre-payment of the bank loan facility. Also, as of December 31, 2017, the ratios of net debt to EBITDA and interest coverage both stood at 3.4x.

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)
Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report Dated January 31, 2019

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

Independent Auditors' Report and Consolidated Financial Statements as of and for the years ended December 31, 2018 and 2017

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

Opinion

We have audited the consolidated financial statements of Axtel, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprises the consolidated statements of financial position as of December 31, 2018 and 2017, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in shareholders' equity and the consolidated statements of cash flows for the years then ended, as well as explanatory notes to the consolidated financial statements which includes a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, as well as its consolidated financial performance and cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for opinion

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

Key audit matters

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

Assessment of impairment of long-lived assets and goodwill

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

The Company's management utilizes significant judgment in determining the assumptions and inputs used to estimate the recoverable value of its cash generating units ("CGUs") for purposes of its impairment tests given the significance of the goodwill and intangible asset balances as of December 31, 2018 and 2017, of $1,405 and $1,509 million, respectively, as well as the property, plant and equipment balance of $16,106 and $19,276 million, respectively, on the Company's consolidated financial.

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

• Review the models applied to determine the recoverable value of the intangible assets and methods used for valuing assets with similar characteristics.

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

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

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

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

• Evaluate the independent assessment of the sensitivity calculations for all CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

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

Assessment of the recoverability of deferred income tax assets

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

Due to the significance of the deferred income tax asset balance generated by tax losses amounting to $2,873 and $3,748 million, respectively as of December 31, 2018 and 2017, as well as the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this account balance and performed, among others, the following procedures:

• Verify the reasonableness of the projections used to determine future taxable income.

• Review the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with management.

• With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by management in preparing tax projections.

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

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

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

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

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

Responsabilidades de la administración y de los responsables del gobierno de la Compañía en relación con los estados financieros consolidados

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

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

C. P. C. Hector García Garza
Monterrey, Nuevo León México
January 31, 2019

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
ASSETS			
Current assets:			
Cash and cash equivalents	6	$2,249,155	$ 1,257,803
Trade and other accounts receivable, net	8	3,593,881	3,544,102
Inventories	9	104,802	188,885
Financial instruments	4	129,075	164,278
Prepayments		546,064	485,732
Derivative financial instruments	4	5,898	61,913
ALong-lived assets held for sale		315,053	-
Total current assets		**6,943,928**	**5,702,713**
Non-current assets:			
Restricted cash	7	93,908	161,955
Property, plant and equipment, net	10	16,105,524	19,275,810
Goodwill and intangible assets, net	11	1,405,387	1,508,512
Deferred income taxes	18	2,873,075	3,747,711
Other non-current assets	12	716,287	357,073
Non-current derivative financial instruments	4	17,693	-
Total non-current assets		**21,211,874**	**25,051,061**
Total assets		**$28,155,802**	**$30,753,774**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Debt	16	$465,828	$ 1,378,934
Trade and other accounts payable	13	7,423,978	6,095,724
Provisions	14	312,384	117,908
Deferred income	15	536,452	312,121
Derivative financial instruments	4	39,258	-
Total current liabilities		**8,777,900**	**7,904,687**
Non-current liabilities:			
Debt	16	15,156,918	19,043,736
Other non-current accounts payable	13	4,033	713,602
Employee benefits	17	592,037	588,696
Deferred income taxes	18	4,007	10,648
Total non-current liabilities		**15,756,995**	**20,356,682**
Total liabilities		**24,534,895**	**28,261,369**
SHAREHOLDERS' EQUITY:			
Controlling interest:			
Capital stock	19	464,368	464,368
Additional paid-in capital		159,551	159,551
Accrued earnings		3,013,954	1,919,276
Other comprehensive loss		(16,972)	(50,796)
Total controlling interest		3,620,901	2,492,399
Non-controlling interest		6	6
Total shareholders' equity		**3,620,907**	**2,492,405**
Total liabilities and shareholders' equity		**$28,155,802**	**$30,753,774**

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

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
Ingresos	21	$12,788,484	$12,544,101
Cost of sales		(6,290,978)	(6,221,850)
Gross profit		6,497,506	6,322,251
Administration and selling expenses		(6,008,955)	(5,905,193)
Other income, net	23	206,929	518,298
Operating income		695,480	935,356
Financial income	24	52,129	56,698
Financial expenses	24	(1,868,618)	(1,646,532)
Exchange fluctuation gain, net	24	186,888	648,280
Gain on changes in fair value of financial instruments		(35,202)	27,052
Financial result, net		(1,664,803)	(914,502)
(Loss) income before taxes		(969,323)	20,854
Income taxes	18	(37,338)	(287,544)
Loss from continuing operations		$(1,006,661)	$(266,690)
Discontinued operations	20	2,101,339	328,862
Net consolidated income		$1,094,678	$62,172
Income attributable to:			
Controlling interest		$1,094,678	$62,171
Non-controlling interest		-	1
		$1,094,678	$62,172
Loss per basic and diluted share from continuing operations		(0.050)	(0.014)
Profit per basic and diluted share from discontinued operations		0.104	0.017
Profit per basic and diluted share		**0.054**	**0.003**
Weighted average common outstanding shares (thousands of shares)		**20,249,227**	**19,739,584**

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

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	Note	2018	2017
Net consolidated income		$1,094,678	$62,172
Other comprehensive income for the year:			
Items that will be reclassified to the consolidated statement of income:			
Effect of currency translation	18	(86)	(1,212)
Fair value of derivative financial instruments, net of taxes		(8,370)	-
Items that will not be reclassified to the consolidated statement of income:			
Remeasurements of employee benefits, net of taxes	18	42,280	(7,602)
Total other comprehensive income (loss) for the year		33,824	(8,814)
Total comprehensive income of the year		**$1,128,502**	**$53,358**
Attributable to:			
Controlling interest		$1,128,502	$53,357
Non-controlling interest		-	1
Comprehensive income of the year		**$1,128,502**	**$53,358**

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

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

			Controlling
	Capital stock	Additional paid- in capital	(Accumu-lated deficit) retained earnings
Balances as of January 1, 2017	**$10,233,841**	**$644,710**	**$(8,436,337)**
Transactions with shareholders:			
Loss absorption	(9,868,332)	(644,710)	10,513,042
Issuance of shares	98,859	159,551	-
Accounts payable to holding company	-	-	(219,600)
	(9,769,473)	(485,159)	10,293,442
Net consolidated loss	-	-	62,171
Total other comprehensive income for the year	-	-	-
Comprehensive loss	-	-	62,171
Balances as of December 31, 2017	**$464,368**	**$159,551**	**$ 1,919,276**
Net consolidated income	-	-	1,094,678
Total other comprehensive income for the year	-	-	-
Comprehensive income	-	-	1,094,678
Balances as of December 31, 2018	**$464,368**	**$159,551**	**$ 3,013,954**

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

interest

Other compre-hensive	Total controlling interest	Non-controlling interest	Total shareholders' equity
$(41,982)	**$2,400,232**	**$5**	**$2,400,237**
-	-	-	-
-	258,410	-	258,410
-	(219,600)	-	(219,600)
-	38,810	-	38,810
-	62,171	1	62,172
(8,814)	(8,814)	-	(8,814)
(8,814)	53,357	1	53,358
$(50,796)	**$2,492,399**	**$ 6**	**$2,492,405**
-	1,094,678	-	1,094,678
33,824	33,824	-	33,824
33,824	1,128,502	-	1,128,502
$(16,972)	**$3,620,901**	**$6**	**$3,620,907**

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2018 and 2017
Thousands of Mexican pesos

	2018	2017
Cash flows from operating activities		
(Loss) income before taxes	$(969,323)	$20,854
Depreciation and amortization	3,622,713	3,353,127
Exchange fluctuation gain, net	(186,888)	(648,280)
Allowance for doubtful accounts	114,207	235,345
Gain from sale of property, plant and equipment	(226,646)	(823,269)
Interest income	(52,129)	(56,698)
Interest expense	1,868,618	1,647,027
Current PTU	9,825	11,873
Provisions and others	129,315	(13,783)
Change in unrealized fair value and settlement of financial instruments	35,202	(27,052)
Changes in working capital:		
Trade and other accounts receivable, net	(629,388)	242,026
Inventories	84,083	(79,497)
Trade accounts payable, related parties and other accounts payable	395,526	88,554
Employee benefits	38,797	84,666
Paid PTU	(16,693)	(14,519)
Deferred income	224,331	(710,484)
Operating cash flows from discontinued operations	1,061,978	1,151,009
Subtotal	5,503,528	4,460,899
Income taxes paid	(92,478)	(66,214)
Net cash flows generated by operating activities	**5,411,050**	**4,394,685**
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,405,494)	(2,411,999)
Disposal de property, plant and equipment	226,646	856,964
Acquisition of intangible assets	(465,207)	(95,128)
Interest received	52,318	56,508
Other assets	29,033	(34,420)
Investment in shares of Altán	(17,868)	(137,719)
Investing cash flows from discontinued operations	3,956,544	(541,530)
Net cash flows generated by (used in) investing activities	2,375,972	(2,307,324)
Cash flows from financing activities		
Proceeds of current and non-current debt	619,355	16,039,280
Payments of current and non-current debt	(5,753,342)	(16,874,140)
Interest paid and other financial expenses	(1,677,825)	(1,512,296)
Net cash flows used in financing activities	(6,811,812)	(2,347,156)
Net increase (decrease) of cash and cash equivalents	975,210	(259,795)
Effect of changes in exchange rates	16,142	70,480
Cash and cash equivalents at the beginning of the year	1,257,803	1,447,118
Cash and cash equivalents at the end of the year	**$2,249,155**	**$1,257,803**
Significant non-cash transactions:		
Issuance of shares (See note 19)	-	258,410
Finance Leases	**$680,154**	**$ 310,778**

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

Axtel, S. A. B. de C. V. and Subsidiaries
(Subsidiary of Alfa, S. A. B. de C. V.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years December 31, 2018 and 2017
Thousands of Mexican pesos, unless otherwise indicated

1. General information

Axtel, S. A. B. de C. V. and subsidiaries ("Axtel" or the "Company") was incorporated in Mexico as a capital stock company. Axtel's office is located at Boulevard Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico.

Axtel is a publicly owned corporation, whose shares are registered at the National Securities Registry and are traded at the Mexican Stock Exchange ("Bolsa Mexicana de Valores" in Spanish) through Certificates of Participation ("CPOs") issued under the Trust whose trustee is Nacional Financiera, S. N. C. The Company is subsidiary of Alfa, S. A. B. de C. V. ("Alfa"), direct holding and last company of the Group, which exercises control and holds 52.78% through the Trust Administration Agreement No. 2673 entered into with Banco Invex, S. A. Alfa has control over the Company's relevant activities.

The Company is engaged in installing, operating and/or exploiting a public telecommunications network for the provision of services involving conducting voice signals, sounds, data, internet, texts and images, IT, local as well as domestic and international long-distance telephone service and restricted television service. Concessions are required to provide these services and conducting the Company's business activities. See Note 11.

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

In the following notes to the consolidated financial statements, references to pesos or "$" mean thousands of Mexican pesos; additionally, reference to dollars or "US$" mean thousands of U.S. dollars, unless otherwise indicated for both cases.

2. Relevant events
2018

a. Sale of massive segment

On December 17, 2018, the Company divested a significant portion of its Massive Segment through the sale of assets, shares, inventories, receivables and telecommunications equipment to Grupo Televisa in exchange for an economic consideration of $4,713 million pesos, recognizing a gain of $1,950 million pesos, which is presented in discontinued operations within the consolidated statements of income. The remainder of the Massive Segment that was not disposed of in this transaction, continues to be operated by the Company as of December 31, 2018.

On December 21, 2018, with the proceeds obtained from the transaction, Axtel made a partial prepayment of the syndicated loan held with HSBC, as lead coordinator of the participating financial institutions, for $4,350 million pesos, reducing the outstanding principal balance to $1,570 million pesos as of December 31, 2018. Debt issuance costs of $26,500 pending to be amortized and that corresponded to the amount of the prepayment, were recognized in results in the statement of income.

Additionally, as explained in Note 20, the operations subject to the transaction are presented as discontinued operations for 2018 and in 2017 for comparative purposes as required by IFRS. The balances of assets and liabilities associated with the transaction, as well as the cash flows generated by the disposed operation during 2017 and until the date of the sale in 2018 are disclosed in the corresponding Note.

b. Sale of towers with American Tower Corp.

During March and June 2018, the Company reached a sale agreement with MATC Digital, S. de R.L. of C.V. ("MATC"), a subsidiary of American Tower Corporation, to sell 17 and 12 telecommunication towers, respectively, for US $12,359. The agreement included the commitment of Axtel to use these sites from MATC for 15 years.

The transactions for the sale of telecommunication towers had a net profit of $224,974, which is presented within operating income.

c. Debt proceeds from Export Development Canada

On August 31, 2018, the Company received debt funding of $300,000 associated with a long-term loan from Export Development Canada due in 2021 with monthly capital payments and accruing interest at a 91-day TIIE rate plus 1.875 basis points. The proceeds obtained from this loan were used mainly to pay the short-term debt with BBVA Bancomer for $200,000.

d. Debt restructuring

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

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

2017

a. Issuance and prepayment of debt

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

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

b. Shareholding in ALTÁN

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

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

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

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

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

c. Adjustment to Alfa shareholding

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

d. Sale of towers with American Tower Corp.

