Annual Integrated

REPORT

2019

axtel

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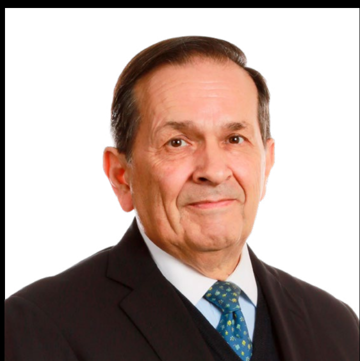


MESSAGE FROM THE CEO

The steps taken in 2019 played a key role in bolstering our capital structure and consolidating our leadership as an Information and Communications Technology (ICT) managed services provider for government entities and companies in our country, and of optic fiber connectivity services for national and international carriers.

In 2019 we launched the planning and implementation of the definitions we need to operate under two specialized business units: the service unit and the infrastructure unit.

The infrastructure unit participates in the market as a neutral carrier and provides connectivity services based on our fiber network to wholesale customers, including mobile carriers, data center operators, national and international fixed carriers, as well as internet-based video and social network providers. It is through this unit that we will cater for growing demand for data from streaming, broadband, the internet of things and deployment of the 4G network and eventually 5G, among other things. The infrastructure unit is becoming Mexico's biggest neutral infrastructure operator boasting 40,600 kilometers in length.

The service unit continues to operate under the Alestra brand as a technological partner driving the digitalization of more than 18,000 business and government customers, who we attend with the most advanced and complete ICT managed solutions portfolio, integrating and managing networks, clouds, cybersecurity perimeters and systems under the highest services and quality services.

Our aim with this separation is to increase profitability, align our services with industry trends and carry on improving our financial position. It also provides us with the possibility of demonstrating the value of our assets and the potential for growth, which is why we have initiated a competitive process to attract and analyze investment proposals to maximize the value of both the infrastructure unit and the Company.

Axtel's financial results in 2019 remained positive despite the decline in the country's economic activity. Our operating cash flow was up 7% thanks largely to the implementation of business process automation projects.

Our financial position was reflected by the stable prospect rating issued by the ratings agencies Fitch, Moody's and Standard and Poor's.

In 2019 we concluded a strategic agreement under which Equinix acquired the operations and assets of three Axtel data centers for USD $175 million. This alliance will substantially strengthen Alestra's proposed ICT hybrid cloud and managed services solutions. The net resources obtained from this sale will be used to reduce debt and other liabilities in the amount of approximately USD $157 million.

In addition, in 2019 we successfully concluded mass sales segment divestment which began in December 2018 with the sale of most of the business.

The sale of towers in 2017, the mass sales segment divestment and the agreement on the three data centers brought in more than USD $530 million with attractive valuation multiples. The resources were used to strengthen our financial structure, affording us the flexibility to carry on creating value for our customers, stakeholders, employees and community.

In line with our differentiated digital innovation proposal, in 2019 we carried on driving internal initiatives to transform our business processes and the working culture of our employees. Through the Axtel Digital Innovation Office, we worked to automate business processes giving rise to operating efficiencies with positive results for the company's cash flow.

In 2019 we increased our presence in key cities by implementing Ethernet data service coverage in nine cities, bringing the total to 70, as well as a local service in another city, which took the total to 60 by the end of the year. In addition, 21 industrial parks and 89 business centers were equipped with optic fiber.

Furthermore, our dedicated connectivity services were extended to the world's most important clouds to include Oracle Cloud and Google, which joined the existing clouds of AWS and Azure to create the biggest portfolio of public cloud connectivity.

As part of our mobility strategy, we strengthened strategic alliances with partners, freeing up cellular network-based Wireless Business Connectivity solutions, as well as launching the Mobile Virtual Network Enabler (MVNE) in the market thereby finalizing implementation of the first Mobile Virtual Network Operator (MVNO) customer.

At the same time, 2019 witnessed the successful conclusion of the fourth generation of startups in NAVE, with the participation of eight entrepreneurs from Canada, Mexico, the US and Argentina with technology in the fields of Artificial Intelligence, the Internet of Things, Collaboration, Cloud, Big Data and Cybersecurity. The aim of this initiative is to formalize commercial alliances and new product co-creation schemes.

We celebrated the tenth anniversary of our Alestra Fest technology tour, the most important ICT digital innovation event in Mexico. In 2019, the event was attended by 12 of the biggest technology manufacturers in the world with whom we presented over 50 advanced Cloud, Collaboration, Cybersecurity and Managed Network solutions, among other things.

In 2019, the first generation of 163 employees graduated from the Cybersecurity and Cloud Solutions diploma program of UniAlestra, the online learning center for developing skills for the company's Digital Transformation.

For the ninth year running we reaffirmed our commitment to the United Nations Global Compact and, for the twelfth year in a row, received the Socially Responsible Company award. We have also been part of the Mexican Stock Exchange's (BMV) Sustainable Consumer Price Index since 2013.

In 2020 we expect better market conditions for Alestra, our service unit, with a gradual recovery of economic activity in the business and government sectors. We also hope that constant and growing demand for connectivity translates into positive performance for our infrastructure unit.

On behalf of the Board of Directors, I thank you for the trust and support you have given us. We would also like to thank our customers and suppliers, as well as the financial community for their contribution to these results, and, of course, also our 4,600 employees for their dedication to service and day-to-day efforts.

ROLANDO ZUBIRÁN SHETLER
Chief Executive Officer

San Pedro Garza García, N.L., Mexico
February 25, 2020.

2019 IN NUMBERS

MXP $12,784 million
in revenue

40,600 km
of optic fiber network

15%
of the energy we use for our operations comes from clean sources

MXP $4,466 million
in Operating Cash Flow [Flow]*

20
hours on average of training per employee

*Operating Cash Flow [EBITDA]: operating profits plus depreciation and amortizations.

NOTE: amounts in this annual report are given in Mexican pesos (MXP $) and nominal dollars (USD $) except as otherwise specified.

COMPANY PROFILE

Company profile

Axtel is a company of ALFA, which holds 52.8% of its equity. ALFA is a Mexican consortium that runs a diverse business portfolio comprised by the subsidiaries Alpek, Sigma, Nemak and Newpek. ALFA is present in 28 countries in the Americas, Europe and Asia and has 135 production plants.

The Information and Communications Technology (ICT) industry we are part of has dramatically transformed the global economy over the last two decades, consolidating its standing as one of the primary catalysts in the manufacturing, education, health, security and leisure sectors.

At Axtel we have accompanied our customers in their evolution towards digital innovation within their organizations. Today we are leading providers of ICT managed services for businesses and government agencies, and we also provide infrastructure solutions for national and international carriers.

We achieve this by working in line with best practices in the fields of corporate governance, social matters and the environment, backed by the talent, preparation and professionalism of our employees and with the largest network of technology manufacturing partners in the world.

Since the merger of Alestra and Axtel in 2016, we have launched key strategic initiatives to empower our company's leadership in the business and government market, as well as to strengthen our financial structure.

After finalizing the sale of most of the mass fiber business in 2018, the following year we completed our divestment from this segment. We also concluded a strategic agreement under which Equinix Inc., the global leader in data centers, acquired the operations and assets of three Axtel data centers. This deal enabled us to significantly strengthen our ICT managed services and hybrid cloud offerings which we market through Alestra.

Our awareness of the challenges facing us in the market led us to reorganize our company into two **business units**: an **ICT managed services unit** that will continue to operate in the market with the Alestra solutions portfolio, and an **infrastructure unit** that will serve both the services unit and other operators as a neutral operator.

As a result of the comprehensive work we perform as a company, which includes environmental, social and governance factors in our business strategy, in 2019 we featured among the 30 companies that comprise the Mexican Stock Exchange's Sustainable Consumer Price Index for the seventh year running.

OUR BUSINESS

We have rearranged the way we offer our services into two business units: infrastructure and services. This change will enable us to attend our key markets in a differentiated manner, providing the best experience and service, and demonstrating the value of our assets and their growth potential.

axtel

Infrastructure

Last mile access

IP transit

Radio-electric spectrum

Fiber to the tower

Fiber (dark and illuminated)

Fiber to data center

Wholesalers / Carriers (including business unit, Alestra)

Services

Telecommunications

Collaboration

Unified Communications

Videoconference

Managed networks

VPN

Ethernet

LAN

SDWAN

WiFi

Standard services

Data and internet

Voice

Business and government market

IT

System integration

Business continuity (DRP)

System integration

Cloud services

Hybrid cloud and managed applications

Infrastructure and software services

Cybersecurity

Perimeter

Internal network

Business Unit

Infrastructure

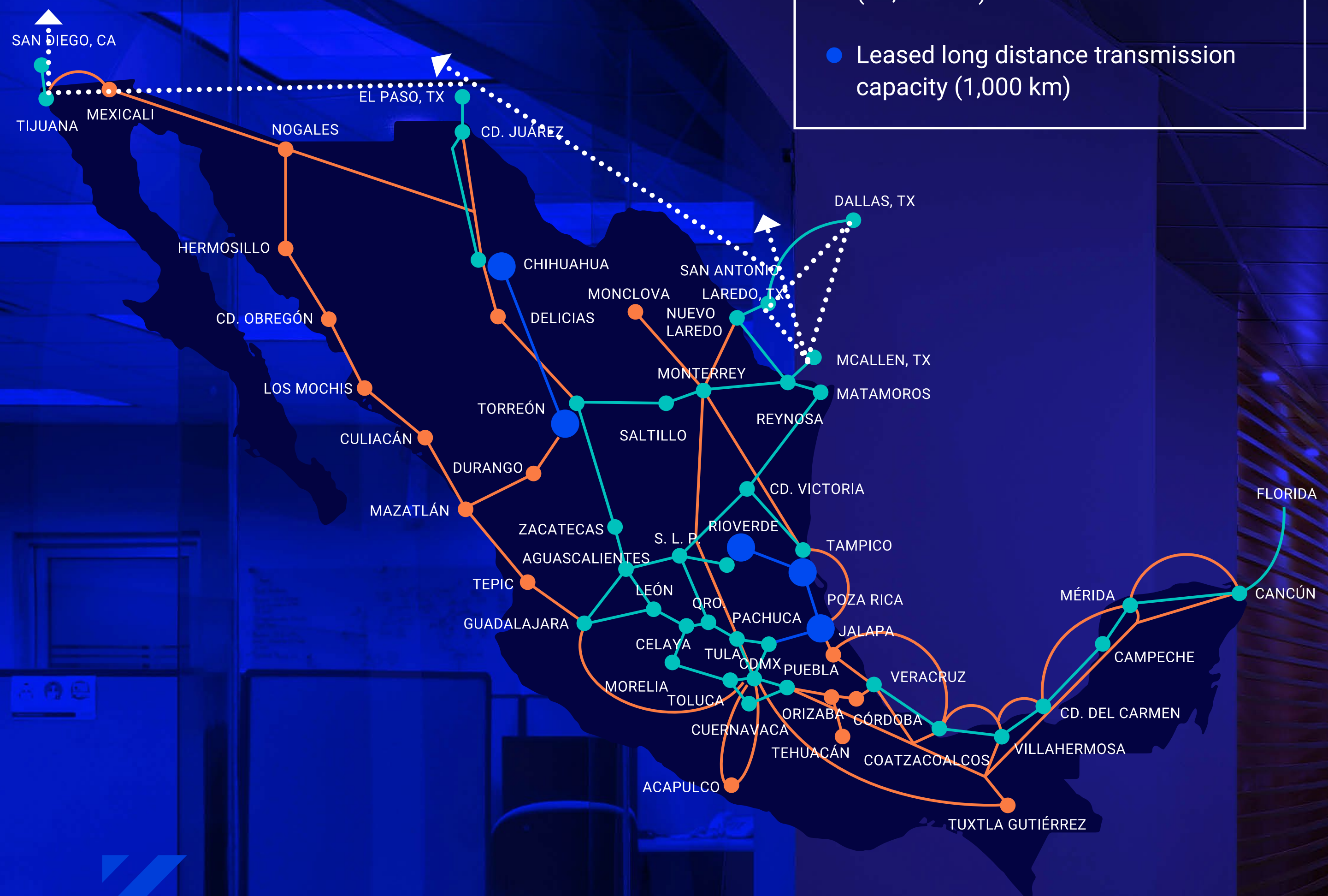
The infrastructure business unit is becoming Mexico's biggest neutral infrastructure operator, housing 40,600 km of optic fiber, including 22,000 km of transport network and 18,600 km of metropolitan rings.

This unit provides connectivity services based on our spectrum and fiber network to make the most of the opportunities presented by growing demand for data from wholesale customers, including mobile carriers, data center operators, internet-based streaming and social network providers and national and international fixed carriers.

In line with vertical trends in the industry and in order to strengthen Axtel's solutions, in October we signed an agreement with the global infrastructure and data center company Equinix Inc., to fortify our ICT and Cloud solution offerings. In early 2020 we signed this agreement under which Equinix acquired the operations and assets of three of our data centers, two in Queretaro and one in Monterrey.

We stepped up our presence in key cities as part of our commitment to provide services to the greatest possible number of companies in the country this year by extending the coverage of our Ethernet data services to nine cities, bringing the total to 70 cities, and local service to one more city, which took the total to 60. In addition, 21 industrial parks and 89 business centers were equipped with optic fiber in order to promote the use of ICT among Mexican companies.

- Own network (10,400 km long distance + 18,600 km metropolitan network)
- Indefeasible Right of Use (IRU) (11,600 km)
- Leased long distance transmission capacity (1,000 km)



Microwaves for last mile connectivity and metropolitan coverage
3.5, 7, 10.5, 15, 23 and 38 GHz
Business segment

40,600
km of optic fiber network

1,055
sites throughout the country for digital radio and fiber coverage

60
cities with local service

22,000
km of transport [LD]

70
cities with Ethernet Data services

18,600
km of metropolitan network

Business Unit

Services (Alestra)

This business unit includes five strategic services families that we offer to our business and government market customers.

Our strategy focuses on providing IT solutions and managed telecom services to business and government customers with solid, reliable and secure service offerings operating under the best procedures.

In addition to our connectivity and voice products to assist our customers in their digital transformation process, we also offer solutions through five strategic services families:

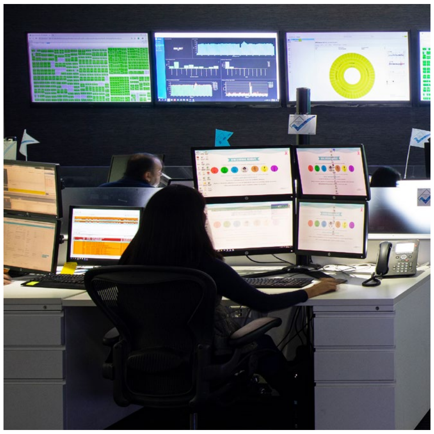
- **MANAGED NETWORKS**
- **COLLABORATION**
- **CYBERSECURITY**
- **SYSTEM INTEGRATION**
- **CLOUD**

This year our IT solutions delivery process obtained level 3 CMMI (Capability Maturity Model Integration) certification, with the distinction of being the only IT and Communications provider in Mexico with this certification. Moreover, in our quest to be at the cutting edge, we launched Software Defined WAN [SD-WAN] on the market with new technologies from Cisco and the new generation of wireless networks [WiFi 6].

At the same time, in 2019 we set up the Virtual Cybersecurity Unit which pools all our human resources and redefines processes and tools to offer managed cybersecurity service evolution. We also added to this portfolio a new generation antivirus solution, data correlators, and solutions in public Clouds.

This year we assisted our customers in their migration to the Cloud by moving ahead with work to develop Microsoft Azure and AWS capabilities, incorporating new features such as backups, collaboration and certain cybersecurity solutions. In addition, we extended connectivity offerings by including Oracle Cloud and Google, which means our Alestra business unit currently has the biggest public Cloud connectivity portfolio.

We provide colocation solutions through world class Data Centers designed to the highest standards. They are located in Mexico's most important cities: Monterrey, Queretaro, Guadalajara and Mexico City.

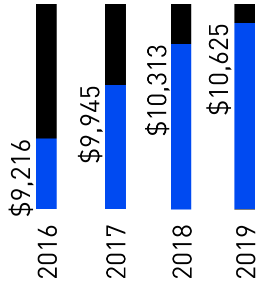


In order to strengthen our customer-supplier communication channels, as we have been doing for over 10 years, we have the Sperto Centers, the most advanced experience centers in Latin America, where we provide demonstrations for visitors to learn about our hi-tech services firsthand. In 2019 we gave more than 1,200 talks and demonstrations to over 2,000 people from 500 companies at these centers in Monterrey, Mexico City and Queretaro.

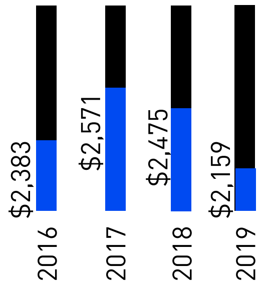
THE SPERTO CENTERS HAVE OBTAINED WORLDWIDE ACCLAIM FROM THE ASSOCIATION OF BRIEFING PROGRAM MANAGERS.

Furthermore, this year we began the construction of a new Sperto Center in the city of Cancun, which will start operations in the first quarter of 2020, and launched our Sperto App which sends customized messages to the cellphones of visitors depending on their location inside the Sperto Center.

BUSINESS MARKET REVENUE
(millions of Mexican pesos)



GOVERNMENT MARKET REVENUE
(millions of Mexican pesos)



Today we offer a solid, reliable and secure range of ICT solutions to support different sectors in their digital transformation aimed at boosting productivity and efficiency in their day-to-day processes.

The evolution of today's markets, along with trends that have changed the context of ICTs, have played an important role in the swift and constant development of technology. In view of this growth and the uncertainty in the economy, the outlook reveals the vital presence of technology to face up to contemporary challenges.

Thanks to our extensive family of ICT services, we can offer products and services to different customers with specific needs, whom we have divided into two markets: the business market and the government market.

Business market

We are working on the path towards digital transformation by companies to enable them to make the most of new business opportunities through technology. We are a technological partner offering Mexican organizations a solid portfolio to invigorate their processes by using managed network, collaboration, cybersecurity, system integration and Cloud tools.

Over the last three years revenue from the business segment has increased mainly due to the commercialization of managed networks and IT solutions.

ALESTRA FEST

With our ten years' experience in corporate innovation and digital transformation, we stage Mexico's biggest technology tour bringing together decision makers with the most state-of-the-art display of digital innovation solutions in the market: **Alestra FEST**.

In 2019 more than 6,000 people attended the forum in the cities of Tijuana, Mexico City, Guadalajara, Monterrey and Queretaro where it was held. These are the locations where we have identified significant business sector growth.

This edition enjoyed the participation of 12 of the world's biggest technology manufacturers who are paving the way for the digital transformation of companies in Mexico.

ANNUAL DIGITAL INNOVATOR FORUM

In 2019 we held the first business event to turn the transformation of organizations through the adoption of the most advanced ICT solutions in the market into a reality, along with the implementation of Corporate Innovation to drive the creation of new business horizons. The event was attended by 20 leaders from different companies and by strategic technological partners.

Government market

We are aware of the government sector's huge potential for growth, which is why we have worked to provide the most competitive and efficient service to each level of government, offering solutions to help them improve their communication experience.

Mexico's National Development Plan currently focuses on improving the operational quality of the value chain towards digital transformation. And it is because of this that we have devised a strategy to become strategic allies in the management of projects put up for tender in the future. This will enable us to offer the best prices and stand out for the quality of our solutions.

This year we are working together with the government on a number of projects in line with public austerity policies. The implementation of each project entailed savings for the government of between 15 and 28% of their allocated budget.

Our strategy for the federal government is centered on retaining current customers and starting to work with new departments through differentiation in digital transformation solutions and tailored proposals focused on modernizing federal management, including data centers, storage processing, virtualization, databases, the consolidation of applications, monitoring and administration, as well as cybersecurity solutions.

Meanwhile, in the state and municipal government segment, we are developing a portfolio of value-added turnkey solutions, including:

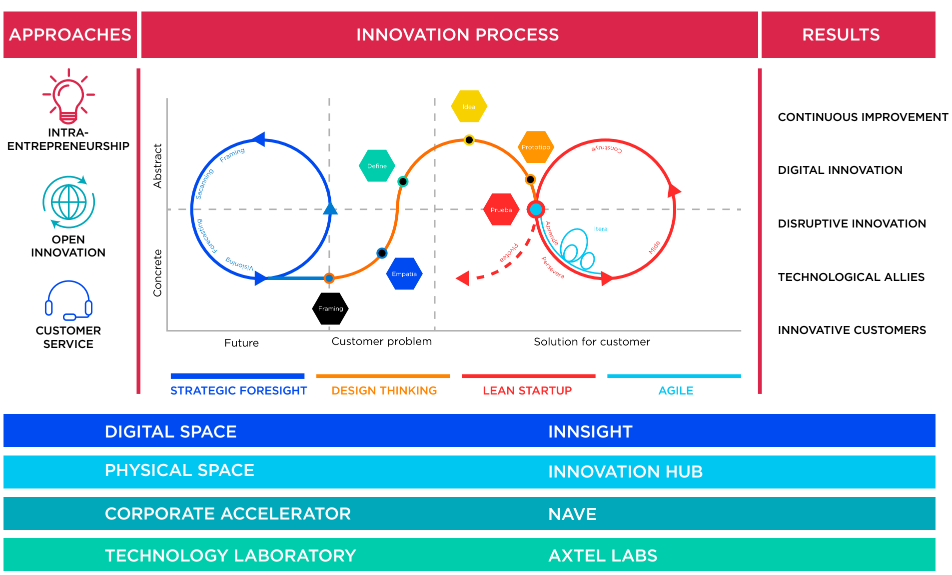
- **Single window**
  System for performing all procedures in a single portal, with the aim of improving the public's experience and increasing efficiency in internal processes and collection.
- **Governance**
  Comprehensive public security project with smart video security and analytical systems, cybernetic police, processes, training and command centers.
- **University digitalization**
  Digital collaboration and content platforms for autonomous and technological universities to speed up digital inclusion for students and teaching staff alike.
- **MultiCloud**
  Hybrid Cloud Platform aimed at improving transactions, processing, cybersecurity and availability of information generated by the ministries of administration, finance, public works and land registry.
- **System integration**
  Tailored solutions integrating connectivity, collaboration, cybersecurity, IT and mobility.
- **Smart cities**
  Internet of things solutions focused on monitoring variables in the environment, traffic, public lighting, security and broadband internet access to improve the public's experience.

Innovation

Change is part of our company culture, which is why we are constantly performing innovation processes to stay at the forefront of the market and offer our customers solutions that rise to the challenges we currently face.

The **Axtel Innovation Model (Modelo de Inovación Axtel)** is the essence of our innovation processes and the culture that defines us. Its purpose is to create value for our customers and employees, as well as in all areas of the company.

AXTEL INNOVATION MODEL



We are also fostering an internal culture of innovation through the Innsight Platform in which our employees put forward ideas for innovation and continuous improvement that are assessed by a group of experts to decide which ones will be implemented during the course of the year.

DIGITAL INNOVATION

In order to drive our digital transformation, we have started implementing the initiatives set out in Axtel's Digital Innovation strategy, achieving benefits such as the following:

- Increasing sales force efficiency.
- Streamlining service implementation for our customers.
- Automated ordering.
- Reducing manual inputting through software robots.
- Offering employees greater self-service through chatbots.
- Stepping up transactional security.

