Annual Integrated REPORT 2020

axtel

Content

Message from the CEO

In 2020, we focused our actions at Axtel on three priorities: promoting the safety and well-being of our employees, providing support to our customers for their crucial requirements, and ensuring the continuity of our operations and of the organizations we have the privilege to serve.

Through our strategic imperative "Axtel Digital", we accelerated the digitalization and remote access to significant business processes, strengthened our platform of collaborative tools and adopted remote work practices. In record time we adopted a remote operation model under which approximately 85% of our employees moved to a work-at-home structure.

The COVID-19 health crisis triggered an increased demand for connectivity services in Axtel Networks and for solutions supporting the digital transformation of our customers in Alestra, such as collaboration services to support remote and virtual interactions, cybersecurity perimeters, system integration and cloud solutions, among others.

Revenue in 2020 totaled Ps. 12,356 million, decreasing by 1% as compared to 2019, adjusted for the data center business. The Company's Operating Cash Flow was Ps. 6,327 million, increasing by 49% as compared to the prior year. Adjusted for the data center transaction, it was 2% over the guidance for the year and the results of 2019, which is a reflection of our resilient portfolio of services, as well as the efficiencies generated by our digitalization initiatives.

In line with our strategy of divesting non-strategic assets, in 2020 we carried out two relevant transactions. In January, we finalized a strategic agreement for 175 million dollars with Equinix in 2019. Later, in July, we transferred nine concession titles covering the use, leveraging and exploitation of the 3.5 GHz frequency band for the provision of fixed wireless access services to Telcel, recording a net profit of Ps. 90 million.

In the first quarter of 2019, we started to divide Axtel's operations into two business units to increase participation in connectivity and internet opportunities by domestic and foreign wholesale customers and operators through Axtel Networks, and to focus the service portfolio on added value solutions and digital transformation in Alestra.

In line with this functional separation, at the beginning of 2020, we formalized a competitive process to attract investors for Axtel Networks or the Company as a whole. In December of that very year, we closed this process, since the valuation offers received did not reflect the intrinsic or the potential value of the two business units.

The goal of maximizing value by capturing the interest of new investors continues to be a priority for the Company. That is why one of the objectives that we have set for 2021 is to continue looking for strategic alternatives to attract investors for Axtel Networks or for both business units independently.

With regard to our social value proposition, in 2020, Alestra donated to the National Support Center for Epidemiological Contingencies and Disasters A.C. (CENACED, by its acronym in Spanish) the connectivity and software necessary to create a cloud-based contact center in order for it to provide free psychological services to benefit Mexican society. This service operated successfully in the second and third quarters of the year.

Consistent with our commitment to exercising accountability and our social and environmental obligations, in 2020, we renewed our commitment to the United Nations Global Compact for the tenth consecutive year and received recognition as a Socially Responsible Company for the thirteenth consecutive year.

In 2021, we will work to capitalize on the business opportunities that arise for each of the business units. We expect to see a gradual recovery in the economic activity of the business sector in Alestra and we believe that the demand for connectivity will continue to be a valuable opportunity to drive favorable performance in Axtel Networks.

In addition, we will continue developing more efficient and optimized processes through the "Axtel Digital" project and will stay focused on the initiatives of maximizing value for our customers, organization and stakeholders, including the corporate separation of the business units and the entry of investors to both business units separately, with an initial focus on Axtel Networks. On behalf of the Board of Directors, we thank you for the trust and support you have given us. We also thank our customers and suppliers, as well as the financial community, for being part of these results, and of course, to our more than 4,000 employees for their commitment to service and their day-to-day efforts.

San Nicolás de los Garza, N.L., Mexico,
March 5, 2021.

Eduardo Alberto Escalante Castillo
CHIEF EXECUTIVE OFFICER

Facing 2020

43,300 KM
fiber optic network

PS. 12,356 MILLION
in revenue

40%
of the energy we use to operate comes from clean sources

22,726 M²
of unoccupied office space

85%
of employees working from a virtual office

PS. 6,327 MILLION(1)
in Operating Cash Flow (Flow)*

33 hours on average of digital training per employee

*Flow: operating income, plus depreciation and amortization, plus impairment of fixed assets.

(1) Includes Ps. 2,021 million in profit from the data center divestment.

Note: in this annual integrated report, the amounts are presented in Mexican pesos (Ps.) and in nominal dollars (US), except where otherwise specified.

Company profile

Company profile

We are a Mexican company that offers cutting-edge solutions in Information and Communication Technology (ICT) to commercial, government and wholesale markets. We are part of ALFA, a management company for a diversified portfolio of businesses comprised of the companies Alpek, Sigma, Newpek and, until December 2020, Nemak. ALFA currently holds operations in 19 countries in the Americas and Europe and it holds 52.8% equity in our company.

The challenges we are currently facing, notably the COVID-19 health crisis and the changing needs of the markets at the global level, accelerated the demand for technological solutions that allow organizations to adapt to the new economic and social reality based on digital innovation and new models for online collaboration.

During this period, at Axtel we maintained the continuity of our operations, adapting to the new circumstances without setbacks across all areas of our company. We strengthened our processes in order to urgently and timely attend to our customers' connectivity needs and increased demand for services, while also implementing appropriate measures to ensure the health of our human team.

Through innovation to create value, at Axtel we seek to offer the best digital experience option to our customers.

The consolidation of our two business units, Infrastructure (Axtel Networks) and Services (Alestra), places us in a favorable position to increase our participation in the wholesale market by providing infrastructure solutions to domestic and foreign operators, in addition to strengthening our position as leaders in the provision of managed ICT services to companies and the government sector. All of this was possible due to the talent, dedication and commitment of our employees; our adherence to environmental, social and corporate governance best practices; and the solid business relationships we hold with an extensive network of technology manufacturing partners around the world.

Our business

We guide our customers through the process of digitally transforming their organizations by offering services through two business units: the **Infrastructure Unit**, under the business name **Axtel Networks**, which provides connectivity solutions through fiber optics, making it possible to meet the needs of international and domestic operators, data centers, internet giants and content and cloud providers, as well as for our own service unit; and the **Service Unit**, under the business name **Alestra**, which continues operating as a technological partner and promotor of digitalization with over 18,000 business and government customers, providing managed solutions for Information and Communication Technology, integrating and managing services for Managed Networks, Collaboration, Cybersecurity, System Integration, Cloud and Digital Transformation with the highest standards of service and quality.

axtel

axnet | AXTEL NETWORKS

Infrastructure

Business name: **Axtel Networks**
Customers: **wholesalers, domestic and foreign operators, data centers and cloud, content and streaming providers, and our own service unit**

Service portfolio:

- Last mile access
- IP transit
- Radio spectrum
- Fiber to tower
- Fiber (dark and lit)
- Fiber to data center

alestra

Services

Business name: **Alestra**
Customers: **business and government sector**

Service portfolio:

Telecommunications

Collaboration

- Unified Communications
- Videoconference

Managed Networks

- VPN
- Ethernet
- LAN
- SDWAN
- WiFi

Standard Services

- Data and Internet
- Voice

IT

Digital Transformation

- Cloud Consulting
- Internet of Things
- Process Digitalization

Cloud

- Multicloud
- IInfrastructure and Applications as a Service

System Integration

- SRP Business Continuity
- System Integration

Cybersecurity

- IT and Networks
- Consulting

INFRASTRUCTURE UNIT

Axtel Networks

Through Axtel Networks, we focus on supporting domestic and international operators, data center operators, mobile operators, internet giants, as well as content and cloud providers, to increase the coverage of their networks and their ability to meet the needs of their end customers, providing a wide range of services based on our fiber optic and spectrum network.

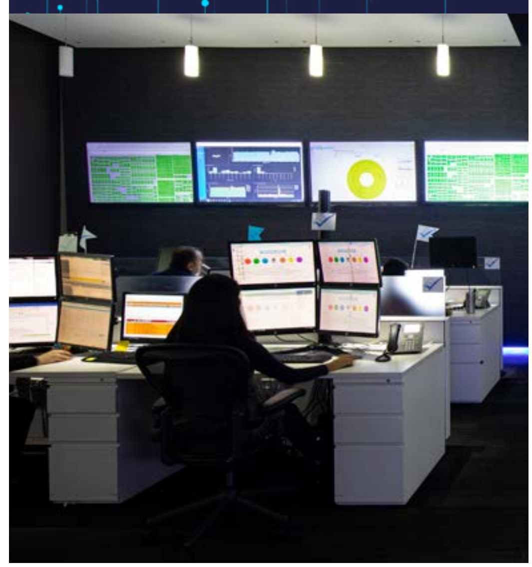
After successfully completing the functional separation of Axtel into two business units, and despite the challenging global environment, we significantly increased the strategic projects and revenue of Axtel Networks, consolidating our position as a relevant player in the infrastructure operators' market.

We increased our Ethernet access coverage to 71 cities by bringing Tepic into the Axtel Networks network, and we also increased the coverage of the metropolitan network by connecting nearly 75% of new sites with fiber optics. We also increased coverage by reaching 627 industrial parks, installing fiber optics in seven tourist belts and business areas, as well as 418 buildings in A/A+ offices with more than 5,000 m^2 of space for lease.

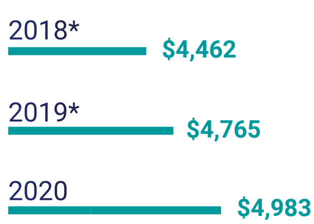
With the support of our coverage, quality and attention, we maintained our position as the operator with the largest market share of access services provided to the large international carriers, who rely to Axtel Networks to integrate their networks and provide services to their global customers.

We also consolidated our position as a key provider of fiber to tower solutions for mobile operators. During the year, we deployed infrastructure for cell sites in 13 cities, with 1,600 kilometers of fiber optics.

We are the largest neutral operator of telecommunication infrastructure in Mexico.



Axtel Networks revenue** (millions of Mexican pesos)



* For comparative purposes, adjusted for the divestment of the data center business.
** Includes inter-unit revenue or revenue from Alestra.

7, 10.5, 15, 23 and 38
GHz microwaves for last mile connectivity and business sector metropolitan coverage

68
cities with local service

71
cities with Ethernet Data services

43,300
km of fiber optic network

1,377
sites across the country for fiber and digital radio coverage

- Network: 22,000 km of long distance + 21,300 km of metropolitan network
- Capacity agreements (IRU): 11,600 km
- Leased capacity of long-distance transmission: 1,000 km

SERVICE UNIT

Alestra

Alestra aims to become the main enabler of the digital transformation in Mexico, offering a broad portfolio of advanced Information and Communication Technology solutions tailored to the needs of our customers.

Technology has proven itself to be essential to the evolution of markets and society at the global level. Proofs of this are the challenges that have arisen as a result of the emergence and spread of COVID-19, which have changed the way we interact as people and organizations while increasing the demand for connectivity, cloud, cybersecurity and network access solutions, among others. Services are organized into three categories:

Infrastructure-based solutions

- Voice
- Data and Internet
- VPN
- Ethernet
- Data Centers

Value added solutions

- System integration
- Managed systems

Digitalization transformation solutions

- Cybersecurity
- Collaboration
- Cloud
- Application management

We have the most complete network of global technology partners in the market, with the highest levels of alliances and certifications. In 2020, we were recognized by Cisco, Veeam and Fortinet as partner of the year.

Currently, our employees also have more than 720 certifications from leading technology partners in the industry.

At Alestra, we have been a strategic partner for our customers during the pandemic, offering them not only the tools they need to adapt the way they work to the new digital normal, but also a specific portfolio of services designed to accelerate their digitalization, which is called Alestra IoT and consists of health and physical safety solutions and a safe digital work model. This portfolio combines solutions using the Internet of Things, artificial intelligence, heat monitoring cameras, among other devices, that are managed using a platform that can monitor and control these aspects and can be adapted to any industry.

Despite of challenging conditions, we were able to maintain and increase the scope of our ICT services, launching offers for collaboration and secure remote access services, as well as to respond swiftly to the requests for increased internet access capacity made by 395 customers as a result of the pandemic.