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

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

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

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

f. Loss absorption

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

3. Summary of significant accounting policies

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

a. Basis of preparation

The consolidated financial statements of Axtel, S. A. B. de C. V. and subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include International Accounting

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

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

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

b. Changes in accounting policies and disclosures

i. New standards and changes adopted by the Company
The Company adopted all new standards and interpretations in effect as of January 1, 2018, including the annual improvements to IFRS, as described below:

IFRS 9, Financial Instruments

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

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

The Company had no impacts associated with the new measurement category of fair value through other comprehensive income, because it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if its investment strategy was changed in the future. In addition, there were no impacts related to hedge accounting.

Finally, in regards to the new model for impairment based on expected losses, management of the Company decided to adopt the standard through the modified retrospective approach, recognizing the effects on retained earnings as of January 1, 2018 and determined that there were no significant effects on the transition date.

IFRS 15, Revenues from Contracts with Customers

IFRS 15, Revenues from contracts with customers, is effective for periods beginning January 1, 2018. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers, which introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation.

The Company's management adopted this standard applying the modified retrospective approach applied to contracts in effect at the date of initial adoption on January 1, 2018. Based on its analysis, the Company did not have significant impacts on the date of initial adoption of IFRS 15. Nevertheless, the Company made changes in the accounting policy applied since January 1, 2018 and determined that for new contracts that are negotiated beginning January 1, 2018, in which additional performance obligations related to the equipment used to provide services to customers are identified, revenue will be recognized for the sale of the equipment at the moment in which the control is transferred to the customer; an account receivable for the contractual payments equal to the net lease investment, and the corresponding cost of the equipment; in addition, during the term of these contracts, the Company will recognize interest income based on the effective interest method.

IFRIC 22, Interpretation on Foreign Currency Transactions and Advance Consideration

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

The Company translates advance considerations at the exchange rate on the date of the transaction, either received or paid, and recognizes them as non-monetary items; therefore, it did not have significant impacts in the adoption of this interpretation in its consolidated financial statements.

ii. New IFRS and interpretations issued, not effective in the reporting period.

A series of new standards, amendments and interpretations have been issued, which are not yet effective for reporting periods ended in December 31, 2018, and have not been early adopted by the Company.

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

IFRS 16, Leases

IFRS 16, Leases, supersedes IAS 17, Leases, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.

Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, it reported a right-of-use asset and a lease liability of $676,660, as its initial adoption effect.

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent, and that represent services (for example, maintenance and insurance).

- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use a funding rate by portfolio to measure leases.

- For leases classified as financial leases as of December 31, 2018, and without elements of minimum payment updating for inflation, maintain the balance of the right-of-use asset, and its corresponding lease liability on the date of adoption of IFRS 16.

- Not to revisit the previously reached conclusions for service agreements which were analyzed to December 31, 2018 under the IFRIC 4, Determining Whether a contract Contains a Lease, and where it had been concluded that there was no implicit lease.

The Company has taken the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date.

Lastly, as a result of these changes in accounting, some performance indicators of the Company, such as operating income and adjusted EBITDA, will be affected because what was previously recognized as an operating rental expense equivalent to rental payments, now a portion will be recognized by reducing the financial liability (which will not affect the statement of income), and the other portion will be recognized as a financial expense under the operating income indicator. On the other hand, the expense for depreciation of right-of-use assets will affect operating income linearly, but without representing a cash outflow, which will benefit the adjusted EBITDA.

IFRIC 23, Uncertainty over Income Tax Treatments

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

An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, modifying comparative periods or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings, without modifying comparative periods.

The Company determined that the impacts of the implementation of this Interpretation as of January 1, 2019 are not material considering the prevailing conditions of the tax positions that it has taken at the date of adoption and the faculties of the competent authorities to assess tax positions held by the Company at the same date.

c. Consolidation

i. Subsidiaries

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

The accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to shareholders.

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

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

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

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

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

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

As of December 31, 2018 and 2017, the main subsidiary companies of Axtel were as follows:

		Shareholding interest (%)		
	Country	2018	2017	Functional currency
Axtel, S. A. B. de C. V. (Holding company) (3)	Mexico			Mexican peso
Servicios Axtel, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra Comunicación, S. de R. L. de C. V. (3)	Mexico	100	100	Mexican peso
Avantel, S. de R. L. de C.V. (“Avantel”)(3)	Mexico	100	100	Mexican peso
Axes Data, S. A. de C. V.(1)	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Servicios Alestra, S. A. de C. V. (1)	Mexico	99.98	99.98	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra USA, Inc. (2)	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. (“S&C”)	Mexico	100	100	Mexican peso
Alesre Insurance Pte, Ltd. (4)	Singapore	100	100	U.S. dollar
Estrategias en Tecnología Corporativa, S. A. de C. V. (“Estratel”)(3)	Mexico	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. (1)	Mexico	100	100	Mexican peso

(1) Provider of administrative services.
(2) Leasing of telecommunications and infrastructure equipment.
(3) Provider of telecommunication services.
(4) Company with no primary operations.

As of December 31, 2018 and 2017, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

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

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

As of December 31, 2018 and 2017, the Company has no associates.

d. Foreign currency translation

i. Functional and presentation currency

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

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

ii. Transactions and balances

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

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

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

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

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

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

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

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

		Local currency to Mexican pesos			
		Closing exchange rate as of December 31,		Average annual exchange rate	
Country	**Local currency**	**2018**	**2017**	**2018**	**2017**
United States	U.S. dollar	19.68	19.74	19.24	18.94

e. Cash and cash equivalents

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

f. Restricted cash

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

g. Financial instruments

Financial assets

Through December 31, 2017, the Company classified financial assets into the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depended on the purpose for which the financial assets were acquired.

Beginning January 1, 2018, in accordance to the adoption of IFRS 9 Financial Instruments, the Company subsequently classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

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

Classes of financial assets under IAS 39, in effect through December 31, 2017.

i. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivative financial instruments are also classified as held for trading unless they are designated as hedges.

Financial assets recorded at fair value through profit or loss are initially recognized at fair value, and transaction costs are recorded as an expense in the consolidated statement of income. Gains or losses due to changes in the fair value of these assets are presented in profit or loss of the period in which they are incurred.

Beginning January 1, 2018, financial assets at fair value through profit or loss still maintain their classification according to the assessment of their business model; nevertheless, the financial assets that were previously classified in this category at December 31, 2017, there were no impacts on the measurement and they are classified as described in the subsection vii.

ii. Loans and accounts receivable

Accounts receivable are non-derivative financial assets with fixed or specific payments that are not traded in an active market. They are included as current assets, except for maturities greater than

12 months after the date of the consolidated statement of financial position, which are classified as non-current assets.

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

Beginning January 1, 2018, loans and receivables are considered within the class of financial assets at amortized cost (see number v in this section).

iii. Investments held to maturity

If the Company has a demonstrable intention and capacity to hold debt instruments to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if they are expected to be settled within the following 12 months, otherwise, they are classified as non-current assets. They are initially recognized at fair value plus any directly attributable transaction cost, subsequently, they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or written off on the day they are transferred to or through the Company. As of December 31, 2017, the Company does not have this type of investments.

iv. Investments available for sale

Investments available for sale are non-derivative financial assets designated to this category or that do not fall under any of the other categories. They are included as non-current assets, unless their maturity is less than 12 months or management intends to dispose of that investment within the following 12 months after the date of the consolidated statement of financial position. Investments available for sale are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are recorded at fair value (unless they cannot be measured at their value in an active market, and the value is not reliable, in this case, they will be recognized at cost less impairment).

Gains or losses arising from changes in the fair value of monetary and non-monetary instruments are directly recognized in the consolidated statement of comprehensive income in the period in which they occur.

When investments classified as available for sale are sold or impaired, the fair value accumulated adjustments recognized in equity are reclassified to the consolidated statement of income.

As of December 31, 2017, the Company does not have this type of investments.

Classes of financial assets under IFRS 9, in effect beginning January 1, 2018.

v. Financial assets at amortized cost

Financial assets at amortized cost are those that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

vi. Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are those whose business model is based in obtaining contractual cash flows and sell the financial assets; and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2018, the Company does not have financial assets to be measured at fair value through other comprehensive income.

vii. Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are those that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the above classifications, the Company can make the following irrevocable choices in the initial recognition of a financial asset:

a. Disclose the subsequent changes in the fair value of an equity instrument in other comprehensive income, only if such investment (in which no significant influence, joint control or control is maintained) is not held for trading purposes, that is, a contingent consideration recognized as a result of a business combination.

b. Assign a debt instrument to be measured at fair value in profit or loss, if as a result it eliminates or significantly reduces an accounting mismatch that would arise from the measurement of assets or liabilities or the recognition of profits and losses on them in different bases.

As of December 31, 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

Through December 31, 2017, the Company assessed whether there was objective evidence of impairment of each financial asset or group of financial assets. An impairment loss was recognized if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and provided that the loss event (or events) had an impact on the estimated future cash flows derived from the financial asset or group of financial assets that could be reliably estimated.

New impairment policy from the adoption of IFRS 9

Beginning January 1, 2018, the Company used a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the initial recognition of the asset at each reporting date, using as a reference the past experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an assessment of both, the current management and the forecast of future conditions.

a. Trade accounts receivables

The Company adopted a simplified expected loss calculation model, through which expected credit losses during the accounts payable's lifetime are recognized.

The Company does an analysis of its portfolio of accounts receivable from clients, in order to determine if there are significant clients for whom it requires an individual evaluation; on the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographic area, etc.), are grouped to be evaluated collectively.

In its impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties, as well as observable data indicating that there is a significant decrease in the estimate of the cash flows to be received, including delays.
For purposes of the previous estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

• the debtor incompletes the financial agreements; or
• the information developed internally or obtained from external sources indicates that it is unlikely that the debtor will pay its creditors, including the Company, completely (without considering any guarantee held by the Company)

The Company is defined as the breach threshold the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 90 days of delay for the massive segment, 120 days for the business segment and 150 days for the government segment, which is in line with the management of internal risks.

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If as of the date of presentation of the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period, as an impairment gain or loss.

Management assesses the impairment model and the inputs used therein at least once every year, in order to ensure that they remain in effect based on the current situation of the portfolio.

Financial liabilities

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

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

Derecognition of financial liabilities

The Company derecognizes financial liabilities if, and only if, the obligations of the Company are met, canceled or have expired. The difference between the carrying value of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Additionally, when the Company carries out a refinancing transaction and the previous liability qualifies to be derecognized, the costs incurred in the refinancing are recognized immediately in results as of the date of termination of the previous financial liability.

Offsetting of financial assets and liabilities

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

h. Derivative financial instruments and hedging activities

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

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

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

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the consolidated statements of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2018 and 2017, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

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

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item. The substitution or successive renewal of a hedge instrument by another is not an expiration or resolution if said replacement or renewal is part of the Company's documented risk management objective and is consistent with it.

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

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

i. Inventories

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

j. Prepayments

Prepayments mainly comprise insurance and prepayments to service providers. The amounts are recorded on the basis of contractual values and are recorded monthly in the consolidated statement of income every month over the lifetime of the corresponding prepayment: the amount corresponding to the proportion to be considered over the following 12 months is shown under current assets and the remaining amount is shown under non-current assets.

k. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

l. Leases

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

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

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

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

As of January 1, 2019, the Company has adopted IFRS 16 – Leases, as described in note 3.b, therefore its accounting policy changed as of this date.

m. Intangible assets

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

Intangible assets are classified as follows:

i. Finite useful life

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

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

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

a. Trademarks

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

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

b. Licenses

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

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

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

ii. Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2018 and 2017, intangible assets with an indefinite life corresponds to goodwill.

n. Goodwill

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

o. Impairment of non-financial assets

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

p. Income tax

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

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

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

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

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

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

q. Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

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

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

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

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

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

r. Provisions

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

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

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

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

s. Share-based payments

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

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

t. Capital stock

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

u. Comprehensive income

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

v. Segment reporting

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

w. Revenue recognition

Revenues comprise the fair value of the consideration received or for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers so that goods are accommodated in attractive and favorable spaces at their facilities.

To recognize revenues from contracts with customers, the comprehensive model for revenue accounting is used, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize the revenue when the company satisfies a performance obligation.

The Company maintains managed service agreements with customers from Government and business segments, which may include multiple deliverables mainly consisting of the delivery of equipment and provision of telecommunications services and information technologies. The Company evaluates certain agreements, in which it identifies more than one separable performance obligation, which consists of the equipment used to provide the service and that is installed in the facilities of the customers. In addition to the equipment, telecommunications and information technologies are identified as another separable performance obligation.

Where the equipment delivered to the customer is a separable performance obligation of the service, the Company assigns the price of managed service agreements to the performance obligations identified and described in the preceding paragraph according to independent market values and related discounts.