In 2019, 43% of our registered employees participated in the platform, providing 160 ideas that translated into annualized savings worth $134 million in operating expenses and Capex.

RAPID TRANSFORMATION

As part of Axtel's Digital Innovation strategy, in 2019 we made significant efforts to speed up agile transformation within the organization. The strategic initiatives and others of great relevance were enabled to work under the *Scrum* framework, a work methodology that seeks to deliver value in short periods of time. This effort was complemented with *coaching*, training tools provided by the newly created Agility Community comprising Technological Innovation and Digital Innovation Office employees.

INNOVATION HUB

This is an area in the Innovation and Technology Campus of Monterrey (CIT) consisting of two centers: Business Innovation, which promotes creativity, collaboration and generation of ideas, and Technology Innovation, where these ideas are crystallized into prototypes and solutions.

In 2019 we launched challenges through Hackathons in which employees developed applications and robots to automate and streamline repetitive tasks with the aim of increasing efficiency in their processes and, as a result, productivity.

As part of the drive to reduce our environmental impact with technology, we launched challenges to support the Paperless campaign, digitizing 50 forms and eliminating a further 20. This move enabled us to optimize processes and response times, as well as minimizing possible errors.

TECHNOLOGICAL INNOVATION

In order to amplify the impact on technological innovation initiatives, we offered our help to develop co-creation projects with strategic customers. In this regard, we developed a computer viewing platform with artificial intelligence for the manufacturing industry capable of detecting defects in the manufacture of parts. With initiatives of this type we seek to explore future Axtel products and services that will allow us to expand and improve our portfolio.

"NAVE" ACCELERATOR

We encourage open innovation through alliances with scaleups[3] that help make new ideas in our strategic evolution possible.

Digitalization is constantly evolving, so we have evolved the NAVE accelerator to receive innovative ideas from entrepreneurs every year in order to create joint value.

In 2019 we accelerated eight companies from Canada, Mexico, the United States and Argentina, with whom we will generate alliances.

1. Zighra: company specialized in anti-fraud solutions that recognizes user behavior when interacting with their device.

2. Nuve: company that provides anti-theft solutions in fuel containers in different sectors.

3. Pabis Retail: platform that automatically consolidates transactions performed in various operation centers to analyze data and make strategic decisions.

4. Apli: recruitment automation solution that uses artificial intelligence to provide and retain talent.

5. Sirena: commercial communication tool that integrates all the company's contact channels into a management platform by WhatsApp.

6. RWI Synthetics: digital simulator that uses Artificial Intelligence to generate future scenarios for companies to make strategic decisions before investing in a real market.

7. KEYO: access platform with palm scanning to replace keys, radio frequency identification controls, wallets and credit cards.

8. Vantiq: platform affording real time viewing of events that affect company operations.

[3] Scaleups are legally incorporated companies that have been in operation for more than two years, that may have received investment in the past and whose business model is defined and scalable.

In 2019, 138 Axtel employees obtained 237 certifications in different tools and knowhow from institutions such as ACME, Amazon Web Services, Avaya, Check Point, Cisco, EC-Council, Fortinet, Huawei, ISACA, ISO, ITIL, LogRhythm, Meraki, Microsoft, PMI, Oracle, SCRUM, Six Sigma, The Open Group, Veeam and VMWare.

Certifications

- ISO 9001:2015
  ISO 20000-1:2011
  ISO 14001
  ISO 27001:2013
  ISO 22301:2012

Best Practices

· ICREA Levels 3, 4 and 5
· TIA-942: DC Electromechanical Infrastructure
· ITIL
· SSAE 18
· PCI Data Security Standard
· FIRST
· CMMI SVC/3

Partner recognitions

· Aspect, Channel Sales Agreement
· AudioCodes Platinum VAR
· Avaya Platinum Partner
· Avaya DevConnect
· AWS Select Consulting Partner
· Checkpoint, a Pure Advantage Partner specializing in CCSP solutions
· CISCO, Gold Certified Partner
· CISCO, Advanced Collaboration Architecture Specialization
· CISCO, Advanced Enterprise Networks Architecture Specialization
· CISCO, Advanced Security Architecture Specialization
· CISCO, Advanced Data Center Architecture Specialization
· CISCO, Cloud Services Reseller
· CISCO, Cloud and Managed Services Master
· Dell Technologies, Gold solution provider
· Fortinet Platinum Partner in Mexico with Managed Services
· HPE, Service Provider Silver Partner
· Huawei Enterprise Partner VAP
· IBM, Business Partner
· Microsoft Gold Partner
· Microsoft Hosting Partner
· Microsoft Gold Cloud Productivity
· Oracle Gold Partner
· Palo Alto Networks MSSP Innovator
· SAP MCaaS Partner
· SUSE Cloud Services Provider Agreement
· Symantec Platinum Partner
· Authorized Trustwave Partner
· VEEAM, Pro Partner Silver Reseller

CUSTOMER EXPERIENCE

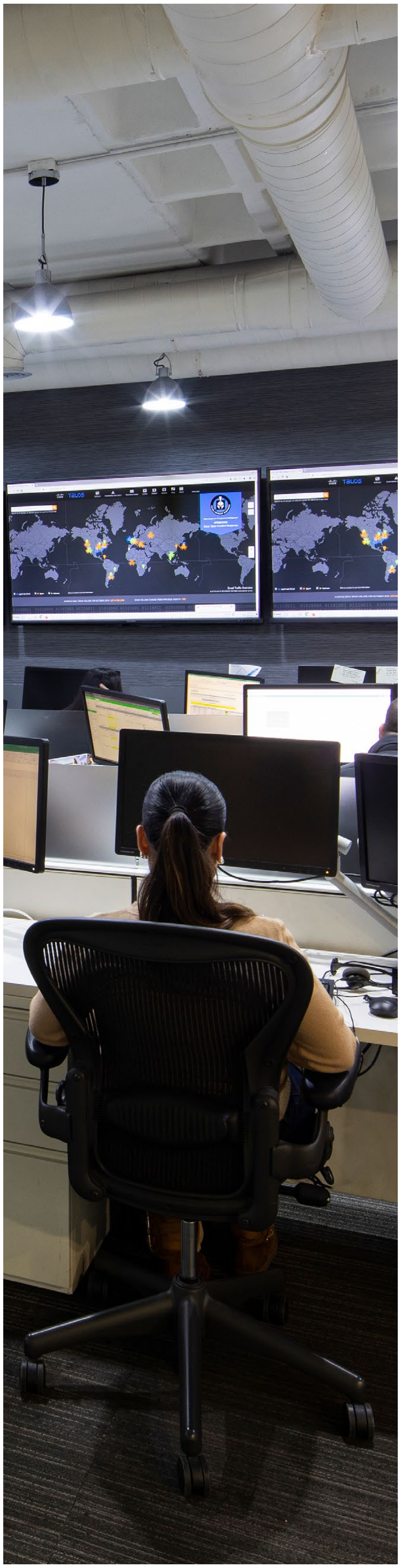
We are committed to delivering the best experience to our customers, for which purpose we have the support of solid infrastructure as well as properly trained operational and customer service employees.

We serve our customers through **One Axtel**, our unified service channel that allows us to provide the same after-sales experience regardless of the service contracted.

To guarantee that this mode of service really meets customer expectations, we conduct satisfaction surveys using the Net Promoter Score (NPS) and Churn[4] tools which allow us to follow up on the services provided in order to improve them.

Once the comments from these surveys have been analyzed, we make visits to better understand the needs of our customers and to attend to them in a personalized manner. This gave rise to a strategy to make improvements through the digital transformation that was implemented in 2019.

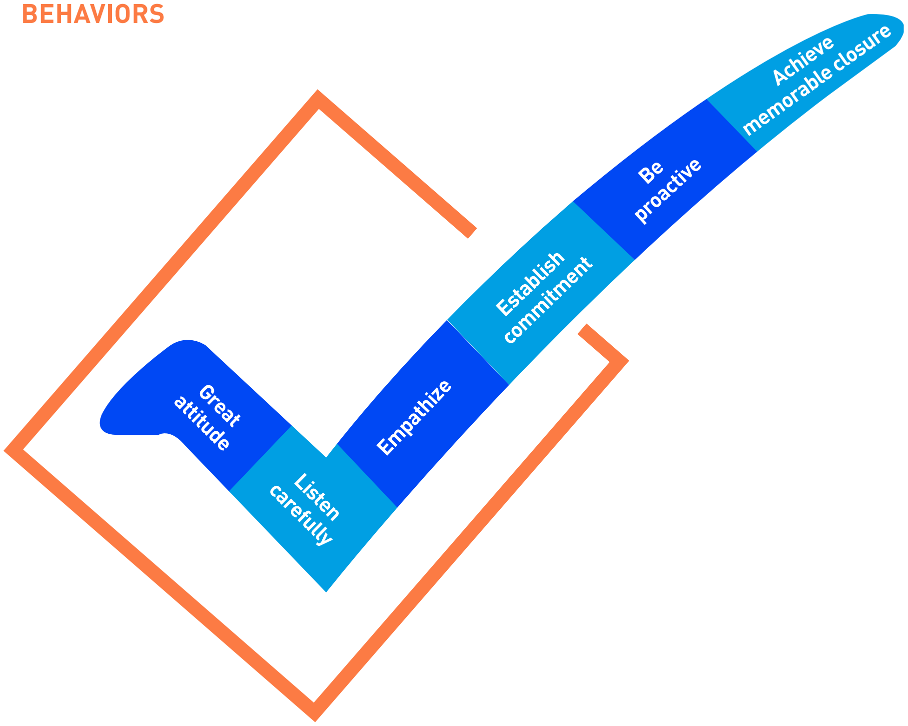
[4] Churn is a metric that refers to customer migration, rotation or cancelation over a period of time.



Working groups were formed to implement six projects to create a positive impact on the Customer Experience and four more on Operational Efficiency.

At the same time, we defined the expected behaviors for our employees during their interaction with customers, for which purpose we provided Service Culture-focused training and improved the tools they currently have, as well as the service procedures.

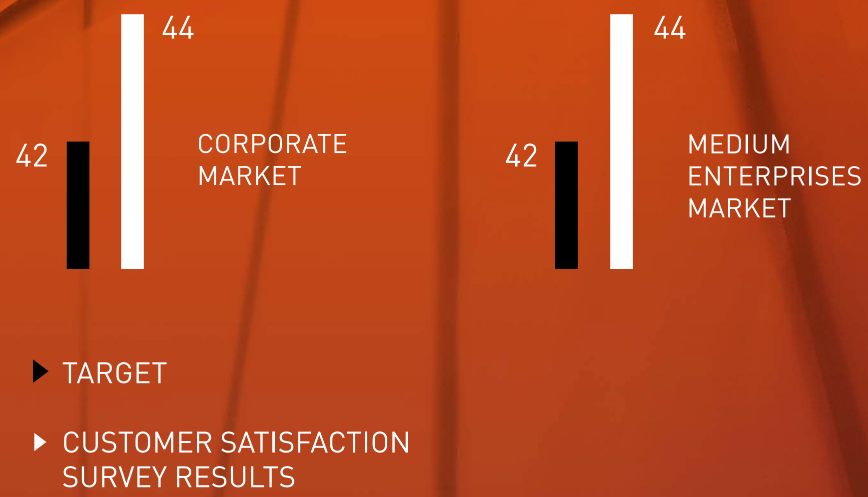
SERVICE BEHAVIORS



In 2019 we recorded an average market rotation of 1.6% per month.

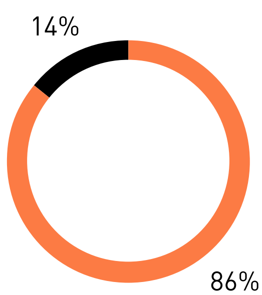
In the same year we also improved our customer satisfaction indicators by two percent for the corporate market and by the same amount for the medium-sized company market compared to 2018.

TARGETS AND RESULTS OF NPS 2019

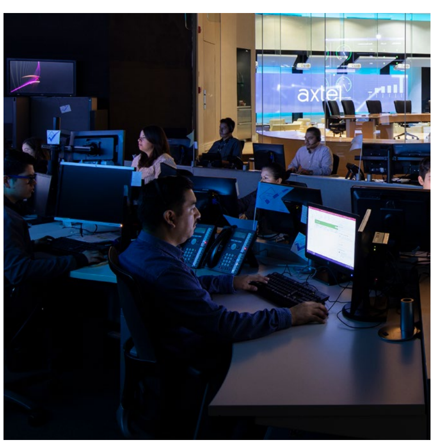


In 2019 we set a target satisfaction rate of 84% for incident resolution in the government market. Each month we measure the satisfaction level of a base of 787 customers, 82.9% of which said they were satisfied with the service received from the time the incident was reported until it was resolved.

PROPORTION OF EXPENDITURE ALLOCATED TO SUPPLIERS ACCORDING TO THEIR ORIGIN



- DOMESTIC
- INTERNATIONAL



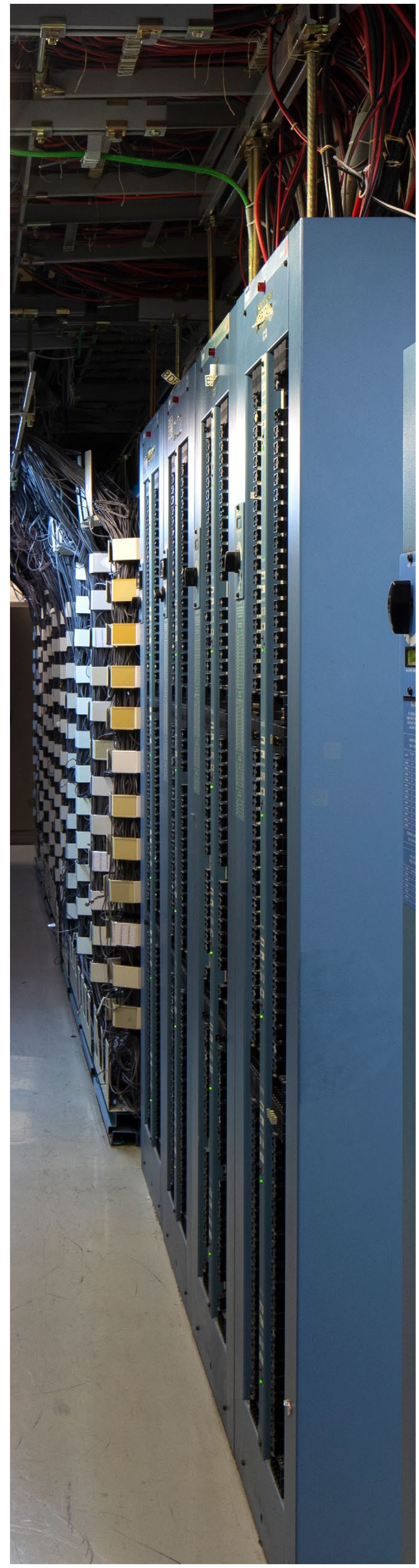
SUPPLIERS

Having a supply chain aligned with standards of integrity and sustainability ensures that the services we offer arrive on time and with the quality that is our hallmark. This is why we ask our suppliers to comply with the **Supplier Selection Policy**[5] and the **Axtel Supplier Code of Ethics**.

This year we conducted 19,685 transactions with suppliers amounting to more than $3.7 billion. Of this amount, 86% went to Mexican suppliers.

Of our 6,710 registered suppliers, 94% are domestic and 6% are international.

Every three months we perform warehouse evaluations of the materials we acquire in which we emphasize the importance of reporting inappropriate behavior by both Axtel employees and our suppliers to the ALFA Transparency Mailbox.
In 2019 we didn't register a single one.



[5] You can consult our Supplier Code of Ethics at: https://www.axtelcorp.mx/grupos-de-interes/

CORPORATE GOVERNANCE AND BOARD OF DIRECTORS

The success of a company is largely down to its leadership, so one of the best strategies for creating value in our business is by implementing good corporate governance practices in which transparency and trust ensure correct decision-making and, with it, chart the course of our economic, social and environmental strategy.

Axtel's Corporate Governance structure[6] is comprised by our policies, procedures and guidelines that act as a guide for delegating the rights and responsibilities of decision makers.

Our supreme governing body is the Board of Directors which, along with the Chief Executive Officer, is responsible for creating long-term value for our stakeholders.

[6] Find out more about how our Corporate Governance works: https://www.axtelcorp.mx/gobierno-corporativo/

The Board is made up of 12 proprietary directors and three alternate directors, renowned businessmen with a great deal of experience in various industries, as well as extensive knowledge in the field of business. All of them were selected in accordance with the provisions of the Securities Market Law, S.A.B de C.V. (LMV), Axtel's bylaws, the Code of Ethics, the OECD Code of Principles and Best Practices of Corporate Governance and the Principles of the Global Compact. They were appointed and approved at the General Shareholders' Meeting on February 26, 2019.

Their main duties include the following:

Monitoring compliance with laws currently in force, including the LMV.

Defining the company's economic, social and environmental objectives and strategy*.

Reviewing accounting policy, financial statements and reporting to the General Shareholders' Meeting*.

Managing, conducting and performing the business of the Company*.

Identifying, managing and mitigating potential internal and external risks.

Appointing and removing the CEO, indicating their powers, duties, working conditions and remuneration.

Appointing and removing the company's external auditors.

Defining control and internal audit guidelines.

BOARD MEETINGS

In 2019 the Board of Directors met four times with an average attendance of 90%.

In order to guarantee adequate management of the Board of Directors' duties, it receives support from the Audit and Corporate Practices Committee, which is comprised of four independent directors.

In addition to maintaining communication between management and the Board of Directors, this committee's main duties include making recommendations to the Board on matters such as:

- Selecting the external auditor and setting their fees.
- Coordinating with the internal audit area.
- Studying accounting policy.
- Terms of employment for senior executives and their severance payments, and
- Compensation policy.

The remuneration we grant to the members of the Board of Directors is defined based on a market and internal equity analysis, as well as in accordance with our Salary Management Policy.

* Shared functions with the CEO.

CO-CHAIRMEN

Álvaro Fernández Garza

March 27, 1968

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

Tomás Milmo Santos

November 3, 1964

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

PROPRIETARY DIRECTORS

Alejandro Miguel Elizondo Barragán

October 14, 1953

Director of Axtel since February 2016. He is a member of the Board of Directors of Arca Continental and Stiva Group. He holds a degree in Mechanical and Electrical Engineering from the ITESM and an MBA in Administration from Harvard University.

Armando Garza Sada

June 29, 1957

Director of Axtel since February 2016. Chairman of the Board of Directors of ALFA, S.A.B. de C.V. Chairman of the Boards of Directors of Alpek and Nemak. Member of the Boards of BBVA Mexico, CEMEX, Grupo Lamosa and Liverpool. Graduated from the Massachusetts Institute of Technology, with an M.B.A. from Stanford University.

Eduardo Alberto Escalante Castillo

March 27, 1958

Director of Axtel since February 2019. CFO of ALFA, S.A.B. de C.V. He holds a degree in Electronic and Communications Engineering from the ITESM and a master's degree from Stanford University.

Fernando Ángel González Olivieri

October 2, 1954

Director of Axtel since February 2016. CEO of CEMEX. Member of the Boards of Directors of Grupo Cementos de Chihuahua and the Universidad Tec Milenio. He holds a bachelor's degree and a graduate degree in Administration from the ITESM.

Patricio Jiménez Barrera
October 29, 1965

Director of Axtel since February 2018. Chairman of Abstrix, S.A. de C.V. Member of the Boards of Directors of Grupo Tredec, S.A. de C.V. and Jumbocel, S.A. de C.V. He is a Certified Public Accountant graduated from the ITESM.

Alberto Santos Boesch
August 26, 1971

Director of Axtel since February 2016. Chairman and CEO of Ingenios Santos, S.A. de C.V. Member of the Boards of GRUMA, BBVA Mexico, Interpuerto de Monterrey, Comité del Desarrollo del ITESM, Instituto Nuevo Amanecer, Renace, Red de Filantropía de Egresados y Amigos del Tec, Committee of the Advisory Council of the Faculty of Political Science and Public Administration of the UANL and Unidos por el Arte contra el Cáncer Infantil (UNAC). He has a degree in International Studies from the UDEM.

INDEPENDENT PROPRIETARY DIRECTORS

Francisco Garza Egloff
September 5, 1954

Director of Axtel since February 2016. Member of the Board of Directors of Arca Continental, Grupo Industrial Saltillo, Grupo AlEn, Alpek, Grupo Financiero Banregio, Ovnvier, RAGASA and Proeza, as well as the School of Engineering and Sciences of the ITESM, the Coca-Cola Foundation, the "Rosa de los Cuatro Vientos" Cultural Center, the Ser y Crecer Foundation, President of the UANL Foundation and Caballero de San Miguel Arcángel of CAMSVI. Vice President of the Confederation of Industrial Chambers of Mexico, CONCAMIN. He has a degree in Chemical Engineering from the ITESM, with studies in Senior Management at IPADE.

Juan Ignacio Garza Herrera
November 26, 1966

Director of Axtel since February 2016 CEO of Xignux. He was President of the COMCE Noreste and has been a Board Member of Xignux, Consejo Mexicano de Hombres de Negocios (CMHN), BBVA Mexico (Regional Noreste), UDEM, ICONN, Cleber and of the Instituto Nuevo Amanecer, A.B.P. He was President of the Nuevo Leon Chamber of the Transformation Industry. He has a degree in Mechanical Engineering from the ITESM, and a Master's in Administration from the University of San Francisco.

Enrique Meyer Guzmán
January 7, 1960

Director of Axtel since February 2016. Chairman of the Board and CEO of Grupo CEMIX. Director of UDEM, Bancomer, Banamex, Vinoteca, Silica Desarrollo, S.A., Fondo Emblem, Neoalimentos, S.A., Beliveo and Chairman of the Board of the Club Industrial. He is an Industrial and Systems Engineer from the ITESM, with a Master's degree in Business Administration from Stanford University.

Ricardo Saldívar Escajadillo
April 21, 1952

Director of Axtel since February 2016. Private investor. Member of the Boards of FEMSA, Tecnológico de Monterrey and Grupo AlEn. Former President and CEO of The Home Depot Mexico, a position he held for eighteen years until June 2017 when he retired. Prior to that, he worked in various Grupo ALFA companies for nearly 20 years. He has a degree in Mechanical Engineering Administration from the ITESM, with a Master of Science in Systems Engineering from Georgia Tech and a diploma in Senior Management from IPADE.

CONSEJEROS SUPLENTES

Paulino José Rodríguez Mendívil
April 21, 1951

Alternate director of Axtel since February 2019. Director of Human Capital of ALFA, S.A.B. de C.V. Member of the Board of Directors of Campofrío Food Group, COPARMEX and the Business Coordination Board. He is an Industrial and Systems Engineer from the University of the Basque Country, Spain, with a Master's Degree in Energy Techniques from the same institution.

Thomas Lorenzo Milmo Zambrano
July 9, 1935

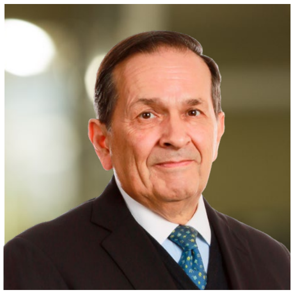
Alternate director of Axtel since February 2018. He was co-founder and Chairman of the Board of Directors of Grupo Javer and Incasa. He was Chairman of the Board of Directors and CEO of Carbonifera San Patricio and Carbón Industrial, as well as a member of the Board of Directors of CEMEX until 1996.