Sperto Centers

To strengthen the ties between customers and suppliers, for more than 10 years we have offered Alestra Experience Centers, also known as Sperto Centers, which are spaces where we provide opportunities for dialogue and interaction to learn about the ICT challenges faced by companies and the sophisticated technology services we can provide at Alestra.

At the beginning of the year we inaugurated a new Sperto Center in Cancun to bring our Digital Innovation portfolio closer to the southern region of the country.

When the pandemic came on the scene, we transformed the customer experience, providing access through two methods: physical, by operating under strict safety measures at our center locations; and virtual, by creating Sperto Virtual, which delivers the same customer experience with a customized agenda that can include tech days, webinars and virtual demonstrations. In all, we offered more than 500 discussions and demonstrations, impacting more than 1,000 people from over 400 companies.

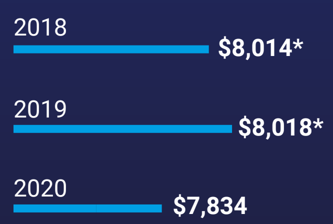
This new configuration of Alestra allows us to promptly attend to the specific needs of our customers and support them in their own digital acceleration so they can increase the efficiency of their processes with reliable and secure solutions. We classify our customers into two sectors: business market and government market.

Alestra IoT is an innovative digital platform designed to improve the efficiency, productivity and security of organizations in the face of the challenges presented by the *new normal.*

More than 50 speakers who are experts in technology are part of the Speaker Bureau, and they are equipped to offer and explain the portfolio through over 50 discussions and demonstrations available to our customers.

Business market

Alestra Business Market Revenue (millions of Mexican pesos)



We support different business sectors in their digital transformation through tools for managed networks, collaboration, cybersecurity, system integration and the cloud.

* For comparative purposes, adjusted for the divestment of the data center business.

Alestra Fest

We held our eleventh **Alestra Fest** technology fair. In the first part of the tour, we visited four of the six cities scheduled and over 4,000 people attended. After the COVID-19 pandemic was declared, we opted to close the tour with a completely virtual format: **Alestra eFest** 2020. Together with our technology partners, we presented the portfolio of solutions Alestra offers to face the challenges of the *new normal* and the possibility of using them to create innovative work ecosystems, as well as the digital megatrends of cybersecurity and the cloud, which sparked a lot of interest among the attendees.

The success of this emblematic tour of digital innovation is an example of how organizations can adapt to change and maintain their productivity through technology.

Alestra FEST Digital Innovation Summit 2020

+4,000
attendees in the first part of the tour.

+14
technological partners present.

+40
solutions presented.

Alestra eFEST Digital Innovation Virtual Summit 2020

1,300
people reached across the country through the conferences offered by our executives.

+950
simultaneous spectators live on Alestra Frequency.

+19,000
views through on demand channels.

+1,100
visitors over seven hours at our virtual expo.

Government market

Alestra Government Market Revenue (millions of Mexican pesos)

We provide our Information and Communication Technology services to government institutions at the federal, state and municipal levels, providing solutions that improve their experience communicating with and relating to the public.

This year, in light of the public austerity policies and the need of this sector to attend to citizens from a social wellness perspective, we implemented an innovative strategy to position our value proposal in a distinctive way. To do this, we designed service, experience and contact with the public solutions tailored to the requirements of each institution. Here are some examples:

- Single Window to consolidate all of the procedures for an institution into a single portal and make the internal processes and collection more efficient.
- Customized collaboration tools for students at technological institutes and autonomous universities so they can continue their studies online.
- Systems based on analytics for public safety decision-making.
- Internet of Things (IoT) solutions to automate the frequency of public transportation and other information such as the number of passengers commuting, kilometers traveled and video-surveillance.
- Processing and storage of information on the Cloud for land registry areas to streamline management of the payment processes.

In addition, as a result of the health crisis and after much persuasion, we managed to shift communications with our government sector clients to remote channels, which also helped speed up their digitalization process and contributed to an increase in their productivity and efficiency.

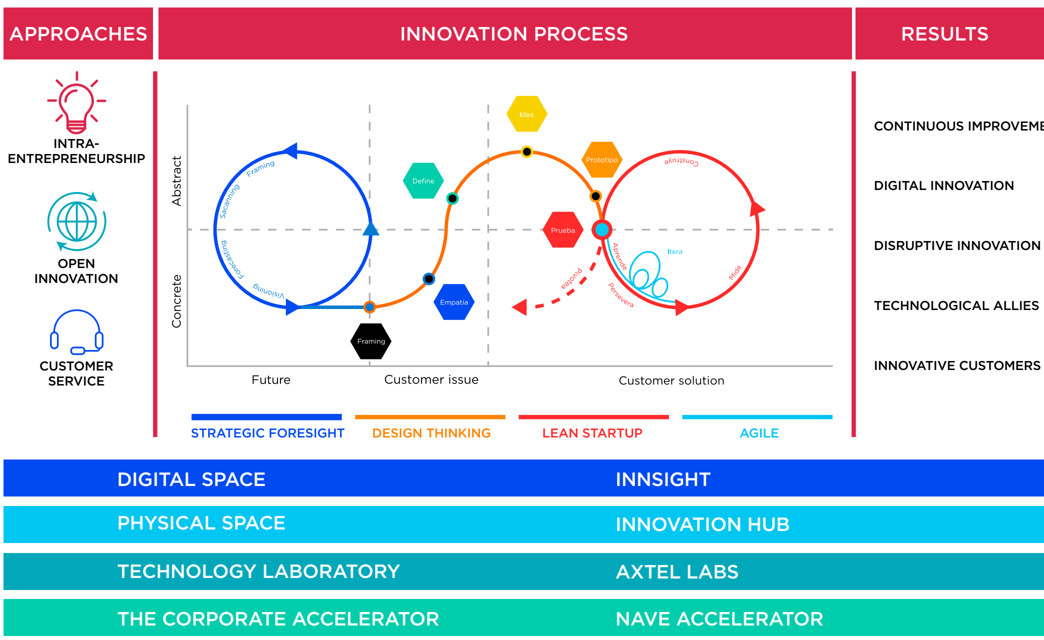
This year we participated in the Global Quality Model for Interaction with Customers (MGCIC, by its acronym in Spanish) certification granted by the Mexican Teleservices Institute (IMT, by its acronym in Spanish), achieving a high maturity level of 591 points, which positions us as a reliable company regarding the service we provide to our government sector customers.

Innovation

In order to offer solutions that respond to the real needs of our customers and the market, as well as the challenges caused by the *new normal*, we kept innovation as a priority this year.

Since it is part of the nature of our business, this way of working is set out in the Axtel Innovation Model, which goal is to permeate the business culture across the entire company to make sure we are able to create value not only for our customers, but for our employees as well.

Axtel Innovation Model



Innsight is the digital space where we encourage our employees to propose ideas for innovation and continuous improvement that are then reviewed by the employees themselves to assign resources that make it possible for their implementation or transformation in customer services.

In 2020, this innovation and continuous improvement culture was focused on encouraging digital transformation projects, incorporating the use of digital tools in collaborative innovation that made it possible to develop initiatives from home, with excellent results. Nearly half of our employees participated, contributing with a total of 363 ideas, of which 58% corresponded to digital innovation, resulting in savings of almost Ps. 160 million in operating expenses and Capex.

Along this same line, for the first time, we held a virtual hackathon where our developers participated with proposals for applications to improve Axtel's digitalization projects.

Innovation Hub is the physical space for creativity, collaboration and the creation of ideas, as well as the realization of those ideas through prototypes and real solutions. The hub is located at the Innovation and Technology Campus (CIT, by its acronym in Spanish) and consists of two centers: Business Innovation and Technology Innovation. In 2020, we explored new trends in technology, such as artificial intelligence, augmented reality, image recognition and error detection.

NAVE Accelerator is our open innovation program through which we interact with B2B scaleups[1] aligned with the megatrends in technology to create business alliances with proposals that allow us to increase our customers' productivity through digitalization.

In 2020, we launched four products with entrepreneurs from the fourth generation of NAVE that strengthened our digital transformation strategy. These products include Asset Tracking and load anti-theft in the Internet of Things category; Automation of Mass Selection and Recruiting in the Process Digitalization category; Sales through WhatsApp in the Collaboration category; and Palm Authentication in Biometrics.

We also analyzed more than 1,100 from around the world and selected 10 to form part of the fifth generation of NAVE. These scaleups are focused on trends like artificial intelligence, hyper-automation, virtual reality, augmented reality, IoT, analytics and cybersecurity.

Axtel Digital

It is clear that one of the biggest challenges we faced in 2020 was the acceleration in digitalization caused by the effects of the health emergency, since we had to migrate nearly all of our office operations to remote solutions in record time. To achieve this transformation, we implemented the **Axtel Digital** initiative, which encourages the creation of a new hybrid work culture and also includes the redesign of office spaces to comply with the new standards and the use of best practices for working remotely, digitally, safely and productively.

All of the company's processes were analyzed in detail to determine which functions could be performed remotely and, at the same time, identify the tools needed to allow our employees to maintain their productivity and the customer experience, all of which resulted in nearly 85% of our employees being able to switch to this work model.

We also created digital interaction spaces for coming up with ideas, following up on projects and improving processes.

The institutional applications were also adapted to extend their use to new structures that gave us mobile capabilities that are fast and easy to use.

Furthermore, we implemented Robotic Process Automation (RPA), a tool that allows our employees to automate some of their activities to reduce the risk of human error, increase execution speed and economize resources. These solutions are part of our ongoing strategy of promoting the digital profile in our work teams.

This new way of working and operating is part of an ongoing effort that is constantly evolving to strategically strengthen Alestra and Axtel Networks.

[1]Scaleups: are companies that have been operating for more than two years and are legally incorporated, which may have previously received investment and whose business models are defined and scalable.

Certifications

At the cutting-edge of topics that concern us as an industry, we have technical certifications from Amazon, Assure, ISC, ISO, Oracle, Cisco, Palo Alto, Checkpoint, Fortinet and Avaya, among others.

Certifications

· ISO 9001:2015
· ISO 20000-1:2011
· ISO 14001:2015
· ISO 27001:2013
· ISO 22301:2012
· ISO 37001:2016

Best practices

· ICREA Levels 3, 4 and 5
· ITIL
· CEEDA
· SSAE 18 (Statement on Standards for Attestation Engagements No.18)
· PCI DSS (Payment Card Industry, Data Security Standard)
· FIRST (Forum of Incident Response and Security Teams)
· CMMI SVC/3
· MGCIC

Recognition of partners

· Aspect, Channel Sales Agreement
· Audio Codes Platinum VAR
· Avaya Diamond Partner
· AWS Select Consulting Partner
· Checkpoint, Three Stars Partner
 · 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, MSSP Expert Partner
· HPE, Solution Provider Gold Partner
· Huawei Enterprise Partner VAP
· Huawei, Four Stars Partner
· IBM, Service Provider
· Microsoft, Gold Partner
· Microsoft, Hosting Partner
· Microsoft, Gold Cloud Productivity
· Oracle, OPN Member, License & Hardware / Cloud Solution Provider
· Palo Alto Networks, MSSP Platinum Innovator Partner
· Poly, Silver Partner
· SAP MCaaS Partner
· Symantec, Premier Partner

Data security

At Axtel, we have always set a priority of protecting our services and infrastructure, as well as the confidentiality, integrity and availability of the information we manage, so, given the relevance gained in recent years, we are reporting for the first time the actions implemented to manage data security.

We have a security governability model which consists of the management of policies, practices and processes, and a work program aligned with the business strategy, with clearly defined roles and responsibilities in the organization. This model is headed up by the CEO through the Information Security Committee and is in strict compliance with our Public Position on Information Security[2].

This security model allows us to manage cybersecurity risks and ensure the continuity of our services and processes, as well as to foster awareness among our employees to protect their own information and that of third parties through Digital Hygiene.