The Company recognizes the revenue derived from managed services agreements, as follows:

- Revenues from equipment installed in the facilities of customers is recognized upon transfer of control or right to use them; i.e., at some point in time. This performance obligation has a significant financial component; therefore, revenues are recognized in accordance with the effective interest rate method over the term of the agreement.
- Revenues from services are recognized as they are provided; i.e. as the customer consumes them in relation to services of voice, data and general telecommunications.

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

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

Costs of acquiring new contracts are recognized as contractual assets and are amortized over the period of those contracts in profit or loss, which is when they will generate economic benefits.

The Company's management adopted IFRS 15 - Revenue from contracts with customers on January 1, 2018 using the modified retrospective method applied to the contracts in effect at the adoption date, so the accounting policy that was applied on the date previously mentioned is not comparable with the one used for the year ended December 31, 2017, which was based on the transfer of risks and rewards inherent with the provision of services to customers.

x. Advances from customers

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

y. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the shareholders by the weighted average number of common shares outstanding during the year. As of December 31, 2018 and 2017, there are no dilutive effects from financial instruments potentially convertible into shares.

4. Financial instruments and financial risk management

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

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

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

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

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

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

Capital management

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

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

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

The financial ratio of total liabilities / total equity was 6.78 times and 11.34 times as of December 31, 2018 and 2017, respectively, resulting on a leverage ratio that meets the Company's management and risk policies.

Financial instruments per category

Below are the Company's financial instruments by category:

	As of December 31,	
	2018	**2017**
Cash and cash equivalents	$2,249,155	$1,257,803
Restricted cash	93,908	161,955
Financial assets at amortized cost[1]:		
Trade and other accounts receivable	2,908,133	2,852,437
Financial assets at fair value with changes through profit or loss [1]		
Financial instruments (zero strike call)	129,075	164,278
Derivative financial instruments [2]	23,591	61,913
Total financial assets	**$5,403,862**	**$4,498,386**

Financial liabilities at amortized cost[1]:		
Current debt	$465,828	$465,828
Trade payables, related parties and sundry creditors	5,412,913	5,412,913
Non-current debt	15,156,918	15,156,918
Other non-current accounts payable	4,033	4,033
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments [2]	39,258	39,258
Total financial liabilities	**$21,078,950**	**$21,078,950**

[1] As described in Note 3b, the Company had no impacts associated with the introduction of the new category of financial assets measured at fair value through other comprehensive income, derived from the adoption of IFRS 9. Therefore, all financial assets that were measured at fair value as of January 1, 2018 thereon, were classified as financial assets measured at fair value through profit or loss. Therefore, the comparative information is appropriate, since it reflects the consistency in the recognition and measurement principles for all reporting periods.
[2] The Company designated the derivative financial instruments that comprise this balance, as hedges for accounting purposes, in accordance with what is described later in Note 4.

Fair value of financial assets and liabilities valued at amortized cost

The amount of cash and cash equivalents, trade and other accounts receivable, other current assets, trade payables and other accounts payable, current debt, current provisions and other current liabilities approximate their fair value since their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flow at December 31, 2018 and 2017.

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

	As of December 31, 2018		As of December 31, 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Financial liabilities:				
Debt (*)	$14,974,979	$14,212,680	$19,775,122	$18,039,800
Long-term accounts payable to Alfa	-	-	713,602	709,735

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

The estimated fair values as of December 31, 2018 and 2017 were determined based on discounted cash flows, using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. The primary rates used are the Interbank Equilibrium Interest Rate ("TIIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. In the case of Senior Notes issued in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. For purposes of disclosure, measurement at fair value of financial assets and liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

Market risk

(i). Exchange rate risk

The Company is exposed to the exchange risk arising from exposure of its currency, mainly with respect to the U.S. dollar. Axtel's indebtedness and part of its accounts payable are stated in U.S. dollars, which means that it is exposed to the risk of variations in the exchange rate.

The Company's interest expense on the dollar debt, stated in Mexican pesos in the Axtel consolidated financial statements, varies with the movements in the exchange rate. Depreciation of the peso gives rise to increases in the interest expense recorded in pesos.

The Company records exchange gains or losses when the Mexican peso appreciates or depreciates against the U.S. dollar. Due to the fact that the Company's monetary liabilities denominated in dollars have exceeded (and are expected to continue exceeding) Axtel's monetary assets stated in that same currency, depreciation of the Mexican peso to the U.S. dollar will give rise to exchange losses.

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of its subsidiaries, translated to thousands of Mexican pesos at the closing exchange rate as of December 31, 2018:

	USD (translated to thousands of MXP)
Financial assets	$855,005
Financial liabilities	(12,422,016)
Foreign exchange monetary position	$(11,567,011)

During 2018 and 2017, Axtel contracted several derivative financial instruments, mainly forwards, to hedge this risk. These derivatives have been designated at fair value with changes through profit or loss for accounting purposes as explained in the next section of this note.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD exchange rate and keeping all other variables constant, would result in an effect of $1,156,701 on the consolidated statement of income and shareholders' equity.

Financial instruments and derivative financial instruments

Financial instruments

As of December 31, 2018 and 2017, the Company has entered into Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML) and Corporativo GBM, S. A. B. de C. V. (GBM) denominated "Zero Strike Call" or options, at a price closely resembling zero. The asset underlying these instruments is the market value of Axtel's CPOs. The contracts signed prior to October 2016 can only be settled in cash. As from that date, the term of the contracts yet to be settled was extended and as a result of this negotiation, the settlement method can be in cash or in shares, as decided by the Company. The original term of these contracts is 6 months and can be extended by mutual agreement between the parties; however, as this is an American type option, the Company can exercise it at any given time prior to the date of maturity.

According to the contracts, in case of deciding for payment in cash, the amount to be settled will be calculated as per the following formula: Number of options per option right per (reference price - exercise price).

Where:
Number of options = defined in the contract

Right of option = defined as 1 “share” per option, defining “share” as Bloomberg Code AxtelCPO MM.

Reference price = “The price per share that GBM receives upon settling the position of the hedges thereof, under commercially reasonable terms, discounting commissions and taxes”.

Exercise price = 0.000001 pesos

The Company determined the classification and measurement of these contracts as financial assets at fair value with changes through profit or loss.

As of December 31, 2018 and 2017, the lending position of the options represents the maximum amount of its credit exposure, as showed below:

Counterparty	**Notional amount**	**Agreement beginning date**	**Type of underlying asset**	**Fair value**	
				2018	**2017**
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO’s Axtel	$90,243	$114,854
Corporativo GBM, S.A.B. de C. V.	13,074,982	2015 y 2014	CPO’s Axtel	38,832	49,424
				$129,075	**$164,278**

For the year ended December 31, 2018, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of $35,202 (unrealized loss of $11,300 for the year ended December 31, 2017), recognized in the consolidated statement of income within financial income and expenses.

Derivative financial instruments

Beginning on January 1, 2018, the Company designated its derivative financial instruments contracted during the year as cash flow accounting hedges. As of December 31, 2018, the Company maintained the following derivative financial instruments:

a. Interest Rate Swap (IRS) with the purpose of mitigating risks associated with the variability of its interest rates. The Company maintains interest-bearing liabilities at variable rates, which is why it is exposed to the variability of the reference interest rate (TIIE). Therefore, the Company entered into an IRS and hedged the interest payments associated with two debt instruments; the conditions of the derivative financial instrument and the considerations of its valuation as a hedging instrument are mentioned below:

Characteristics	**Swap Interest Rate**
Currency	MXN
Notional	$3,380,000
Coupon	TIIE28
Coupon	8.355%
Maturity	15-diciembre-2022
Swap book value	$ 23,591
Change in the fair value of the swap to measure ineffectiveness	$ 24,477
Reclassification from OCI to income	$214
Recognized in OCI net of reclassifications	$(23,804)
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$(25,031)

For accounting purposes, the Company has designated the IRS described above as a cash flow hedge to mitigate interest rate volatility of two financial liabilities, formally documenting the relationship, establishing the objectives, management's strategy to hedge the risk, the hedging instrument identified, the hedged item, the nature of the risk to be hedged and the methodology of used to evaluate the hedge effectiveness.

As of December 31, 2018, the results of the effectiveness of this hedge confirms that the hedge relationship is highly effective, given that the changes in the fair value and cash flows of the hedged item are compensated in the range of effectiveness established by the Company. The prospective effectiveness test resulted in 99%, confirming that there is an economic relationship between the hedging instruments and the hedged instrument. The method used by the Company is to offset cash flows using a hypothetical derivative, which consists of comparing the changes in the fair value of the hedging instrument with the changes in the fair value of the hypothetical derivative that would result in a perfect coverage of the covered item.

According to the amount described and the way in which the derivative cash flows are exchanged, for this hedging strategy, the average hedge ratio is 95%. In this hedge relationship, the source of ineffectiveness is mainly credit risk.

b.Forwards of accounting hedge with the objective of covering the exposure to the USD / MXN exchange rate variability.

As of December 31, 2017, the Company held forward contracts to hedge the exchange risk of the fluctuation of the dollar with respect to the Mexican peso. The fair value of these derivative financial instruments, classified for trading, was of $61,913.

Because the Company has the Mexican peso (MXN) as the functional currency and maintains obligations in USD, it is exposed to foreign exchange risk. Therefore, it has designated forward contracts as accounting hedges, where the hedged item is represented by obligations in USD and by the exchange fluctuation of the bond; the conditions of the derivative financial instruments and the considerations of their valuation as hedging instruments are mentioned below:

Characteristics	**Forwards**
Total notional	US$93,868
Currency	USD
Average strike	20.54 MXN/USD
Maturity	Enero-julio 2019
Forward's book value	$(39,258)
Change in the fair value of the forwards to measure ineffectiveness	$(39,258)
Reclassification from OCI to income	$ 4,316
Recognized in OCI net of reclassifications	$35,762
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$39,258

In measuring of the effectiveness of these hedges, the Company determined that they are highly effective because the changes in the fair value and cash flows of each hedged item are compensated within the range of effectiveness established by management. The prospective effectiveness test for the USD / MXN exchange rate ratio resulted in 100%, confirming that there is an economic relationship between the hedging instruments and the instruments hedged. In addition, both the credit profile of the Company and the counterparty are good and are not expected to change in the medium term; therefore, the credit risk component is not considered to dominate the hedging relationship. The method that was used to evaluate the effectiveness is through a qualitative evaluation comparing the critical terms between the hedging instrument and the hedged instrument.

According to the notional amounts described and the way in which the flows of the derivatives are exchanged, the average coverage ratio for the USD / MXN exchange rate ratio is 46%. If necessary, a rebalancing will be done to maintain this relationship for the strategy.

The source of ineffectiveness can be mainly caused by the difference in the settlement date of the hedging instruments and the hedged items, and that the budget becomes less than the hedging instruments. For the year ended December 31, 2018 and 2017, no ineffectiveness was recognized in gain or loss.

(ii). Interest rate and cash flow risk

The Company's interest rate risk arises from long-term loans. Loans at variable rates expose the Company to interest rate risks in cash flows that are partially offset by cash held at variable rates. Loans at fixed rates expose the Company to interest rate risk at fair value.

As of December 31, 2018, 33% of Axtel's total debt generates variable interest rates while the remaining 67% generates fixed interest rates.

The Company analyzes its exposure to interest rate risk on a dynamic basis. Several scenarios are simulated, taking into account the refinancing, renewal of existing positions, financing and alternative coverage. Based on these scenarios, the Company calculates the impact on the annual result of a change in the interest rate defined for each simulation, using the same change in the interest rate for all currencies. The scenarios are produced only for liabilities that represent the main positions that generate the highest interest.

Axtel's results and cash flows can be impacted if additional financing is required in the future when interest rates are high in relation to the Company's current conditions.

As of December 31, 2018, if the interest rates on variable rate loans were increased or decreased by 100 basis points, the interest expense would affect the results and stockholders' equity by $51,335 and $(51,335), respectively.

Credit risk

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

Account receivables

The Company evaluates and aggregates groups of clients that share a credit risk profile, in accordance with the service channel in which they operate, in line with business management and internal risk management.

The Company is responsible for managing and analyzing the credit risk for each of its new customers prior to establishing the terms and conditions of payment to offer. Credit risk arises from exposure of credit to customers, including accounts receivable. If there is no independent rating in place, the Company evaluates the credit risk pertaining to its customers, taking into account the financial position, past experience and other factors such as historical lows, net recoveries and an analysis of accounts receivable balances aging with reserves that are usually increased to the extent the accounts receivable increases in age. The credit risk concentration is moderate due to the number of unrelated clients.

Axtel determines its allowance for impairment of accounts receivable taking into account the probability of recovery, based on past experiences, as well as current collection trends and overall economic factors. Accounts receivable are entirely reserved when there are specific collection problems; based on past experience. Moreover, collection problems such as bankruptcy or catastrophes are also taken into account.

Accounts receivable are analyzed monthly, and the allowance for impairment of accounts receivable is adjusted in profit or loss.

Additionally, the Company performs a qualitative evaluation of economic projections, in order to determine the possible impact on probabilities of default and the recovery rate assigned to its customers. Finally, in the evaluation of the derecognition of an account receivable, the Company evaluates whether there is any current expectation of recovery of the asset, before proceeding to execute the corresponding derecognition.

During the year ended December 31, 2018, there have been no changes in estimation techniques or assumptions.