José Antonio Gonzáles Flores
May 5, 1970

Alternate director of Axtel since February 2016. Executive Vice President of Finance and Administration (CFO) of CEMEX. He holds a degree in Industrial and Systems Engineering from the ITESM and an M.B.A. in Business Administration from Stanford University.

MANAGERIAL TEAM

Our managerial team is comprised of professionals with extensive experience and knowledge in the field of business and Information and Communication Technologies. They are responsible for making decisions as well as for implementing and monitoring processes to ensure the proper functioning of Axtel.



Rolando Zubirán Shetler
Aged 67
CEO

He has been CEO of Axtel, a subsidiary of ALFA, since February 2016. Previously, he was CEO of Alestra, from January 1999 to February 2016. He has more than 30 years' experience in the Latin American telecommunications market, and has held various managerial positions in Mexico, Brazil and Argentina.

He is an Industrial Engineer from the Universidad Nacional Autónoma de México. He has a Master of Science in Operations Research from the University of Southern California and a Ph.D. in Philosophy, with a Specialty in Management, from the Universidad Autónoma de Nuevo León.

Carlos Guillermo Buchanan Ortega
Aged 60
Executive Director of Human Capital

He served as Managing Partner of B&S Consultores and was Director of Human Resources at Alestra. He has held the position of Human Resources Director at Telefónica Movistar, Commercial Banking at Grupo Financiero Bancomer, Bimbo, Black & Decker and Prolec G.E. He was Executive President of ERIAC Capital Humano and is a member of the board. He is a Curriculum Director at UDEM, Director of Employability at Tec Milenio, Member of Grupo de Estudio and Guest Monitor for the D1, D2 and Medex programs at IPADE. He is an experienced speaker and professor at the UDEM, the ITESM and ITESO.

He has a degree in Psychology along with a Master's degree in Organizational Development and Administration from the UDEM, as well as postgraduate degrees from IPADE and Kellogg University.

Andrés Eduardo Cordovez Ferretto
Aged 51
Executive Director - Infrastructure and Operations

He served as Axtel's Chief Technology and Operations Officer from October 2013 to January 2016. Prior to that position, he was the Director of Information Technology and Processes. In his 24 years of professional experience he has held numerous executive positions in various national and multinational telecommunications, financial and service companies, with responsibility for different functions such as technology, innovation, operations, customer service and sales.

He holds a degree in Computer Systems Engineering from the ITESM and a diploma in Senior Management from IPADE. He has also taken executive development courses at Wharton University, Stanford University and London Business School.

Adrián Cuadros Gutiérrez
Aged 49
Executive Director - Public Sector Accounts

He served as Executive Director of IT Solutions (February 2016 to December 2017). He joined Alestra in February 1996, where he served as Engineering Director, Chief Technology Officer, Government Sales Director and IT Services Sales Director. He was also part of AT&T de México and held various positions from July 1993 to January 1996. He is an Electronic and Communications Engineer from the ITESM, with a Master's Degree in Administration from the same institution. He attended an Executive Program at IPADE, Stanford University and London Business School. In September 2018, he concluded the Program for Administrative Directors at the EGADE Business School.

Adrián De Los Santos Escobedo
Aged 51
Director of Finance

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

Bernardo García Reynoso
Aged 61
Executive Director of Planning and Development

He joined Alfa in 1985 and then Alestra when it was founded in 1996, holding various positions in the areas of Sales, Marketing, Strategic Alliances, Administration and Human Resources. He was Alestra's CFO for the 7 years prior to the merger, becoming Axtel's Executive Director of Planning and Development in 2016. He holds an Industrial and Systems Engineering degree from the ITESM, a Master's degree in International Trade from the University of Monterrey and a Master's degree in Business Administration from the International Institute for Management Development (IMD) in Lausanne, Switzerland.

Ricardo J. Hinojosa González
Aged 53
Executive Director of Enterprise

He is in charge of the strategy, development of solutions, implementation of alliances, promotion, marketing and profitability of the Alestra brand. He has over 32 years' experience and has held different executive positions in the areas of Sales, Marketing, Managed Services and Planning. He has a degree in Administrative Computer Systems from the ITESM, with a Master's in Business Administration with a specialty in Marketing from the University of California at Los Angeles. In addition, he has specialized management studies from IPADE, Wharton University and the Tuck School of Business.

Raúl Ortega Ibarra
Aged 63
Executive Director: Legal and Regulation

He was Director of Government Relations and Legal at Alestra from 1996, where he was also Director of the International Business and Communications Unit from 2001 to 2007. Prior to that, he was Director of Regulatory Affairs for AT&T Corp. in Mexico and previously headed and founded the representative office of Mexican business organizations in Washington, D.C. He graduated from the Universidad Iberoamericana with executive studies in Political Economics and Management from Stanford University.

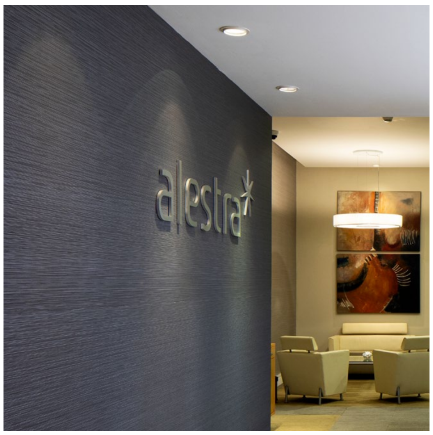
MANAGERIAL BENEFITS PACKAGE

COMPONENT	GOAL AND ALIGNMENT WITH STRATEGY	DESCRIPTION
Alignment with business strategy	Meeting social, environmental and economic objectives.	Remuneration granted in accordance with accomplishment of goals by area.
Base salary	Attracting and retaining talent.	Salaries are reviewed each year in accordance with business results, the macroeconomic environment, salary surveys and performance.
Fixed remuneration (benefits)	Complying with the legal framework and ensuring competitiveness with respect to the market	Christmas bonus, vacation bonus and shopping bonus.
Variable remuneration	Rewarding the achievement of individual and group goals and strengthening alignment of the managerial team with the stakeholder interests.	Annual bonus plan in accordance with the accomplishment of operational and strategic goals.
Social benefits	Providing patrimonial stability for executives and facing contingencies, retaining talent.	Major medical insurance, life insurance, emergency medical insurance and periodic medical checkups.

Risk management

Like all organizations, at Axtel we are exposed to internal and external market, regulatory, infrastructure, technological, environmental and social risks, as well as to external factors in our operation related to national and macroeconomic events. As a result, each year we implement risk management methodologies to avoid any negative repercussions on our performance.

This process is led by General Management, with support from strategic areas, to incorporate the risks identified in the annual plan and develop mitigation measures. At the same time, in seeking to ensure that they are always in line with reality, these risks are reviewed by the Board of Directors during its meetings and periodically through the Risk Management Program.



Operational structure

SUBSIDIARY	COUNTRY	PERCENTAGE HOLDING 2019
Axtel, S.A.B. de C.V. (Controller)[3][5]	Mexico	-
Servicios Axtel, S.A. de C.V.[1]	Mexico	100%
Alestra Innovación Digital, S. de R.L. de C.V.[3]	Mexico	100%
Avantel, S. de R.L. de C.V. ("Avantel")[3][5]	Mexico	-
Axes Data, S.A. de C.V.[1]	Mexico	100%
Contacto IP, S.A. de C.V.[1]	Mexico	100%
Instalaciones y Contrataciones, S.A. de C.V. [1]	Mexico	100%
Servicios Alestra, S.A. de C.V.[1][5]	Mexico	100%
Ingeniería de Soluciones Alestra, S.A. de C.V. [1]	Mexico	100%
Alestra USA, Inc.[2]	United States	100%
S&C Constructores de Sistemas, S.A. de C.V. ("S&C")	Mexico	100%
Alesre Insurance Pte, Ltd.[4]	Singapore	-
Estrategias en Tecnología Corporativa, S.A. de C.V. ("Estratel")[3]	Mexico	100%
Servicios Alestra TI, S.A. de C.V.[1]	Mexico	100%
Alestra Procesamiento de Pagos, S.A. de C.V.	Mexico	100%
Administradora de Centros de Datos México, S.A. de C.V.[1]	Mexico	100%
Servicios Administrativos de Centro de Datos México, S.A. de C.V.[3]	Mexico	100%
La Nave del Recuerdo, S.A. de C.V.[6]	Mexico	100%
Contacto IP FTTH de México, S.A. de C.V.[6]	Mexico	100%
Alestra Servicios Móviles, S.A. de C.V. [6]	Mexico	100%

(1) Companies providing management services.
(2) Leasing of telecommunications equipment and infrastructure.
(3) Telecommunications service provider.
(4) Company with no primary operations liquidated in August 2019.
(5) At the Extraordinary General Meeting held on February 26, 2019, the shareholders agreed to carry out the merger of Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V. (as merged companies) with Axtel, S. A. B. de C.V. (as the merging company); said merger took effect on June 22, 2019 and has no impact on the operation at the consolidated level of the Company.
(6) Legally incorporated companies with no operations.

Business ethics

We adhere to our business philosophy by acting under the highest standards of personal and professional integrity wherever we operate.

The basis that guides our ethical culture is the **Code of Ethics**[7], which applies to all our employees, directors, managers, leaders, area managers, coordinators, consultants, contractors and anyone who provides professional services to Axtel.

This document sets out the behavior we expect from each of the applicable subjects, as well as the principles intended to ensure a productive working environment in our facilities, where human rights, equality and diversity are respected, thereby avoiding conflicts of interest, bribery, corruption, discrimination and harassment.

In order for each of our employees to carry out their work in compliance with the ethics that characterize us, we created a computer graphic[8] to display the 16 general principles of the Code of Ethics.

We are working to ensure all employees can better understand the Code of Ethics through refresher courses, and each year we ask them to re-sign the letter of acceptance. In 2019, 90 employees received training on anti-corruption policies and procedures.

We also strive to ensure that our value chain performs ethically and in accordance with the law. In 2019, we informed 100% of our suppliers about Axtel's anti-corruption policies and procedures. We are implementing an ongoing inspection program with our contractors to ensure there are no cases of child labor among their workers and that they have the necessary personal protection equipment to guarantee safety in the performance of their duties.

We provide an open, confidential and anonymous communication channel to our employees and stakeholders for reporting any breaches of the Code of Ethics or our policies. This is the ALFA Transparency Mailbox which offers different means for expressing these concerns:

- **E-mail:** **buzon@alfa.com.mx**
- **Whatsapp/SMS:** **+52 1 81 2353 9853**
- **Toll-free telephone lines:**
  01 800 265 2532 (Mexico)
  1 866 482 1957 (United States)
  1 866 238 2860 (Canada)
- **Web page:** **www.alfa.com.mx/buzon.html**

The ALFA Transparency Mailbox is available in several languages 24 hours a day, 365 days a year.

In addition, our employees can approach the Human Resources department directly to share any comments, complaints or concerns related to ethical, legal and integrity-related conduct.

[7] You can consult our Code of Ethics at: https://www.axtelcorp.mx/codigo-de-etica/
[8] You can consult our infographic at: https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Codigo_de_Etica_Infografia.pdf

PROCESS FOR RECEIVING AND DEALING WITH COMPLAINTS

1. **The complaint is received in the ALFA Transparency Mailbox.**
2. **It is analyzed and assigned to the responsible departments for investigation, in accordance with policies and procedures.**
3. **The findings of the investigation are received for review. Sensitive cases are reviewed by Internal Audit.**
4. **A meeting is held to authorize the closing of the case.**
5. **Results are presented to the Audit Committee.**

COMPLAINTS RECEIVED

In 2019 we received 96 complaints, of which 75 were dealt with and resolved in their entirety by ALFA's Internal Audit Department, while the remaining 21 are currently being resolved.

At the same time, there were no cases of corruption, discrimination, human rights violations, privacy or leakage of customer data and no critical concerns were reported to the supreme governing body during this period.

Cases of inappropriate treatment of employees	42
Cases of inappropriate treatment of customers	18
Cases of personal relationships	16
Others	9
Cases of conflicts of interest	6
Cases of policy compliance	4
Case of asset preservation	1
TOTAL	96

Human rights

Axtel's commitment to sustainable development, employee welfare and the social development of the communities where we operate is centered on respect for human rights in all our areas of influence. We therefore reject any act of discrimination, child exploitation, forced labor, violation of the rights of indigenous peoples, abuse, coercion, impediment to association or collective bargaining, and/or threats along our value chain.

This stance is endorsed by our Code of Ethics, Supplier Code of Conduct, certain internal policies and our adherence to the United Nations Global Compact.

CODE OF ETHICS

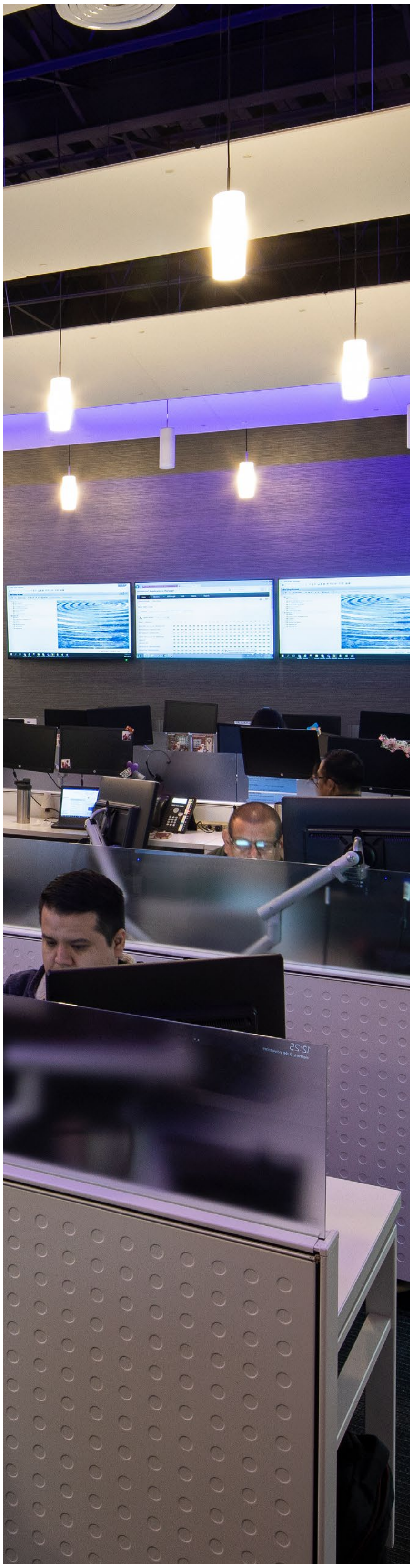
SUPPLIER CODE OF CONDUCT

ALFA TRANSPARENCY MAILBOX

HUMAN RIGHTS POLICY[9]

RECRUITMENT AND SELECTION POLICY

ADHERENCE TO THE GLOBAL COMPACT



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

FINANCIAL OUTLOOK

In order to drive sustainable business growth, we manage our economic and financial resources with transparency, ethics and integrity.

CASH FLOW PER QUARTER 2019
(millions of Mexican pesos)

1Q	1,074
2Q	1,094
3Q	1,111
4Q	1,187

SALES PER QUARTER 2019
(millions of Mexican pesos)

1Q	3,147
2Q	3,092
3Q	3,167
4Q	3,378

CASH FLOW PER ANNUM
(millions of Mexican pesos)

2016*	$3,673
2017	$4,300
2018	$4,393
2019	$4,466

SALES PER ANNUM
(millions of Mexican pesos)

2016*	$13,937
2017	$12,544
2018	$12,788
2019	$12,784

*Note: Figures include mass business results.

REPORTED FINANCIAL PERFORMANCE
(millions of Mexican pesos)

ITEM		2017	2018	2019
Direct Economic Value Generated (DEG)	Revenue	$12,544	$12,788	$12,784
	Interest income	$57	$52	$60
	Other income	$841	$224	$55
DEG		$13,442	$13,065	$12,899
Distributed Economic Value (DEV)	Operating costs	-$3,441	-$3,357	-$3,353
	Acquired services (outsourcing)	-$380	-$179	-$146
	Social benefits (payroll and derivatives)	-$3,353	$2,452	-$2,456
	Taxes paid	-$66	-$92	-$56
	Payments to funders	-$710	-$278	-$601
	Investments in the community (donations)	-$4	-$0	-$0
	Other expenses	-$323	-$17	-$119
DEV		-$8,277	-$6,375	-$6,731
Retained economic value	Economic value generated (-) Distributed economic value	$5,165	$6,690	$6,167

Management's Discussion and Analysis of the Issuer's Operating Results and Financial Position

Results of operations for the years ended December 31, 2019 and December 31, 2018

Revenue

For the twelve months ended December 31, 2019, total revenue was $12.784 billion, unchanged from the $12.788 billion in the same period of 2018.

The Company's revenue is derived from the following segments:

Business. . In 2019, revenue amounted to $10.625 billion, compared with $10.313 billion in 2018, an increase of 3%, derived from increases of 3% in both *Telecom* and *IT* services.

> ***Business Telecom.*** . In 2019, revenue came to $9.277 billion, compared with $9.002 billion in 2018, an increase of 3%, primarily due to a 12% increase in *Managed Networks* resulting from the positive performance of Ethernet, collaboration solutions and managed services in relation to non-recurring infrastructure contracts to provide dark fiber connectivity to a wholesale customer, as well as the mass market divestment transition services agreement. This increase in *Managed Networks* was partially mitigated by an 11% drop in Voice revenues due to a decline in fixed-to-mobile and long-distance revenues. *Data and Internet* revenues increased 2% due to continued customer demand for dedicated internet, partially mitigated by a drop in data.
>
> ***Business IT.*** In 2019, IT revenues totaled $1.347 billion, compared to $1.311 billion in 2018, a 3% increase driven by 16% growth in *cybersecurity* services and increases in *cloud* services.

Government. Revenues for 2019 totaled $2.159 billion, compared to $2.475 billion in 2018, a drop of 13%, derived from 9% and 17% drops in Telecom and IT services, respectively.

> ***Government Telecom.*** In 2019, revenues came to $1.072 billion, compared to $1.174 billion in 2018, a decrease of 9%, due mainly to a 13% drop in revenues from *Managed Networks* as a result of the termination of VPN service contracts and a slowdown in non-recurring revenues. Voice revenues were down 19% due to a drop in fixed-to-mobile revenues, while *Data and Internet* revenues increased 8% due to growing data demand.
>
> ***Government IT.*** . In 2019, IT revenues totaled $1.086 billion, compared to $1.302 billion in 2018, a decrease of 17%, primarily due to lower *cybersecurity* revenues as a result mainly of the termination of a major contract with a Mexican state at the end of 2018.

Gross Profit, Expenses, Operating Cash Flow and Operating Profit

Gross Profit. Gross profit is defined as revenue less cost of sales. In 2019, gross profit was $9.431 billion, unchanged from $9.431 billion in 2018, which means the positive performance of the corporate segment was mitigated by a decline in revenues from the government segment.

The gross profit margin remained unchanged at 74%, as a result of a lower business segment margin associated with an increase in non-recurring business revenues, which have lower margins, offset by an increase in the government segment margin associated with a lower proportion of non-recurring revenues.

Operating expenses. In 2019, operating expenses totaled $5.015 billion, a 6% drop compared to $5.320 billion in 2018, mainly due to reductions in employees and maintenance expenses as a result of digital innovation initiatives and savings of $276 million derived from the new accounting standard for long-term leases (IFRS 16).

Other income (expenses). In 2019, other income came to $50 million, down 82% from $282 million in 2018, which includes $225 million in earnings from the sale of towers in 2018.

Operational Cash Flow. EBITDA, defined as operating income plus depreciation and amortization and impairment of fixed assets, amounted to $4.466 billion in 2019, up 2% from $4.393 billion in 2018. However, 2018 EBITDA includes other income in the amount of $225 million from the sale of towers; adjusting for this profit, 2019 EBITDA increased 7% compared to 2018.

The EBITDA margin was up from 32.6% (without tower sales profit) in 2018 to 34.9% in 2019, largely driven by digitalization initiatives that helped reduce operating expenses and savings due to the IFRS 16 accounting standard.

Depreciation, Amortization and Impairment of Assets. Depreciation and amortization for 2019 came to $3.692 billion, unchanged from $3.697 billion in 2018.

Operating Profit. In 2019, the Company recorded an operating profit of $774 million compared to $695 million in 2018, an increase of 11%, due mainly to the 2% increase in EBITDA, as previously described, and the slight decrease of $5 million in depreciation and amortization.

Comprehensive Financing Result, net

The comprehensive financing cost totaled $1.127 billion; a 32% drop compared to $1.665 billion in 2018. This decrease is primarily due to a 22% reduction in net interest expense related to partial prepayments of bank loans of $4.35 billion in December 2018 and $550 million in May 2019, and payments of other liabilities of approximately $900 million. In addition, there was a $291 million foreign exchange gain in 2019, 55% higher than the $187 million foreign exchange gain in 2018.

Taxes

In 2019, income tax represented savings of $15 million, compared to a tax expense of $37 million the previous year. This variation is due mainly to the effects of inflation and the application of tax loss carryforwards during 2019 compared to 2018, generating a greater tax benefit in results.

Discontinued Operations

In 2019 and 2018, the Company recorded mass segment results as discontinued operations due to the divestment of the segment. Net income after taxes came to $324 million in 2019, which includes other income of $741 million from the sale of 18% of the mass segment in May 2019, compared to $2.101 billion in 2018, which includes other income of $2.786 billion from the sale of 82% of the business in December 2018.

Net Profit (Loss)

The Company recorded a net loss of $14 million in 2019, compared to a net profit of $1.095 billion in 2018. This development is explained mainly by the difference in discontinued operations in relation to the sale of the mass segment explained above.

Capital investments

For the twelve-month period ended December 31, 2019, capital expenditures on acquisitions of property, plant and equipment and intangibles totaled $1.762 billion, down 6% from $1.871 billion in 2018. In addition, earnings of $227 million were recorded in 2018 from the divestment of towers.

Financial position as of December 31, 2019, and December 31, 2018

Assets.

As of December 31, 2019, total assets amounted to $24.331 billion compared to $28.156 billion as of December 31, 2018, a decrease of $3.825 billion, or 14%.

Cash and Equivalents. As of December 31, 2019, cash and equivalents amounted to $858 million compared to $2.249 billion as of December 31, 2018, a decrease of $1.391 billion, or 62%. The 2018 year-end cash includes $1.073 billion of extraordinary cash expended during the first quarter of 2019 for value added tax and other expenses provided for from the mass segment divestiture.

Accounts Receivable. Accounts receivable as of December 31, 2019, amounted to $2.426 billion compared to $2.66 billion as of December 31, 2018, a decrease of $234 million or 9%.

Property, systems and equipment, net. As of December 31, 2019, property, systems and equipment, net, came to $12.964 billion compared to $16.106 billion as of December 31, 2018. Property, systems and equipment, net of accumulated depreciation, amounted to $61.040 billion and $63.272 billion as of December 31, 2019 and 2018, respectively.

Liabilities.

As of December 31, 2019, total liabilities amounted to $20.920 billion, compared to $24.535 billion as of December 31, 2018, a decrease of $3.615 billion or 15%, mainly derived from the prepayment of bank loans and other liabilities.

Accounts Payable. As of December 31, 2019, accounts payable amounted to $2.898 billion compared to $3.547 billion as of December 31, 2018, a decrease of $649 million, or 18%.