We also have developed a robust awareness and training program that strengthens our culture and good digital hygiene habits among our employees. This program includes frequent and timely communication of relevant information, specialized courses, periodic campaigns and events with participation of experts, as well as ethical drills to constantly strengthen areas of opportunity.

Our work framework and main processes are as follows:

Furthermore, our operation is certified in compliance with the best practices of several international standards including ISO 27001, ISO 22301, The American Institute of Certified Public Accountants (AICPA), Service Organization Controls (SOC) for Cybersecurity, National Institute of Standards and Technology (NIST), FIRST, PCI-DSS and SSAE-18.

To supplement this, we perform both internal and independent audits, reviews and drills that confirm our compliance. As a result of these reviews, the key players of each business process are informed of any areas of opportunity for immediate correction.

[2]See our Public Position on Information Security at:
https://www.axtelcorp.mx/repositorio/grupos-de-interes/Postura-Publica-Seguridad-de-la-Informaci%C3%B3n-V1_2020.pdf

Data privacy

One of the immense challenges for our industry is the protection of personal data and privacy in communications, a commitment that is established in our **Privacy notice**[3].

At Axtel, we respect the right to privacy and protect the personal data our employees, customers and suppliers, including financial and asset information, adopting administrative, technical and physical safety measures to prevent potential damage, loss, unauthorized alteration or access, making sure to comply with the current standards in Mexico.

The personal information we use comes directly from the owner and/or through physical, electronic or in-person methods, as well as from authorized public sources, and the information is handled based on the type of owner. We do not perform transfers of sensitive personal information, asset information or financial information for secondary purposes unless we have the owner's consent.

Network reliability

Providing a reliable service despite the risks associated with technological interruptions like technical failures, cybernetic attacks, weather events and natural disasters is one of our main challenges.

To ensure that we can deliver our services and solutions, even when they may be affected by an unexpected situation, we have a **Business Continuity Management System** that, through strategies, plans and drills, determines the logistics, actions and procedures required to recover our critical processes and services within the established time objectives, minimizing the impact for the company and for our customers.

As a result, we operate under ISO 22301 certification, managing the continuity of our services and infrastructure in the event of disruptive events.

[3] See our Privacy notice at: https://www.axtelcorp.mx/aviso-de-privacidad/

Our operation is governed by a processing system based on international recommendations and standards like ITIL, ISO 9001 and ISO 27001, and we also promote agility practices and develop the abilities of our employees through more than 500 certifications that allow us to hold full command of the technologies that comprise the network.

Our operating team has an average of 15 years of experience in the telecommunications industry.

We define KPIs for customer experience metrics, incident response times and network and service availability, among others, which are measured constantly so that we can implement activities for continuous improvement. Also, it has been several years now since we implemented control mechanisms for the hurricane season and failures in the public power grid.

On a recurring basis, in conjunction with Information Security, we perform drills for failures or catastrophic situations that could affect the network.

In 2020, we obtained 99.99996 availability in the software and IT services provided to customers.

In 2020, an extraordinary 57 natural events occurred, primarily hurricanes, and there was also a mass power outage event. In both cases, we applied the effort and resources required to respond promptly with no major consequences, maintaining the service levels agreed on with our customers.

To ensure the reliability of our services, we implemented important projects, highlighting the ones described below.

1. **Updating of the power and weather platform for network infrastructure sites.**
   From 2018 to 2020, we updated the power supply and environmental control platforms for our infrastructure, representing the replacement of 15% of the electromechanical infrastructure and 4% of the environmental equipment, such as air conditioners.

2. **Strengthening of TELCO infrastructure.**
   We consistently perform improvement analyses to prevent recurrence of failures, managing the implementation of redundancies or alternate routes.

3. **Annual software update plan.**
   In 2020 we updated more than 4,000 network items, allowing us to incorporate increased technology functionalities and to keep the manufacturer guarantees valid so that we can access specialized levels of support.

We firmly believe in the digital transformation and that the integration of experience and technology, as well as best practices based on Big Data and machine learning technologies, facilitates the automation of processes, as well as the development of predictive tools that put us a step ahead in the timely detection and resolution of incidents that occur in the network.

Customer experience

The preparation, specialization and professionalism of our operating personnel, together with the solid customer service infrastructure we have consolidated in recent years, allow us to provide the best experience regardless of the market or customer we are serving.

In 2020, we released **Alestra One Touch**, an online portal that allows us to manage the interactions of our customers with areas of the Alestra value chain digitally, making it possible to make queries about account statements, invoices, payment addendums, active services, open orders and orders in progress, as well as incident follow-up, among other services, all in real-time, at any time and from anywhere.

We implemented several projects under the SCRUM work framework in 2020, including two reconfiguration projects that allowed us to improve customer service.

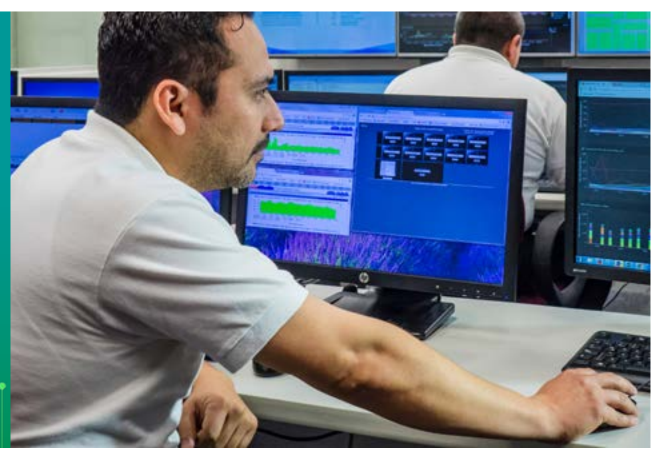
One of the projects was implemented at the beginning of 2020, when we identified the need to improve and update the operating knowledge of our engineers at the first and second and specialized desk levels, so, using the SCRUM work framework and the expertise of our own personnel, we were able to provide training to more than 800 employees on key technologies for Alestra's services. The training was provided in person at the beginning of the year and after the emergence of the pandemic, it has been offered online and then through streaming, making it possible for our employees to access self-training, with a total of more than 15,000 training hours reported.

Another project was developed related to the experience of relating to our customers, a process that we had to reinvent due to the COVID-19 pandemic to ensure that our customers continue to feel that we are close to them and attentive to their businesses, despite the circumstances. In a short amount of time, we managed to migrate to a new structure of virtual visits that allowed us to maintain the same level of closeness and even exceed the expectations for trust that our customers place in the services we provide. As a result of the efforts of the multidisciplinary teams that participated in this initiative, we achieved historical levels of support that were reflected in the Net Promoter Score (NPS).

We provided more than 15,000 hours of training in five key technologies that form part of the Alestra solutions.

In addition, in order to understand our customers' expectations and improve the experience for the services we provide, we continue to apply satisfaction surveys through the NPS.

For the first time, we measured the customer satisfaction indicators for the government market and got very good results.



NPS 2020 targets and results

Corporate market

TARGET 44

RESULT 54

Medium-sized company market

TARGET 44

RESULT 41

Federal government market

TARGET 43

RESULT 78

State government market

TARGET 43

RESULT 88

Suppliers

Complying with our business objectives to ensure the best experience for our customers, as well as the different needs of stakeholders in environmental, social and governance matters, is closely related to the processes we carry out across our entire value chain.

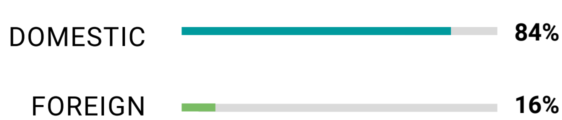
That is why we ask our suppliers to comply with the guidelines defined in the Axtel Supplier Selection Policy and Code of Ethics for Suppliers, where we establish the sustainability and integrity standards we expect in our supply chain.

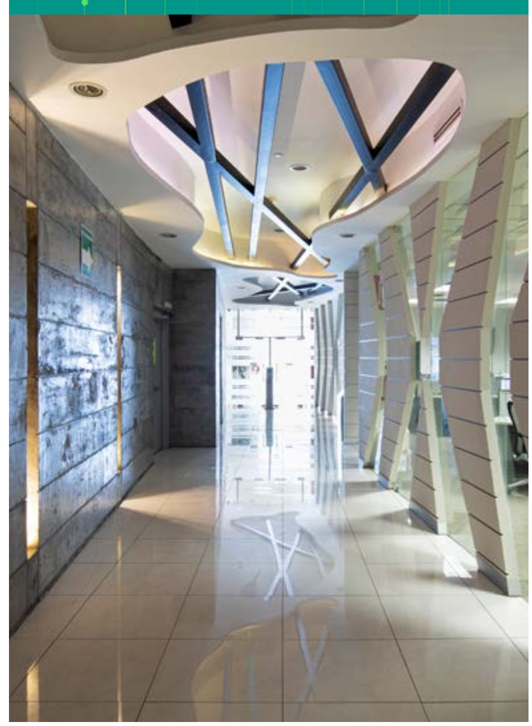
To ensure compliance, we perform regular assessments at storehouses, and we also stress the use of the ALFA Transparency Mailbox, a mechanism that not only our employees and customers, but also Axtel's suppliers, can use to report any inappropriate conduct they observe in the business transactions they perform. In 2020, no situations of this kind were reported.

In 2020, we made purchases of over 3.7 billion pesos, of which 84% were made from local or Mexican suppliers.

We evaluated the social and environmental impact of 54% of our suppliers and included human rights clauses in 100% of the contracts and investment agreements.

Portion of spending on suppliers based on their origin





Corporate governance

The standards, principles and procedures that regulate the structure and functioning of the governance bodies of an organization are the guiding principles based on which strict oversight and appropriate decision-making are applied to create value. That is why we recognize that good governance is essential to the success of a company and the creation of long-term sustainable value for its stakeholders, and we therefore prioritize transparency in decision-making and the implementation of our environmental, social and governance strategy (ESG).

The management structures we have established, together with the planning and implementation processes that our decision-makers use to assign responsibilities, are guided by our policies, procedures, framework of standards and Corporate Governance guidelines[5]. The Board of Directors is the highest body of governance at Axtel and, together with the CEO, they are responsible for implementing the business strategy.

The Board of Directors is comprised of 12 regular board members, five of which are independent, and three alternates. All members are selected based on the provisions set forth in the Stock Market Act (LMV, by its acronym in Spanish), Axtel's bylaws, our Code of Ethics, the OECD Best Practices and Principles of Corporate Governance and the Principles of the Global Compact, and they also have extensive experience in the business environment and long careers in different industries.

The board members were appointed and approved at a General Shareholders' Meeting held on February 25th, 2020.

The main functions of the Board are:

1. Oversee compliance with the current laws, including the LMV.
2. Define the company's objectives and strategy for ESG matters[6].
3. Review the accounting policies, financial statements and the submission of reports at the General Shareholder’s Meeting[6].
4. Manage, direct and execute the company's business[6].
5. Identify, manage and mitigate or leverage internal and external risks and opportunities.
6. Appoint and remove the CEO, indicate their functions, obligations, working conditions and remuneration, appoint and remove the company's external auditors.
7. Define the control and internal audit guidelines.

[5]Learn more about how our Corporate Governance works: https://www.axtelcorp.mx/gobierno-corporativo/
[6]Functions shared with the CEO.

In 2020, five Board of Director meetings were held, with average attendance of 98%.

In 2020, the meetings of the Board of Directors and the Audit and Corporate Practices Committee of Axtel were held via videoconferencing due to the COVID-19 pandemic. This allowed the board members to interact effectively given the availability of audio and video functions, and it enabled their attendance to the meetings.

The Board of Directors is supported by the Audit and Corporate Practices Committee to ensure the appropriate management of its functions.

This committee is comprised of three independent board members and its main activities are focused on maintaining communication between the Board of Directors and the executives, as well as on issuing recommendations on various matters such as the selection and determination of the fees for the external auditor, coordination with the internal audit department, the accounting policies review, the contracting conditions of senior executives and severance payments, as well as the compensation policy.