Axtel conducts an economic evaluation of the efforts necessary to initiate legal proceedings for the recovery of past-due balances.

Other than Companies A and B, which are the Company's main customers, the Company has no significant exposure to credit risk involving a single customer or group of customers with similar characteristics. A group of customers is considered to have similar characteristics when they are related parties. The credit risk concentration of companies A and B must not exceed 20% of the gross amount of financial assets at any given moment during the year. The credit risk concentration of any other customer must not exceed 5% of the gross amount of monetary assets at any given moment during the year.

Company A accounts for 1% and 1% of the Company's total accounts receivable as of December 31, 2018 and 2017, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2018 and 2017 was 6% and 6%, respectively.

Company B accounts for 6% and 2% of the Company's total accounts receivable as of December 31, 2018 and 2017, respectively. Additionally, revenues related to Company B for the years ended December 31, 2018 and 2017 was 8% and 7%, respectively.

As of December 31, 2018 and 2017, the allowance for impairment totaled $2,172,343 and $2,089,484 respectively. Axtel considers this allowance to be sufficient to cover for the probable loss of accounts receivable; however, it cannot ensure that it will not need to be increased.

Investments

The Company's policies for managing cash and temporary cash investments are conservative, which allows for minimizing risk in this type of financial asset, taking into account also that operations are only conducted with financial institutions with high credit ratings.

The Company's maximum exposure to credit risk is equivalent to the total carrying amount of its financial assets.

Liquidity risk

The Company's finance department continuously monitors the cash flows' projections and the Company's liquidity requirements, ensuring that cash and investments in marketable securities are sufficient to meet operating needs.

The Company regularly monitors and makes its decisions based on not violating its limits or covenants established in its debt contracts. Projections consider the Company's financing plans, compliance with covenants, compliance with minimum internal liquidity ratios and legal or regulatory requirements.

Management's responsibility with respect to liquidity risk corresponds to the Company's board of directors, which has established a general framework for proper handling of liquidity risk in the short, medium and long term. The Company manages liquidity risks, maintaining a proper level of reserves, use of credit lines from banks, and is vigilant of real and projected cash flows.

The following table includes the Company's derivative and non-derivative financial liabilities grouped according to maturity from the reporting date to the contractual maturity date.

Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the terms of the Company's cash flows.

The figures shown in the chart are the non-discounted contractual cash flows.

	Less than 1 year	**Between 1 and 5 years**	**More than 5 years**
December 31, 2018			
Current debt	$123,847	$ -	$ -
Trade payable, related parties and creditors	7,938,944	-	-
Derivative financial instruments	39,258	-	-
Non-current debt	-	2,275,469	12,699,510
Finance leases	341,981	398,133	-
Non-accrued interest payable	1,222,225	4,410,428	1,629,496

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

Fair value hierarchy

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

- Level 1: Quoted prices for identical instruments in active markets.

- Level 2: Other valuations including quoted prices for similar instruments in active markets, which are directly or indirectly observable.

- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The following table presents the Company's assets and liabilities that are measured at fair value as of December 31, 2018 and 2017:

As of December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets:				
Zero strike calls	$129,075	$ -	$ -	$129,075
Forwards	-	(39,258)	-	(39,258)
Interest rate swap	-	23,591	-	23,591
	$129,075	**$(15,667)**	**$ -**	**$113,408**

As of December 31, 2017

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

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

The specific valuation techniques used to value financial instruments include:

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

5. Critical accounting estimates and significant judgments

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

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

a. Long-lived assets

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

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired. To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenditures and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

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

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

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

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

- Long-term growth rates.

c. Recoverability of deferred tax assets

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

d. Commitments and contingencies

The Company exercises its judgment in measuring and recognizing provisions and the exposures to contingent liabilities related to pending litigation or other pending claims subject to negotiation for liquidation, mediation, arbitrage or government regulation, as well as other contingent liabilities. The Company applies its judgment to evaluate the probability that a pending claim is effective, or results in recognition of a liability, and to quantify the possible range of the liquidation. Due to the uncertainty inherent to this evaluation process, actual losses could differ from the provision originally estimated.

Contingencies are recorded as provisions when a liability has probably been incurred and the amount of the loss can be reasonably estimated. It is not practical to conduct an estimate regarding the sensitivity to potential losses, of all other assumptions have been made to record these provisions, due to the number of underlying assumptions and to the range of reasonable results possible, in connection with the potential actions of third parties, such as regulators, both in terms of probability of loss and estimates of said loss.

e. Default probability and recovery rate to apply the expected credit losses model in the impairment measurement of financial assets

The Company assigns to customers with whom it has an account receivable at each reporting date, either individually or as a group, an allowance for the probability of default in the account receivable and the estimated recovery rate, in order to reflect the cash flows expected to be received from the outstanding balances as of that date.

6. Cash and cash equivalents

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

	2018	**2017**
Cash on hand and in banks	$488,987	$550,408
Short-term investments	1,760,168	707,395
Total cash and cash equivalents	**$2,249,155**	**$1,257,803**

7. Restricted cash

Alestra filed a complaint with the Federal Telecommunications Institute (IFT from Spanish) in connection with a dispute on the resale interconnection rates established between Alestra and Telmex and Teléfonos del Norte (“Telnor”, a subsidiary of Telmex).

The restricted cash as of December 31, 2018 and 2017 of $93,908 and $161,955, respectively, represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position under non-current assets.

On May 10, 2018, Alestra was granted a favorable ruling and the withdrawal of the amounts contributed to the trust obtaining the proceeds of $59,005 and $19,874 in November 2018, which were recognized in the income statement.

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2018	2017
Current:	$4,832,433	$4,769,317
Trade accounts receivable	(2,172,343)	(2,089,484)
Allowance for impairment of accounts receivable (1)	2,660,090	2,679,833
Trade accounts receivable, net	685,748	691,665
Recoverable taxes	192,938	140,902
Notes and other accounts receivable	55,105	31,702
Related parties	**$3,593,881**	**$3,544,102**

(1) Movements of the allowance for impairment of accounts receivables are as follows:

	2018	2017
Initial balance	$2,089,484	$1,920,753
Write-off of doubtful accounts	(31,348)	(66,614)
Allowance for doubtful accounts for the year	114,207	235,34
		5
Ending balance	**$2,172,343**	**$2,089,484**

The increases in the allowance in 2018 for $114,207 are mainly due to the increase in the probability of default assigned to certain customers with respect to the beginning of the year, in which the new methodology for impairment of financial assets was applied. In addition, they consider the reversals of impairment that arise when an account receivable, which had previously been impaired, becomes recoverable because the customer settled the outstanding balance.

On the other hand, the write-offs of uncollectible accounts represent the losses of the balances that are considered non-recoverable in their entirety, without this implying an effect on the period results.

Finally, the Company does not have any type of guarantee or collateral that mitigates the exposure to credit risk of financial assets.

9. Inventories

As of December 31, 2018 and 2017, inventories of $104,802 and $188,885, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $161,390 and $199,930 for 2018 and 2017, respectively. As of December 31, 2018 and 2017, there were no inventories pledged as collateral.

10. Property, plant and equipment

	Depreciable assets					Non-depreciable assets			
	Buildings	Telecommunications network	Office equipment	Computers	Vehicles	Leasehold improvements	Land	Investments in process	Total
For the year ended December 31, 2017									
Net opening balance	$967,569	$13,536,478	$ 75,654	$2,390,181	$43,514	$104,629	$481,642	$2,019,784	$19,619,451
Translation effect	-	1,447	-	-	-	-	-	-	1,447
Additions	-	78,312	105	4,656	6,538	164	-	3,121,041	3,210,816
Transfers	115,194	4,337,789	48,997	(1,823,961)	364	13,054	263	(2,691,700)	-
Disposals	-	(12,928)	(184)	(1,203)	(1,465)	(331)	-	(2,057)	(18,168)
Depreciation charge recognized in the year	(27,594)	(3,263,680)	(23,692)	(181,066)	(17,050)	(24,654)	-	-	(3,537,736)
Ending balance	**$1,055,169**	**$14,677,418**	**$100,880**	**$388,607**	**$31,901**	**$92,862**	**$481,905**	**$2,447,068**	**$19,275,810**
As of December 31, 2017									
Cost	$1,428,354	$55,801,809	$517,212	$4,925,324	$389,638	$607,992	$481,905	$2,447,068	$66,599,302
Accumulated depreciation	(373,185)	(41,124,391)	(416,332)	(4,536,717)	(357,737)	(515,130)	-	-	(47,323,492)
Net carrying amount as of December 31, 2018	**$1,055,169**	**$14,677,418**	**$100,880**	**$388,607**	**$31,901**	**$92,862**	**$481,905**	**$2,447,068**	**$19,275,810**
Net carrying amount as of December 31, 2018									
Net opening balance	$1,055,169	$14,677,418	$100,880	$388,607	$31,901	$92,862	$481,905	$2,447,068	$19,275,810
Translation effect	-	(143)	-	-	-	-	-	-	(143)
Additions	-	173,668	90	3,284	2,740	13	-	2,371,685	2,551,480
Transfers	29,319	3,459,853	15,809	133,509	3,147	27,232	-	(3,668,869)	-
Transfers held for sale	-	(300,307)	(49)	(1,188)	(344)	(102)	-	(5,845)	(307,835)
Disposals	-	(1,432,324)	(1,376)	(3,950)	(1,290)	(572)	-	(74,201)	(1,513,713)
Depreciation charges recognized in the year	(28,305)	(3,604,028)	(21,878)	(207,955)	(15,160)	(22,749)	-	-	(3,900,075)
Ending balance	**$1,056,183**	**$12,974,137**	**$93,476**	**$312,307**	**$20,994**	**$96,684**	**$481,905**	**$1,069,838**	**$16,105,524**
As of December 31, 2018									
Cost	$1,458,435	$53,888,456	$519,966	$4,961,739	$192,885	$630,384	$481,905	$1,069,838	$63,203,608
Accumulated depreciation	(402,252)	(40,914,319)	(426,490)	(4,649,432)	(171,891)	(533,700)	-	-	(47,098,084)
Net carrying amount as of December 31, 2018	**$1,056,183**	**$12,974,137**	**$93,476**	**$312,307**	**$20,994**	**$96,684**	**$481,905**	**$1,069,838**	**$16,105,524**

Of the total depreciation expense, $2,896,444 and $2,728,105 were charged to cost of sales, $157,938 and $128,918 to selling and administrative expenses, $845,693 and $680,712 in discontinued operations in 2018 and 2017, respectively.

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

For the years ended December 31, 2018 and 2017, the Company capitalized $27,216 and $29,377, respectively, of borrowing costs related to qualifying assets of $495,455 and $1,045,667, respectively. These amounts were capitalized based on an interest rate of 8.98% and 7.27%, respectively.

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

	2018	2017
Costo – arrendamientos financieros	$982,307	$1,578,543
Depreciación acumulada	(255,060)	(919,710)
Valor en libros, neto	**$727,247**	**$658,833**

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

11. Goodwill and intangible assets

	Definite life						Indefinite life	
	Conces-sions	Trade-marks	Relations-hips with customers	Non-compete agreements	Software and licenses	Other	Goodwill	Total
Saldo inicial al 1 de enero de 2017	**$83,278**	**$64,116**	**$64,116**	**$590,742**	**$293,502**	**$113,636**	**$488,232**	**$1,838,727**
Additions	-	-	-	-	91,083	4,861	-	95,944
Disposal	-	-	-	-	-	(1,163)	-	(1,163)
Transfers	(2,357)	-	-	-	110,127	78,093	(68,696)	71,107
Amortization charges recognized in the year	(44,582)	(15,196)	(15,196)	(265,055)	(115,876)	(45,649)	-	(496,103)
Ending balance as of December 31, 2017	**$36,339**	**$48,920**	**$48,920**	**$325,687**	**$378,836**	**$149,778**	**$419,536**	**$1,508,512**
Cost	$797,142	$258,905	$258,905	$809,793	$1,523,867	$483,892	$419,536	$4,809,735
Accumulated amortization	(760,803)	(209,985)	(209,985)	(484,106)	(1,145,031)	(334,114)	-	(3,301,223)
Ending balance as of December 31, 2017	**$36,339**	**$48,920**	**$48,920**	**$325,687**	**$378,836**	**$149,778**	**$419,536**	**$1,508,512**
Saldo inicial al 1 de enero de 2018	**$36,339**	**$48,920**	**$48,920**	**$325,687**	**$378,836**	**$149,778**	**$419,536**	**$1,508,512**
Additions	-	-	-	-	228,145	237,062	-	465,207
Transfers	-	-	-	-	(572)	(572)	-	-
Amortization charges recognized in the year	(29,131)	(15,196)	(15,196)	(265,055)	(158,791)	(80,919)	-	(568,332)
Ending balance as of December 31, 2018	**$7,208**	**$33,724**	**$33,724**	**$60,632**	**$447,618**	**$306,493**	**$419,536**	**$1,405,387**
Cost	$797,142	$258,904	$258,904	$809,793	$1,751,440	$709,484	$419,536	$5,262,899
Accumulated amortization	(789,934)	(225,180)	(225,180)	(749,161)	(1,303,822)	(402,991)	-	(3,857,512)
Ending balance as of December 31, 2018	**$7,208**	**$33,724**	**$33,724**	**$60,632**	**$447,618**	**$306,493**	**$419,536**	**$1,405,387**

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

Of the total amortization expense, $37,417 and $52,350 were charged to cost of sales, $530,915 and $443,753 to selling and administrative expenses in 2018 and 2017, respectively.