Debt. As of December 31, 2019, total debt, including accrued interest, amounted to $14.984 billion, an $855 million drop, comprised by $426 million of debt reduction and $429 million of accounting reduction caused by a 4% appreciation of the Mexican peso against the US dollar year to year. The $426 million debt reduction is explained by (i) a $250 million decrease related to the prepayment of the syndicated loan; (ii) a $300 million reduction in prepayments of short-term bank debt; (iii) a $320 million decrease in other loans and financial leases; (iv) a $12 million decrease in accrued interest; and (v) a $457 million increase due to the new accounting standard for long-term leases (IFRS 16).

Stakeholders' Equity

As of December 31, 2019, the Company's stakeholders' equity amounted to $3.411 billion compared to $3.621 billion as of December 31, 2018, a $210 million decrease due to a reduction in retained earnings. Capital stock was recorded at $464 million as of December 31, 2019 and 2018.

Cash Flow Statement

As of December 31, 2019, cash flows from operating activities came to $2.957 billion, compared to cash flows of $5.411 billion as of December 31, 2018. The change is mainly due to lower EBITDA from the mass segment following its divestment in December 2018 and May 2019.

As of December 31, 2019, the Company had generated (used) cash flows from investing activities of $(528) million, compared to $2.376 billion as of December 31, 2018. The 2019 figure includes earnings from the sale of the mass segment of $1.150 billion; the 2018 figure includes earnings from the sale of towers of $227 million and the mass segment of $4.466 billion. Investments in property, systems and equipment and intangibles came to $1.762 billion as of December 31, 2019, and $1.871 billion as of December 31, 2018.

As of December 31, 2019, cash flows (used in) generated from financing activities came to $(3.821) billion, primarily from the prepayment of bank loans of $550 million, leases of $638 million and other liabilities of $1.238 billion, compared to $(6.812) billion as of December 31, 2018, primarily from the prepayment of bank loans of $4.430 billion.

As of December 31, 2019, the net debt to cash flow ratio and the interest coverage ratio were 3.2x and 3.3x, respectively. Also, as of December 31, 2018, the net debt to cash flow ratio (including proceeds from the sale of towers) and the interest coverage ratio were 3.0x and 3.2x, respectively. Pro forma interest on prepaid loans and other liabilities are considered to calculate the interest coverage ratio.

SUSTAINABILITY

Sustainability

At Axtel, we integrate sustainability into each of the company's areas and processes, as well as throughout our value chain, by adopting the best environmental, social, financial and corporate governance practices to ensure we remain in the market.

We have a **Sustainability Policy**[8], as well as a **Sustainability Strategy** that reflects our vision of "contributing to a more sustainable future through our labor and environmental practices, proposing in an honest, ethical and responsible way innovative solutions that grant society access to Information and Communication Technologies, which also ensure the company's profitability".

Economic strategy

We are committed to honestly managing our technological, economic and financial resources to operate efficiently under strict risk control and in compliance with the law, thereby ensuring the successful and sustainable growth of the company.

Social Strategy

We are committed to fostering the sustainable development of our society by acting for the benefit of our employees and our external communities, providing them with tools so they can enjoy access to better educational and health opportunities, as well as a dignified life.

Environmental Strategy

We seek to reduce the negative impact of our operations on the environment by reviewing our procedures and developing our methods to conserve resources and establish a harmonious relationship with nature.

In addition to this strategy, we have the **Axtel Sustainability Model** that allows us to coordinate our performance in the fields of the environment, labor, society, operational efficiency and innovation and work culture as part of the same approach.

[8] See our Sustainability Policy at: https://www.axtelcorp.mx/sustentabilidad/

WORKING TOWARDS 2020

INNOVATION AND DIGITAL CULTURE

We create value for our customers and employees by ensuring the best practices in Information Security and seeking out innovative options for ongoing improvement for the Information Technology market.

EMPLOYEE WELLBEING

We are working to improve the work climate, promote training and development for our employees, and ensure that we work in safe and healthy environments.

SOCIAL OUTREACH

We establish positive relationships with our community that allow us to play a role in its social development.

ENVIRONMENTAL CONCERN

We are focused on mitigating our environmental impact by reducing energy, waste and water consumption, as well as cutting greenhouse gas emissions.

OPERATIONAL EFFICIENCY

We seek to ensure a unique experience for our customers, with the highest quality standards and our drive towards new technologies.

The **Corporate Communication and Sustainability Department** is leading the way in the sustainable management of our company and is responsible for reporting to General Management and the Board of Directors on the progress we make in economic, environmental and social matters during the year. In addition, this department participates in the Sustainability and Environmental Committees comprised by all ALFA companies.

Mission, vision and values

MISSION

Enable organizations to increase their productivity through digitization.

VISION

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

VALUES[9]

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

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

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

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

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

Integrity... ***Our Pillar***

[9]Find out more about Axtel Values: https://www.axtelcorp.mx/filosofia/

Global Compact and Sustainable Development Goals

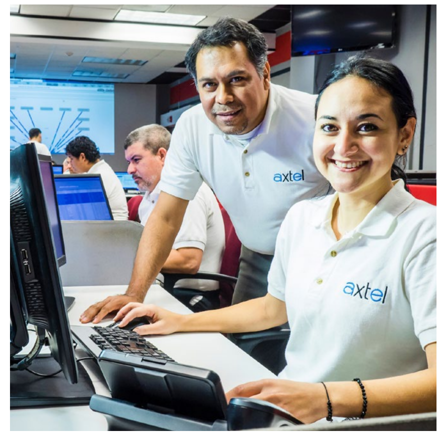
Maintaining our commitment to building a more sustainable future in every area we can is how we ratify our adherence to the **United Nations Global Compact**, an international initiative we have been part of since 2011. This report also represents our Communication for Progress (CoP).

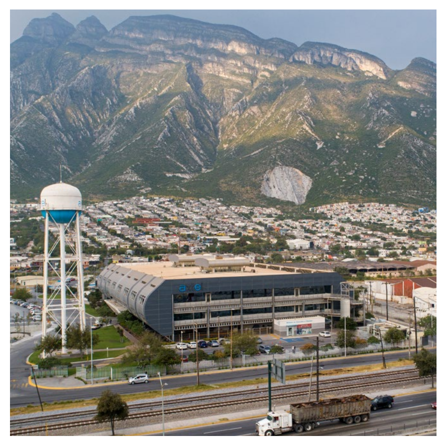
TOPIC	GLOBAL COMPACT PRINCIPLE
HUMAN RIGHTS	**1.** Companies must support and respect the protection of internationally proclaimed fundamental rights within their sphere of influence. **2.** Companies must ensure they are not complicit in human rights abuses.
LABOR	**3.** Companies must support freedom of association and the effective recognition of the right to collective bargaining. **4.** Companies must support the eradication of all forms of forced and compulsory labor. **5.** Companies must support the eradication of child labor. **6.** Companies must support the abolition of discriminatory practices in employment and occupation.
ENVIRONMENT	**7.** Companies must maintain a preventive approach to protect the environment. **8.** Companies must encourage initiatives that promote greater environmental responsibility. **9.** Companies must encourage the development and dissemination of environmentally friendly technologies.
ANTI-CORRUPTION	**10.** Companies must work against corruption in all its forms, including extortion and bribery.

We also support the dissemination and awareness of the **United Nations Sustainable Development Goals (SDG)** within the company and with our value chain.

In addition, we are identifying the SDGs in which we have the greatest impact due to the nature of our business and activities. The table below lists some of the projects we are undertaking in 2019:

SDG	PROJECT
3 GOOD HEALTH AND WELL-BEING **GOAL 3** **Health and Wellbeing**	Development of the 360° self-care and wellbeing campaign for our employees.
7 AFFORDABLE AND CLEAN ENERGY **GOAL 7** **Affordable clean energy**	Incorporation of renewable energies in our operations with higher energy demand such as Data Centers.
8 DECENT WORK AND ECONOMIC GROWTH **GOAL 8** **Decent work and economic growth**	Creation of direct jobs for more than 4,000 people.
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE **GOAL 9** **Industry, Innovation and Infrastructure**	Access to state-of-the-art technology for government agencies to provide people with an efficient service, as well as to businesses to improve their productivity and services.





GRI-RECOMMENDED METHODOLOGY

Stakeholder inclusion: consultations were held with the most representative stakeholders and a broad response was obtained, which ensures that their views and expectations on matters regarding Axtel's sustainability will be included.

Sustainability context: matters of relevance to our industry globally and the latest trends were considered, including some that go beyond the GRI guidelines.

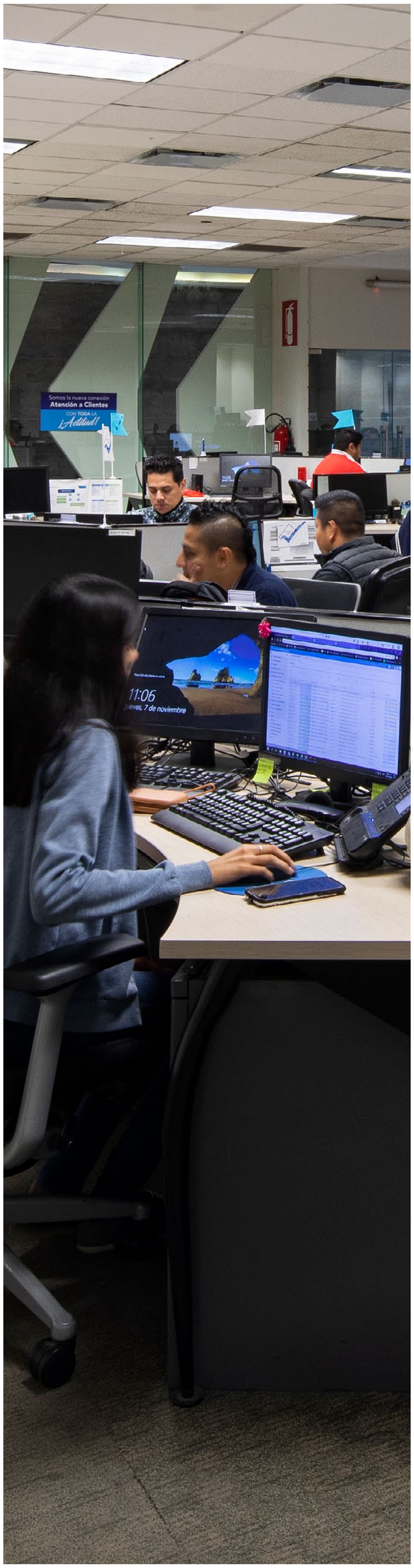
Materiality: the issues of greatest relevance to Axtel's stakeholders are set out in this report.

Completeness: in this report we present the results for each material issue.

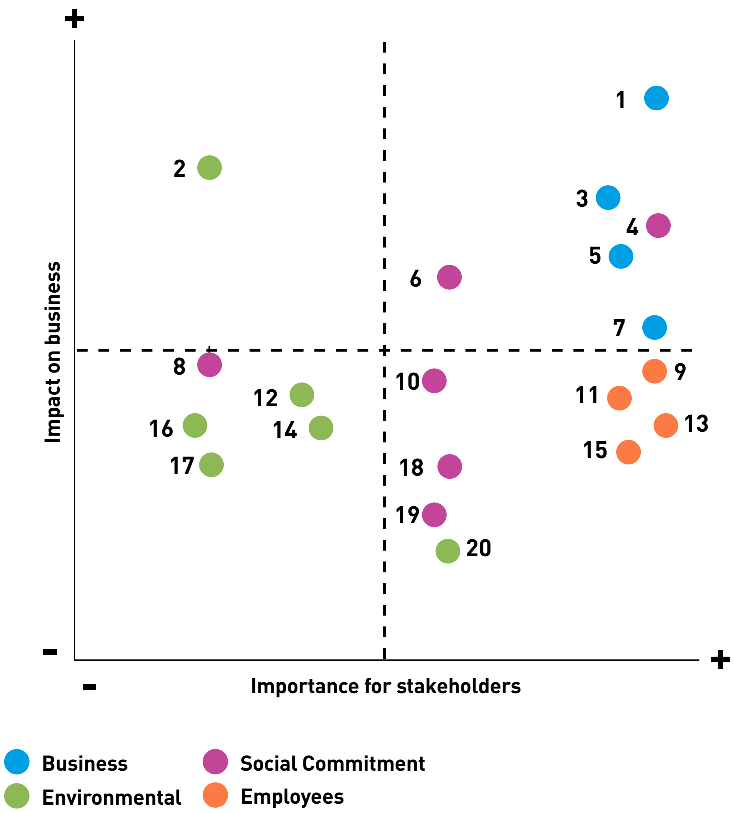
Materiality

In 2019 we once again conducted a materiality analysis to determine the most relevant topics affecting our business and act on them. To this end, we analyzed global trends in the telecommunications sector, as well as international organizations that analyze macro trends. We also consulted 1,974 employees, directors, customers, suppliers and the media through online surveys using the methodology recommended by *Global Reporting Initiative* (GRI), in order to find out about their perception of Axtel's sustainable performance and the issues that can impact our operations, profitability, reputation, market positioning and value creation for our stakeholders.

This exercise was crucial in identifying and updating material issues given that our company has undergone major changes, such as its functional separation into two specialized business units – services and infrastructure – and the completion of the sell-off of different assets related to the mass segment we previously served.



AXTEL MATERIALITY 2020



1 Information security
2 Energy efficiency
3 Network reliability
4 Ethics, anti-corruption and values
5 Customer privacy
6 Environmental and social risk management of operations
7 Product and services innovation
8 Commitment to the community (voluntary work and philanthropy)
9 Attracting and retaining talent
10 Respect for and promotion of human rights
11 Health and safety of employees
12 Strategies to combat climate change
13 Employee commitment
14 Introduction of environmental policies
15 Employee education and training
16 Use of renewable energy in operations
17 Reduction of emissions
18 Diversity and inclusion
19 Integration of social and environmental aspects in supplier reviews
20 Waste reduction

Stakeholders

At Axtel we maintain frequent, close and two-way contact with people and organizations of relevance to our business using different formats and communication channels, such as:

- **Email**
- **Company Intranet**
- **Corporate portal: comments to the CEO**
- **Meetings and information sessions**
- **Surveys**
- **Social networks**
- **Advertising**
- **Supplier portal**
- **Institutional website**
- **Press releases**
- **Financial reports**

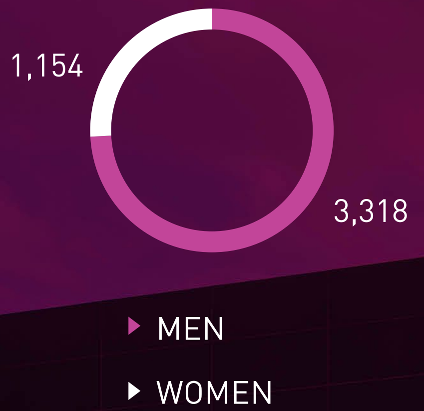
STAKEHOLDERS AND KEY TOPICS AND CONCERNS THAT AROSE IN 2019	AXTEL ACTIONS IN RESPONSE
EMPLOYEES **Professional development plans, relationship between boss and employee, leadership and exercising of authority, balance between work and family, remote or home-based work schemes, and a healthy working environment.**	We offered training programs based on professional development plans, as well as the use of job posting to encourage growth and development among our employees; we continued leader development efforts; implemented a flexi-time and remote work program; promoted volunteer activities and sports events involving employees, and developed the 360 wellness program that includes nutrition, health and commitment survey activities.
SUPPLIERS **Digitization of supplier interaction and increased operational efficiency**	In order to optimize and make interaction with suppliers more efficient, we continue to implement digitalization tools and the use of RPA (Robot Process Automation). Among other features, suppliers automatically and immediately upload the necessary information for data registration, modification or updates in accordance with the company's operational guidelines and with real-time interaction with the necessary platforms and/or validations. Similarly, invoices are recorded using automatic tools that validate compliance with current tax regulations. The internal processes of the entire supply chain form part of the digital transformation initiatives implemented by the company.
GOVERNMENT AND REGULATORY AGENCIES **Compliance with the Federal Telecommunications and Broadcasting Act (LFTR – acronym in Spanish) regarding the sale of non-strategic assets, as well as the renewal of frequency concessions.**	The Economic Competition Unit of the Federal Telecommunications Institute (IFT – acronym in Spanish) has confirmed that notifications submitted by Axtel, together with the purchasers, complied with the provisions of the Federal Telecommunications and Broadcasting Law (LFTR – acronym in Spanish). In addition, in 2019 the IFT authorized the extension of several frequency concessions requested by Axtel in accordance with the provisions of the regulatory framework.
CUSTOMERS **Service failure, quick response and short incident and request resolution times, customer service.**	We seek to reduce failures and increase service availability through preventive plans and ongoing processes for improvement. We train employees dealing with customers in the technologies and services we offer. We have also restructured the business, both in customer service and service operation, to provide quicker solutions for service failures and provide a better customer experience by means of an agile culture, automation tools and by improving employee experience.
COMMUNITIES **Development of strategies and actions with social, economic and/or environmental benefits.**	We received the ESR (Socially Responsible Company) Distinction from the Mexican Center for Philanthropy (CEMEFI) for the 12th consecutive year. We are still party to the UN Global Compact and have formed part of the BMV's Sustainable CPI since 2013. As a result of our commitment to the environment, we participated in the Carbon Disclosure Project (CDP), in the Climate Change and Suppliers modules, obtained ISO 14001 certification, and continue to promote the use of technology to reduce paper consumption in our billing, thereby avoiding the printing of 900,000 sheets of paper. We also participated at meetings of ALFA's Sustainability Committee in which issues related to current legislation and regulations were reviewed, as well as initiatives promoted in favor of the environment by each company of the Group. Furthermore, we participated in the SumaRSE Network and our volunteers took part in the "School for Parents" program, an initiative aimed at the parents of students of the ALFA Foundation Educational Project, which seeks to make parents more aware of the challenges faced by teenagers today.
SHAREHOLDERS AND INVESTORS **Value creation**	In 2019, we began operating under two specialized and focused business units – infrastructure and services – seeking to maximize the value of Axtel's fiber network and capitalize on market opportunities derived from the growing demand for data from wholesale customers, achieving better growth prospects for both business units. In addition, we developed a plan for divesting non-strategic assets, which was successfully completed in 2019. This plan included the divestment of towers in 2017, the sale of the mass market fiber business begun in 2018 and concluded in 2019, and lastly the agreement to sell three data centers to Equinix in October 2019. The net proceeds from these transactions were used to reduce debt and liabilities, thereby strengthening the Company's financial structure, which will give us the flexibility to evaluate other ways to continue generating value in the future, either through acquisitions that will afford greater growth, evaluating a possible dividend policy, and/or analyzing investment proposals that will maximize the value of the infrastructure unit and the Company.

EMPLOYEE WELLBEING

At Axtel, we are working to facilitate the professional and personal development of each of our 4,643 employees by providing adequate workspaces, promoting a work-family balance, offering training opportunities on different topics and promoting health and well-being through specific programs.

NUMBER OF EMPLOYEES BY TYPE OF CONTRACT AND GENDER

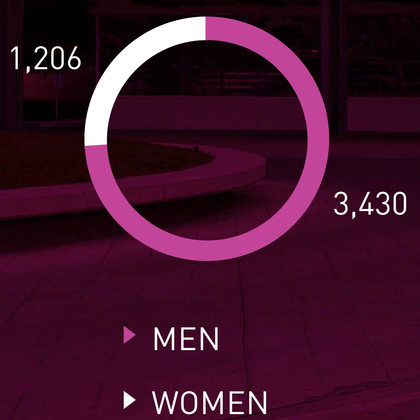
EMPLOYEES WITH A PERMANENT CONTRACT: 4,472 (96%)



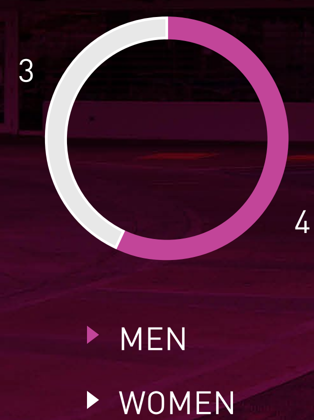
EMPLOYEES WITH A TEMPORARY CONTRACT: 171 (4%)

NUMBER OF EMPLOYEES BY TYPE OF WORKING DAY AND GENDER

FULL TIME EMPLOYEES: 4,636 (99.9%)



PART TIME EMPLOYEES: 7 (0.1%)



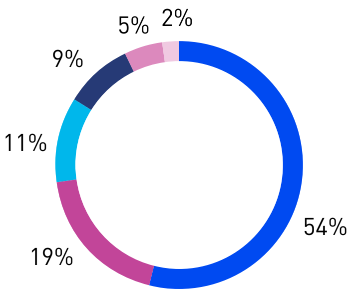
NUMBER OF EMPLOYEES BY TYPE OF CONTRACT, REGION AND GENDER

REGION	NON-UNION				TOTAL
	PERMANENT CONTRACT		TEMPORARY CONTRACT		
	MEN	WOMEN	MEN	WOMEN	
Central Mexico	1,091	368	44	11	**1,514**
Northern Mexico	1,913	734	61	40	**2,748**
Western Mexico	314	52	11	4	**381**
Total	**3,318**	**1,154**	**116**	**55**	**4,643**

Axtel no longer has unionized workers following the total divestment of the Mass Market segment in 2019.

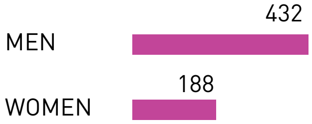
EMPLOYEES WITH A PERMANENT CONTRACT BY REGION		EMPLOYEES WITH A TEMPORARY CONTRACT BY REGION	
REGION	NUMBER OF EMPLOYEES	REGION	NUMBER OF EMPLOYEES
Central Mexico	1,459	Central Mexico	55
Northern Mexico	2,647	Northern Mexico	101
Western Mexico	366	Western Mexico	15
Total	**4,472**	**Total**	**171**

EMPLOYEES BY AGE AND GENDER



- Men aged 31 to 50
- Women aged 31 to 50
- Men over the age of 51
- Men under the age of 30
- Women under the age of 30
- Women over the age of 51

NEW HIRES BY GENDER



TOTAL 620

We offer a benefit plan that includes double the number of days of Christmas holiday pay required by law, major medical expense insurance, life insurance, savings account, 20 days' leave for personal matters, disability coverage, and maternity and paternity leave. In this regard, in 2019 we provided 67 maternity and 78 paternity leaves, of which 90% and 95% respectively returned to work at the end of their leave, and 72% and 49% respectively continue working at Axtel one year after requesting leave.

We also pay competitive salaries compared to the market. An example of this is our employees in the lowest salary range, who earn 72% more than the minimum salary set by law in Mexico.

We value the loyalty of our team, which is why this year we formally recognized the careers of 117 male employees and 37 female employees who completed 10 years working at Axtel.

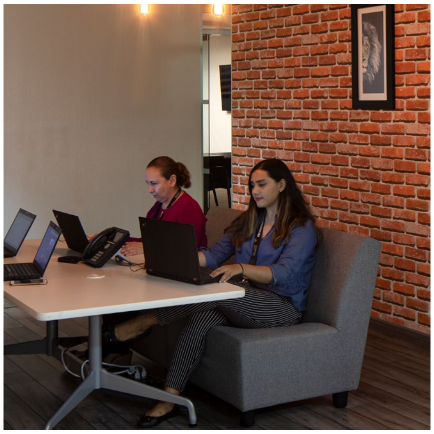
For people about to retire we offer optional plans and programs to prepare for this new stage of life. In 2019, 30% of candidates chose to participate in **Visionate**, a comprehensive development program with individual coaching sessions to facilitate their transition to retirement.