To determine the remuneration of the members of the Board of Directors, we use our Salary Management Policy as a reference and we performed an analysis of the market and internal equality.

Board of Directors

Co-Chairmen

Álvaro Fernández Garza

March 27, 1968

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

Tomás Milmo Santos

November 3, 1964

Board Member and Co-Chairman of Axtel's Board of Directors since February 2016. CEO of the company from 1994 to February 2016 and Board Member since 1944. Chairman of the Board of Directors from 2003 to February 2016. Member of the Board of Directors of CEMEX, the ITESM and Promotora Ambiental. He is also the Chairman of the Board of Tec Salud and has a Bachelor's Degree in Business Economics from Stanford University.

Proprietary Directors

Alejandro Miguel Elizondo Barragán

October 14, 1953

Axtel Board Member since February 2016. Member of the Board of Directors of Arca Continental and Grupo Stiva. He has a degree in Mechanical Engineering from ITESM, and a Master's in Administration from the University of Harvard.

Eduardo Alberto Escalante Castillo

March 27, 1958

Axtel Board Member since February 2019. CFO of ALFA, S.A.B. de C.V. and CEO of Axtel since January 2021. He has a degree in Electronic Engineering and Communications from ITESM and a Master's from the University of Stanford.

Armando Garza Sada

June 29, 1957

Axtel Board Member 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 México, CEMEX, Grupo Lamosa and Liverpool. He graduated from the Massachusetts Institute of Technology with a Master's in Administration from the University of Stanford.

Fernando Ángel González Olivieri

October 2, 1954

Axtel Board Member since February 2016. CEO of CEMEX. Member of the Boards of Directors of Grupo Cementos de Chihuahua and TecMilenio University. He has a Bachelor's Degree and Postgraduate Degree in Administration from ITESM.

Patricio Jiménez Barrera

October 29, 1965

Axtel Board Member since February 2018. Chairman of Abstrix, S.A. de C.V. Member of the Board of Directors of Grupo Tredec, S.A. de C.V. and Jumbocel, S.A. de C.V. Public Accountant with a degree from ITESM.

Alberto Santos Boesch

August 26, 1971

Axtel Board Member since February 2016. Chairman and CEO of Ingenios Santos, S.A. de C.V. Board Member of GRUMA, BBVA México, Interpuerto de Monterrey, Development Committee of ITESM, Instituto Nuevo Amanecer, Renace, Philanthropy Network of Graduates and Friends of Tec, Advisory Board Committee of the School of Political Science and Public Administration of the UANL and Unidos por el Arte contra el Cáncer Infantil (UNAC). Bachelor's Degree in International Studies from UDEM.

Independent Proprietary Directors

Francisco Garza Egloff

September 5, 1954

Axtel Board Member 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 Science at ITESM, The Coca-Cola Foundation, the "Rosa de los Cuatro Vientos" Cultural Center, and Fundación Ser y Crecer. Chairman of UANL Foundation and Caballero de San Miguel Arcángel de CAMSVI. Vice-president of Confederation of Industrial Chambers of Mexico, CONCAMIN. He has a Degree in Chemical Engineering Administration from ITESM, with Upper Management studies at IPADE.

Juan Ignacio Garza Herrera

November 26, 1966

Axtel Board Member since February 2016. CEO of Xignux. Former Chairman of COMCE Noreste and former Board Member of Xignux, Mexican Businessmen's Council (CMHN), BBVA México (Northeastern Region), UDEM, ICONN, Cleber and Instituto Nuevo Amanecer, A.B.P. Former Chairman of Nuevo León Manufacturing Industry Chamber. Degree in Mechanical Engineering Administration from ITESM, with a Master's in Administration from the University of San Francisco.

Enrique Meyer Guzmán

January 7, 1960

Axtel Board Member since February 2016. Chairman of the Board and CEO of Grupo CEMIX. Board Member of UDEM, Bancomer, Banamex, Silica Desarrollo, S.A., Fondo Emblem, Beliveo and Ex-Chairman of the Board of Club Industrial. Industrial and Systems Engineer graduated from ITESM, with a Master's in Business Administration from the University of Stanford.

Ricardo Saldívar Escajadillo

April 21, 1952

Axtel Board Member since February 2016. Private investor. Member of the Boards of FEMSA, Monterrey Institute of Technology and Grupo AlEn. Former Chairman and CEO of The Home Depot México, a position he held for eighteen years until he retired in June 2017. Prior to that, he worked at several companies of Grupo ALFA for nearly 20 years. Degree in Mechanical Engineering Administration from ITESM, with a Master's in Systems Engineering Sciences from Georgia Tech and a certificate in Upper Management from IPADE.

Alternate Directors

Paulino José Rodríguez Mendívil

April 21, 1951

Alternate Axtel Board Member since February 2019. Director of Human Capital of ALFA, S.A.B. de C.V. Member of the Board of Directors of Campforio Food Group, COPARMEX and Business Coordinating Council. Industrial and Systems Engineer with a degree from Universidad del País Vasco, Spain, with a Master's in Energy Techniques from the same institution.

José Antonio Gonzáles Flores

May 5, 1970

Alternate Axtel Board Member since February 2016. Executive Vice-president of Strategic Planning and Business Development at CEMEX. He has held various positions in both corporate and operating areas in Finance, Administration, Strategic Planning and Communication and Corporate Matters at CEMEX and from 2014 to 2020 he served as that entity's CFO. Member of the Board of Directors of Grupo Cementos de Chihuahua. Industrial and Systems Engineer graduate of ITESM, with a Master's in Business Administration from the University of Stanford.

Thomas Lorenzo Milmo Zambrano

July 9, 1935

Alternate Axtel Board Member since February 2018. Co-founder and Chairman of the Board of Directors of Grupo Javer and Incasa. Former Chairman of the Board of Directors and CEO of Carbonífera San Patricio and Carbón Industrial, and member of the Board of Directors of CEMEX until 1996.

Management Team

Eduardo Alberto Escalante Castillo
62 years

CEO

Appointed the Finance Director of ALFA in 2018. Prior to his current position, he was the Administrative and Finance Director for Alpek. He has held various administrative positions in ALFA, the controlling company, and in the subsidiaries: Hylsamex, Sigma Alimentos, Alestra and Alpek. He was the CEO of Colombin Bel, CEO of the Caprolactam and Fertilizers Division of Alpek and CEO of AOL México. Degree in Electronics and Communications from Tecnológico de Monterrey (ITESM) and a Master's from the University of Stanford. Former Chairman of the National Association of the Chemical Industry (ANIQ) in Mexico.

Carlos Guillermo Buchanan Ortega
61 years

Executive Director of Human Capital

Former Managing Partner of B&S Consultores and Human Resources Director at Alestra. He served as the Human Resources Director at Telefónica Movistar, Commercial Banking at Grupo Financiero Bancomer, Bimbo, Black & Decker and Prolec G.E. Served as the Executive Chairman of ERIAC Capital Humano and is now a member of the board. He is a Curriculum Consultant at UDEM, an Employability Board Member at Tec Milenio, a Board Member at Movimiento Congruencia AC, a member of the Study Group and guest Monitor for the D1, D2 and Medex programs at the IPADE. He has experience as a speaker and lecturer at UDEM, ITESM and ITESO. Bachelor's Degree in Psychology with a Master's in Organizational Development and Administration from UDEM, as well as post-graduate studies at IPADE and Kellogg University.

Andrés Eduardo Cordovez Ferretto
52 years

Executive Director of Infrastructure and Operations

Served as the Executive Director of Technology and Operations in Axtel from October 2013 to January 2016. Before holding this position, he was the Director of Information Technologies and Processes. In his 27 years of professional experience he has held various executive positions in a variety of domestic and multi-national companies in the telecommunications, financial and services industries, being responsible for different functions such as technology, innovation, operations, customer service and sales. He has a Bachelor's Degree in Computer Systems Engineering from ITESM and obtained a certificate degree in Senior Management from IPADE. He has completed executive development courses at the universities of Wharton, Stanford and the London Business School.

Adrián Cuadros Gutiérrez
50 years

Executive Director of the Government Sector

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

Adrián De Los Santos Escobedo
52 years

Executive Finance Director

Served as the Acting Director of the Finance Office. Held the position of Corporate Finance and Investor Relations Director at Axtel until February 15th, 2017. Prior to joining Axtel in April 2016, he worked at Operadora de Bolsa y Banca Serfin (now Santander México) and Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York. Bachelor's Degree in Business Administration from ITESM, with a Master's in Finance from the Carroll School of Management of Boston College.

Bernardo García Reynoso
62 years

Executive Director of Planning and Development

Joined Alfa in 1985 and joined Alestra as of its founding in 1996, holding various positions in the Sales, Marketing, Strategic Alliances, Administration and Human Resources areas. He served as the Finance Director for Alestra for the seven years prior to the merger, upon which he took over the position of Executive Director of Planning and Development for Axtel in 2016. Degree in Industrial and Systems Engineering from ITESM, with a Master's in International Commerce from Universidad de Monterrey and a Master's in Business Administration from the International Institute for Management Development (IMD) of Luasanne, Switzerland.

Ricardo J. Hinojosa González
54 years

Executive Director of Business Market

Responsible for the strategy, development of solutions, implementation of alliances, promotion, commercialization and profitability of the Alestra brand. With over 32 years of experience, he has held various executive positions in the Sales, Marketing, Managed Services and Planning areas. Bachelor's Degree in Administrative Computer System from ITESM, with a Master's in Business Administration with a specialization in Marketing from the University of California in Los Angeles. He has completed specialized management studies at IPADE, Wharton University and Tuck. He also is a recurring speaker at various national and international forums.

Raúl Ortega Ibarra
64 years

Legal and Regulatory Executive Director

Served as the Director of Government and Legal Relationships for Alestra beginning in 1996, where he later served as the director of International Business and Communications from 2001 to 2007. Former Director of Regulatory Matters of AT&T Corp. in Mexico and former leader and founder of the representative office for Mexican business bodies in Washington, D.C. Graduated from Universidad Iberoamericana, with executive studies in Political Economics and Management from the University of Stanford.

Benefit plan for the management team

Component	Goal and alignment with the strategy	Description
Alignment with the business strategy	Comply with the environmental, social and governance (ESG) objectives.	Remuneration granted based on compliance with objectives by area and ESG metrics.
Base salary	Attract and retain talent.	Salaries are reviewed each year based on the business results, the macroeconomic environment, salary surveys and performance.
Fixed compensation (benefits)	Comply with the legal framework and ensure competitivity in the market.	Year-end bonus, vacation premium and performance bonus.
Variable compensation	Reward compliance with the individual and group objectives and strengthen the alignment of the management team with the interests of the shareholders.	Annual bonus plan based on compliance with specific operating and strategic objectives.
Social benefits	Provide asset stability to the executive and face contingencies, retain talent.	Major medical expense insurance, life insurance, emergency insurance and periodic medical checkups.

Risk management

An important contribution to the resilience of our business is derived from a constant, timely and appropriate management of the internal and external risks we are exposed to.

Facing the pandemic with resilience was the result of timely risk management.

In order to understand the risks and opportunities we face, the Compliance and Internal Control area, together with ALFA, performs an exercise to identify and manage the strategic risks to have a clear outlook and teak preventive action against potential repercussions on the performance of the business.

This exercise consists of holding sessions with each executive director to understand the financial, regulatory, industry, market, tax, environmental, social and ethical issues they face, as well as issues of net neutrality, paid peering, zero rating and other practices related to the reliability of the network, which are approached from the perspective of the specific area in order to develop and implement attention, follow-up and/or mitigation measures.

A risks summary is then prepared that is presented to the CEO, the Board of Directors and the Audit Committee to define the follow-up and monitoring actions that each executive director must implement.

Since we implemented this exercise, we have not identified any social and/or environmental risks that could represent a serious impact for Axtel or our stakeholders.