Company concessions

Its concessions allow the Company to provide local basic telephone service; national long-distance service, the purchase or rent of network capacity for the generation, transmission or reception of data, signals, text, script, images, voice, sound and any other type of information; rent of digital circuits; restricted TV and audio service.

The Company's principal concessions are as follows:

Service	Use	Period	Maturity
Sole concession of telecommunications and/or radio broadcasting(2)	Commercial	30 years	2046
Data transmission via satellite(2)	Commercial	30 years	2042
Local, national and international long-distance service(2)	Commercial	30 years	2026
Point-to-multipoint microwave connection(2)	Commercial	20 years	2038
Fixed to mobile wireless access(2)	Commercial	20 years	2038
Local, national and international long-distance service(1) (2)	Commercial	30 years	2025
Basic local telephone service(1) (2)	Commercial	30 years	2029
Frequency band pertaining to radio-electric spectrum(3)	Commercial	20 years	2038
Frequencies pertaining to radio-electric spectrum(3)	Commercial	20 years	2038

(1)Concessions granted to Avantel.

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

Concessions in renovation process:

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

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

In this regard, the Company expects the concessions to be extended, for which the IFT will require payment in advance of the corresponding consideration, which will be set taking into account, among other criteria, the bandwidth of the frequencies of the radio-electric spectrum under concession, the geographic coverage of the concession and the services that can be provide in said bands.

The Company must comply with the new conditions issued in this regard by the IFT. The current conditions are:

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

ii. Complying with the licensee's obligations in the terms of the Federal Telecommunications and Radio Broadcasting Law (LFTR from Spanish) and other applicable regulations, and the concession title;

iii. Acceptance, by the Concession holder, of the new conditions for renewal thereof, as per the provisions of the IFT.

To date, the IFT has established no amount for the corresponding compensation, and has not yet determined the aforementioned conditions to be met.

From 2013 to date, the Company has submitted a request to the IFT to extend the concessions for the use and exploitation of frequency bands pertaining to the radio-electric spectrum. In the event said concessions are renewed, this will not be considered an additional period in the amortization of prior concessions.

It should be mentioned that this situation is not particular to the Company, but rather, of all licensees having obtained a concession for the use and exploitation of frequency bands pertaining to the radio-electric spectrum in 1998, 1999 and 2000.

Telecommunications network capacity consists of the right to use fiber optics, contracted with a private party on December 10, 2012 for a 10-year period.

Impairment testing of goodwill

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

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

Impairment sensitivity analysis for goodwill and intangibles

As of December 31, 2018, the Company carries out a sensitivity analysis on the impact of a possible increase of one percentage point in the discount rate and a decrease in the long-term growth rate, and no impairment loss resulted from this sensitivity analysis.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2018 and 2017:

	2018	2017
Discount rate, after tax	10.5%	10.1%
Long-term growth rate	3.9%	4.9%

12. Other non-current assets

	2018	2017
Investments of shares	$294,535	$139,427
Prepaid connection leases	34,000	40,637
Guarantee deposits	83,850	65,881
Prepaid maintenance	220,150	-
Other	83,752	111,128
Total other non-current assets	**$716,287**	**$357,073**

13. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2018	2017
Current:		
Trade accounts payable	$3,547,032	$3,881,152
Related parties	1,865,881	1,023,866
Value added tax and other federal and local taxes payable	1,556,036	834,820
Accrued expenses payable	186,116	179,289
Other	268,913	176,597
	$7,423,978	$6,095,724
Non-current:		
Related parties	**$4,033**	**$ 713,602**

14. Provisions

	Litigation	Restructuring(1)	Total
As of January 1, 2017	$50,620	$79,027	$129,647
Additions	18,391	99,517	117,908
Payments	(50,620)	(79,027)	(129,647)
As of December 31, 2017	**$18,391**	**$99,517**	**$117,908**
Additions	6,238	288,755	294,993
Payments	(1,000)	(99,517)	(100,517)
Al 31 de diciembre de 2018	$23,629	$288,755	$312,384

(1) Provisions due to restructuring include indemnities to obtain operational efficiencies.

Provisions as of December 31, 2018 and 2017 are short-term.

15. Deferred income

Deferred income movements during the year are shown as follows:

	2018	2017
Beginning balance	$312,121	$1,022,605
Increases	1,308,057	435,109
Recognized income of the year	(1,083,726)	(1,145,593)
Ending balance	**$536,452**	**$312,121**

16. Debt

	2018	2017
Banco Nacional de Comercio Exterior, S.N.C	$3,263,529	$3,562,240
Syndicated loan	1,570,000	6,108,670
Senior Notes (3)	9,841,450	9,867,700
Export Development Canada (EDC)	300,000	-
BBVA Bancomer, S. A. de C. V.	-	300,000
Finance lease with Telmex (1) (3)	-	266,530
Other finance leases (2) (3)	740,113	369,982
Accrued interest payable	123,847	145,681
Issuance costs	(216,193)	(198,133)
Total debt	15,622,746	20,422,670
Current portion of debt	(465,828)	(1,378,934)
Non-current debt	**$15,156,918**	**$19,043,736**

(1) Indefeasible Right of Use (IRU) lease entered into with Teléfonos de México, S. A. B. de C. V. for an approximate amount of $708,041 which was canceled in October 2018

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

(3) Non-bank borrowings.

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

	Country	Currency	Interest rate Contractual	Interest rate Effective	Maturity date	Interest payment periodicity	2018	2017
Bancomext	Mexico	USD	Libor + 3%	-	17/01/2024	Quarterly	$ -	$3,356,004
Bancomext (1)	Mexico	MXP	TIIE + 2.10%	10.34%	30/08/2028	Quarterly	3,263,529	-
Syndicated loan	Mexico	MXP	TIIE + 2.75%	11.04%	15/12/2022	Monthly	1,570,000	5,708,670
Senior Notes	International	USD	6.38%	6.64%	14/11/2024	Semi-annually	9,841,450	9,867,700
EDC	Canada	MXP	TIIE + 1.19%	10.51%	01/06/2021	Monthly	300,000	-
Total bank loans							14,974,979	18,932,374
Debt issuance costs							(216,193)	(198,133)
Finance leases and other							398,132	309,495
Total non-current debt							15,156,918	19,043,736
Current maturities of financial leases and others							465,828	1,378,934
Total Debt							**$15,622,746**	**$20,422,670**

(1) Debt restructuring agreement to exchange the original debt of US$171,000 to a new debt of $3,263,000. See Note 2d.

As of December 31, 2018, annual maturities of non-current debt are as follows:

	2020	2021	2022	2023 onwards	Total
Bank loans	$19,778	$389,005	$1,698,563	$3,026,182	$5,133,528
Senior Notes	-	-	-	9,841,450	9,841,450
Financel leases	232,445	79,204	54,044	32,440	398,133
	$252,223	**$468,209**	**$1,752,607**	**$12,900,072**	**$15,373,111**

Issuance costs of debentures and financings are directly attributable to issuance of the Company's debt and are amortized according to the effective interest rate over the lifetime of the debt.

As of December 31, 2018, the Company has unused contractual credit lines of US$34,758 ($684,145) and $7,000.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2018 and 2017 were determined using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was acquired, regarding financial liabilities with financial institutions, finance leases, other liabilities and related parties. In the case of Senior Notes placed in international markets, the Company uses the market price of such Notes at the date of the consolidated financial statements. Measurement at fair value of such financial liabilities valued at amortized cost is deemed within Level 1 and 2 of the fair value hierarchy.

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

Minimum future payments of finance leases, including non-accrued interest	2018	2017
- Less than 1 year	$380,669	$360,570
- Over 1 year and less than 5 years	433,336	327,296
Non-accrued interest of finance leases	(73,892)	(51,354)
Present value of finance lease liabilities	**$740,113**	**$636,512**

The present value of finance lease liabilities is as follows:

	2018	2017
Less than 1 year	$341,980	$327,017
Over 1 year and less than 5 years	398,133	309,495
	$740,113	**$636,512**

Covenants:

Loan and debt issuance agreements currently in effect contain restrictions for the Company, mainly to comply with certain financial ratios, delivery of financial information, keeping accounting records, compliance with applicable laws, rules and provisions. Failure to comply with these requirements within a specific term to the satisfaction of the creditors could be considered a cause for early termination.

Financial ratios to be fulfilled include the following:

a. a. Interest coverage ratio: which is defined as adjusted EBITDA (see Note 28) divided by financial expenses for the last four quarters of the period analyzed. This factor cannot be less than 2.75 times from the execution date of the contract until the second quarter of 2019 and cannot be less than 3.0 times from there on.

b. Leverage ratio: which is defined as net consolidated debt (current and non-current debt, net of debt issuance costs, less unrestricted cash and cash equivalents) divided by adjusted EBITDA (see Note 28) for each quarter.
As of December 31, 2017 and until December 31, 2018, this factor cannot exceed 4.25 times. For each quarter of 2019, this factor cannot exceed 4.00 times; from the first quarter of 2020 and from there on this factor cannot exceed 3.50 times.

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

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

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

As of December 31, 2018 and as of the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with the covenants established in the credit agreements.

17. Employee benefits

Defined contributions plans:

The Company has a defined contribution plan. According to the structure of this plan, the reduction on labor liabilities is reflected progressively. The Company has established irrevocable trust funds for payment of the defined contribution plan. Due to the changes made in the 2014 tax reform, the Company interrupted the deposits to the trust; however, it has maintained this benefit and recognized labor obligations of $246,145 and $242,207 as of December 31, 2018 and 2017, respectively.

Defined benefit plans:

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

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

	2018	**2017**
Obligations in the consolidated statement of financial position:		
Pension benefits	$341,510	$340,821
Post-employment medical benefits	4,382	5,668
Defined contribution additional liability	246,145	242,207
Liability recognized in the consolidated statement of financial position	**$592,037**	**$588,696**
Charge in the consolidated statement of income for:		
Pension benefits	$49,936	$46,757
Medical benefits to retirement	502	454
	$50,438	$47,211
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	**$60,405**	**$10,859**

Pension and post-employment medical benefits

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

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

	2018	2017
Present value of obligations equal to the liability in the consolidated statement of financial position	**$592,037**	**$588,696**

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

	2018	2017
As of January 1	$346,489	$306,919
Current service cost	25,489	24,063
Financial cost	24,949	23,148
Remeasurements:		
Loss from changes in financial assumptions	(60,405)	10,859
Past service cost	28,018	5,168
Benefits paid	(7,241)	(23,016)
Reductions	(11,407)	(652)
As of December 31	**$345,892**	**$346,489**

The primary actuarial assumptions were as follows:

	2018	2017
Discount rate	9.50%	7.25%
Future wage increase	4.50%	4.50%
Medical inflation rate	6.50%	6.50%

The sensitivity analysis of the main assumptions for defined benefit obligations were as follows:

		Impact on defined benefit obligations	
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.0%	$(19,214)	$21,906
Medical inflation rate	1.0%	$(5,129)	$3,771

The above-mentioned sensitivity analyses are based on a change in an assumption, while all other assumptions remain constant. In practice, this is not likely to happen, and there may be changes in other correlated assumptions. When calculating the sensitivity of pension plans to principal actuarial assumptions, the same method has been used as if it involved calculation of liabilities pertaining to pension benefit plans recorded in the consolidated statement of financial position. The methods and type of assumptions used in preparing the sensitivity analysis suffered no changes with respect to the prior period.

18. Income taxes

a) Income taxes recognized in the consolidated statement of income:

	2018	**2017**
Current income tax	$(65,148)	$(75,827)
Deferred income tax	33,815	(171,709)
Prior years' adjustment	(6,005)	(40,008)
Income tax (expense)	**$(37,338)**	**$(287,544)**

b)The reconciliation between the statutory and the effective income tax rates was as follows:

	2018	**2017**
(Loss) income before taxes	$(969,323)	$20,854
Statutory rate	30%	30%
Taxes at statutory rate	290,797	(6,256)
(Plus) less tax effect on:		
Tax effects of inflation	207,404	95,431
Non-deductibles	(593,250)	(268,136)
Other differences, net	57,711	(108,583)
Total income tax charged to income	$(37,338)	$(287,544)
Effective rate	4%	1378%

c) The detail of deferred income tax asset (liability) is as follows:

	2018	**2017**
Tax loss carryforwards	$1,420,015	$2,940,991
Allowance for doubtful accounts	602,503	573,271
Property, plant and equipment	463,368	392,463
Provisions and other	363,087	219,427
Long-term debt	-	(546,735)
Intangible assets and other	24,102	168,294
Deferred tax asset	$2,873,075	$3,747,711
Property, plant and equipment	$(3,753)	$(4,433)
Intangible assets and other	(254)	(6,215)
Deferred tax liability	**$(4,007)**	**$(10,648)**

Deferred income tax assets are recognized over tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is likely. Tax losses as of December 31, 2018 for which a tax asset was recognized amount to $4,733,382. The Company reduced tax losses by $278,958 as their realization was not considered probable.