We also strive to attract and retain the best talent. In 2019, 620 employees joined our staff, while 546 employees left.

NEW HIRES BY REGION, GENDER AND AGE

REGION	AGE	MEN	WOMEN
Central Mexico	18-30 años	48	27
	31-50 años	119	43
	+51 años	15	3
Northern Mexico	18-30 años	110	57
	31-50 años	91	45
	+51 años	12	3
Western Mexico	18-30 años	12	5
	31-50 años	23	5
	+51 años	2	0

The percentage of new hires in 2019 was 13.3%

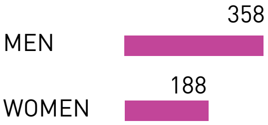


EMPLOYEE TURNOVER BY REGION, GENDER AND AGE

REGION	AGE	MEN	WOMEN
Central Mexico	18-30 años	26	3
	31-50 años	136	51
	+51 años	48	23
Northern Mexico	18-30 años	23	1
	31-50 años	144	52
	+51 años	81	46
Western Mexico	18-30 años	2	-
	31-50 años	27	10
	+51 años	11	2

The employee turnover rate in 2019 was 11.7%

TURNOVER BY GENDER



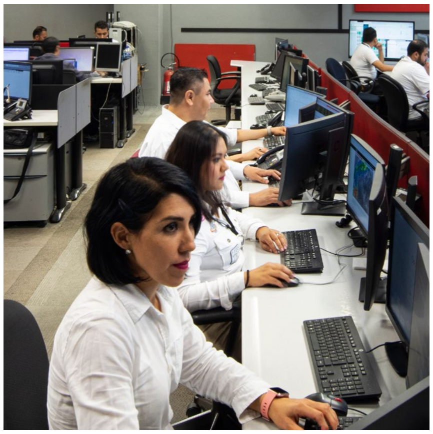
TOTAL 546

MANAGERIAL TEAM BY AGE AND GENDER

JOB CATEGORY	MEN AGED 31-50	WOMEN AGED 31-50	MEN AGED 51+	WOMEN AGED 51+
CEO and Executive Directors	1	-	8	-
Directors	21	2	16	3
Managers	73	17	41	-
Total	**95**	**19**	**65**	**3**

EMPLOYEES BY JOB CATEGORY AND GENDER

JOB CATEGORY	MEN	WOMEN
CEO	1	-
Executive Directors	8	-
Directors	37	5
Managers	114	17
Middle Managers	251	64
Employees	366	164
Analysts	2,656	959
Total	**3,434**	**1,209**



Employee development

Given the nature of our industry we are implementing a process of ongoing technological change and digital transformation. We are facing these challenges by providing employees with constant training so they can stand at the cutting edge of technological trends and by conducting assessments that allow us to identify areas of opportunity.

We have defined three lines of action for focusing our training efforts:

UniAlestra
This is an online learning center for developing skills to make the company's digital transformation possible. In 2019, 163 employees graduated from the first generation of the diploma program on cybersecurity and cloud solutions, taught by a community of 55 experts from within the company.

Executive Forum

This event offers our company executives the opportunity to participate in the digital innovation strategy and tools we will be adopting on a day-to-day basis to boost productivity. A total of 184 executives participated in 2019.

Cultural Model

We are working to create an environment of digital transformation in every company department and at every level so we can meet the technological needs of our customers.

We spent $14.5 million in classroom and online training for our employees on topics such as sales, operations, leadership, organizational culture and digital gym[3], as well as certification for working at heights, lead & facilitate, supervisor to coach and technology.

AVERAGE TRAINING HOURS BY JOB CATEGORY AND GENDER

JOB CATEGORY	WOMEN TRAINED	TOTAL TRAINING	AVERAGE TRAINING	MEN TRAINED	TOTAL TRAINING	AVERAGE TRAINING
Directors	5	75	15	40	271	7
Executive Directors	-	-	-	9	16	2
Managers	19	290	15	115	1,660	14
Employees	1,087	21,494	20	2,917	60,467	21
Area Leaders	98	1,949	20	353	7,641	22
Total	**1,209**	**23,808**	**19.7**	**3,434**	**70,057**	**20.4**

We perform periodic evaluations to identify strengths and areas of opportunity in terms of employee knowhow and skills. In 2019, we conducted 360° executive evaluations of 182 employees, 180° mid-level management evaluations of 32 employees, and young talent evaluations of 404 employees.

As every year, in 2019 we held a nationwide event to celebrate **Family Day**, which included the participation of 2,410 employees and 4,890 family members.

[3] Digital Gym is the learning gym that will prepare our employees for digital innovation.

Health and hygiene

For Axtel, the health and safety of our employees and visitors to our facilities is a priority.

To ensure safety, we conduct inspections and audits of our workplaces and promote the mandatory use of personal protective equipment where required.

We have 16 Health and Safety Committees representing 60% of our employees.

This year we launched our **360° Wellness** strategy, based on the Psychosocial Risks Prevention Guidelines, with which we promote a good working environment that gives rise to a working culture free from any form of violence, abuse, reprisals and/or discrimination. This program offers our employees a range of services, activities and events covering professional, family, social and health matters.

t Axtel we meet the highest standards required by the Ministry of Labor and Social Welfare. A mere 62 accidents were reported in 2019, including minor incidents, none of which were fatal. The accident rate was as follows:

- **1.06 accident frequency rate (AFR)**
- **0.01 occupational illness frequency rate (OFRI)**
- **26.64 lost workdays (LWD)**
- **0.11 employee absence rate (EAR)**

EMPLOYEES	NORTHERN REGION		WESTERN REGION		CENTRAL MEXICO REGION	
	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN
Accidents	2	10	3	14	5	28
Accident Frequency Rate (AFR)	0.07	0.33	0.69	3.21	0.31	1.76
Occupational Illness Frequency Rate (OIFR)	0	0	0	0	0	0.06
Lost Work Day rate (LWD)	1.80	10.34	6.43	78.98	1.70	60.56
Employee Absence Rate (EAR)	0.01	0.04	0.03	0.32	0.01	0.24

As part of our ongoing activities, we promote measures to help protect our employees' health through healthy eating and disease prevention campaigns. In addition, we provide medical services, vaccination campaigns, general check-ups and medical consultations, among other benefits, at all our facilities.

In 2019, we spent almost $3 million on medical consultations, medicines, emergency services and first aid kits for our employees.

We also encourage the participation of our employees in sports, recreational and joint activities. In 2019, 1,352 employees took part in activities such as soccer, bowling, table tennis, dominoes and racing.

Social outreach

Together with civil organizations, we play an active role in solving social issues in the communities where we operate through our **corporate volunteer** activities.

Since 2015 our volunteers have participated in the ALFA **School for Parents**[4], an initiative designed for the parents of students of the ALFA Foundation Educational Project. This drive seeks to make parents of high school students aware of the emotional and behavioral problems young people may face. In 2019, 20 volunteers participated for a total of 140 hours.

We also form part of the **ALFA Know Your Degree** initiative, in which employees from different ALFA companies share their professional experiences with students from the ALFA Foundation High School. The aim is to provide them with insight into working life to ensure better university degree choices. In 2019, five volunteer employees shared their experiences with 32 students interested in degrees in the visual arts, computer systems, and architecture.

PROVIDING HEALTHCARE FOR EMPLOYEES AND THEIR FAMILIES (PARTICIPANTS BY CAMPAIGN)

1,618
Vaccination

658
Prevention of chronic-degenerative diseases

607
Women's health programs

317
Nutrition campaign

165
Agreements with laboratories and hospitals

51
Men's health programs

[4] Learn more about the ALFA School for Parents at: https://alfalive.mx/escuela-para-padres/

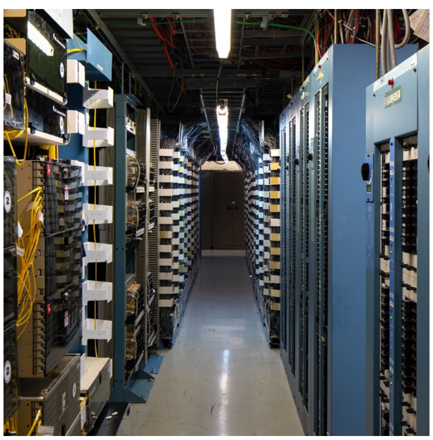
Furthermore, 12 of our employees and their families participated as volunteers in the 2019 Monterrey Powerade Marathon, spurring on their colleagues from the Axtel Running Club to reach the finish line.

We are part of **Red SumaRSE Nuevo León**, an initiative that seeks to improve quality of life for around 32,500 inhabitants from six communities in the state of Nuevo León by resolving community issues and preventing crime and violence through public participation. The network is comprised of government agencies and 32 partner companies. In 2019 we moved ahead with the implementation of the 2.0 initiative by forging 96 alliances and carrying out 67 participatory projects with the efforts of 1,521 people.

ENVIRONMENTAL CONCERN

We are committed to the sustainability of our business and therefore promote an environmental culture within the organization. We are also focused on improving energy efficiency, reducing water consumption, and cutting greenhouse gas emissions as well as the waste generated by our processes.

Our work is performed in accordance with our **Environmental Policy** guidelines, which include steps for minimizing the impact of our operations on the environment. Three specific policies are derived from this document: Waste and Residues, Energy Saving and Water Consumption.



In 2019, 63 employees completed the induction process for ISO 14001 and another 10 employees for ISO 14001:2015 as internal auditors.

We attended meetings of ALFA's Environmental Committee which reviewed issues related to current legislation and regulations, as well as initiatives to be developed in each company of the Group.

Energy use

In our industry, energy is a key resource for providing customers with solutions, so we are working to make our processes more efficient thereby reducing cutting our consumption of energy.

In order to use energy more efficiently, we operate according to the **Energy Saving Policy**, which includes measures our employees expect to achieve this objective and, as a result, cut Green House Gas (GHG) emissions.

We have wind and geothermal energy supplies at 48 and 46 sites respectively.

DIRECT CONSUMPTION FROM FIXED SOURCES

	TYPE	LITERS	GJ
Power Plants	Gasoline	2,406	81
	Diesel	101,794	3,865
	LP Gas	4,200	110
	Natural Gas	1,302,917	53,860
Total Fixed Sources		**1,411,317**	**57,916**

OTHER INDIRECT CONSUMPTION BY SOURCE

TYPE	LITERS	GJ
Gasoline Vouchers for Executives	193,285	6,522

TYPE	LITERS	KM TRAVELED
Air Travel	4,106,845	5,249

DIRECT CONSUMPTION BY CO-GENERATION

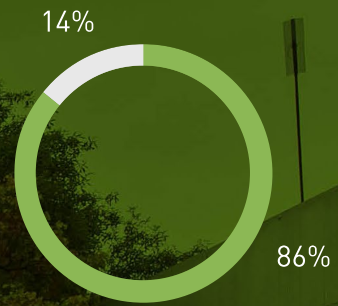
TYPE	MWh	GJ
Co-generation	8,295	29,862
Total co-generation	8,295	29,862

INDIRECT CONSUMPTION BY SOURCE

TYPE	MWh	GJ
Conventional	123,619	474,892
Wind Power	12,655	45,559
Geothermal	694	2,500
Fixed Sources	136,969	522,951

ENERGY CONSUMPTION

- Conventional Energy
- Renewable and Clean Energy



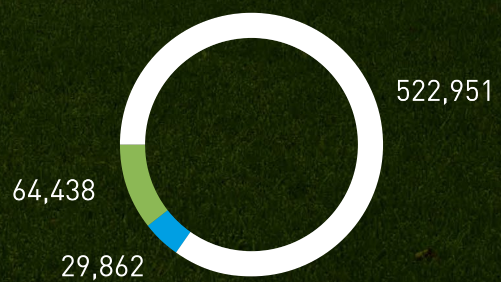
Fuel consumption has changed because Axtel's fleet of vehicles ceased operations following the company's mass market divestment. However, in 2019 the cogeneration plant located in Querétaro began working at full capacity leading to a readjustment in the mix of fuel and electricity consumption.

IN 2016 WE ESTABLISHED COMMITMENTS FOR 2020:

- **To reduce electrical energy consumption by** 2%
- **To reduce fuel consumption by** 5%

TOTAL ENERGY CONSUMPTION (GJ)

- Electricity
- Co-generation
- Fuels



ENERGY EFFICIENCY (GJ)

SOURCE	2017	2018	2019
Fixed Source Fuels	3,891	5,401	57,916
Co-generation	58,649	251,557	29,862
Electricity	504,451	494,890	522,951
Other Indirect Consumption	-	-	6,522
Total Energy Consumption	**690,356**	**759,233**	**617,251**

Notes on energy consumption calculations:
· The base year used for calculating energy consumption is 2016.
· All information for energy calculation was collected by Axtel.
· The conversion factors used are the ones set out in the Official Gazette of the Federation (DOF).
· We prevented the emission of 7,035 tons of CO2eq into the atmosphere by consuming renewable energies.

ENERGY INTENSITY[6]

In 2019 we concluded the sale of the mass market segment, as well as certain assets required for its operation. In this way we modified the parameter used to calculate energy intensity. In previous years it was related to the number of mass market subscribers; however, since 2018 we have taken the company's revenues as a reference.

In 2019, 48.28 GJ were consumed for every billion in revenue, considering $12.784 billion and a total energy consumption of 617,251 GJ. This calculation only includes consumption within Axtel.

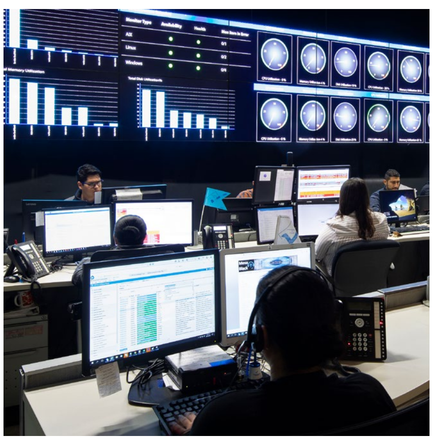
FOR EVERY MILLION PESOS OF REVENUE THE FOLLOWING WERE CONSUMED:

2017: 55.03 GJ/ BILLION PESOS
(considering revenue of $12.544 billion and 690,357 GJ).

2018: 59.37 GJ/ BILLION PESOS
(considering revenue of $12,788 billion and 759,233 GJ).

2019: 48.28 GJ/ BILLION PESOS
(considering revenue of $12,784 billion and 617,251 GJ).

[6] The types of energy included are fuel, electricity, heating and refrigeration.



Greenhouse Gas Emissions

We consume electricity and fuels that generate Greenhouse Gas (GHG) emissions. In view of the impact this entails, we are implementing a number of initiatives to reduce consumption and minimize this impact. We voluntarily report our emissions to the **Carbon Disclosure Project (CDP)** in the climate change and suppliers modules.

Every year we measure our emissions in the following way: Scope 1 - direct emissions, Scope 2 - indirect emissions from electricity consumption, and Scope 3 - indirect emissions for consumption outside the company.

SCOPE 1 EMISSIONS FROM FIXED SOURCES

FUEL	Tons CO_2e
Gasoline	6
Diesel	287
LP Gas	7
Natural Gas	3,024
Total	3,324

SCOPE 2 EMISSIONS

SOURCE	Tons CO_2e
Conventional	65,147
Co-generation	4,372
Total	69,519

SCOPE 1 EMISSIONS (TONS CO_2e)

2017: 18,026

2018: 14,511

2019: 3,324

SCOPE 2 EMISSIONS (TONS CO_2e)

2017: 54,359

2018: 70,896

2019: 69,519

SCOPE 3 EMISSIONS (TRAVEL)

In 2019, our executives made 5,249 domestic and international business trips totaling 4,106,845 km producing indirect emissions of 692 tons of CO_2e.

SCOPE 4 EMISSIONS (VOUCHERS)

We counted gasoline vouchers given to directors to calculate indirect emissions generated by their use. In 2019 these came to 512 tons of CO_2e.

EMISSIONS FOR EVERY MILLION PESOS OF INCOME WERE AS FOLLOWS:

2017: 55.86 tons of CO_2e/ BILLION PESOS

(considering revenue of $12.544 billion and emissions of 73,520 tons of CO_2e).

2018: 6.97 tons of CO_2e/ BILLION PESOS

(considering revenue of $12.788 billion and emissions of 89,163 tons of CO_2e).

2019: 5.79 tons of CO_2e/ BILLION PESOS

(considering revenue of $12,784 billion and emissions of 74,047 tons of CO_2e).

SCOPE 3 EMISSIONS (TONS CO_2e)

2017: 1,135

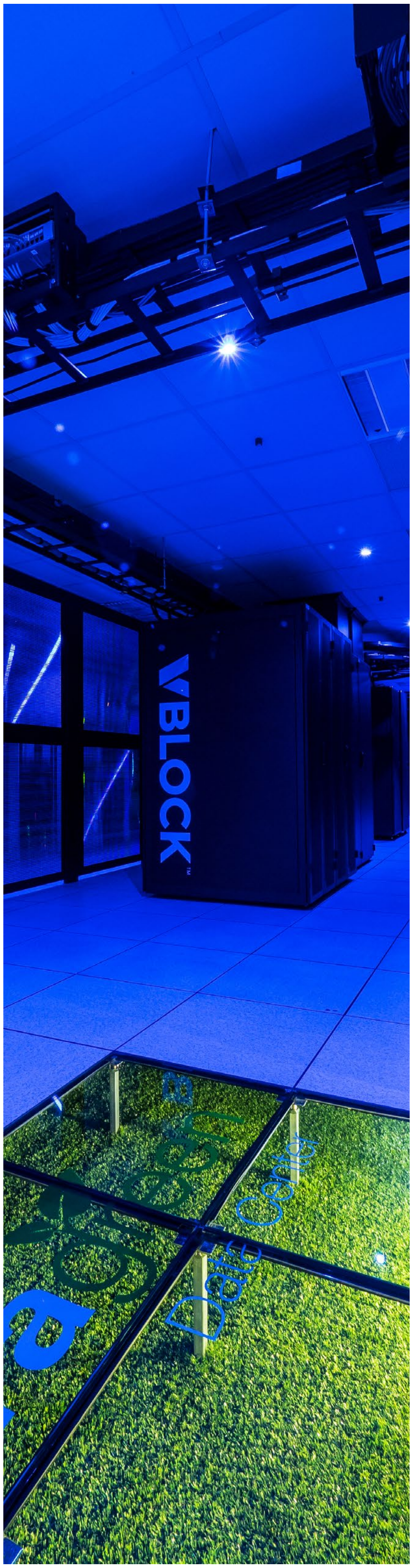
2018: 2,699

2019: 1,204

EMISSION INTENSITY

As with energy, we also modified the parameter for calculating emission intensity. In previous years it was related to the number of mass market subscribers, but since 2018 we have taken the company's revenues as a reference.

In 2019, 5.79 tons of CO_2e were emitted for each GJ consumed, considering 74,047 tons of CO_2e for total energy consumption.



TOTAL EMISSIONS BY SCOPE (TONS CO_2e)

SCOPE	2017	2018	2019
Scope 1	18,026	14,511	3,324
Scope 2	54,359	70,896	69,519
Scope 3	1,135	2,699	1,204
Total	**73,520**	**88,106**	**74,047**

Notes on the calculation of emissions:
· The base year used for calculating emission reductions is 2016.
· We use the GHG Protocol tool to obtain emission factors and Global Warming Potential (GWP) rates, as well as to calculate emissions.
· For Scope 2 emissions we used the emission factor of the National Electricity System 2018: 0.527 tons of CO_2e/MWh.
· The consolidation approach used for emissions was operational control.
·The information used for calculating Scope 1, 2 and 3 emissions was collected by Axtel.

Water consumption

Water is not a vital resource for our operations; however, we assume responsibility for its conservation and care, and we therefore encourage responsible use.

WATER SUPPLY BY SOURCE (M^3)

MUNICIPAL TOTAL:

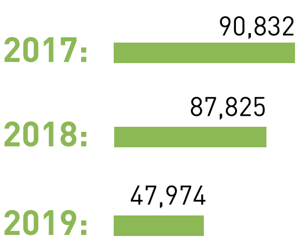
47,974 m^3

We address the global issue of water consumption through the Water Efficiency Policy, which sets out guidelines for employees on how we should use and preserve this resource.

In Mexico City we have 571 m^3 of water stored.

Most of the water we consume comes from the municipal supply of the states we are located in, with the rest coming from groundwater. In 2019 there were no recorded cases of affectations to our groundwater sources.

WATER CONSUMPTION (M^3)



Waste management and disposal

Since we offer intangible technological services and solutions, the vast majority of the materials we use are not utilized for our service offerings but for the organization's operational functions.

We seek to reduce waste in our administrative offices, as well as the use of materials for daily operations, by encouraging recycling. We achieve this by complying with Mexican Official Standards, environmental legislation in force in Mexico and our own **Waste Management and Disposal Policy**.

We are pooling efforts to implement circular economy solutions that benefit society and our organization. To this end, we run an active **Recycling Program** in cities where we have a significant presence. In 2019 we will recycle 50 tons of wood, paper, cardboard, glass, metals and plastic.

In 2019 we produced 783 tons of waste that was sent to the Mariano Escobedo Industrial Park in Nuevo León for proper confinement.

WASTE DISPOSAL (TONS)

Dump (landfill)	600
Confinement	59
Recycling	124
Total	**783**

We continue working to reduce paper consumption by promoting the option of electronic invoicing with our customers. This year we delivered 248,095 electronic invoices, equivalent to 868,333 unprinted sheets.

In 2019 we did not receive any fines or non-monetary sanctions for noncompliance with environmental regulations.

FINANCIAL STATEMENTS

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, 2019 and 2018, and Independent Auditors' Report Dated January 31, 2020

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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, 2019 and 2018, and the consolidated statements of operations, the consolidated statements of comprehensive (loss) 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, 2019 and 2018, as well as their consolidated financial performance and their 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 Auditors' 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 12 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.

We have identified the impairment evaluation as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions, premises, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs"), in addition to the importance of the goodwill and intangible assets balances of $1,052 and $1,405 million, as well as the property, plant and equipment balance of $12,964 and $16,106 million, as of December 31, 2019 and 2018, respectively.

Therefore, as part of our audit and with support of valuation experts, 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. For this, our procedures, among others, included the following:

• We verified that the methods applied by the Company for determining the recovery value of the aforementioned assets correspond to the financial methodology used and recognized to value assets of similar characteristics.

• Performed tests on the completeness, accuracy and reasonableness of financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with management. In addition, we assessed the internal processes used by management to make projections, including appropriate oversight levels and the analysis that was carried out at the various levels.

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

• Evaluate 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 CGU.

• To determine the CGU, 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 of the key assumptions for the impairment model, which we discussed with management estimating the degree of impact they would have on the financial statements in the face of a reasonably possible change in such key assumptions.

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

Information other than the Consolidated Financial Statements and Auditors' Report thereon

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

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

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

Responsibilities of Management and those Charged with Governance for the Consolidated Financial Statements

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

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.