Operational structure

Subsidiary	Country	Holding percentage
Axtel, S.A.B. de C.V. (Controller)[3][4]	México	-
Servicios Axtel, S.A. de C.V.[1]	México	100%
Alestra Innovación Digital, S. de R.L. de C.V.[3]	México	100%
Axes Data, S.A. de C.V.[1]	México	100%
Contacto IP, S.A. de C.V.[1]	México	100%
Instalaciones y Contrataciones, S.A. de C.V.[1]	México	100%
Ingeniería de Soluciones Alestra, S.A. de C.V.[1]	México	100%
Alestra USA, Inc.[2]	Estados Unidos	100%
S&C Constructores de Sistemas, S.A. de C.V. ("S&C")	México	100%
Estrategias en Tecnología Corporativa, S.A. de C.V. ("Estratel")[3]	México	100%
Servicios Alestra TI, S.A. de C.V.[1]	México	100%
Alestra Procesamiento de Pagos, S.A. de C.V.[3]	México	100%
La Nave del Recuerdo, S.A. de C.V.[5]	México	100%
Contacto IP FTTH de México, S.A. de C.V.[5]	México	100%
Alestra Servicios Móviles, S.A. de C.V.[5]	México	100%
Fomento de Educación Tecnológica, S.C.[6]	México	100%
Axtel Networks, S.A. de C.V.[5]	México	100%
Servicios Axtel Networks, S.A. de C.V.[5]	México	100%
AXE Redes e Infraestructura, S.A. de C.V.[5]	México	100%

(1) Companies providing management services.
(2) Leasing of telecommunications equipment and infrastructure.
(3) Provider of telecommunications services.
(4) At the Extraordinary Shareholders' Meeting held on February 26, 2019, the shareholders agreed to merge Avantel, S. de R.L. de C.V. and Servicios Alestra, S.A. de C.V. (merging companies) into Axtel, S.A.B. de C.V. (surviving company); this merger took effect on June 22, 2019 and had no effect on the Company's operations at the consolidated level.
(5) Legally incorporated companies with no operations.
(6) Training and development services.

Business ethics

At Axtel, we guide our actions and decisions based on the highest standards of personal and professional integrity, which are set forth in our **Code of Ethics**[7], a document applicable to Axtel's employees, executives and board members, as well as anyone who provides professional services to the company.

Our Code of Ethics defines the principles and guidelines to be followed to generate respectful work environments that are free from discrimination and are fair, inclusive and open to dialogue. It also establishes the behaviors expected from our employees with respect to matters such as anti-corruption, bribes, conflicts of interest, political contributions, human rights, workplace harassment, safety and health, information confidentiality, marketing, communication, protection of the environment and community participation, among others.

As part of the efforts to have our employees understand and apply the Code of Ethics in their daily work, we make an infographic of the 16 general principles of the Code of Ethics available to them[8].

The actions we carry out on an annual basis to guarantee consistent understanding of matters related to ethics and anti-corruption include the ones described below.

- We obtained **ISO 37001:2016** certification, specialized in anti-bribery management systems.
- We offered a Code of Ethics annual update course that was completed by **3,961** employees.
- We informed 100% of our employees about the anti-corruption policy and provided training to **3,950** employees, which represents **89%** of the total Axtel workforce.
- We asked our employees to provide an electronic signature on the Conflict and Information Confidentiality Charter, in order to have them reaffirm their acceptance of and adhesion to Axtel's values, principles and provisions with respect to ethics, labor, conflicts of interest, corporate security and privacy. A total of **45,839**[9] letters were signed.
- We ask our suppliers to sign an acceptance and commitment letter at the beginning of the business relationship.
- We evaluated **100%** of our transactions for risks related to corruption.
- We issued communications on anti-corruption policies and procedures to **100%** of our active suppliers.
- We implemented an ongoing inspection program with our contractors, through which we ensure that there are no risks related to forced or child labor and that the necessary safety measures are implemented to prevent accidents in the performance of their activities.

[7]See our Code of Ethics at: https://www.axtelcorp.mx/codigo-de-etica/
[8]See our infographic: https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Codigo_de_Etica_Infografia.pdf
[9]This figure exceeds the total number of employees reported for 2020 due to personnel rotation processes performed during the period.

In addition and in order to improve our culture of integrity, in 2020 we adopted the Code of Principles and Best Practices in Corporate Governance of the Mexican Stock Exchange (BMV, by its acronym in Spanish) in order to avoid potential conflicts of interest that could arise with respect to our commercial practices.

As of this year, the Company now has a Compliance Officer, whose role is to monitor and oversee compliance with the internal standards and ethical behaviors in Axtel.

Through the ALFA Transparency Mailbox -a mechanism available in several languages, 24 hours a day, 365 days a year- we provide our employees and stakeholders with a means to express their concerns and report any violations of our policies or the Code of Ethics.

Reporting methods

EMAIL:
buzon@alfa.com.mx

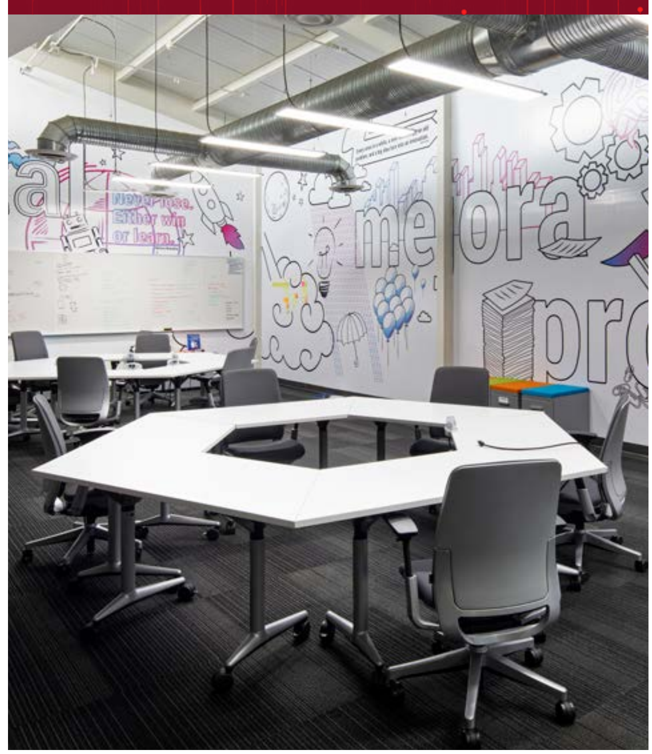
WHATSAPP/SMS:
+52 1 81 2353 9853

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

WEBSITE:
www.alfa.com.mx/buzon.html

HUMAN RESOURCES:
direct contact or via email

The complaints received in the ALFA Transparency Mailbox are confidential and may be anonymous if the complaining party wishes so.



Process for receiving and attending to complaints

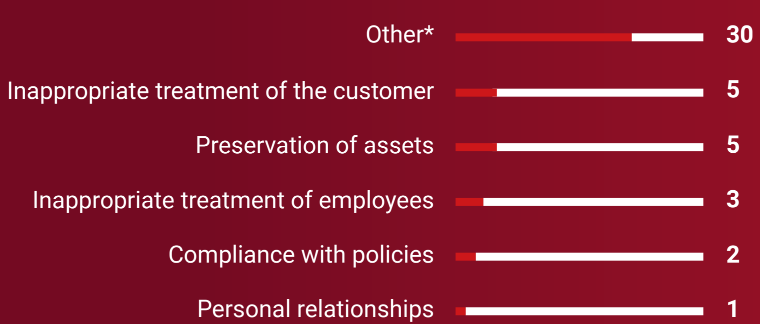
1. The complaint is received in the ALFA Transparency Mailbox.
2. It is analyzed and assigned to the areas responsible for investigation, according to the applicable policies and procedures.
3. The results of the investigation are received for review. Sensitive cases are reviewed by Internal Audit.
4. A meeting is held to authorize case closings.
5. The results are presented to the Audit Committee.

In 2020, the ALFA Transparency Mailbox received 46 complaints corresponding to Axtel, of which 43 were attended to and resolved in full, while three are still in process.

It is important to point out that, even though we enabled these same channels to receive complaints related to violations of the health and safety protocols defined to face the COVID-19 health crisis, we received no complaints of this kind.

With regard to cases of corruption, discrimination, conflicts of interest, anti-competitive practices, human rights violations, privacy violations or filtration of customer data, we received no such complaints. There were also no major concerns to be reported to the Board of Directors in 2020.

Complaints received in the ALFA Transparency Mailbox 2020

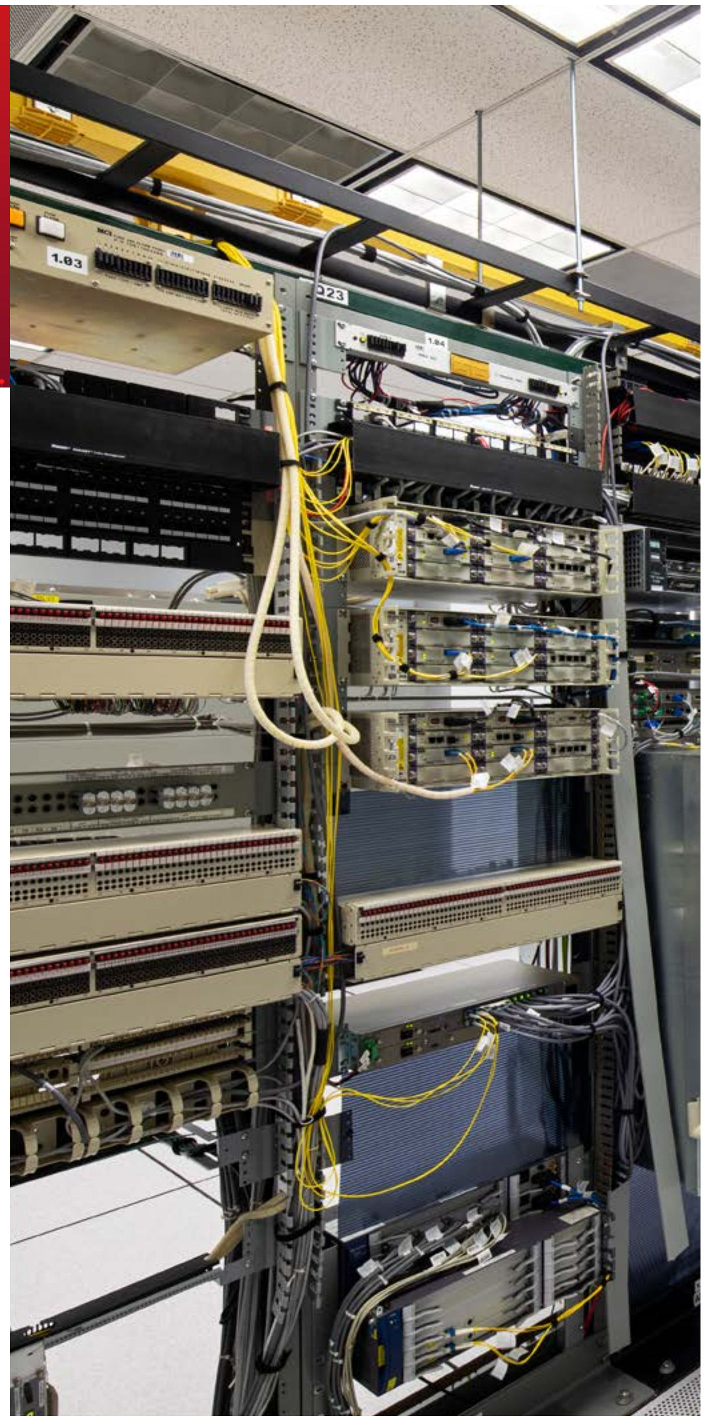


TOTAL: 46

*Other refers to complaints related to failure to comply with work schedules, lack of leadership, inadequate work tools, lack of knowledge of functions, safety and the environment, IT and delays in payment to suppliers.