Tax losses as of December 31, 2018 expire in the following years:

Year of expiration	Amount
2021	$415,670
2022	70,088
2023	139,803
2024 y posteriores	4,386,779
	$5,012,340

d) The tax charge/(credit) related to other comprehensive income is as follows:

		2018			2017	
	Before taxes	Tax charged (credited)	After taxes	Before taxes	Tax charged (credited)	After taxes
Effect of currency translation	$(86)	$ -	$(86)	$(1,212)	-	$(1,212)
Derivative financial instruments of hedging	(11,958)	3,588	(8,370)	-	-	-
Remeasurements of employee benefits	60,403	(18,123)	42,280	(10,859)	3,257	(7,602)
	$48,359	$(14,535)	$33,824	$(12,071)	3,257	$(8,814)

19. Shareholders' equity

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

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

After the above-mentioned events, the Company's capital stock as of December 31, 2017 was $464,368 and was comprised of 20,249,227,481 Class "I", Series "B" common nominative shares, with no par value, entirely subscribed and paid in. As of that date, all series "B" shares issued by the Company were placed in a trust (CPO Trust).

Movements on the number of common shares of the Company during the year was as follows:

	Number of shares
Beginning balance January 1, 2017	19,229,939,531
Share issued to Alfa	1,019,287,950
Ending balance December 31,2017	20,249,227,481
Movements of the year	-
Beginning and ending balance	**20,249,227,481**

Net income for the year is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the capital stock.

In accordance with the new Mexican Income Tax Law effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individual tax payers, when these correspond to taxable income generated starting 2014. It also establishes that for fiscal years 2001 to 2013, net taxable income will be determined as established in the Income Tax Law that was effective in the corresponding fiscal year.

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN from Spanish). Dividends exceeding CUFIN will generate income tax at the applicable rate of the period in which they are paid. This tax incurred is payable by the Company and may be credited against income tax in the same year or the following two years. Dividends paid from previously taxed profits are not subject to tax withholding or additional tax payments. As of December 31, 2018, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $552,148 and $24,589,638, respectively.

In case of capital reduction, the procedures established by the Income Tax Law provide that any surplus of shareholders' equity be given over the balances of the fiscal accounts of the capital contributed, the same tax treatment applicable to dividends.

20. Discontinued Operations

Masive Segment Disposition

On December 17, 2018, the Company signed a definitive agreement for the divestment of its fiber segment (FTTx) of the mass segment located in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and the municipality of Zapopan, for an amount of $4,713 million pesos to Grupo Televisa SAB and subsidiaries (“Televisa”). Axtel transferred to Televisa 227,802 residential and micro-business customers, 4,432 km of fiber optic network and other assets related to the operation of the mass segment in these cities.

The FTTx business of the mass segment in the rest of the cities where there is a presence that was not included in this transaction will continue to be operated by Axtel. The Company will continue to seek attractive divestment opportunities for this asset.

The divested business subject to the transaction was classified as a discontinued operation because it met the requirements of IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, so the related operations are presented separately in the consolidated statement of income for 2018 and 2017 for comparability purposes.

Condensed information related to the income statement of the discontinued operation for the year ended December 31, 2017 and for the period ended December 17, 2018:

	2018	**2017**
Revenues	$2,772,752	$2,968,989
Cost of sales	1,315,779	1,181,753
Gross profit	1,456,973	1,787,236
Administration and selling expenses	1,240,689	1,316,939
Operating income	216,284	470,297
Financial expenses	-	495
Income before taxes	216,284	469,802
Income taxes	64,885	140,940
Net income	151,399	328,862
Gain on sale of the discontinued operation	1,949,940	-
Income from discontinued operations, net of income taxes	**$2,101,339**	**$328,862**

As of the date of the transaction, the gain on sale of discontinued operations for $1,949,940, net of taxes, was determined by comparing the sale price of $4,712,821, less the net assets sold, transaction costs and tax effects for a total of $2,762,881.

Condensed information regarding the cash flows of the discontinued operation for the year ended December 31, 2017 and for the period ended December 17, 2018:

	2018	**2017**
Cash flows from operating activities	$1,061,978	$1,151,009
Cash flows form investment activities	3,956,544	(541,530)

21. Revenues

a. Income for services:

	2018	2017
Voice	$2,121,360	$2,509,454
Managed networks	4,492,788	4,045,312
Internet data	3,952,352	3,887,237
Administrative applications	270,578	230,344
Hosting	659,147	656,286
System integration	473,323	529,882
Equipment sale	83,571	-
Interest income	5,506	-
Security	353,183	390,899
Cloud services	233,115	186,180
Otros servicios	143,561	108,507
Total	**$12,788,484**	**$12,544,101**

b. Income by geographical areas:

	2018	2017
Mexico	$12,731,680	$12,472,217
Outside Mexico	56,804	71,884
Total	**$12,788,484**	**$12,544,101**

22. Expenses classified by their nature

Total cost of sales and selling and administrative expenses, classified by nature of the expense, were as follows:

	2018	2017
Service cost (1)	$3,357,117	$ 3,441,394
Employee benefit expenses (Note 25)	2,452,171	2,420,606
Maintenance	855,109	1,251,948
Depreciation and amortization	3,622,713	3,353,125
Advertising expenses	62,680	71,951
Energy and fuel consumption	336,061	318,468
Travel expenses	53,828	52,387
Operating leases	1,101,378	1,078,018
Technical assistance, professional fees and administrative services	60,688	27,597
Other	398,188	111,548
Total	**$12,299,933**	**$12,127,042**

(1) Service cost consists mainly of interconnection costs and costs related to implementation of IT solutions, including:

- Charges related to leased lines, normally paid on a per-circuit basis per month to Telmex and to other suppliers of last-mile access.

- Interconnection costs, including charges for local and resale access, paid on a per-minute basis mainly to Telmex.
- International payments to foreign operators on a per-minute basis to complete international calls originating in Mexico.

23. Otros ingresos, neto

	2018	2017
Merger expenses (*)	$-	$(312,724)
Disposals of property, plant and equipment due to damage and	(74,574)	(11,724)
obsolescence	226,568	841,437
Gain on sale of property, plant and equipment (**)	54,935	1,309
Other income, net	**$206,929**	**$518,298**

(*) As of December 31, 2017, corresponds mainly to personnel compensation of $191,226 and other merger expenses of $121,498.
(**) As of December 31, 2018 and 2017, corresponds mainly to $224,974 and $840,400 gain on the sale of telecommunication towers to MATC Digital, S. de R. L. de C. V., subsidiary of American Tower Corporation, respectively.

24. Financial result, net

	2018	2017
Financial income:		
Interest income on short-term bank deposits	$41,297	$39,286
Other financial income	10,832	17,412
Total financial income	**$52,129**	**$56,698**
Financial expenses:		
Interest expense on bank loans	$(952,172)	$(1,131,457)
Interest expense on senior notes	(728,052)	(140,408)
Expenses related to other interest and commissions	(437)	(16,094)
Financial expenses related to employee benefits	(24,949)	(26,135)
Other financial expenses	(163,008)	(332,438)
Total financial expenses	**$(1,868,618)**	**$(1,646,532)**
Exchange fluctuation gain, net:		
Gain on exchange fluctuation	$3,334,378	$4,366,749
Loss on exchange fluctuation	(3,147,490)	(3,718,469)
Exchange fluctuation gain, net	**$186,888**	**$648,280**

25. Employee benefit expenses

	2018	2017
Salaries, wages and benefits	$2,010,260	$2,023,916
Social security fees	358,557	310,911
Employee benefits	25,489	24,063
Other fees	57,865	61,716
Total	**$2,452,171**	**$2,420,606**

26. Transactions with related parties

Balances with related parties as of December 31, 2018 and 2017, were as follows:

			December 31, 2018 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$-	$4,924					N/A
Holding company	-	-	$424,561	$5,944	USD	15/07/19	3%
Holding company (1)	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	287,300	56,780	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	40,434	USD	28/02/19	TIIE + 2.25%
Holding company	-	-	219,600	22,752	MXP	28/02/19	TIIE + 2.25%
Affiliates	55,105	9,318	4,033	585	USD		LIBOR 3M +2.75%
Total	**$55,105**	**$14,242**	**$1,631,942**	**$223,709**			

			December 31, 2017 Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$-	$ 2,952					N/A
Holding company	-	-	$413,161	$ 5,678	USD	15/07/18	3%
Holding company (1)	-	-	287,300	27,018	MXP	28/02/18	TIIE + 2.25%
Holding company (1)	-	-	287,300	27,018	MXP	28/02/19	TIIE + 2.25%
Holding company (1)	-	-	204,574	19,238	MXP	28/02/18	TIIE + 2.25%
Holding company (1)	-	-	204,574	19,238	MXP	28/02/19	TIIE + 2.25%
Holding company	-	-	219,600	-	MXP	28/02/19	TIIE + 2.25%
Affiliates	31,702	17,384	2,127	304	USD		LIBOR 3M + 2.75%
Total	**$31,702**	**$20,336**	**$1,618,636**	**$98,494**			

(1) Indemnification (see Note 2)

Transactions with related parties for the years ended December 31, 2018 and 2017, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

Year ended December 31, 2018

	Income	Costs and expenses	
	Telecommunication services	**Interests**	**Others**
Holding company	$-	$(136,976)	$ -
Affiliates	169,445	(281)	(35,695)
Total	$169,445	$(137,257)	$(35,695)

Year ended December 31, 2017

	Income	Costs and expenses	
	Telecommunication services	**Interests**	**Others**
Holding company	$-	$(104,204)	$-
Affiliates	162,792	(81)	(38,320)
Total	$162,792	$(104,285)	$(38,320)

For the year ended December 31, 2018, compensation and benefits paid to the Company's main officers totaled $97,139 ($112,048 in 2017), comprised of base salary and benefits required by law, complemented by a program of variable compensation basically based on the Company's results and the market value of Alfa's shares.

27. Contingencies and commitments

As of December 31, 2018, the following commitments and contingencies exist in relation to Axtel and its subsidiaries:

I. Contingencies

Disagreements related to Interconnection with other mobile operators.

a. Radiomóvil Dipsa, S.A. de C.V. (Telcel).

In January 2018, the Company was notified of two appeal proceedings (one in which Axtel-Avantel are interested third parties and another in Alestra Comunicación) issued by Telcel against the rates issued in 2017 and used in 2018 by the Company IFT in compliance with the judgment of appeal resolved by the Second Chamber of the Supreme Court of Justice of the Nation (SCJN) within file 1100/2015.

The Company and its advisors consider that the rates prevail based on the resolutions obtained in favor of the Company, as the cost in the base to the rates and the provisions of this contingency do not exist.

b. Grupo Telefónica.

In January 2018, the Company was notified of an appeal proceeding (where Axtel-Avantel are the affected party) issued by Telefónica against the rates issued in 2017 and used in 2018 by the IFT, in compliance with the sentence of appeal 1100/2015 resolved by the Second Chamber referred to.

The Company and its advisors consider that the rates prevail based on the resolutions obtained in favor of the Company, as the cost in the base to the rates and the provisions of this contingency do not exist.

Additionally, in June 2018, the Company (where Axtel is the affected third party) was notified of an appeal trial filed by Telefónica against the rates issued in 2017 (as a Virtual Mobile Operator) for the period of 2018 by the IFT.

c. Grupo Iusacell (today AT&T).

In January 2018, the Company was notified (where Axtel is the affected third party) of an appeal trial filed by ATT against the rates issued in 2017 for the period of 2018 by the IFT. A judgment of first instance was issued in favor of the Company.

In this sense, the Company and its advisors consider that the rates will prevail, for which reason they have recognized the base cost on those rates and there are no provisions associated with this contingency.

d. Interconection agreeements with Telmex & Telnor.

i. There is a disagreement between Telmex and Avantel regarding the termination rates for long distance calls that Cofetel resolved in favor of Avantel for 2009, approving a reduction in rates. Telmex challenged this resolution before the Court, which was resolved in favor of the interests of the Company, however, Telmex filed an appeal trial in the second instance, which is in process.

ii. Regarding the lawsuit filed by Telnor, for 2009, a favorable ruling was obtained for Axtel-Avantel, with no contingency to report.

iii. In relation to the lawsuits filed by Telmex-Telnor in the Federal Court of Administrative Justice (TFJA) for rates issued 2010, these have been resolved in favor of the interests of Axtel-Avantel, Alestra, and only the appeal filed is pending by Telmex against the rates determined to Avantel for the same year.

In May 2011, Cofetel also reduced its rates for long distance calls for that year. The resolution of Telmex was filed with the SCT, but that appeal was dismissed. Telemex has challenged before the Federal Court of Administrative Justice, the resolution in favor to the interests of the Company (Axtel-Avantel, Alestra), however, it is pending for Telmex to issue an appeal, against such ruling. On the other hand, the claim filed by Telnor (against Axtel-Avantel) related to rates used for the 2011 period, has obtained final favorable ruling. The claim against Alestra for such period is still in the process of being adjudicated.

iv. With regard to the lawsuit filed for the 2012 period, with Alestra as an affected third party, the matter is pending before the TFJA.

v. There is a trust with BBVA Bancomer (as trustee) to guarantee the payment of the fixed interconnection services on the dispute applicable to 2008. This trust agreement was modified to include the amounts in dispute for 2009 and 2010. In April 2013, Alestra obtained favorable final judgment for 2009 and managed to return the amount deposited in the trust for that year, plus interest, for a total of $ 290.6 million pesos, leaving a balance as of December 31, 2016 of $153.0 million. (See Note 7).