Auditors' 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

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

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

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

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

C. P. C. Héctor García Garza
Monterrey, Nuevo León México
January 31, 2020

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, 2019 and 2018
Thousands of Mexican pesos

	NOTE	2019	2018
ASSETS			
Current assets:			
Cash and cash equivalents	6	$857,742	$2,249,155
Trade and other accounts receivable, net	8	3,344,674	3,593,881
Inventories	9	93,982	104,802
Financial instruments at fair value	4	92,673	129,075
Prepayments	3.j	521,406	546,064
Derivative financial instruments	4	-	5,898
Long-lived assets held for sale	2.b	1,124,613	315,053
Total current assets		6,035,090	6,943,928
Non-current assets:			
Restricted cash	7	-	93,908
Property, plant and equipment, net	10	12,963,991	16,105,524
Right of use asset, net	11	661,246	-
Goodwill and intangible assets, net	12	1,052,258	1,405,387
Deferred income taxes	20	2,876,287	2,873,075
Other non-current assets	13	741,897	716,287
Derivative financial instruments	4	-	17,693
Total non-current assets		18,295,679	21,211,874
Total assets		**$24,330,769**	**$28,155,802**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Debt	17	$131,632	$465,828
Lease liability	18	451,775	-
Trade and other accounts payable	14	4,169,016	7,423,978
Provisions	15	220,190	312,384
Deferred income	16	153,229	536,452
Derivative financial instruments	4	51,814	39,258
Total current liabilities		5,177,656	8,777,900
Non-current liabilities:			
Debt	17	13,836,310	15,156,918
Lease liability	18	414,323	-
Accounts payable to related parties	28	703,348	4,033
Employee benefits	19	695,498	592,037
Derivative financial instruments	4	91,898	-
Deferred income taxes	20	759	4,007
Total non-current liabilities		15,742,136	15,756,995
Total liabilities		20,919,792	24,534,895
Shareholders' equity:			
Controlling interest:			
Capital stock	21	464,368	464,368
Additional paid-in capital		-	159,551
Accrued earnings		3,104,427	3,013,954
Other comprehensive loss		(157,818)	(16,972)
Total controlling interest		3,410,977	3,620,901
Non-controlling interest		-	6
Total shareholders' equity		3,410,977	3,620,907
Total liabilities and shareholders' equity		**$24,330,769**	**$28,155,802**

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 Operations

For the years ended December 31, 2019 and 2018
Thousands of Mexican pesos

	NOTE	2019	2018
Revenues	23	$12,783,633	$12,788,484
Cost of sales		(6,104,427)	(6,290,978)
Gross profit		6,679,206	6,497,506
Administration and selling expenses		(5,841,918)	(6,008,955)
Other (expenses) income, net	25	(63,453)	206,929
Operating income		773,835	695,480
Financial income	26	60,253	52,129
Financial expenses	26	(1,468,752)	(1,868,618)
Exchange fluctuation gain, net	26	290,275	186,888
Gain on changes in fair value of financial instruments		(8,919)	(35,202)
Financial result, net		(1,127,143)	(1,664,803)
Loss before taxes		(353,308)	(969,323)
Income taxes benefit (expense)	20	15,291	(37,338)
Loss from continuing operations		(338,017)	(1,006,661)
Discontinued operations	22	324,078	2,101,339
Net consolidated (loss) income		**$(13,939)**	**$1,094,678**
(Loss) income attributable to:			
Controlling interest		$(13,939)	$1,094,678
Non-controlling interest		-	-
		$(13,939)	**$1,094,678**
Loss per basic and diluted share from continuing operations		(0.017)	(0.050)
Profit per basic and diluted share from discontinued operations		0.016	0.104
(Loss) profit per basic and diluted share		**$(0.001)**	**$0.054**
Weighted average common outstanding shares (thousands of shares)		**20,183,560**	**20,249,227**

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 (Loss) Income

For the years ended December 31, 2019 and 2018
Thousands of Mexican pesos

	NOTE	2019	2018
Net consolidated (loss) income		$(13,939)	$1,094,678
Other comprehensive (loss) income for the year:			
Items that will be reclassified to the consolidated statement of operations:			
Effect of currency translation	20	(2,468)	(86)
Fair value of derivative financial instruments, net of taxes		(88,940)	(8,370)
Items that will not be reclassified to the consolidated statement of operations:			
Remeasurements of employee benefits, net of taxes	20	(49,438)	42,280
Total other comprehensive (loss) income for the year		(140,846)	33,824
Total comprehensive (loss) income of the year		**$(154,785)**	**$1,128,502**
Total comprehensive (loss) income of the year Attributable to:			
Controlling interest		$(154,785)	$1,128,502
Non-controlling interest		-	-
Comprehensive (loss) income of the year		$(154,785)	$1,128,502

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, 2019 and 2018
Thousands of Mexican pesos

	Controlling		
	Capital stock	Additional paid- in capital	(Accumulated deficit) retained earnings
Balances as of January 1, 2018	$464,368	$159,551	$1,919,276
Net consolidated income	-	-	1,094,678
Net consolidated income	-	-	-
Comprehensive income	-	-	1,094,678
Balances as of December 31, 2018	464,368	159,551	3,013,954
Transactions with stockholders:			
Repurchase of shares	-	(159,551)	103,015
Other	-	-	1,397
Total transactions with stockholders	-	(159,551)	104,412
Net consolidated loss	-	-	(13,939)
Total other comprehensive loss for the year	-	-	-
Comprehensive loss	-	-	(13,939)
Balances as of December 31, 2019	**$464,368**	**$ -**	**$3,104,427**

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

interest

Other comprehensive loss	Total controlling interest	Non-controlling interest	Total shareholders' equity
$(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
-	(56,536)	-	(56,536)
-	1,397	(6)	1,391
-	(55,139)	(6)	(55,145)
-	(13,939)	-	(13,939)
(140,846)	(140,846)	-	(140,846)
(140,846)	(154,785)	-	(154,785)
$(157,818)	**$3,410,977**	**$ -**	**$3,410,977**

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, 2019 and 2018
Thousands of Mexican pesos

	2019	2018
Cash flows from operating activities		
Loss before taxes	$(353,308)	$(969,323)
Depreciation and amortization	3,578,541	3,622,713
Exchange fluctuation gain, net	(290,275)	(186,888)
Allowance for doubtful accounts	8,874	114,207
Loss (gain) from sale of property, plant and equipment	5,046	(226,646)
Interest income	(60,253)	(52,129)
Interest expense	1,468,752	1,868,618
Current PTU	12,524	9,825
Provisions and others	(65,009)	129,315
Change in unrealized fair value and settlement of financial instruments	8,919	35,202
Changes in working capital:		
Trade and other accounts receivable, net	120,012	(629,388)
Inventories	131,289	84,083
Trade accounts payable, related parties and other accounts payable	(1,162,728)	395,526
Employee benefits	32,835	38,797
Paid PTU	(9,178)	(16,693)
Deferred income	(383,223)	224,331
Operating cash flows from discontinued operations	(29,633)	1,061,978
Subtotal	3,013,185	5,503,528
Income taxes paid	(56,481)	(92,478)
Net cash flows generated by operating activities	2,956,704	5,411,050
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,691,354)	(1,405,494)
Disposal of property, plant and equipment	-	226,646
Acquisition of intangible assets	(70,676)	(465,207)
Interest received	60,254	52,318
Restricted cash and other assets	93,908	29,033
Investment in shares of Altán	(69,959)	(17,868)
Investing cash flows from discontinued operations	1,150,000	3,956,544
Net cash flows generated by (used in) investing activities	(527,827)	2,375,972
Cash flows from financing activities		
Proceeds of current and non-current debt	-	619,355
Payments of current and non-current debt	(550,000)	(5,753,342)
Lease payments	(638,067)	-
Payment of account payable to holding company	(1,237,640)	-
Interest paid and other financial expenses	(1,395,272)	(1,677,825)
Net cash flows used in financing activities	(3,820,979)	(6,811,812)
Net increase (decrease) of cash and cash equivalents	(1,392,102)	975,210
Effect of changes in exchange rates	689	16,142
Cash and cash equivalents at the beginning of the year	2,249,155	1,257,803
Cash and cash equivalents at the end of the year	**$857,742**	**$2,249,155**

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, 2019 and 2018
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 12.

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.

When reference is made to the controlling entity Axtel, S.A.B. of C.V. as an individual legal entity, it will be referred to as "Axtel SAB". 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
2019

a. Sale of the rest of the massive segment

On May 1, 2019, the Company divested its fiber optic business from the massive segment located in the cities of León, Puebla, Toluca, Guadalajara and Querétaro to Megacable Holdings, S.A.B. de C.V. and subsidiaries ("Megacable") through the sales figure of residential customers and micro-businesses, fiber network and other assets related to the operation of the massive segment in these cities in exchange for a consideration of $1,150 million pesos, thus concluding the sale of the fiber optic business of the massive segment, process that began with the sale to Televisa in December 2018. The Company recognized a gain of $519 million pesos, which is presented under discontinued operations in the consolidated statement of operations. The Company did not have an impact on cash flows due to tax consequences, as it applied tax loss carryforwards of $730,238.

Lastly, as explained in Note 22, the operations subject to the transaction are presented as discontinued operations to reflect results from January 1 to May 1, 2019, as required by IFRS. In addition, this note identifies the asset and liability balances that were disposed as of the transaction date, as well as the cash flows generated by the transaction disposed to the selling date in 2019.

b. Sale of data centers in Apodaca and Querétaro

On 3 October 2019, Axtel entered into an agreement with Equinix to strengthen its co-location, interconnection and cloud solutions by entering into two agreements subject to compliance with closing conditions. Equinix acquired a new subsidiary entity of Axtel, which will house the operations and assets of three data centers currently belonging to Axtel, two of these data centers are located in Querétaro and one in the metropolitan area of Monterrey. Axtel will maintain a non-controlling shareholding over the new subsidiary entity.

The amount of the transaction is US$175 million, which will be settled in cash, except US$13 that will be receivable in the short term. The rest of the data centers owned by Axtel, located in Monterrey, Nuevo León; Guadalajara, Jalisco and Tultitlán, Mexico City, are not part of this transaction.

Data centers are presented as available for sale as of December 31, 2019 and were disposed on January 8, 2020 (see Note 31).

c. Debt prepayment

On May 7, 2019, the Company prepaid a portion of the syndicated loan held with HSBC as the leader of the participating financial institutions in the amount of $250,000, and the disposed portion of the Committed Line with Export Development Canada of $300,000. It also made payments to Alfa SAB of $917,000 and $320,000 for principal and interest, respectively. As a result of this prepayment, the Company immediately recognized the outstanding debt costs as of that date of $8,250.

2018

d. 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 operations. 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 consolidated statement of operations.

Additionally, as explained in Note 20, the operations subject to the transaction are presented as discontinued operations for 2018 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 until the date of the sale in 2018 are disclosed in the corresponding Note.

e. 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 million. 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.

f. 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.

g. Debt restructuring

On February 22, 2018, the Company's syndicated long-term credit with HSBC Mexico was increased by $ 291,000 from the original amount of $5,709,000 to $6,000,000, with the same terms as the original credit. The proceeds obtained from this additional loan were used to pay short-term debt of $400,000 with HSBC Mexico.

On August 30, 2018, the Company entered into a debt restructuring agreement with Bancomext to exchange the original debt of US$171,000 to a new debt of $3,263,000. The terms of the new debt is 10 years with quarterly principal payments from the third year and with a 91-day TIIE interest rate plus 2.10 basis points. The Company accounted for this transaction as an extinguishment of the liability in dollars in accordance with IFRS 9 Financial Instruments, recording an impact on the consolidated statement of operations for $6,784 as a loss in the extinguishment.

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 IFRS 16, *Leases*, and IFRIC 23, Interpretation on Uncertainty over Income Tax Treatments, all new standards and interpretations in effect as of January 1, 2019, including the annual improvements to IFRS, as described below:

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 applied 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 recognized a right-of-use asset and a lease liability of approximately $680,405.

The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 11.74%.

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.

• For operating leases that, as of December 31, 2018, contain direct costs to obtain a lease, maintain the recognition of such costs, that is, without capitalizing them to the initial value of the right-of-use assets.

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

The following is a reconciliation of the total commitments of operating leases as of December 31, 2018 and the lease liability at the date of initial adoption:

	2019
Operating lease commitments as of December 31, 2018	$834,651
Amount discounted using the incremental borrowing rate as of January 1, 2019	680,405
Lease liabilities as of December 31, 2018	
(-): Short-term leases not recognized as lease liabilities	-
(-): Low value assets not recognized as lease liabilities	-
(+/-): Adjustments by extension of terms and others	-
(+/-): Adjustments related to changes in the index of variable payment	-
Lease liability as of January 1, 2019	**$680,405**

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.

The Company applied IFRIC 23 from January 1, 2019. As a method of initial adoption, 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.

ii. New standards and interpretation, not in force in the reporting period

The Company has reviewed the following new IFRS and improvements issued by IASB not yet effective for the reporting period, and in its evaluation process did not visualize potential impacts due to its adoption, considering that they are not of significant applicability:

- IFRS 17 – Insurance contracts (1)
- Amendments to IFRS 3 – Definition of a business (2)
- Amendments to IAS 1 e IAS 8 – Definition of material (2)
- Amendments to IFRS 9, IAS 39 e IFRS 7 – Interest rate benchmark reform (2)

(1) Effective for annual periods beginning January 1, 2021
(2) Effective for annual periods beginning January 1, 2020

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 operations.

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, 2019 and 2018, the main subsidiary companies of Axtel were as follows:

	Shareholding interest (%)			
	Country	**2019**	**2018**	**Functional currency**
Axtel, S. A. B. de C. V. (Controladora) [3] [5]	Mexico			Peso
Servicios Axtel, S. A. de C. V. [1]	Mexico	100	100	Peso
Alestra Innovación Digital, S. de R. L. de C. V. [3]	Mexico	100	100	Peso
Avantel, S. de R. L. de C. V. ("Avantel") [3] [5]	Mexico	-	100	Peso
Axes Data, S. A. de C. V. [1]	Mexico	100	100	Peso
Contacto IP, S. A. de C. V. [1]	Mexico	100	100	Peso
Instalaciones y Contrataciones, S. A. de C. V. [1]	Mexico	100	100	Peso
Servicios Alestra, S. A. de C. V. [1] [5]	Mexico	-	99.98	Peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (1)	Mexico	100	100	Peso
Alestra USA, Inc. [2]	USA	100	100	Dólar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	Peso
Alesre Insurance Pte, Ltd. [4]	Singapore	-	100	Dólar
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel")[3]	Mexico	100	100	Peso
Servicios Alestra TI, S. A. de C. V. [1]	Mexico	100	100	Peso
Alestra Procesamiento de Pagos, S. A. de C. V. [3]	Mexico	100	-	Peso
Administradora de Centros de Datos México, S. A. de C. V. [1]	Mexico	100	-	Peso
Servicios Administrativos de Centro de Datos México, S. A. de C. V. [3]	Mexico	100	-	Peso
La Nave del Recuerdo, S. A. de C. V. [6]	Mexico	100	-	Peso
Contacto IP FTTH de México, S. A. de C. V. [6]	Mexico	100	-	Peso
Alestra Servicios Móviles, S. A. de C. V. [6]	Mexico	100	-	Peso

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) Company with no primary operations, disposed of in August 2019

(5) At the General Extraordinary Stockholders' Meeting held on February 26, 2019, the stockholders agreed to merge Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V. (as absorbed companies) with Axtel, S. A. B. de C.V. (as absorbing company); this merger took effect on June 22, 2019 and has no impact on the operation of the Company at the consolidated level.

(6) Legally created companies with no operations.

As of December 31, 2019 and 2018, 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 operations. 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 (loss) 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 (loss) 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 (loss) 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 operations and its share in the other comprehensive (loss) income of associates is recognized as other comprehensive (loss) 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 operations.

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 operations.

As of December 31, 2019 and 2018, 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 operations, except for those which are deferred in comprehensive (loss)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 operations 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 operations, 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 operations 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	2019	2018	2019	2018
United States	U.S. dollar	18.85	19.68	19.27	19.24

e. Cash and cash equivalents

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

f. Restricted cash

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

g. Financial instruments

Financial assets

The Company classifies 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 (loss) 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 IFRS 9, in effect beginning January 1, 2018.

i. 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.

ii. Financial assets at fair value through other comprehensive (loss) *income*

Financial assets at fair value through other comprehensive (loss) 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, 2019 and 2018, the Company does not have financial assets to be measured at fair value through other comprehensive (loss) income.

iii. 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 (loss) 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 (loss) 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, 2019 and 2018, the Company has not made any of the irrevocable designations described above.

Impairment of financial assets

The Company uses 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 (loss) 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, 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 operations 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 operations. 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 operations in the same line item as the hedged position. As of December 31, 2019 and 2018, 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 (loss) income, within shareholders' equity and is reclassified to profit or loss when the hedged position is affected; the ineffective portion is immediately recorded in profit or loss. As December 31, 2019 and 2018, 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 (loss) 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 (loss) 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 (loss) 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 operations 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 operations 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 operations 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 operations.

l. Leases

Classification and valuation of leases under IAS 17, in effect through December 31, 2018

The Company as lessee

As of December 31, 2018, the classification of leases as finance or operating depended 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 were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were recognized in the consolidated statement of operations based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination was practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee was used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in non-current debt, net of finance charges. The interest element of the finance cost was charged to the income for 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 were depreciated over the shorter of the asset's useful life or the lease term.

The Company as lessor

Leases for which the Company is considered a lessor were classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract was classified as a finance lease. The other leases were classified as operating leases.

Revenues arising from operating leases were recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease were added to the book value of the leased asset and were recognized in a straight line over the term of the lease. Revenues arising from financial leases were recognized as accounts receivable for the amount of the net investment of the Company in the leases.

Classification and valuation of leases under IFRS 16, in effect beginning January 1, 2019

The Company as lessee

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes an asset for right-of-use and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of an asset for right-of-use and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term or the useful life of the underlying asset; therefore, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that have not been paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of operations as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of operations.

The Company as lessor

As of January 1, 2019, the Company, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of leases established by IFRS 16.

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, 2019 and 2018, 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 operations represents the sum of current and deferred income taxes.

The amount of income taxes included in the consolidated statement of operations 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 (loss) 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 operations.

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 operations.

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 operations, 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 operations.

t. Treasury shares

The Company's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

u. 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.

v. Comprehensive (loss) income

Comprehensive (loss) income is comprised of net (loss) 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.

w. 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.

x. 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 operations, 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.

y. 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.

z. 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.

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 6.13 times and 6.78 times as of December 31, 2019 and 2018, 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,	
	2019	**2018**
Cash and cash equivalents	$857,742	$2,249,155
Restricted cash	-	93,908
Financial assets at amortized cost:		
Trade and other accounts receivable	3,310,000	2,908,133
Financial assets at fair value with changes through profit or loss [1]		
Financial instruments (zero strike call)	92,673	129,075
Derivative financial instruments [1]	-	23,591
Total financial assets	**$4,260,415**	**$5,403,862**
Financial liabilities at amortized cost:		
Current debt	$131,632	$465,828
Lease liability	866,098	-
Trade payables, related parties and sundry creditors	2,905,871	5,412,913
Non-current debt	13,836,310	15,156,918
Other non-current accounts payable	703,348	4,033
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments [1]	143,712	39,258
Total financial liabilities	**$18,586,971**	**$21,078,950**

(1) 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, 2019 and 2018.

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

	As of December 31, 2019		As of December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$14,006,129	$14,737,276	$14,974,979	$14,212,680
Accounts payable to related parties	703,348	631,017	-	-

(*) 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, 2019 and 2018 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, 2019:

	USD (translated to thousands of MXP)
Financial assets	$701,548
Financial liabilities	(11,019,701)
Foreign exchange monetary position	**$(10,318,153)**

During 2019 and 2018, 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 $1,031,815 on the consolidated statement of operations and shareholders' equity.

Financial instruments and derivative financial instruments

<u>Financial instruments</u>

As of December 31, 2019 and 2018, 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, 2019 and 2018, 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	
				2019	2018
Bank of America Merrill Lynch	30,384,700	2010 y 2009	CPO's Axtel	$92,673	$90,243
Corporativo GBM, S. A. B. de C. V.[1]	13,074,982	2015 y 2014	CPO's Axtel	-	38,832
				$92,673	**$129,075**

For the year ended December 31, 2019, the changes in fair value of the Zero Strike Calls gave rise to an unrealized loss of $8,919 (unrealized loss of $35,202 for the year ended December 31, 2018), recognized in the consolidated statement of operations within financial income and expenses.

[1] The financial instrument was exercised in May and June 2019.

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, 2019 and 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	2019	2018
Currency	MXN	MXN
Notional	$3,380,000	$3,380,000
Coupon	TIIE28	TIIE28
Coupon	8.355%	8.355%
Maturity	December 15, 2022	December 15, 2022
Swap book value	$(137,177)	$ 23,591
Change in the fair value of the swap to measure ineffectiveness	$(135,329)	$ 24,477
Reclassification from OCI to income	$653	$214
Recognized in OCI net of reclassifications	$136,524	$(23,804)
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$147,478	$(25,031)
Change in the fair value DFI vs. 2018	$(160,768)	-

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, 2019 and 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 100% and 99%, in 2019 and 2018, respectively, 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 93% and 95%, in 2019 and 2018, respectively. 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.

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	**2019**	**2018**
Currency	USD	USD
Total notional	US$15,900	US$93,868
Average strike	19.6560	
Maturity	MXN/USD	20.54 MXN/USD
Forward's book value	12 mayo 2020	enero-julio 2019
Change in the fair value of the forwards	$(6,535)	$(39,258)
to measure ineffectiveness	$(6,535)	$(39,258)
Reclassification from OCI to income	$4,043	$ 4,316
Recognized in OCI net of reclassifications	$2,492	$35,762
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$6,535	$39,258
Change in the fair value FDI vs 2018	$32,723	-

In measuring 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 offset 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 hedging ratio for the USD / MXN exchange rate is 100% for USD obligations in 2019 and 46% for 2018. If necessary, a rebalancing will be performed 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, 2019 and 2018, no ineffectiveness was recognized in gain or loss.

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, 2019, 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, 2019, 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 $45,835 and $(45,835) 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, 2019, 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 4% and 3% of the Company's total accounts receivable as of December 31, 2019 and 2018, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2019 and 2018 was 2% and 2%, respectively.

Company B accounts for 4% and 5% of the Company's total accounts receivable as of December 31, 2019 and 2018, respectively. Additionally, revenues related to Company B for the years ended December 31, 2019 and 2018 was 3% and 2%, respectively.

As of December 31, 2019 and 2018, the allowance for impairment totaled $1,208,739 and $2,172,343 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, 2019			
Current debt	$131,632	$-	$-
Trade payable, related parties and creditors	4,288,038	-	-
Derivative financial instruments	51,814	91,898	-
Non-current debt		11,355,748	2,630,602
Lease liability	451,775	401,335	12,988
Non-accrued interest payable	1,094,108	3,953,055	706,960
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 17.

As of December 31, 2019, the Company has short-term uncommitted, unused lines of credit of more than US$16,000 ($301,600). Additionally, as of December 31, 2019, Axtel has medium-term committed lines of credit of US$50,000 ($942,500).

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, 2019 and 2018:

As of December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets:	$92,673	$-	$-	$92,673
Zero strike calls	-	(6,535)	-	(6,535)
Forwards	-	(137,177)	-	(137,177)
Interest rate swap	**$92,673**	**$(143,712)**	**$-**	**$(51,039)**

As of December 31, 2018

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

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.

f. Estimation of the discount rate to calculate the present value of future minimum lease payments

The Company estimates the discount rate to use in the determination of the lease liability, based on the incremental borrowing rate ("IBR").