As part of a series of actions to strengthen our commitment to ethics, honesty and equality, particularly in the relationships we establish with the government sector, in 2020 we voluntarily enrolled in the Business Integrity Registry of the Ministry of Public Administration, which seeks to promote best practices in integrity through the implementation of high social, ethical and governance standards.

We voluntarily registered with the Business Integrity Registry.



In addition, with the goal of correctly applying the company's philosophy and providing the necessary transparency with the public sector in bidding processes, we launched our first anti-bribery management system certified under ISO 37001, allowing us to improve the controls and ethical behavior across the entire organization.

We also operate under ISO 27001, which certifies the IT management system, establishing measures to protect our confidentiality, integrity and availability.

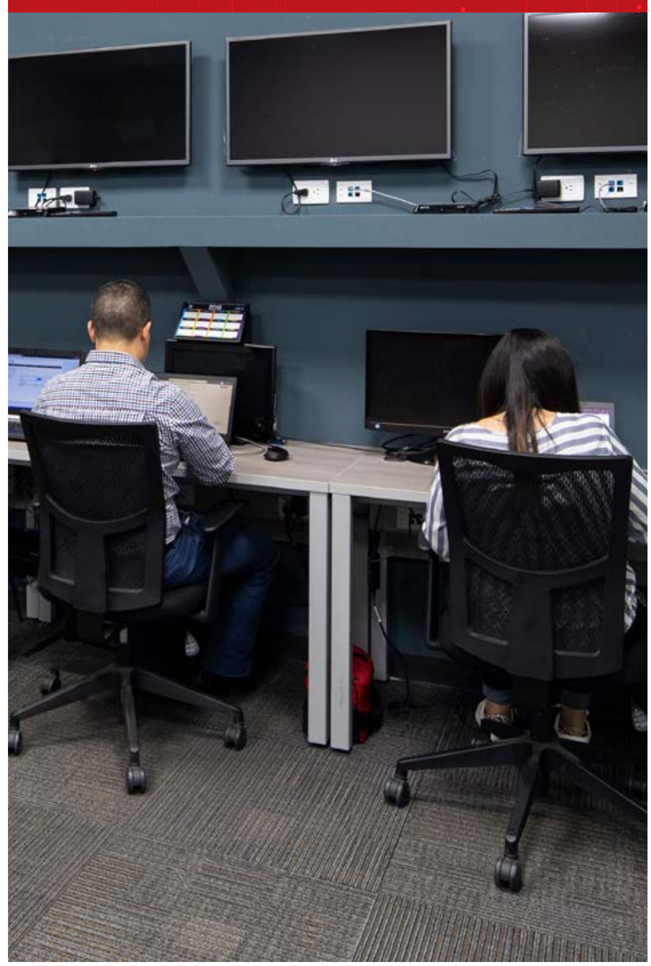
Human rights

Axtel's Code of Ethics defines who we are, how we behave and how we relate with our stakeholders. Together with Supplier Code of Conduct, our Human Rights, Diversity and Inclusion and Personnel Hiring and Selection policies, as well as our adhesion to the UN Global Compact, we support Axtel's commitment to operating with absolute respect for human rights.

In particular, our Human Rights Policy[10] is based on the Universal Declaration of Human rights and the Recommendations of the International Labor Organization (ILO) and, due to its relevance, it is applicable to all employees, customers, suppliers and stakeholders at Axtel.

Our commitment to this matter gets us involved and makes us responsible for promoting human rights across our entire value chain, which is why we reject any act of discrimination, child exploitation, forced labor, violation of the rights of indigenous peoples, abuse, coercion, hindering of association or collective negotiation, and/or threats.

We provided 1,801 training hours on human rights to our employees.



We trained **79%** of our security personnel and **90%** of our employees on matters related to respecting human rights.

[10]See our Human Rights Policy: https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Politica_Derechos_Humanos.pdf

Financial outlook

In line with our philosophy of creating value for organizations to be more productive through digitalization and recognizing the importance of managing our business in a sustainable way over time, we manage Axtel's financial resources following best practices for integrity and transparency.

As we are a listed company, our transactions are subject to regulations of all kinds, including tax regulations. That is why the guidelines for tax planning, operation and regulation at Axtel are established in accordance with our tax policy, through compliance with applicable tax provisions, as well as the preparation of a five-year tax plan prepared based on the most recent business plan, which is reviewed and approved each year by the Board of Directors and corporate controllership.

The tax environment involves risk and, in response to this, Axtel management, through the Audit Committee, is the main body responsible for managing these risks through the application of policies, tools and periodic reviews that make it possible to promptly define the necessary preventive or corrective actions.

Flow by quarter in 2020

(millions of Mexican pesos)

1Q**: **2,974**
2Q: **1,222**
3Q: **1,078**
4Q: **1,052**

Sales by quarter in 2020

(millions of Mexican pesos)

1Q: **3,106**
2Q: **3,078**
3Q: **3,095**
4Q: **3,077**

Flow by year

(millions of Mexican pesos)

2017: **4,300**
2018*: **4,174**
2019*: **4,236**
2020**: **6,327**

Sales by year

(millions of Mexican pesos)

2017: **12,544**
2018*: **12,526**
2019*: **12,528**
2020: **12,356**

* For purposes of comparison with 2020, adjusted for the divestment of the data center business.
** Includes Ps. 2,021 million in savings from the divestment of data centers.

Relevant figures
(millions of Mexican pesos)

Figure	2020	2019	% Change
Revenue	12,356	12,784	(3)
Operating income	2,773	774	258
Net income	361	(14)	-
Earnings per share[1]	0.018	(0.001)	-
Flow[2]	6,327[3]	4,466	42
BALANCE SHEET			
Total Assets	23,704	24,331	(3)
Total Liabilities	20,209	20,920	(3)
Total equity	3,495	3,411	2

(1) Based on the weighted average of outstanding regular shares (in thousands): 19,987,579 in 2020 and 20,183,560 in 2019.

(2) Flow: operating income, less depreciation and amortization, plus impairment of fixed assets.

(3) Includes Ps. 2,021 million in savings from divestment of data centers.

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

Results of operations for the years ended December 31, 2020 and December 31, 2019

In January 2020, Axtel executed the strategic agreement and divestment of three data centers. For comparison purposes, *"proforma"* information adjusting 2019 results is included in the report.

Revenues
For the year ended December 31, 2020, total revenues were Ps. 12,356 million, a 3% decrease compared to Ps. 12,784 million in the same period of 2019; or a 1% decrease compared to 2019 *pro forma*, due to a 3% decrease in Services revenues, partially mitigated by a 5% increase in Infrastructure *pro forma revenues*.

The Company's revenues are derived from the following business units:

Infrastructure Business Unit ("Axtel Networks")
2020 revenues totaled Ps. 4,983 million, a 5% increase compared to 2019 pro forma, mainly due to an 8% increase in revenues from third-party wholesale customers. Revenues coming from Alestra Services Unit represented 49% of total 2020 Infrastructure revenues. Without considering the revenues coming from Alestra, total revenues for the Infrastructure unit amount to Ps. 2,532 million for 2020.

Services Business Unit ("Alestra")
Revenues for 2020 were Ps. 9,824 million; 3% lower compared to 2019; due to 2% and 8% declines in revenues from the enterprise and government segments, respectively.

Enterprise segment. In 2020, revenues amounted to Ps. 7,834 million, a 2% decline compared to Ps. 8,018 million in 2019, due to a 7% decrease in Telecom services, partially mitigated by a 27% increase in IT revenues.

Enterprise Telecom. In 2020, revenues totaled Ps. 6,476 million, compared to Ps. 6,950 million in 2019, a 7% decrease, mainly due to a 29% reduction in *voice* revenues due to its maturing technological cycle and by the impact in voice traffic due to remote work for many clients, and a 2% decrease in *data and internet solutions*. These declines were partially mitigated by a 2% increase in *managed networks* services, including a 9% increase in *collaboration* solutions due to the increasing demand in relation to remote work.

Enterprise IT. In 2020, revenues totaled Ps. 1,358 million, compared to Ps. 1,068 million in 2019, a 27% increase driven by 40% and 29% increases in *cybersecurity* and *cloud* services, respectively, and 19% increase in *system integration.*

Government segment. In 2020, revenues totaled Ps. 1,990 million, compared to Ps. 2,159 million in 2019, an 8% decline, due to 11% and 5% decreases in Telecom and IT services, respectively, as the Company implemented adjustments in some services to accommodate the budget reductions in federal government entities.

Government Telecom. In 2020, revenues amounted to Ps. 960 million, compared to Ps. 1,072 million in 2019, an 11% decrease, mainly due to a 20% decline in revenues from *managed networks* and 21% decline in *voice* due to decreases in fixed-to-mobile revenues, while *data and internet* revenues increased 11 %.

Government IT. In 2020, IT revenues totaled Ps. 1,030 million, compared to Ps. 1,086 million in 2019, a 5% decrease, mainly due to lower revenues in *cloud* services, mitigated by increases in *system integration* revenues.

Gross Profit, Expenses, EBITDA and Operating Income

Gross profit. Gross profit is defined as revenues minus cost of revenues. In 2020, gross profit totaled Ps. 8,897 million, a 2% decrease compared to Ps. 9,044 million in 2019 *pro forma*, as a 10% decline in Services unit was partially mitigated by a 7% increase in Infrastructure Unit's gross profit.

Gross profit margin remained unchanged from 2019 to 2020 at 72%, as a result of lower margins in enterprise and government segments, partially mitigated by higher margins in the Infrastructure unit.

Services Unit (Alestra). Gross profit totaled Ps. 4,290 million, a 10% decline compared to 2019, mainly due to a contraction in both revenues and margins in Telecom services.

Infrastructure Unit (Axtel Networks). Gross profit was Ps. 4,607 million, a 7% increase versus 2019 *pro forma*, due to higher revenues, driven by a slight increase in margins mostly explained by the substitution of leased-links with owned-infrastructure.

Operating expenses. For 2020, operating expenses totaled Ps. 4,740 million, a 5% decrease compared to Ps. 5,015 million in 2019, or a 2% decrease *pro forma*, mainly due to declines in Alestra expenses.

Services Unit (Alestra). Operating expenses decline 5% compared to 2019, due to declines in outsourcing and maintenance expenses, partially mitigated by an increase in personnel in relation to a one-time right-sizing organization provision.

Infrastructure Unit (Axtel Networks). Operating expenses decreased 6% compared to 2019, or an 1% increase *pro forma*, due to increases in personnel expenses in relation to the aforementioned provision.

Other income (expenses). For 2020, other income represented Ps. 2,170 million, compared to Ps. 50 million in 2019, this figure includes Ps. 2,021 million from the data center transaction in the first quarter of 2020 and Ps. 90 million from the spectrum transaction in the second quarter of the same year.

EBITDA. EBITDA, defined as operating income plus depreciation and amortization and impairment of assets, amounted to Ps. 6,327 million in 2020, 49% higher compared to Ps. 4,236 million in 2019. However; adjusted for the data center transaction, EBITDA increased 2% versus 2019. 2020 margin reached 34.1%; slightly higher than 33.8% in 2019 *pro forma.*

Services Unit (Alestra). (45% of Axtel's YTD EBITDA) In 2020, EBITDA totaled Ps. 1,879 million; 14% lower than 2019, due to decreases in revenues and contribution margins in both enterprise and government segments.

Infrastructure Unit (Axtel Networks). (55% of Axtel's YTD EBITDA) In 2020, EBITDA totaled Ps. 2,427 million adjusted for the data center transaction; 18% higher than 2019 *pro forma*, due to increases in both revenues and contribution margins.

Depreciation, Amortization and Impairment of Assets. For 2020, depreciation and amortization were Ps. 3,555 million, 4% lower compared to Ps. 3,692 million in 2019.

Operating Income. For 2020, the Company recorded an operating income of Ps. 2,772 million compared to Ps. 774 million in 2019, an 258% increase, mainly due to a 49% increase in EBITDA previously described, including benefits of Ps. 2,021 million from the data center transaction and Ps. 90 million from the spectrum transaction, in addition to decreases in depreciation and amortization.