Under the Federal Telecommunications and Broadcasting Law ("LFTR"), from August 13, 2014 through December 31, 2017, the Preponderant Economic Agent (AEP) in the telecommunications sector, Telmex is prohibited from charging the rates of termination interconnection that culminate in its network. Telmex challenged that same condition that was resolved by the Second Chamber of the Supreme Court of Justice of the Nation in the appeals in revision 1306/2017 (Telmex) and 1307/2017 (Telnor), granting the protection to these companies.

The effect of these appeals, is that during the period from August 13, 2014 through December 31, 2018, the "zero" rate prevails, resolving the SCJN that the Federal Telecommunications Institute decides a fee for calls of Telmex / Telnor that end up in the network of another concessionaire in 2019.

vi. In January 2017, the Company was notified of an appeal trial filed by Telmex-Telnor (with Alestra, Axtel-Avantel and Alestra Comunicación as affected third parties) against the rates issued in 2016 for the 2017 period by IFT, which are in the process of being adjudicated.

The Company and its legal advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on these rates and there are no provisions associated with this contingency.

vii. In December 2017, the Company was notified of an appeal proceeding brought by Telmex-Telnor (Axtel-Avantel as an affected third party) against the rates issued in 2017 for the 2016 period by the IFT (in compliance with a judgment of protection).

viii. The Company and its advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on those rates and there are no provisions associated with this contingency.

ix. Additionally, in January 2018, the Company (Axtel-Avantel, Alestra Comunicación, and Axtel as an affected third party) was notified of various appeal lawsuits, against the rates resolved in 2017 and 2018, with respect to the 2018 period by the IFT, which are currently in process.

The Company and its advisors consider that the rates will prevail based on the resolutions obtained in favor of the Company, for which reason it has recognized the cost based on these rates and there are no provisions associated with this contingency.

x. During 2016, the IFT initiated a process to review the preponderance measures imposed on América Móvil as Telmex and Telcel holding company. From this review the agreement P / IFT / EXT / 270217/119 was issued through which the IFT modifies and adds the measures imposed to the AEP in 2014 which promote competitive conditions in the telecommunications sector. As of

December 31, 2018, the status of the preponderant agent of Telmex, Telnor and Telcel was not modified.

xi. As of the issuance date of the consolidated financial statements, the Company and its advisors consider that the rates of the resolutions of the IFT and Cofetel will prevail based on the resolutions obtained in favor of the Company, for which it has recognized the cost based on these rates and there are no provisions recorded associated with this contingency. Additionally, the process of review of the preponderance measures is in process.

Litigation between Axtel and Solution Ware Integración, S. A. de C. V. (“Solution Ware”)

i. Axtel and Solution Ware participated in seven projects with the Government of Nuevo León, the Department of Labor and Social Welfare, the Department of Social Development, the National Population Registry, the National Forest Commission, Seguros Monterrey and the Government of Tamaulipas. To date, Solution Ware has filed a number of ordinary commercial lawsuits against Axtel, for payment of a number of purchase orders for administrative services, as well as interest, damages and prejudice, as well as legal costs and expenses. As of the date of these consolidated financial statements, Solution Ware has demanded, via commercial notary public, payment of $91,776 and $US12,701.

At present, the trial regarding the Opposition to the Merger has been resolved in the second instance, while the contracts related to the Ministry of Labor and Social Security and CONAFOR are in appeal, all in a favorable manner.

As of the date of issuance of the consolidated financial statements, the Company and its advisors consider that there is no real likelihood that these demands will prosper and, therefore, there are no provisions recorded for this contingency.

Lawsuits between Axtel and Comercializadora Vedoh, S. A. de C. V.

i. Axtel contracted with Comercializadora Vedoh for a sponsorship given to Axtel in the NASCAR series. In the 2018 Comercializadora Vedoh filed an ordinary mercantile lawsuit in which it claims to Axtel the payment of $ 1,065 dollars for team sponsorships for 2014 and 2015.

The Company and its advisors consider average possibilities of an economic loss regarding the sponsorship claimed for 2014.

Procedures filed in the Superior Audit Federation (“ASF”)

i. In June 2018, S&C System Builders, was notified of a restructuring proceeding processed in the ASF, where it claims the total amount of $ 63,320, the former derived from an audit performed on the Social Development Secretariat (SEDESOL) and the Autonomous University of the State of Mexico.

The Company and its advisors consider average possibilities of obtaining a favorable result in the administrative instance; until there is a resolution that can be challenged before competent jurisdictional authorities and in which the level of risk of any economic impact could be reasonably estimated.

ii. In August 2018, Avantel and Alestra were notified each of a restructuring proceeding processed in the ASF, where the total amount of $ 5,219 is claimed, which is derived from an audit that was performed on the Ministry of Health for the provision of telephone service.

In this sense, the Company and its advisors consider average possibilities of obtaining a favorable result in the administrative instance, until there is a resolution that can't be challenged before competent jurisdictional authorities and in which the level of economic risk of any loss would be estimated again.

While the results of the disputes cannot be predicted, as of December 31, 2018, the Company does not believe that there are pending actions or threatened, lawsuits or legal proceedings against or that affect the Company that, if determined in a manner adverse to it, would significantly damage individually or generally its consolidated financial position and / or results of operation.

Other contingencies

The Company is involved in several lawsuits and claims, derived from the normal course of its operations, which are expected not to have a material effect on its financial position and future results and there were provisions in books associated with these contingencies.

28. Segment information

The information historically used to make strategic decisions is reported to the CEO based on three operating segments. The focus of the three operating segments is described below.

The Massive operating segment offers communication products and services to the consumer market and the small business market. As of 2018, the Massive Segment is presented as a discontinued operation, which resulted with the sale of this business described in Note 20.

The Business operating segment offers communication services and value-added services, such as information, data and Internet technologies, managed through the Company's network and infrastructure for both multinational companies, as well as for international and national businesses.

The Government operating segment offers communication services and value-added services, such as information, data and Internet technologies, administered through the Company's network and infrastructure, for the federal, state and municipal governments.

In addition to the three operating segments focused on the client, the remaining operations of the Company are included in the "Unallocated expenses" category to be included in the consolidated results of the Company. This category includes expenses associated with centralized functions, including procurement, supply chain and the Company's senior management.

These operating segments are managed separately since the products and services offered and the markets in which they are focused are different. The resources are allocated to the operational segments considering the strategies defined by the Company's Management. Transactions between the operating segments are carried out at market values.

The performance of the operating segments is measured based on the Business Unit Contribution (BUC), defined as the operating profit of each segment, including sales, costs per segment and direct segment expenses, as included. in internal financial reports reviewed by the Director General.

The Company defines Adjusted EBITDA as the result of adding to the operating profit (loss), depreciation and amortization, the impairment of non-current assets and the adjusted EBITDA of the massive segment that is presented as a discontinued operation in accordance with IFRS; it is considered a useful measure of the operational performance of the business since it provides a significant analysis of commercial performance by excluding specific items reported separately due to their nature or incidence. Income or interest expenses are not allocated to reportable segments, since this activity is handled globally by Alfa's central treasury

When projects are not directly attributed to a particular operating segment, capital expenditure is allocated to each segment based on the rate of future economic benefits estimated as a result of capital expenditure.

The following is the consolidated financial information of the information segments:

I. Financial information by segments:

2018	Business	Government	Total
Sales by segment	$10,313,312	$2,475,172	$12,788,484
Service cost	(1,913,099)	(1,444,018)	(3,357,117)
Expenses	(863,090)	(164,926)	(1,028,016)
Business unit contribution (BUC)	7,537,123	866,228	8,403,351
	73%	35%	66%
Unallocated expenses			(4,010,584)
EBITDA			4,392,767
EBITDA of discontinued operations			3,847,605
Adjusted EBITDA			8,240,372
Impairment of non-current assets			(74,574)
Depreciation and amortization			(3,622,713)
Depreciation and amortization of discontinued operations			(845,693)
Less the effects of discontinued operations (1)			(3,001,912)
Operating income			695,480
Financial result, net			(1,664,803)
Financial result, net of discontinued operations			-
Loss before tax			**$(969,323)**

	2017		
	Business	Government	Total
Sales by segment	$9,972,670	$2,571,431	$12,544,101
Service cost	(2,030,714)	(1,410,680)	(3,441,394)
Expenses	(1,039,486)	(131,261)	(1,170,747)
Business unit contribution (BUC)	6,900,470	1,029,490	7,931,960
	69%	40%	63%
Unallocated expenses			(3,203,105)
Adjusted EBITDA without merger expenses			4,728,855
EBITDA of discontinued operations			1,151,009
Merger expenses			(428,648)
Adjusted EBITDA			5,451,216
Impairment of non-current assets			(11,725)
Depreciation and amortization			(3,353,126)
Depreciation and amortization of discontinued operations			(680,712)
Less the effects of discontinued operations (1)			(470,297)
Operating income			935,356
Financial result, net			(914,997)
Financial results of discontinued operations, net			495
Income before tax			**$20,854**

(1) The items of the discontinued operation are comprised of the operating income of the massive segment plus the gain on sale of the discontinued operation of $1,949,940 presented in Note 20, gross of the corresponding taxes. Additionally, the effects reflected in the results by segment of 2017, consider the operating profit generated by the massive segment in that year.

29. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated events and transactions for recognition or disclosure subsequent to December 31, 2018 and through January 31, 2019 (date of issuance of the consolidated financial statements), and has concluded there are no significant subsequent events that affect the consolidated financial statements.

30. Authorization to issue the financial statements

On January 31, 2019, the issuance of the accompanying consolidated financial statements was authorized by Sergio Rolando Zubirán Shetler, Chief Executive Officer, Adrián de los Santos Escobedo, Chief Financial Officer, and José Salvador Martín Padilla, Corporate Controller. These consolidated financial statements are subject to the approval of the Company's ordinary shareholders' meeting.

MEMORY PARAMETERS

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

This report is published annually and contains the company's achievements and results for the period from January 1 to December 31, 2018 in terms of economy, corporate governance, employment, community, the environment and finance.

The information presented is subject to the material issues identified in the 2017 fiscal year and is limited to Axtel's operations, and therefore the report does not include information on other entities, companies, institutions, shareholders, customers or business partners.

The restatement of information from previous years is specified on a case-by-case basis. In 2018, the most significant change in our business was the signing of the definitive agreement for the sale of our residential fiber optic business (FTTx) in Monterrey, San Luis Potosí, Aguascalientes, Mexico City, Ciudad Juárez and the municipality of Zapopan, as well as 4,432 km of fiber optic network and other fiber optic assets in these cities, the implications of which on the reported information are specified in each section where changes occurred.

This report has been prepared in accordance with GRI Standards: Essential Option. It has been verified by e3 Consultora Ambiental, an entity independent of Axtel.

CERTIFICATIONS, ASSOCIATIONS AND PARTICIPATIONS

102-12, 102-13

Certifications
· ISO 9001:2015
· ISO/IEC 27001:2013
· ISO 20000-1:2011
· ISO 22301:2012
· ICREA Level 3,4 and 5
· Tier III of Design Documents -Uptime Institute
· CEEDA Silver and Bronze Level
· PCI Data Security Standard
· SSAE-16
· Avaya Platinum Partner
· Checkpoint Pure Advantage Partner (Especializado en Soluciones CCSP)
· CISCO, Gold Certified Partner
· CISCO, Cloud and Managed Services Master
· EMC Gold Partner
· Fortinet Platinum Partner en México con Servicios Administrados
· Microsoft Gold Cloud Productivity
· HPE Silver Partner
· Oracle Gold Partner
· SAP MCaaS Partner
· Symantec Platinum Partner
· AudioCodes Platinum VAR

Partners' recognitions
· Avaya: 2018 Mindmarket of the Year
· SAP: 2018 Partner del año PMC
· Symantec: 2018 One Million Dollar Deal
· Symantec: 2018 Symantec Platinum Partner
· Symantec: 2018 Ventas Symantec Zona Norte
· Fortinet: 2018 Ventas Fortinet Zona Norte
· Cisco: 2018 Cisco Partner Summit

Associations and participations
· Organización Vida Silvestre, A.C. through the urban reforestation and corporate volunteering program "NOW, Alianza por la Reforestación"
· Red SumaRSE Nuevo León, participation on the Strengthening Committee

GRI CONTENT INDEX

GENERAL DISCLOSURES

102-55

GRI STANDARD	PAGE	DESCRIPTION	DIRECT RESPONSE
GRI 101: FOUNDATION 2016			
GRI 102 GENERAL DISCLOSURES 2016			
1. ORGANIZATION'S PROFILE			
102-1	-	Name of the organization.	Axtel, S.A.B. de C.V.
102-2	31	Activities, brands, products, and services.	
102-3	8	Location of headquarters.	
102-4	34, 35, 36	Location of operations.	
102-5	-	Ownership and legal form.	Axtel, S.A.B. de C.V.
102-6	8, 31, 34, 35, 36	Markets served.	
102-7	34, 35, 36, 44, 67	Scale of the organization.	
102-8	44	Information on employees and other workers.	
102-9	37	Supply chain.	
102-10	149	Significant changes to the organization and its supply chain.	
102-11	26	Precautionary Principle or approach.	
102-12	150	External initiatives.	
102-13	150	Membership of associations.	
2. STRATEGY			
102-14	4	Statement from senior decision-maker.	
102-15	26	Key impacts, risks, and opportunities.	
3. ETHICS AND INTEGRITY			
102-16	8, 27	Values, principles, Standards, and norms of behavior.	
102-17	27	Mechanisms for advice and concerns about ethics.	