The Company uses a three-tier model, with which it determines the three elements that comprises the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between the one obtained at the corporate level (that is, the holding company), or at the level of each subsidiary. Finally, for real estate leases, or in which there is significant and observable evidence of their residual value, the Company estimates and evaluates an adjustment for characteristics of the underlying asset, based on the possibility that said asset is granted as collateral or guarantee against the risk of default.

g. g. Estimation of the lease term

The Company defines the lease term as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are probable to be exercised. The Company participates in lease contracts that do not have a defined non-cancellable term, a defined renewal period (in case it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the contracts term considering their contractual rights and limitations, their business plan, as well as management's intentions for the use of the underlying asset.

Additionally, the Company considers the clauses of early termination of its contracts and the probability of exercising them, as part of its estimate of the lease term.

6. Cash and cash equivalents

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

	2019	2018
Cash on hand and in banks	$139,197	$488,987
Short-term investments	718,545	1,760,168
Total cash and cash equivalents	**$857,742**	**$2,249,155**

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 of $93,908 represents the trust balance over applicable disputes for 2008 and 2010 and is shown in the consolidated statement of financial position as a non-current asset. On May 10, 2018, Alestra was granted a favorable ruling and the withdrawal of the amounts contributed to the trust and their corresponding returns, obtaining the proceeds of $59,005 and $19,874 in November 2018.

As of December 31, 2019, the restricted cash balance is $0 because on February 28, 2019, a ruling was handed down in favor of Alestra allowing the withdrawal of the outstanding balance of the amounts contributed to the trust and its corresponding returns.

8. Trade and other accounts receivable, net

Trade and other accounts receivable are comprised as follows:

	2019	2018
Current:	$3,634,751	$4,832,433
Trade accounts receivable	(1,208,739)	(2,172,343)
Allowance for impairment of accounts receivable [1]	2,426,012	2,660,090
Trade accounts receivable, net	34,674	685,748
Recoverable taxes	860,528	192,938
Notes and other accounts receivable	23,460	55,105
Related parties	**$3,344,674**	**$3,593,881**

[1] Movements of the allowance for impairment of accounts receivables are as follows:

	2019	2018
Initial balance	$2,172,343	$2,089,484
Write-off of doubtful accounts	45,631	114,207
Allowance for doubtful accounts for the year[2]	(1,009,235)	(31,348)
Ending balance	**$1,208,739**	**$2,172,343**

[2] The increases in the allowance in 2019 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.

The following describes the probability ranges of default and recovery rates allocated to the main customer segments with which the company has balances receivable in its different businesses:

As of December 31, 2019

Clients or group of clients	Probability range of default	Severity of loss
Carriers	1.0% - 100.0%	85.74%
Business	1.6% - 100.0%	85.74%
Government	0.3% - 100.0%	68.78%

As of December 31, 2018

Clients or group of clients	Probability range of default	Severity of loss
Masivo	5.6% - 100.0%	96.00%
Carriers	0.9% - 100.0%	87.50%
Empresarial	1.0% - 100.0%	87.50%
Gobierno	2.9% - 100.0%	70.00%

9. Inventories

As of December 31, 2019 and 2018, inventories of $93,982 and $104,802, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $141,649 and $161,390 for 2019 and 2018, respectively. As of December 31, 2019 and 2018, 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, 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 charge 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**
For the year ended December 31, 2019									
Reclassifications to the right of use	$-	$(217,449)	$(721)	$(51,092)	$(6,862)	$-	$-	$-	$(276,124)
Net opening balance	1,056,183	12,974,137	93,476	312,307	20,994	96,684	481,905	1,069,838	16,105,524
Translation effect	-	(944)	-	-	-	-	-	-	(944)
Additions	-	9,431	109	6,413	175	-	-	1,443,097	1,459,225
Transfers	6,230	1,589,353	2,162	36,278	677	9,900	-	(1,644,600)	-
Transfers held for sale	(761,495)	(337,571)	(4,786)	(205)	-	-	(20,556)	-	(1,124,613)
Disposals	-	(116,063)	(33)	(4,882)	(963)	(156)	-	(75,008)	(197,105)
Depreciation charges recognized in the year	(28,468)	(2,790,819)	(17,623)	(130,305)	(9,047)	(25,710)	-	-	(3,001,972)
Ending balance	**$272,450**	**$11,110,075**	**$72,584**	**$168,514**	**$4,974**	**$80,718**	**$461,349**	**$793,327**	**$12,963,991**
As of December 31, 2019									
Cost	$626,382	$53,703,112	$503,650	$4,162,306	$149,149	$640,387	$461,349	$793,327	$61,039,662
Accumulated depreciation	(353,932)	(42,593,037)	(431,066)	(3,993,792)	(144,175)	(559,669)	-	-	(48,075,671)
Net carrying amount as of December 31, 2019	**$272,450**	**$11,110,075**	**$72,584**	**$168,514**	**$4,974**	**$80,718**	**$461,349**	**$793,327**	**$12,963,991**

Of the total depreciation expense, $2,879,263 and $2,896,444 were charged to cost of sales, $122,709 and $157,938 to selling and administrative expenses, and $162,780 and $845,693 in discontinued operations in 2019 and 2018, 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, 2019 and 2018, the Company capitalized $15,434 and $27,216, respectively, of borrowing costs related to qualifying assets of $410,323 and $495,455, respectively. These amounts were capitalized based on an interest rate of 7.63% and 8.98%, respectively.

11. Right of use asset

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts is from 3 to 6 years.

i. The right of use recognized in the consolidated statement of financial position as of December 31, 2019, is integrated as follows:

	Land & buildings	Telecommunications equipment and networks	Furniture and office equipment	Computer equipment	Vehicles	Total
Net book value						
Adoption effect	$680,405	$-	$-	$-	$-	$680,405
Property, plant and equipment reclasification	-	217,449	721	51,092	6,862	276,124
Initial balances as of January 1, 2019	$ 680,405	$217,449	$721	$51,092	$6,862	$956,529
Final balances as of December 31, 2019	$ 440,826	$187,192	$642	$28,324	$4,263	$661,246
Accumulated depreciation	**$(238,408)**	**$(30,256)**	**$(79)**	**$(22,768)**	**$(2,599)**	**$(294,110)**

ii. Expenses recognized in the consolidated statement of operations for the year ended December 31, 2019.

Rent expenses from low-value asset leases	$-
Rent expenses from short-term leases	$892,752

The Company has not signed lease contracts, which at the date of the consolidated financial statements have not started. During the year, the Company did not realize significant extensions to the term of its lease contracts.

12. Goodwill and intangible assets

	Definite life						Indefinite life	
	Concessions	Trademarks	Relationships with customers	Non-compete agreements	Software and licenses	Other	Goodwill	Total
As of January 1, 2018	$36,339	48,920	$149,416	$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)	(19,240)	(265,055)	(158,791)	(80,919)	-	(568,332)
Ending balance as of December 31, 2018	**$7,208**	**$33,724**	**$130,176**	**$60,632**	**$447,618**	**$306,493**	**$419,536**	**$1,405,387**
Cost	$797,142	$258,904						
Accumulated amortization	(789,934)	(225,180)	$516,600	$809,793	$1,751,440	$709,484	$419,536	$5,262,899
Ending balance as of December 31, 2018	**$7,208**	**$33,724**	**(386,424)**	**(749,161)**	**(1,303,822)**	**(402,991)**	**-**	**(3,857,512)**
			$130,176	$60,632	$447,618	$306,493	$419,536	$1,405,387
As of January 1, 2019	**$7,208**	**$33,724**	**$130,176**	**$60,632**	**$447,618**	**$306,493**	**$419,536**	**$1,405,387**
Additions	23,733	-	-	-	70,246	1,026	-	95,005
Disposals	-	-	-	-	(2,895)	-	-	(2,895)
Transfers	-	-	-	-	-	-	-	-
Amortization charges recognized in the year	(2,200)	(22,392)	(18,765)	(50,271)	(206,466)	(145,146)	-	(445,239)
Ending balance as of December 31, 2019	**$28,741**	**$11,332**	**$111,411**	**$10,361**	**$308,503**	**$162,373**	**$419,536**	**$1,052,258**
Cost	$693,405	$258,904	$516,600	$809,793	$1,811,138	$710,411	$419,536	$5,219,787
Accumulated amortization	(664,664)	(247,572)	(405,189)	(799,432)	(1,502,634)	(548,038)	-	(4,167,529)
Ending balance as of December 31, 2019	**$28,741**	**$11,332**	**$111,411**	**$10,361**	**$308,504**	**$162,373**	**$419,536**	**$1,052,258**

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, $2,131 and $37,417 were charged to cost of sales, $443,108 and $530,915 to selling and administrative expenses in 2019 and 2018, respectively.

Company concessions

Axtel has a Single Concession for commercial use, under which it is authorized to provide any telecommunications and/or broadcasting service, including, but not limited to local fixed and mobile telephony; national and international long distance, SMS (short message service), purchase or rental of network capacity for the generation, transmission or reception of data, signals, writings, images, voice, sounds and other information of any nature; rental of digital circuits, etc.

Through another subsidiary called Alestra Innovación Digital, S. de R.L. de C.V. (previously Alestra Comunicación), there will be another Single Concession for commercial use, with three associated concessions to use, leverage and exploit frequency bands for specific use at frequencies of 7 GHz (1 concession) and 10 GHz (2 concessions).

The Company's main commercial use concessions are as follows:

Service	Period	Expiration
Single concession for commercial use [1]	30 años	2046
Various radio spectrum frequencies for the provision of point-to-point and point-to-multipoint microwave links [2] [3]	20 años	2038
Fixed wireless access [4]	20 años	2038

[1] Concession valid for 30 years and renewable up to equal terms, provided that the Company is in compliance with all its obligations of the concession, as well as those contained in the legal, regulatory and administrative provisions.

[2] The Plenary of the Federal Telecommunications Institute (IFT for its Spanish initials), at its XXV Ordinary Session held on October 16, 2019, approved the Resolution by Agreement P/IFT/161019/515, authorizing Axtel, S.A.B. de C.V. the extension of the term for 30 (thirty) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency bands of 10 GHz., 15 GHz., 23 GHz. and 38 GHz.

[3] The Plenary of the Federal Telecommunications Institute, at its XXV Ordinary Session held on October 16, 2019, approved the Resolution by Agreement P/IFT/161019/514, authorizing Alestra Innovación Digital, S. de R.L. de C.V. the extension of the term for 30 (thirty) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency bands of 7 GHz. and GHz.

On January 13, 2020, we expressed the IFT our acceptance of the new conditions. The term of 30 business days to pay the consideration, which will expire on February 25, 2020, is running. However, this term is subject to be extended for 15 more business days. This did not represent any adjustment to the consolidated financial statements as of December 31, 2019.

[4] The Plenary of the Federal Telecommunications Institute, at its XXII Ordinary Session held on September 18, 2019, approved the Resolution by Agreement P/IFT/180919/463, authorizing Axtel, S.A.B. de C.V. the extension of the term for 9 (nine) concessions to use, leverage and exploit frequency bands of the radio spectrum for specific use in the frequency band 3.5 GHz.

On January 15, 2020, we expressed the IFT our acceptance of the new conditions. The term of 30 business days to pay the consideration, which will expire on February 27, 2020, is running. However, this term is subject to be extended for 15 more business days. This did not represent any adjustment to the consolidated financial statements as of December 31, 2019.

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, 2019, 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, 2019 and 2018:

	2019	2018
Tasa de descuento después de impuestos	10.5%	10.5%
Tasa de crecimiento de largo plazo	3.6%	3.9%

13. Other non-current assets

	2019	2018
Investments of shares	$294,530	$294,535
Prepaid connection leases	21,238	34,000
Guarantee deposits	41,192	83,850
Prepaid maintenance	301,242	220,150
Other	83,695	83,752
Total other non-current assets	**$741,897**	**$716,287**

14. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2019	2018
Current:		
Trade accounts payable	$2,897,853	$3,547,032
Related parties	8,018	1,865,881
Value added tax and other federal and local taxes payable	880,277	1,556,036
Accrued expenses payable	207,603	186,116
Other	175,265	268,913
	$4,169,016	$7,423,978
Non-current:		
Related parties	**$703,348**	**$ 4,033**

15. Provisions

	Litigation	Restructuring [1]	Total
As of January 1, 2018	$18,391	$99,517	$117,908
Additions	6,238	288,755	294,993
Payments	(1,000)	(99,517)	(100,517)
As of December 31, 2018	**$23,629**	**$288,755**	**$312,384**
Additions	14,187	86,070	100,257
Payments	(9,325)	(183,125)	(192,451)
As of December 31, 2019	**$28,491**	**$191,700**	**$220,190**

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

Provisions as of December 31, 2019 and 2018 are short-term.

16. Deferred income

Deferred income movements during the year are shown as follows:

	2019	2018
Beginning balance	$536,452	$312,121
Increases	1,054,418	1,308,057
Recognized income of the year	(1,437,641)	(1,083,726)
Ending balance	**$153,229**	**$536,452**

17. Debt

	2019	2018
Banco Nacional de Comercio Exterior, S.N.C	$3,263,529	$3,263,529
Syndicated loan	1,320,000	1,570,000
Senior Notes (1)	9,422,600	9,841,450
Export Development Canada (EDC)	-	300,000
Other finance leases (2)	-	740,113
Accrued interest payable	111,853	123,847
Issuance costs	(150,040)	(216,193)
Total debt	13,967,942	15,622,746
Current portion of debt	(131,632)	(465,828)
Non-current debt	**$13,836,310**	**$15,156,918**

(1) Non-bank borrowings.
(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. As of January 1, 2019, these financial leases are part of the balance of lease liabilities. See note 18.

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

			Interest rate				As of December 31,	
	Country	Currency	Contractual	Effective	Maturity date	Interest payment periodicity	2019	2018
Bancomext [1]	México	MXP	TIIE + 2.10%	10.34%	30/08/2028	Trimestral	$3,263,529	$3,263,529
Syndicated loan	México	MXP	TIIE + 2.75%	11.04%	15/12/2022	Mensual	1,320,000	1,570,000
Senior Notes	Internacional	USD	6.38%	6.64%	14/11/2024	Semestral	9,422,600	9,841,450
EDC	Canadá	MXP	TIIE + 1.19%	10.51%	01/06/2021	Mensual	-	300,000
Total bank loans							14,006,129	14,974,979
Current portion of Bancomext debt							(19,779)	-
Debt issuance costs							(150,040)	(216,193)
Finance leases and other							-	398,132
Total non-current debt							13,836,310	15,156,918
Current maturities of financial leases[2] and others							131,632	465,828
Total Debt							**$13,967,942**	**$15,622,746**

[1] Debt restructuring agreement to exchange the original debt of US$171,000 to a new debt of $3,263,000. See Note 2g.
[2] As of January 1, 2019, these financial leases are part of the balance of lease liabilities. See note 18.

As of December 31, 2019, annual maturities of non-current debt are as follows:

	2021	2022	2023	2024 onwards	Total
Bank loans	$89,005	$1,448,564	$168,121	$2,858,060	$4,563,750
Senior Notes	-	-	-	9,422,600	9,422,600
	$89,005	**$1,448,564**	**$168,121**	**$12,280,660**	**$13,986,350**

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.

Fair value of non-current debt is disclosed in Note 4. Estimated fair values as of December 31, 2019 and 2018 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.

Covenants:

Loan and debt issuance agreements currently in effect contain restrictions for the Company, mainly to comply with certain financial ratios, delivery of financial information, keeping accounting records, compliance with applicable laws, rules and provisions. Failure to comply with these requirements within a specific term to the satisfaction of the creditors could be considered a cause for early termination.

Financial ratios to be fulfilled include the following:

a. Interest coverage ratio: which is defined as adjusted EBITDA (see Note 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, 201, 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, 2019 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.

18. Lease liability

	As of December 31, 2019
Current portion -	$186,801
USD:	264,974
MXN:	**$451,775**
Current lease liability	$233,049
Non-current portion -	633,049
USD:	866,098
MXN:	
Less; Current portion of lease liability	451,775
Non-current lease liability	**$414,323**

As of December 31, 2019 and 2018, changes in the lease liability related to the finance activities in accordance with the statement of cash flow are integrated as follows:

	2019
Initial balance	$680,405
Financial lease reclassification	740,113
Beginning balance	1,420,518
New contracts	7,103
Write-offs	-
Adjustment to liability balance	-
Interest expense from lease liability	99,072
Lease payments	(638,067)
Exchange (loss) gain	(22,528)
Ending balance	**$866,098**

The total of future minimum payments of leases that include non-accrued interest is analyzed as follows:

	December 31, 2019
Less than 1 year	$473,476
Over 1 year and less than 5 years	415,759
Over 5 years	12,989
Total	**$902,224**

19. 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 $282,312 and $246,145 as of December 31, 2019 and 2018, 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:

	2019	2018
Obligations in the consolidated statement of financial position:		
Pension benefits	$405,110	$341,510
Post-employment medical benefits	8,076	4,382
Defined contribution additional liability	282,312	246,145
Liability recognized in the consolidated statement of financial position	**$695,498**	**$592,037**
Charge in the consolidated statement of operations for:		
Pension benefits	$57,093	$49,936
Medical benefits to retirement	447	502
	$57,540	**$50,438**
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	**$70,625**	**$60,405**

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:

	2019	2018
Present value of obligations equal to the liability in the consolidated statement of financial position	**$695,498**	**$592,037**

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

	2019	2018
As of January 1	$345,892	$346,489
Current service cost	25,023	25,489
Financial cost	32,517	24,949
Actuarial remediations	70,625	(60,405)
Past service cost	7,343	28,018
Benefits paid	(7,893)	(7,241)
Reductions	(60,321)	(11,407)
As of December 31	**$413,186**	**$345,892**

The primary actuarial assumptions were as follows:

	2019	2018
Discount rate	7.00%	9.50%
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%	$(26,304)	$29,631
Medical inflation rate	1%	$8,369	$5,952

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.

20. Income taxes

a) Income taxes recognized in the consolidated statement of operations:

	2019	2018
Current income tax	$(73,606)	$(65,148)
Deferred income tax	86,766	33,815
Prior years' adjustment	2,131	(6,005)
Income tax benefit (expense)	**$15,291**	**$(37,338)**

b) The reconciliation between the statutory and the effective income tax rates was as follows:

	2019	2018
(Loss) before taxes	$(353,309)	$(969,323)
Statutory rate	30%	30%
Taxes at statutory rate	105,993	290,797
(Plus) less tax effect on:		
Tax effects of inflation	(145,179)	207,404
Non-deductibles	(43,483)	(593,250)
Other differences, net	97,960	57,711
Total income tax benefit (expense) charged to income	**$15,291**	**$(37,338)**
Effective rate	**(4)%**	**4%**

c) The detail of deferred income tax asset (liability) is as follows:

	2019	2018
Tax loss carryforwards	$1,274,483	$1,420,015
Allowance for doubtful accounts	626,165	602,503
Property, plant and equipment	719,079	463,368
Provisions and other	262,916	363,087
Intangible assets and other	(6,356)	24,102
Deferred tax asset	$2,876,287	$2,873,075
Property, plant and equipment	$(3,489)	$(3,753)
Intangible assets and other	2,730	(254)
Deferred tax liability	**$(759)**	**$(4,007)**

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, 2019 for which a tax asset was recognized amount to $4,248,278. The Company reduced tax losses by $201,500 as their realization was not considered probable.

Tax losses as of December 31, 2019 expire in the following years:

Year of expiration	Amount
2021	$364,493
2022	71,953
2023	143,522
2024onwards	3,869,810

d) The tax charge/(credit) related to other comprehensive (loss) income is as follows:

	2019			2018		
	Before taxes	Tax charged (credited)	After taxes	Before taxes	Tax charged (credited)	After taxes
Effect of currency translation	$(2,468)	$-	$	$(86)	$-	$(86)
Derivative financial instruments of hedging	(127,057)	38,117	(2,468)	(11,958)	3,588	(8,370)
Remeasurements of employee benefits	(70,625)	21,187	(88,940)	60,403	(18,123)	42,280
	$(200,150)	$59,304	(49,438)	$48,359	$(14,535)	$33,824

21. Shareholders' equity

At the General Ordinary Stockholders' Meeting held on February 26, 2019, a fund for the repurchase of shares of $150 million pesos was approved. It was also approved to reclassify the share issue premium to accrued results of $159,551 as a step prior to the creation of a stock repurchase reserve. The stock repurchase reserve balance is $93,464 as of December 31, 2019.

After the above-mentioned events, the Company's capital stock as of December 31, 2019 was $464,368 and was comprised of 20,074,913,404 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, 2018	20,249,227,481
Ending balance December 31, 2018	20,249,227,481
Repurchase of shares	174,314,077
Shares as of December 31, 2019	20,074,913,404

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, 2019, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $224,985 and $25,256,564, 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.

22. Discontinued operations

Disposición del Segmento Masivo

Masive Segment Disposition

On May 1, 2019, the Company entered into a final agreement for the divestiture of the last phase of its fiber optic business (FTTx) from the massive segment located in León, Puebla, Toluca, Guadalajara and Querétaro in the amount of $1,150 million pesos to Megacable Holdings, S.A.B. de C.V. and subsidiaries ("Megacable"). Axtel transferred to Megacable 55 thousand residential customers and micro-businesses, 1,370 km of fiber network and other assets related to the operation of the massive segment in these cities.

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.

Condensed information related to the consolidated statement of operations of the discontinued operation for the year ended December 31, 2018 and for the period ended May 1, 2019:

	2019	2018
Revenues	$302,367	$2,772,752
Cost of sales	(263,283)	(1,315,779)
Gross profit	39,084	1,456,973
Administration and selling expenses	(317,567)	(1,240,689)
Operating income	(278,483)	216,284
Income before taxes	(278,483)	216,284
Income taxes	83,545	(64,885)
Net income	(194,938)	151,399
Gain on sale of the discontinued operation	519,016	1,949,940
Income from discontinued operations, net of income taxes	**$324,078**	**$ 2,101,339**

As of the date of the transaction held in 2019, the gain on sale of discontinued operations for $519,016, net of taxes, was determined by comparing the sale price of $1,150,000, less the net assets sold, transaction costs and tax effects for a total of $630,984.

As of the date of the transaction held in 2018, 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, 2018 and for the period ended May 1, 2019:

	2019	2018
Cash flows from operating activities	$(29,633)	$1,061,978
Cash flows from investment activities	1,150,000	3,956,544

23. Revenues

a. Income for services:

	2019	2018
Voice	$1,873,716	$2,121,360
Managed networks	4,513,604	4,194,997
Internet data	3,962,505	3,859,259
Administrative applications	360,404	381,961
Hosting	740,579	752,241
System integration	557,797	562,400
Security	410,300	539,591
Cloud services	269,069	233,115
Other services	95,659	143,560
Total	**$12,783,633**	**$12,788,484**

b. Income by geographical areas:

	2019	2018
Mexico	$12,743,540	$12,731,680
Outside Mexico	40,093	56,804
Total	**$12,783,633**	**$12,788,484**

24. Expenses classified by their nature

Total cost of sales and selling and administrative expenses, classified by nature of the expense, were as follows:

	2019	2018
Service cost [1]	$3,353,046	$ 3,357,117
Employee benefit expenses (Note 27)	2,456,136	2,452,171
Maintenance	797,674	855,109
Depreciation and amortization	3,578,541	3,622,713
Advertising expenses	63,864	62,680
Energy and fuel consumption	351,402	336,061
Travel expenses	53,864	53,828
Lease expenses	892,752	1,101,378
Technical assistance, professional fees and administrative services	250,946	60,688
Other	148,120	398,188
Total	**$11,946,345**	**$12,299,933**

[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.