Comprehensive Financial Result, net.
The comprehensive financing result reached Ps. 1,619 million, a 44% increase compared to Ps. 1,127 million in 2019. This increase is mainly due to a FX loss of Ps. 385 million, against a FX gain of Ps. 290 million from 2019; partially mitigated by a 6% reduction in interest expense.

Taxes.
During 2020, income tax represented an expense of Ps. 793 million, compared to a tax benefit of Ps. 15 million in 2019. The difference is mainly due to a reduction in tax losses to be amortized used during the year, also the Company recognized an adjustment of Ps. 374 million to income tax from previous years, resulting from previous fiscal results modifications.

Discontinued Operations
In 2020, no discontinued operations were registered. In 2019, the Company recorded the results of the massive segment (which was divested) for Ps. 324 million as discontinued operations.

Net Income (Loss).
In 2020, the Company recorded a net income of Ps. 361 million, compared to a net loss of Ps. 14 million registered in 2019. The variation is mainly explained by the benefits of the data center and spectrum transactions; partially mitigated by the higher comprehensive financing cost and taxes previously described.

Capital Investments
In 2020, capital investments in acquisitions of property, plant and equipment and intangibles totaled Ps. 2,144 million, 22% higher compared to Ps. 1,762 million in 2019. The 2020 figure includes an extraordinary investment of US $ 22 million related to the renovation of spectrum frequencies. Excluding this extraordinary investment, 68% of the investments were allocated to the Infrastructure Unit and 32% to the Services Unit.

Financial Position as of December 31, 2020, and as of December 31, 2019

Assets. As of December 31, 2020, total assets amounted to Ps. 23,704 million compared to Ps. 24,331 million as of December 31, 2019, a decrease of Ps. 627 million, or 3%.

Cash and equivalents. As of December 31, 2020, cash and equivalents totaled Ps. 3,124 million compared to Ps. 858 million as of December 31, 2019, an increase of Ps. 2,266 million, or 264%, mainly due to the remaining sources from data centers divestment and from the short-term loans provision to strengthen the Company's liquidity.

Accounts Receivable. As of December 31, 2020, accounts receivable amounted to Ps. 1,795 million compared to Ps. 2,426 million as of December 31, 2019, a decrease of Ps. 631 million, or 26%.

Property, systems and equipment, net. As of December 31, 2020, property, systems and equipment, net, were Ps. 11,578 million compared to Ps. 12,964 million as of December 31, 2019. Without discounting accumulated depreciation, Property, systems and equipment totaled Ps. 50,791 million and Ps. 61,040 million as of December 31, 2020 and 2019, respectively.

Liabilities. As of December 31, 2020, total liabilities amount to Ps. 20,209 million compared to Ps. 20,920 million as of December 31, 2019, a decrease of Ps. 711 million or 3%.

Accounts payable. As of December 31, 2020, accounts payable amounted to Ps. 2,376 million compared to Ps. 2,898 million as of December 31, 2019, a decrease of Ps. 522 million, or 18%.

Debt. As of December 31, 2020, total debt including accrued interest, totaled Ps. 15,389 million, a Ps. 405 million increase compared to 2019, composed of Ps. 206 million in debt reduction and Ps. 611 million non-cash increase derived from a 6% depreciation of the Mexican peso against the US Dollar year-over-year. Debt reduction of Ps. 206 million is explained by (i) a decrease of Ps. 1,320 million related to the prepayments of the syndicated bank facility; (ii) an increase of Ps. 1,246 million in short-term bank loans; (iii) a decrease of Ps. 20 million in long-term debt; (iv) a decrease of Ps. 26 million in other loans and financial leases; (v) a Ps. 6 million decrease in accrued interest; and (vi) an Ps. 80 million decrease related to the new accounting standard for long-term leases (IFRS 16).

Stockholders 'equity. As of December 31, 2020, the Company's stockholders' equity amounted to Ps. 3,495 million compared to Ps. 3,411 million as of December 31, 2019, an increase of Ps. 84 million or 2%. The capital stock totaled Ps. 464 million as of December 31, 2020 and 2019.

Cash flow

As of December 31, 2020, cash flow from operating activities reached Ps. 4,208 million, compared to a cash flow of Ps. 2,957 million as of December 31, 2019. This variation is mainly due to the benefits from the data center transaction.

As of December 31, 2020, the Company had generated (used) cash flows from investment activities for Ps. 729 million, compared to Ps. (528) million as of December 31, 2019. Investments in property, systems and equipment and intangibles were Ps. 1,002 million as of December 31, 2020 and Ps. (1,762) million as of December 31, 2019. The 2020 figure includes a benefit of Ps. 3,145 million from the data centers divestment, without considering this benefit, investments totaled Ps. (2,144) million in 2020.

As of December 31, 2020, the cash flow (used in) generated by financing activities was Ps. (2,601) million, compared to Ps. (3,821) million as of December 31, 2019.

As of December 31, 2020, the net debt to EBITDA ratio and the interest coverage ratio were 2.0x and 5.1x, respectively. Also, as of December 31, 2019, the net debt to EBITDA and the interest coverage ratios were 3.2x and 3.3x, respectively. *Pro forma* interest expenses are used for the calculation of interest coverage ratios.

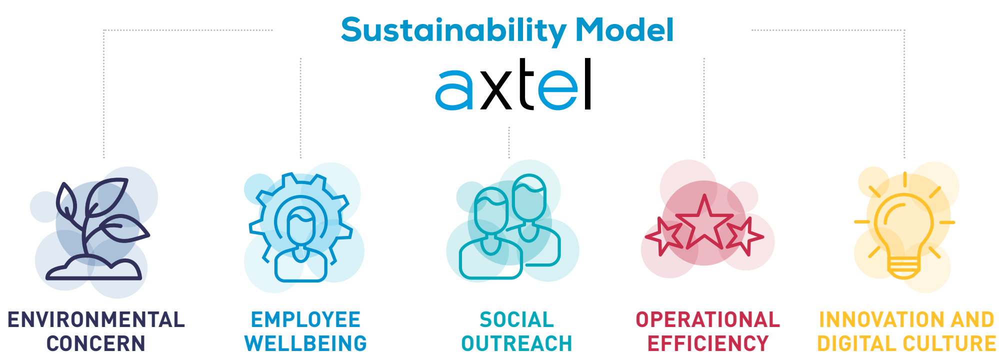
Sustainability

Sustainability

Sustainability is a method of working that enables us to be efficient and integrate the most important aspects of our operation in decision-making. Our **Sustainability Strategy** reflects our vision of contributing to a more sustainable future through comprehensive governance, responsible labor and environmental practices, as well as the creation of innovative solutions that put access to Information and Communication Technologies within the reach of the company, while also allowing us to ensure the company's profitability.

This effort is consolidated in the **Axtel Sustainability Model** that includes the five areas where we have a direct impact with our business.

Human Capital Senior Management, through the Sustainability area, leads sustainable management at Axtel, reporting to the CEO and the Board of Directors on the development of economic, environmental and social matters throughout the year. This management area also participates on the Sustainability and Environmental Committees involving all of the ALFA companies.



Achievements of 2020

- **Environmental awareness**
  We mitigate our environmental impact, reducing the use of power and water, generating lower levels of greenhouse gas emissions and waste.

- **Employee wellbeing**
  We work to improve the work environment, promote the training and development of our employees, and ensure operations in a safe and healthy environment.

- **Social outreach**
  We established positive and long-term relationships with the community by creating initiatives that contribute to their social development.

- **Operational efficiency**
  We ensure our customers have a unique experience, with the highest quality standards and encourage new technologies.

- **Innovation and digital culture**
  We create value for our customers and employees through practical improvements in information security, promoting continuous improvement in the IT market.

Mission, vision and values

Mission

Enable organizations to be more productive through digitalization.

Vision

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

Values

Collaboration… ***Our strength***
Respect… ***Our commitment***
Customer focus… ***Our differentiator***
Innovation… ***Our passion***
Integrity… ***Our pillar***

Global Compact and Sustainable Development Goals

Since 2011, we have adhered to the United Nations Global Compact.

The Axtel Annual integrated report 2020 represents our Communication on Progress (CoP) regarding the actions and initiatives we carried out to comply with the 10 principles set forth in the document.

Topic	Global Compact Principle
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights. 2. Businesses should make sure that they are not complicit in human rights abuses.
Labor	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining. 4. Businesses should uphold the elimination of all forms of forced and compulsory labor. 5. Businesses should uphold the effective abolition of child labor. 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Environment	7. Businesses should support a precautionary approach to environmental challenges. 8. Businesses should undertake initiatives to promote greater environmental responsibility. 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	10.Businesses should work against corruption in all its forms, including extortion and bribery.

We also contribute to the communication, raising of awareness and taking of action related to the Sustainable Development Goals (SDG) proposed by the United Nations. Although the 17 goals are all important to us, we identified four where our impact is much more significant.

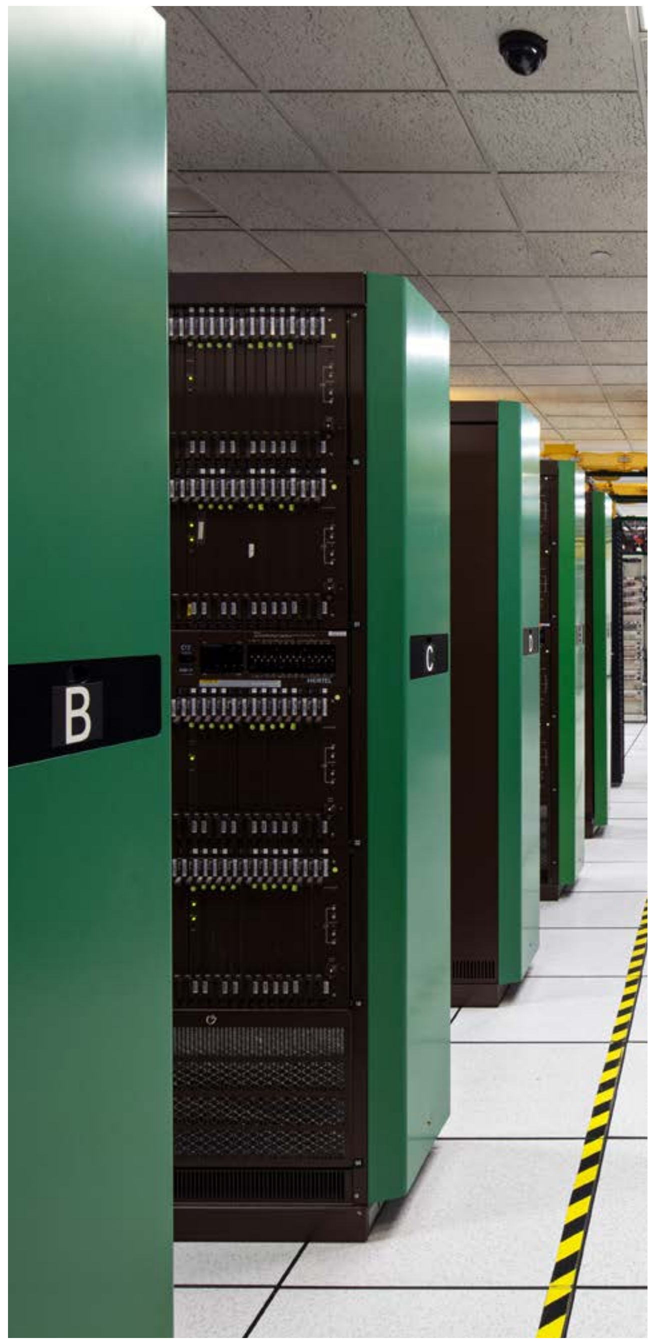
SDG	Initiatives	Type of impact
Goal 3 Health and well-being	○ Delivery of health and safety materials to employees who work in the field and sending over 85% of the workforce to shelter at home. ○ Creation of a program to support well-being, healthy living, family, management of productivity and remote work.	Internal (employees)
Goal 7 Affordable and clean energy	○ Incorporation of renewable energies in our operations, with greater demand for power.	External (customers and environment)
Goal 8 Decent work and economic growth	○ Maintained direct employment of over 4,500 people.	Internal (employees) External (positive economic impact on local economy)
Goal 9 Industry, innovation and infrastructure	○ Urgent and timely handling of customer requests. ○ Access to cutting-edge technology in order for government agencies to provide an efficient service to the population.	External (customers and general public)

Materiality

A materiality exercise serves to help an organization identify the areas where it creates a greater impact -positive or negative- or the matters that have an effect on it. At Axtel, we updated our materiality exercise from 2019 following the methodology recommended by the Global Reporting Initiative (GRI)[11], where we identified the most relevant matters for the business and our stakeholders based on the functional separation of the two business units and finalization of the sale of assets related to the massive segment to which we previously provided services.