4. GOVERNANCE			
102-18	16	Governance structure.	
102-19	16	Delegating authority.	
102-20	10	Executive-level responsibility for economic, environmental, and social topics.	
102-21	13	Consulting stakeholders on economic, environmental, and social topics.	
102-22	16	Composition of the highest governance body and its committees.	
102-23	16	Chair of the highest governance body.	
102-24	16	Nominating and selecting the highest governance body.	
102-25	16, 27	Conflicts of interest.	
102-26	16	Role of highest governance body in setting purpose, values and strategy.	
102-29	10	Identifying and managing economic, environmental, and social impacts.	
102-30	26	Effectiveness of risk management processes.	
102-31	10, 26	Review of economic, environmental, and social topics.	
102-32	-	Highest governance body's role in sustainability reporting.	Executive Director of Human Capital.
102-33	27	Communicating critical concerns.	
102-34	27	Nature and total number of critical concerns.	
102-35	16	Remuneration policies.	
102-36	16	Process for determining remuneration.	
102-37	-	Stakeholders' involvement in remuneration.	We do not involve our stakeholders in determining the remuneration of managers. This decision is made by the Board of Directors and its committees.
102-38	-	Annual total compensation ratio.	Information that is kept confidential to protect the safety of our employees.
102-39	-	Percentage increase in annual total compensation ratio.	Information that is kept confidential to protect the safety of our employees.

5. STAKEHOLDERS' PARTICIPATION			
102-40	14	List of stakeholder groups.	
102-41	44	Collective bargaining agreements.	11 percent of Axtel employees are unionized.
102-42	14	Identifying and selecting stakeholders.	
102-43	14	Approach to stakeholder engagement.	
102-44	14,37	Key topics and concerns raised.	
6. REPORT ELLABORATION PRACTICES			
102-45	26	Entities included in the consolidated financial statements.	
102-46	13	Defining report content and topic Boundaries.	
102-47	13	List of material topics.	
102-48	149	Restatements of information.	
102-49	149	Changes in reporting.	
102-50	149	Reporting period.	
102-51	149	Date of most recent report.	
102-52	149	Reporting cycle.	
102-53	161	Contact point for questions regarding the report.	
102-54	149	Claims of reporting in accordance with the GRI Standards.	
102-55	151	GRI content index.	
102-56	149	External assurance.	

GRI STANDARD	PAGE	DESCRIPTION	DIRECT RESPONSE
GRI 103: MANAGEMENT APPROACH 2016			
INFORMATION SECURITY			
103-1	31	Explanation of the material topic and its Boundary.	
103-2	31	The management approach and its components.	
103-3	31	Evaluation of the management approach.	
INNOVATION IN TERMS OF CONNECTIVITY AND MOBILITY IN PRODUCTS AND SERVICES			
103-1	40	Explanation of the material topic and its Boundary.	
103-2	40	The management approach and its components.	

103-3	40	Evaluation of the management approach.	
CUSTOMER SATISFACTION			
103-1	37	Explanation of the material topic and its Boundary.	
103-2	37	The management approach and its components.	
103-3	37	Evaluation of the management approach.	

TOPIC-SPECIFIC STANDARDS

GRI STANDARD	PAGE	DESCRIPTION	DIRECT RESPONSE	GLOBAL COMPACT PRINCIPLES
GRI 200: ECONOMIC STANDARDS 2016				
GRI 201 ECONOMIC PERFORMANCE				
103-1	67	Explanation of the material topic and its Boundary.		
103-2	67	The management approach and its components.		
103-3	67	Evaluation of the management approach.		
201-1	67	Directo economic value generated and distributed.		
201-3	-	Defined benefit plan obligations and other retirement plans.	We have a pension plan with an estimated value of 340,000,000 pesos.	
201-4	-	Financial assistance received from government.	Axtel did not received any type of financial aid given by the government during 2018.	
GRI 202 MARKET PRESENCE				
202-1	44	Ratios of standard entry level wage by gender compared to local minimum wage.		
GRI 203 INDIRECT ECONOMIC IMPACTS				
203-1	-	Investments in infrastructure and supported services.	In 2018 we invested 97 million dollars in property, plant and equipment, in addition to 25 million dollars through financial leases. On the other hand, we obtained a profit from the sale of towers for 12 million dollars.	
203-2	-	Significant indirect economic impacts.	We will continue working to incorporate into our portfolio digital transformation solutions that include technological trends such as Analytics, Big Data, Cloud and Artificial Intelligence to help reduce the technological gap in Mexico.	

GRI 204 PROCUREMENT PRACTICES				
204-1	37	Proportion of spending on local suppliers.		
GRI 205 ANTI-CORRUPTION				
103-1	27	Explanation of the material topic and its Boundary.		
103-2	27	The management approach and its components.		
103-3	27	Evaluation of the management approach.		
205-1	27	Operations assessed for risks related to corruption.		
205-2	27	Communication and training about anti-corruption policies and procedures.		
205-3	27	Confirmed incidents of corruption and actions taken.		
GRI 300: ENVIRONMENTAL STANDARDS 2016				
103-1	55	Explanation of the material topic and its Boundary.		
103-2	55	The management approach and its components.		
103-3	55	Evaluation of the management approach.		
GRI 301 MATERIALS				
301-2	65	Materials used by weight or volume.		7 and 8
301-3	65	Reclaimed products and their packaging materials.		7 and 8
GRI 302 ENERGY				
302-1	56	Energy consumption within the organization.		8
302-3	56	Energy intensity.		
302-4	56	Reduction of energy consumption.		8
GRI 303 WATER				
303-1	64	Water withdrawal by source.		7 and 8
303-2	64	Water sources significantly affected by withdrawal of water.		
303-3	64	Water recycled and reused.		8 and 9

GRI 305 EMISSIONS				
305-1	60	Direct (Scope 1) GHG emissions.		8
305-2	60	Energy indirect (Scope 2) GHG emissions.		8
305-3	60	Other indirect (Scope 3) GHG emissions.		8
305-4	60	GHG emissions intensity.		8 and 9
305-5	60	Reduction of GHG emissions.		7 and 8
GRI 306 EFFLUENTS AND WASTE				
306-2	65	Waste by type and disposal method.		8
306-4	65	Transport of hazardous waste.		
GRI 307 ENVIRONMENTAL COMPLIANCE				
103-1	65	Explanation of the material topic and its Boundary.		
103-2	65	The management approach and its components.		
103-3	65	Evaluation of the management approach.		
307-1	65	Non-compliance with environmental laws and regulations.		8
GRI 308 SUPPLIER ENVIRONMENTAL ASSESSMENT				
308-1	37	New suppliers that were screened using environmental criteria.		
308-2	37	Negative environmental impacts in the supply chain and actions taken.		7 and 8
GRI 400: SOCIAL STANDARDS 2016				
GRI 401 EMPLOYMENT 2018				
401-1	44	New employee hires and employee turnover.		
401-2	44	Benefits provided to full-time employees that are not provided to temporary or part-time employees.		6
401-3	44	Parental leave.		

GRI 403 OCCUPATIONAL HEALTH AND SAFETY				
403-1	52	Workers representation in formal joint management-worker health and safety committees.		3
403-2	52	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.		1
403-3	52	Workers with high incidence or high risk of diseases related to their occupation.		
403-4	52	Health and safety topics covered in formal agreements with trade unions.		
GRI 404 TRAINING AND EDUCATION				
103-1	49	Explanation of the material topic and its Boundary.		1
103-2	49	The management approach and its components.		
103-3	49	Evaluation of the management approach.		
404-1	49	Average hours of training per year per employee.		
404-2	44, 49	Programs for upgrading employee skills and transition assistance programs.		
404-3	49	Percentage of employees receiving regular performance and career development reviews.		
GRI 405 DIVERSITY AND EQUAL OPPORTUNITY				
405-1	44	Diversity of governance bodies and employees.		
GRI 406 NON-DISCRIMINATION				
406-1	27	Incidents of discrimination and corrective actions taken.		1, 2, 4 and 5

GRI 407 FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING				
407-1	30, 37	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	None of our operations is at risk as there is freedom of association. We conducted union induction training twice a month and a monthly operational meeting with union representatives. Additionally, we select our suppliers under the Supplier Selection Policy.	1, 2 and 6
GRI 408 CHILD LABOR				
103-1	30	Explanation of the material topic and its Boundary.		
103-2	30	The management approach and its components.		
103-3	30	Evaluation of the management approach.		
408-1	30, 37	Operations and suppliers at significant risk for incidents of child labor.		1, 2, 4 and 5
GRI 409 FORCED OR COMPULSORY LABOR				
103-1	30	Explanation of the material topic and its Boundary.		
103-2	30	The management approach and its components.		
103-3	30	Evaluation of the management approach.		
409-1	30, 37	Operations and suppliers at significant risk for incidents of forced or compulsory labor.		1, 2, 4 and 5
GRI 410 SECURITY PRACTICES				
410-1	30	Security personnel trained in human rights policies or procedures.		1, 2 and 4
GRI 411 RIGHTS OF INDIGENOUS PEOPLES				
411-1	-	Incidents of violations involving rights of indigenous peoples.	We did not received any cases of violation of the rights of indigenous peoples.	

GRI 412 HUMAN RIGHTS ASSESSMENT				
103-1	30	Explanation of the material topic and its Boundary.		
103-2	30	The management approach and its components.		
103-3	30	Evaluation of the management approach.		
412-1	30	Operations that have been subject to human rights reviews or impact assessments.	In all our operations we adhere to our Human Rights Policy.	1
412-2	30	Negative social impacts in the supply chain and actions taken.		1, 2 and 4
412-3	-	Operations with significant actual and potential negative impacts on local communities.	During 2018 we did not sign any major investment agreement or contract.	
GRI 413 LOCAL COMMUNITIES				
413-1	53	Operations with local community engagement, impact assessments, and development programs.		
GRI 414 SUPPLIER SOCIAL ASSESSMENT				
414-1	37	New suppliers that were screened using social criteria.		
414-2	-	Negative social impacts in the supply chain and actions taken.	We did not registered negative social impacts or complaints derived from the activities of our suppliers.	
GRI 418 CUSTOMER PRIVACY				
418-1	27	Substantiated complaints concerning breaches of customer privacy and losses of customer data.		1

VERIFICATION LETTER

Independent verification report

Stakeholders of the Axtel 2018 Annual Integrated Report, we inform that:

RYM Servicios Ambientales Internacionales S.C, e3 Consultora Ambiental, has concluded an independent review of the contents that report the sustainability performance results of Axtel, S.A.B. de C.V., Axtel, corresponding to the period of 2018.

Summary of activities

e3 Consultora Ambiental reviewed disclosures of corporate government, ethics, economic impact, environmental matters, labor practices and human rights, that were included on the report.

To validate the quality of a sample of contents from the Axtel 2018 Annual Integrated Report, the auditor team requested access to the consolidated information records shared among the Company's departments.

The Company's current Materiality Analysis was used to confirm the coverage of the indicators required by the Guides for the preparation of the sustainability reports, GRI Standards with the Core option.

Methodologies

This independent verification report was prepared based on the following standards: ISAE 3000 and The External Assurance of Sustainability Reporting (GRI).

The application of the principles for the definition of the contents of the record, the review of the basic general and specific contents and the coverage of the disclosures related to the material issues and the presentation of the GRI Standards Index of Contents was confirmed by taking the GRI 101: Foundations 2016.

Conclusions

There was no evidence to indicate that the definition of the content of the report was not prepared based on the principles of stakeholder participation, the context of sustainability, materiality and exhaustiveness.

Based on a review of the evidence that supports the figures presented in a sample of the indicators covered by the record, no situations arose that led us to conclude that there are any significant errors or omissions in the information disclosed in the Axtel 2018 Annual Integrated Report.

There is no evidence that led us to object to the Axtel 2018 Annual Integrated Report have been prepared with the Core option of the GRI Standards.

Recommendations

> The findings and detailed recommendations are provided separately in an internal report addressed to Axtel.

David Parra
Director
e3 Consultora Ambiental

NOTES. This work covers a limited verification exercise conducted under the charge of Axtel that was completed in february 2018. Under no circumstances shall this work be understood as an audit of the figures contained in the report or an exhaustive review of the internal control mechanisms for the generation, analysis, calculation and filing of Axtel's non-financial information.
e3 Consultora Ambiental is a company independent from Axtel. The verifying team did not take part in the preparation of the Axtel 2018 Annual Integrated Report.

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102-53

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