25. Other (expenses) income, net

	2019	2018
Disposals of property, plant and equipment due to damage and obsolescence	$(113,462)	$(74,574)
(Loss) gain on sale of property, plant and equipment (**)	(5,046)	226,568
Other income, net	55,055	54,935
Total other (expenses) income, net	**$ (63,453)**	**$206,929**

(*) As of December 31, 2018, corresponds mainly to $224,974 gain on the sale of telecommunication towers to MATC Digital, S. de R. L. de C. V., subsidiary of American Tower Corporation.

26. Financial result, net

	2019	2018
Financial income:		
Interest income on short-term bank deposits	$54,679	$41,297
Other financial income	5,574	10,832
Total financial income	**$60,253**	**$52,129**
Financial expenses:		
Interest expense on bank loans	$(562,108)	$(952,172)
Interest expense on senior notes	(644,331)	(728,052)
Interest expense on leases	(99,072)	-
Expenses related to other interest and commissions	(1,626)	(437)
Financial expenses related to employee benefits	(32,517)	(24,949)
Other financial expenses	(129,098)	(163,008)
Total financial expenses	**$(1,468,752)**	**$(1,868,618)**
Exchange fluctuation gain (loss), net:		
Gain on exchange fluctuation	$2,855,976	$ 3,334,378
Loss on exchange fluctuation	(2,565,701)	(3,147,490)
Exchange fluctuation gain, net	**$290,275**	**$186,888**

27. Employee benefit expenses

	2019	2018
Salaries, wages and benefits	$2,028,983	$2,010,260
Social security fees	335,709	358,557
Employee benefits	25,023	25,489
Other fees	66,421	57,865
Total	**$2,456,136**	**$2,452,171**

28. Transactions with related parties

Balances with related parties as of December 31, 2019 and 2018, were as follows:

	December 31, 2019						
			Loans received from related parties				
	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Holding company	$-	$-					
Holding company	-	-	$219,600	$ 1,881	MXP	28/02/19	TIIE + 2.25%
Holding company [1]	-	-	483,748	4,144	MXP	28/02/21	TIIE + 2.25%
Affiliates	23,460	8,018	-	-			
Total	**$23,460**	**$8,018**	**$ 703,348**	**$ 6,025**			

	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			

[1] Indemnification (see Note 2).

Transactions with related parties for the years ended December 31, 2019 and 2018, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

	Income	Year ended December 31, 2019	
	Telecommunication services	Costs and expenses Interests	Others
Holding company	$-	$-	$84,935
Affiliates	165,087	5,803	-
Total	**$165,087**	**$5,803**	**$84,935**

	Income	Year ended December 31, 2018	
	Telecommunication services	Costs and expenses Interests	Others
Holding company	$-	$(136,976)	$-
Affiliates	169,445	(281)	(35,695)
Total	**$169,445**	**$(137,257)**	**$(35,695)**

For the year ended December 31, 2019, compensation and benefits paid to the Company's main officers totaled $106,080 ($97,139 in 2018), 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.

29. Contingencies and commitments

As of December 31, 2019, there are the following commitments and contingencies with respect to Axtel and subsidiaries:

I. Contingencies

Interconnection Disagreements with other Mobile Operators.

a. Radiomóvil Dipsa, S.A. de C.V. (Telcel).

In January 2018, the Company was notified of two writs of amparo (one in which Axtel is a stakeholder and another one by Alestra Comunicación), filed by Telcel against the rates for the 2018 period determined by the IFT in compliance with the amparo judgment issued by the Second Chamber of the Supreme Court of Justice of the Nation (SCJN for its Spanish initials) within the file 1100/2015 (Zero Rate).

These cases are being appealed; however, they are currently suspended on the SCJN's instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019) which the SCJN is attending; therefore, they are currently awaiting a decision.

In addition, in January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Telcel against the rates settled in 2018 (also as a Virtual Mobile Operator) for the 2019 period by the IFT, which is currently pending, like the 2018 rate trial; this matter was also suspended until the SCJN resolves a related matter.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

b. Telefónica Group.

In January 2018, the Company was notified of the writ of amparo (where Axtel is the stakeholder) filed by Telefónica against the rates for the 2018 period by the IFT in compliance with the judgment of the amparo 1100/2015 (Zero Rate).

In addition, in June 2018, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Telefónica against the rates decided in 2017 (as Virtual Mobile Operator) for the 2018 period by the IFT.

In January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by Pegaso against the rates decided in 2018 (as Virtual Mobile Operator) for the 2019 period by the IFT.

These cases are now suspended on the SCJN's instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019), which SCJN is attending; therefore, they are currently awaiting a decision.

As of the date of issuance of the consolidated financial statements, to the present day, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

c. Grupo Iusacell (today AT&T).

In January 2018, the Company was notified (where Axtel is the stakeholder) of the writ of amparo filed by ATT against the rates for the 2018 period by the IFT, this matter was finally resolved in favor of the Company.

As the rates prevailed; therefore, it has paid and recognized the cost based on such rates, and there are no provisions associated with this contingency.

In January 2019, the Company (where Axtel is the stakeholder) was notified of a writ of amparo filed by ATT against the rates determined by the IFT for the 2019 period (as Vitual Mobile Operator).

This case is suspended on the SCJN's instruction at the request of the IFT, since they are related to a Telcel lawsuit (A.R. 329/2019), which the SCJN is attending; therefore, it is currently awaiting a decision.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified.

Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

d. Interconnection disagreements with Telmex & Telnor.
i. With regard to the lawsuits filed by Telmex-Telnor with the Federal Court of Administrative Justice (TFJA for its Spanish initials) for 2010 rates, these have been decided in favor of the Axtel-Avantel, Alestra, and only the direct amparo against the compliance with the judgment issued by the TFJA filed by Telmex against the rates determined for Avantel for the same year is pending a decision.

ii. In May 2011, Cofetel also approved a reduction in long-distance call termination rates for that year.

Telmex challenged this decision before the SCT, but that appeal was dismissed. Telmex has challenged the Federal Court of Administrative Justice, which ruled in favor of the Company (Axtel-Avantel, Alestra); however, Telmex filed a writ of amparo against that judgment, which is pending.

In addition, a final favorable judgment was obtained for the lawsuit filed by Telnor (and Axtel-Avantel-Alestra as stakeholders) against 2011 rates.

iii. With regard to the lawsuit filed for the period 2012, having Alestra as a stakeholder, it was decided in favor by the TFJA, and Telmex filed a direct amparo, which is under appeal.

iv. In July 2019 and with the last payment of 97.5 million pesos, the trust agreement with BBVA Bancomer was terminated, having recovered a total of $566.1 million corresponding to amounts objected and deposited on the Trust (including returns), arising from 2008, 2009 and 2010 interconnection disagreements.

v. Under the Federal Telecommunications and Broadcasting Act ("LFTR" for its Spanish initials), from August 13, 2014 to December 31, 2018, the Predominant Economic Agent (AEP for its Spanish initials) in the telecommunications sector, Telmex is prohibited from charging the interconnection fees for termination of calls ending in its network. Telmex challenged that condition, which was resolved by the Second Chamber of the Supreme Court of Justice of the Nation in the amparos under review 1306/2017 (Telmex) and 1307/2017 (Telnor), granting the protection to those companies.

The effect of such amparos is that during the period from August 13, 2014 to December 31, 2018, the free "zero" rate prevails, resolving the SCJN that the Federal Telecommunications Institute should decide a fee for Telmex/Telnor calls ending on another concessionaire's network beginning 2019.

vi. In January 2017, the Company was notified of a writ of amparo filed by Telmex-Telnor (having Alestra, Axtel-Avantel and Alestra Comunicación as stakeholders) against the rates decided for 2017 period by IFT, which today is finally resolved in favor of the Company.

As the rates prevailed based on the decisions obtained in favor of the Company; therefore, it has recognized the cost on the basis of such rates, and there are no provisions associated with this contingency.

vii. In December 2017, the Company was notified of a writ of amparo filed by (Axtel-Avantel as stakeholders) against the rates decided for the 2016 period by IFT (in compliance with an amparo judgment), this matter is under appeal.

The Company and its advisors believe that the rates will prevail on the basis of the decisions obtained in favor of the Company; therefore, it has recognized the cost on the basis of these rates and there are no provisions associated with this contingency.

viii. In addition, in January 2018, the Company (Axtel, Alestra Comunicación, and Axtel as VMO) was notified of several writs of amparo against the rates decided (for VMO) for the 2018 period by the IFT.

One of the amparos is at a trial level (OMV), while the other one is under appeal; note that the latter is likely to be suspended on the SCJN's instruction, since it is related to a Telcel lawsuit (A.R. 329/2019) attracted by the SCJN.

The writ of amparo filed by Telnor (and Alestra Comunicación) for 2018 rates, was finally decided in favor of the Company.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

ix. In January 2019, the Company (Axtel) was notified of a writ of amparo against the rates decided for the 2019 period by IFT, which is suspended by SCJN's instructions.

As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates will prevail on the basis of the decisions obtained before Ifetel, since it is considered that the most adverse scenario is forwarding the matter to that Institute for the creation of a specific regulation for the AEP for 2018 and 2019 rates, within which the current rate could be ratified. Therefore, to date, the Company has recognized and paid the cost on the basis of these rates and there are no provisions associated with this contingency.

x. In 2016, the IFT initiated a process of reviewing the preponderance measures imposed on América Móvil as a holding company of Telmex and Telcel. As a result of this review, the agreement P/IFT/EXT/270217/119 was issued, whereby the IFT plenary amends and adds the measures imposed on the AEP in 2014, which tend to generate a sector where there are competition conditions in the telecommunications sector. As of December 31, 2019, the predominant agent status of Telmex, Telnor and Telcel has not been changed.

xi. As of the date of issuance of the consolidated financial statements, the Company and its advisors believe that the rates of the IFT and Cofetel judgments will prevail based on the judgments obtained in favor of the Company; therefore, it has recognized the cost on the basis of these rates, and there are no book provisions associated with this contingency. Similarly, the process of reviewing preponderance measures continues.

Lawsuits 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, Secretariat of Labor and Social Welfare, Secretariat of Social Development, National Population Registry, National Forestry Commission, Seguros Monterrey and the Government of Tamaulipas.

To date, Solution Ware has filed various ordinary commercial lawsuits in which it claims Axtel to pay for some purchase orders for managed services, as well as interest, damages and lost profits in addition to legal expenses and costs; as of the date of these consolidated financial statements, Solution Ware has required payment of $91,776 and $US12,701 through a public broker.

Lawsuits concerning the Government of Nuevo León, the National Population Registry and the Government of Tamaulipas are currently at a trial level, while the lawsuits concerning the Secretariat for Social Development are under appeal.

With regard to the lawsuits concerning the Merger Opposition agreements, the Secretariat of Labour and Social Welfare and CONAFOR definitively concluded in favor of the Company.

At the date of issuance of the consolidated financial statements, the Company and its advisors believe that there is no real likelihood that these claims will succeed and, therefore, there are no book provisions associated with this contingency.

Lawsuit between Axtel and Comercializadora Vedoh, S. A. de C. V.

i. Axtel contracted from Comercializadora Vedoh sponsorship given by the Team to Axtel in automotive equipment in the NASCAR series. In 2018, Comercializadora Vedoh filed a commercial ordinary lawsuit whereby it demanded a payment of $1,065 from Axtel for team sponsorships in 2014 and 2015.

In connection with this case, a court settlement agreement was made in June 2019, whereby the Company made a payment of US$800.
Compensatory Procedures in the Federal Superior Auditors ("ASF" for its Spanish initials)

i. In June 2018, S&C Constructores de Sistemas was notified of a compensatory procedure processed at the ASF, claiming the total amount of $63,320, the foregoing resulted from an audit conducted to the Secretariat for Social Development (SEDESOL) and the Autonomous University of the State of Mexico.

By May 2019, the ASF determined a compensation liability of $34,118, which was challenged and is pending.

Notwithstanding the foregoing, the Company paid $36,768, according to the optical character recognition granted by the Tax Administration Service.

In addition to the payment made, in December 2019, the SAT notified S&C of an update and surcharges of $38,024, a determination that will be challenged.

The administrative enforcement procedure is suspended by the Administrative Court, and the guarantee of the tax liability is pending.

In this regard, the Company and its advisors consider an average possibility of obtaining a favorable result from the administrative-law action or, where appropriate, from the appeal.

ii. In August 2018, Axtel was notified of a compensating procedure processed at the ASF, claiming the total amount of $5,219, the foregoing resulted from an audit conducted to the Ministry of Health for the provision of telephone service; said case was challenged and won in accordance with the interests of the Company at the trial level, the judgment was challenged by the administrative authority; therefore, the trial is in an appealing process.

In this regard, the Company and its advisors consider an average possibility of a favorable judgment for the Company.

II. Commitments

The Company has contractual commitments related to office space and telecommunication tower agreements. The aggregate minimum future payments corresponding to these contractual commitments are as follows:

- Less than 1 year	$770,232
- Between 1 and 5 years	4,320,858
- More than 5 years	-
Total	**$5,091,090**

30. Segment information

The information historically used to make strategic decisions is reported to the CEO based on two operating segments. The focus of the two operating segments is described below.

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 2019, the Company entered into a final agreement resulting in the total divestment of the massive segment, which is presented as a discontinued operation described in Note 22.

In addition to the two 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:

	2019		
	Business	**Government**	**Total**
Sales by segment	$10,624,856	$2,158,777	$12,783,633
Service cost	(2,200,298)	(1,152,748)	(3,353,046)
Expenses	(831,651)	(212,003)	(1,043,654)
Business unit contribution (BUC)	7,592,907	794,026	8,386,933
	71%	37%	66%
Unallocated expenses			(3,921,096)
EBITDA			4,465,837
EBITDA of discontinued operations			625,749
Adjusted EBITDA			5,091,586
Impairment of non-current assets			(113,462)
Depreciation and amortization			(3,578,541)
Depreciation and amortization of discontinued operations			(162,780)
Less the effects of discontinued operations [1]			(462,968)
Operating income			773,835
Financial result, net			(1,127,143)
Financial result, net of discontinued operations			-
Loss before tax			**$(353,308)**

	2018		
	Business	**Government**	**Total**
Sales by segment	$10,313,312	$2,475,172	$12,788,484
Service cost	(1,913,099)	(1,444,018)	(3,357,117)
Expenses	(863,090)	(164,926)	(1,028,016)
Business unit contribution (BUC)	7,537,123	866,228	8,403,351
	73%	35%	66%
Unallocated expenses			(4,010,584)
Adjusted EBITDA without merger expenses			4,392,767
EBITDA of discontinued operations			3,847,605
Adjusted EBITDA			8,240,372
Impairment of non-current assets			(74,574)
Depreciation and amortization			(3,622,713)
Depreciation and amortization of discontinued operations			(845,693)
Less the effects of discontinued operations [1]			(3,001,912)
Operating income			695,480
Financial result, net			(1,664,803)
Financial results of discontinued operations, net			-
Loss before tax			**$(969,323)**

[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 $519,016 and $1,949,940 for 2019 and 2018, respectively, presented in Note 22, gross of the corresponding taxes. Additionally, the effects reflected in the results by segment of 2018, consider the operating profit generated by the massive segment in that year.

31. Subsequent events

In preparing the consolidated financial statements, the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2019 and through January 31, 2020, (issuance date of the consolidated financial statements), and identified the following:

a) Given what is disclosed in Note 2b, on January 8, 2020, the Company announced the final closure of the strategic agreement with Equinix to strengthen its IT and cloud solutions offering. The valuation of this transaction is US$175 million, while Axtel holds a minority stake in the new entity. Excluding operating expenses and the balance in custody, the resources of approximately US$157 million will be used to strengthen the Company's financial structure. The Company did not have an impact on cash flows due to tax consequences, as it applied tax loss carryforwards of $2,644,367.

No event or transaction represented adjustments to the amounts reported as of December 31, 2019.

32. Authorization to issue the financial statements

On January 31, 2020, 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.

Annexes

MEMORY PARAMETERS

To ensure transparency in our operational, corporate governance, labor, social, environmental and financial performance for the period January 1 to December 31, 2019, we hereby present our stakeholders with the Axtel Integrated Annual Report for 2019.

The content of this document is limited to Axtel's operations in Mexico, and therefore does not include information on other entities, companies, institutions, shareholders, customers or business partners. The restatement of other information with respect to previous years is indicated in each case.

In 2019, we completed the sale of the remaining portion of our mass fiber business to Megacable and signed an agreement with Equinix, Inc. to strengthen our offering of data center, cloud and interconnection solutions.

This report has been prepared in accordance with GRI Standards: Core Option. It was reviewed by e3 Consultora Ambiental, an entity external to Axtel.

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103-3	Evaluation of the management approach		38
201-1	Direct economic value generated and distributed		38
201-4	Financial assistance received from government		Axtel did not receive financial assistance from the government in any form during 2019.

GRI 202: Market Presence 2016			
202-1	Ratios of standard entry level wage by gender compared to local minimum wage		53
GRI 203: Indirect Economic Impacts 2016			
203-2	Significant Indirect economic impacts		We continue to work towards incorporating digital transformation solutions in our portfolio that include technological trends such as Analytics, Big Data, the Cloud and Artificial Intelligence to contribute to a reduction in Mexico´s technology gap.
GRI 204: Procurement Practices 2016			
204-1	Proportion of Spending on local suppliers		21
GRI 205: Anti-corruption 2016			
103-1	Explanation of the material topic and its Boundary		35
103-2	The management approach and its components		35
103-3	Evaluation of the management approach		35
205-1	Operations assessed for risks related to corruption.		In 2019 we did not review any of our operations using this perspective.
205-2	Communication and training on anti-corruption policies and procedures		35
205-3	Confirmed incidents of corruption and actions taken		35
GRI 206: Anti-competitive Behavior 2016			
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices		Axtel did not register any legal action related to anti-competitive behavior and/or monopoly practices or against free competition in 2019.

GRI 300: Environmental Standards			
103-1	Explanation of the material topic and its Boundary		63
103-2	The management approach and its components		63
103-3	Evaluation of the management approach		63
GRI 301 Materials 2016			
301-2	Recycled input materials used	7 y 8	72
301-3	Reclaimed products and their packaging materials	7 y 8	72
GRI 302. Energy 2016			
103-1	Explanation of the material topic and its Boundary		64
103-2	The management approach and its components		64
103-3	Evaluation of the management approach		64
302-1	Energy consumption within the organization	8	64
302-2	Energy consumption outside of the organization		64
302-3	Energy intensity		64
302-4	Reduction of energy consumption	8	64
GRI 303 Water and Effluents 2016			
303-1	Water extraction by source	7 y 8	71
303-2	Water sources significantly affected by water extraction		71
303-3	Recycled and reused water	8 y 9	71
GRI 305 Emissions 2016			
305-1	Direct (Scope 1) GHG emissions	8	68
305-2	Indirect (Scope 2) GHG emissions from energy production	8	68
305-3	Other indirect (Scope 3) GHG emissions	8	68
305-4	GHG emissions intensity	8 y 9	68
305-5	Reduction of GHG emissions	7 y 8	68
GRI 306 Effluents and Waste 2016			
103-1	Explanation of the material topic and its Boundary		72
103-2	The management approach and its components		72
103-3	Evaluation of the management approach		72
306-2	Waste by type and disposal method	8	72
306-4	Transport of hazardous waste		72

GRI 307 Environmental Compliance 2016			
103-1	Explanation of the material topic and its Boundary		Axtel did not register any cases of non-compliance with environmental laws and/or regulations in 2019.
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
307-1	Non-compliance with environmental laws and regulations	8	
GRI 400: Social Standards			
GRI 401 Employment 2018			
103-1	Explanation of the material topic and its Boundary		53
103-2	The management approach and its components		53
103-3	Evaluation of the management approach		53
401-1	New hires and staff turnover		53
401-2	Benefits for full-time employees not provided to temporary or part-time employees	6	53
401-3	Parental leave		53
GRI 403 Occupational Health and Safety 2016			
103-1	Explanation of the material topic and its Boundary		60
103-2	The management approach and its components		60
103-3	Evaluation of the management approach		60
403-1	Employee representation on formal employee-company health and safety committees	3	In 2019 all unionized employees were removed due to the sell-off of the Mass Market Business.
403-2	Types of accidents and frequency rates for accidents, occupational illness, lost work days, absenteeism and number of deaths due to work accidents or occupational illness	1	60
403-3	Employees with high incidence, or high risk, of work-related illness		60
403-4	Health and safety issues dealt with in formal agreements with unions.		60

GRI 404 Training and Education 2016			
103-1	Explanation of the material topic and its Boundary		58
103-2	The management approach and its components		58
103-3	Evaluation of the management approach		58
404-1	Average hours of training per year per employee	1	58
404-2	Programs for upgrading employee skills and transition assistance programs		53, 58
404-3	Percentage of employees receiving regular performance and career development reviews		58
GRI 406 Non-discrimination 2016			
406-1	Incidents of discrimination and corrective actions taken	1, 2, 4, y 5	35
GRI 408 Child Labor 2016			
408-1	Operations and suppliers at significant risk for incidents of child labor	1, 2, 4 y 5	21
GRI 409 Forced or Compulsory Labor 2016			
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	1, 2, 4 y 5	21
GRI 411 Rights of Indigenous Peoples 2016			
411-1	Incidents of violations involving rights of indigenous peoples		37
GRI 412 Human Rights Assessment 2016			
412-2	Employee training on human rights policies or procedures	1, 2 y 4	37
GRI 413 Local Communities 2016			
103-1	Explanation of the material topic and its Boundary		61
103-2	The management approach and its components		61
103-3	Evaluation of the management approach		61
413-1	Operations with local community engagement, impact assessments, and development programs		61

GRI 415 Public Policy 2016			
415-1	Political contributions		Axtel made no political contributions to political parties and/or political representatives in any form in 2019.
GRI 417 Marketing and Labeling 2016			
417-3	Incidents of noncompliance concerning marketing communications		Axtel did not register any incidents of non-compliance concerning marketing communications in 2019.
GRI 418 Customer Privacy 2016			
103-1	Explanation of the material topic and its Boundary		Axtel did not receive any substantiated complaints concerning breaches of customer privacy and losses of customer data in 2019.
103-2	The management approach and its components		
103-3	Evaluation of the management approach		
418-1	Substantial complaints concerning breaches of customer privacy and losses of customer data	1	

VERIFICATION LETTER

Informe de verificación independiente

CONSULTORA AMBIENTAL
· ecología
· evaluación
· economía

Stakeholders of the Axtel 2019 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 2019.

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 2019 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 2019 Annual Integrated Report.
- There is no evidence that led us to object to the Axtel 2019 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 Sustainability Officer of 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 2020. 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 2019 Annual Integrated Report.

CONTACT INFORMATION

Nancy Llovera Tamez
Investor Relations
nllovera@axtel.com.mx
Tel. +52 81 8114 1128

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

María Luisa Chavarría Torres
Sustainability
mchavarriat@axtel.com.mx
Tel. +52 81 8114 0000 Ext. 74277

Corporate Offices
Blvd. Díaz Ordaz Km 3.33, L1
Col. Unidad San Pedro
San Pedro Garza García, N.L.
México, C.P. 66215

axtelcorp.mx/sustentabilidad