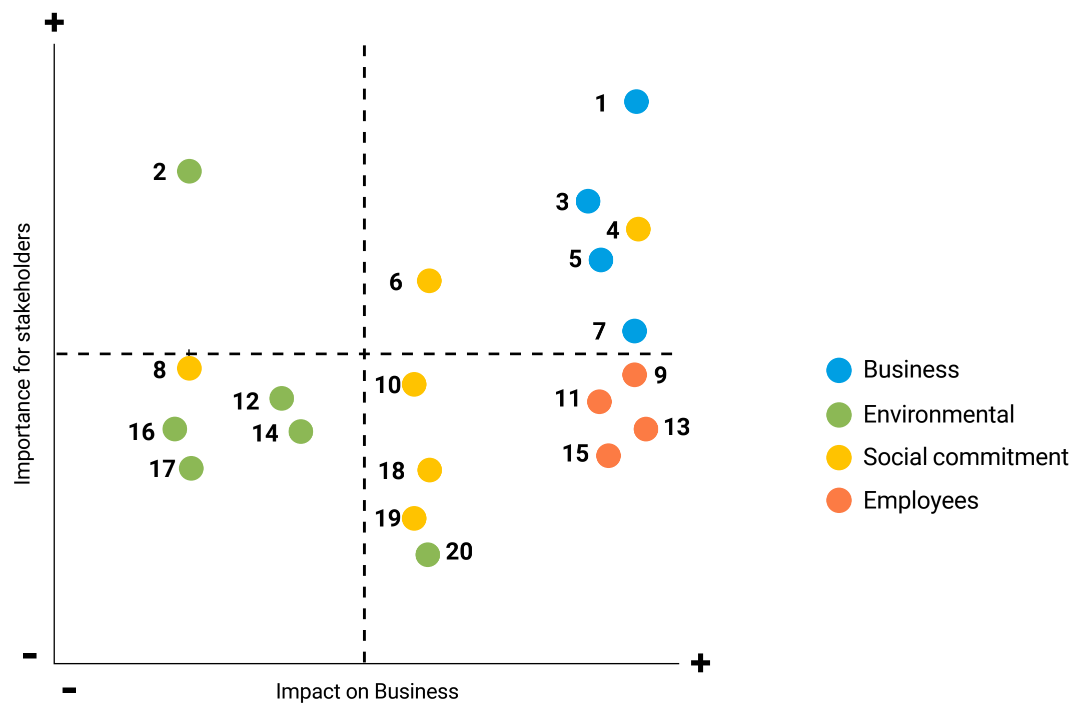
As part of the GRI methodology, we considered four principles to define the contents of the report.

- **Stakeholder inclusiveness:** we consulted the most representative stakeholders.
- **Sustainability context:** the matters that are relevant for our industry worldwide and the most recent trends were all considered, including those that go beyond the GRI guidelines.
- **Materiality:** the matters most relevant to Axtel's stakeholders are reflected in this Report.
- **Completeness:** this report presents the results for each material matter.



[11]See our current materiality analysis in detail and the methodology used at: Axtel Annual Integrated Report 2019 https://www.axtelcorp.mx/repositorio/informe-de-sustentabilidad/INFORME-ANUAL-INTEGRADO-AXTEL-2019.pdf

In 2020 and as a consequence of the COVID-19 pandemic, we prioritized material issues 11) Employee health and safety, 1) Data security and 3) Network reliability. The initiatives we undertook for each are detailed throughout this report.



1 Data 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 Employee health and safety
12 Strategies to fight climate change
13 Employee commitment
14 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 to supplier reviews
20 Waste reduction

Stakeholders

In order to identify and address the needs and concerns of our stakeholders, we maintain close, constant and bilateral communication with each of them through different channels. As a result of the COVID-19 health crisis, we intensified the frequency of contact with most of our stakeholders and had to digitalize the communication channels, obtaining a favorable response.

Stakeholder	Key issues and focus initiatives for COVID-19	Axtel's actions in this regard
Employees	COVID-19 health and safety inputs for field personnel, ongoing communication on COVID-19 preventive measures, adoption of remote work program, professional development plans, remote boss-employee communication, balance between work and family.	Provision of health and safety supplies from the most critical dates of the pandemic, enabling connectivity for remote work, acceleration of the "I am 100% digital" initiative to increase the digital skills of employees and migrate to the Axtel Digital work model, creation of guidelines and programs to create balance between work and family under NOM 035 and the *new normal*, redesign of on-site training to remote or hybrid scheme.
Customers	Timely attention during the pandemic to service failure, quick response and short incident and request resolution times, customer service.	Development of a portfolio of services to support companies during the pandemic and the new normal; release of services to support employees to safely work remotely; enabling solutions to support hybrid work models; new products based on cameras and IoT technologies to measure body temperature, social distancing and tracking people to ensure occupational health. In addition to implementing plans and procedures to ensure the urgent and timely provision of solutions required by customers; remarkable network performance by effectively managing the incremental traffic caused by connectivity demand due to remote work; and improvements in customer satisfaction and recognition indexes.
Suppliers	Digitization of supplier interaction and increased operational efficiency.	Quick and timely interaction, supported by the digitalization tools we have implemented and the use of *Robot Process Automation* (RPA), in order to guarantee the necessary inputs to face operational requirements in a pandemic environment.
Government and regulatory agencies	Compliance with transparency and anti-corruption issues, as well as with the Privacy and Personal Data Protection Act.	Launch of Axtel's first ISO 37001 certified anti-bribery system for public sector tendering processes; digitalization of documents according to current regulations and attention to contractual issues of privacy management and protection of employee and customer personal data, pursuant to ISO 27001 certification.
Communities	Development of strategies and actions with social, economic and/or environmental benefits.	We donated connectivity services and software to enable a free psychological tele-assistance service for Mexican society, in conjunction with the National Support Center for Epidemiological Contingencies and Disasters A.C. (CENACED) and other allies; participation in a campaign in the municipality of San Pedro Garza García, N.L., by donating computer equipment, so that local students can continue their studies remotely; donating furniture that is not in use, but in suitable condition, to a foundation specialized in assigning it to educational spaces.
Shareholders and investors	Value creation, frequent and timely communication.	Completion of the functional separation of Axtel into two business units to generate more value, constant communication through different virtual media and transparency of information available during all stages of the pandemic, including risk maps to identify potential risks that could affect the company.

Employee wellbeing

The new way of working at Axtel, arising from the pandemic, allowed us to successfully transform operations to a remote model, an achievement that would not have been possible without the commitment of our 4,458 employees, as well as their interest in promoting, contributing and being part of the business's digital transformation.

Our team

Undoubtedly, one of the biggest challenges we faced during 2020 was digitalization, as we had to migrate almost our entire operation from our offices to a remote model in record time.

This required accelerating the digitalization of various processes and the massive deployment of state-of-the-art digital collaboration technology platforms, such as Microsoft Teams, to provide the entire workforce with videoconferencing and virtual collaboration capabilities, as well as secure remote connectivity (VPNs). At the same time that we adapted activities and processes to address the current situation, we identified that many employees, in addition to their work activities, had to work full time as mothers, fathers and teachers. For this reason, we incentivized actual flexibility and some key management processes, such as performance evaluation, are now based on results rather than on hours worked.

As the first few months passed, we realized that digitalization was not only a reality, but that it had also increased team productivity.

In 2020, we freed up 1,810 workspaces in Monterrey, Mexico City and Guadalajara, equivalent to more than 22,700 m².

Number of employees by work scheme and gender

Employees working in home office 3,789 (85%)

MEN 54%

WOMEN 31%

Employees working on site 669 (15%)

MEN 10%

WOMEN 5%

Number of employees by gender and shift type

Full-time employees 4,455

MEN 3,272

WOMEN 1,183

Part-time employees 3

MEN 2

WOMEN 1

Employees by origin

NATIONAL 4,440

FOREIGN 18

None of our employees are currently working in any country other than Mexico.

Number of employees by type of contract and region

Region	Permanent contract	Temporary contract
Central Mexico	1,434	36
Northern Mexico	2,585	55
Western Mexico	339	9
TOTAL	**4,358**	**100**

Executives hired from the local community

MONTERREY 71%

MEXICO CITY 27%

GUADALAJARA 2%

Executives are considered to be personnel in managerial or higher positions.

Employees by age and gender

Age	Men	Women
Under 30	359	194
From 31 to 50	2,357	878
Over 51	559	111

Employees by job category and gender

Job category		
CEO	1	-
Executive Directors	7	-
Directors	38	6
Managers	116	19
Middle managers	164	29
Employees	369	133
Analysts	2,580	996
TOTAL	**3,275**	**1,183**

Management team by age and gender

Job category	Aged 31 to 50	Aged 31 to 50	Over 51	Over 51
CEO and executive directors	-	-	8	-
Directors	17	3	21	3
Managers	71	19	45	-

Although most of our employees have been working remotely since mid-March, more than 950 members of our team continued to work in the field, performing maintenance on towers and facilities and providing customer service, since Axtel plays a key role as an essential industry.

From the start of the health crisis until now, we have taken all the necessary actions to guarantee the necessary safety measures and personal protective equipment, such as face masks, face shields, antibacterial gel and gloves so that they can perform their activities safely, minimizing risks.

Every month, safety kits are supplied to more than 950 employees, which include:

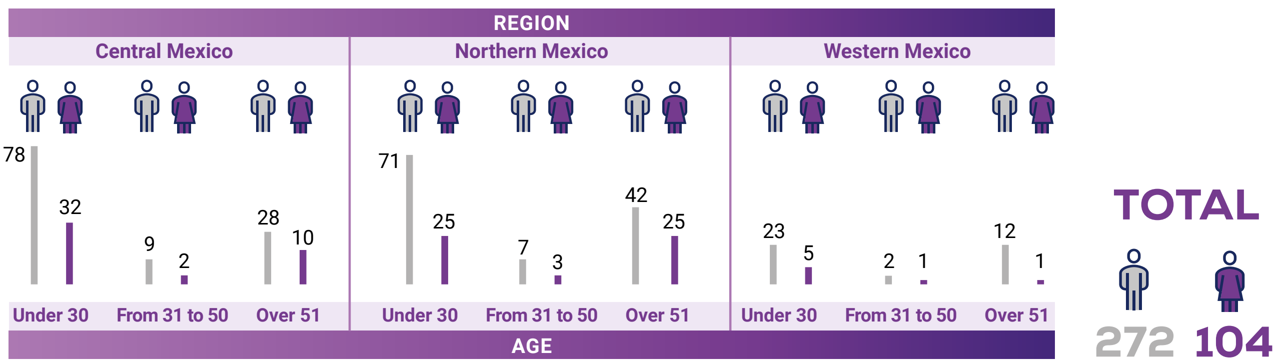
- **2** washable face masks
- **1** microfiber towel
- **1** antibacterial gel
- **1** face shield
- **2** disposable face masks
- **1** pair of disposable gloves
- **1** sanitizing liquid

In 2020, we offered competitive salaries to our employees, as compared to our market benchmarks (Willis Towers Watson Salary Survey). Our average base salaries, excluding directors and managers, were 498% above the general minimum wage established by the Ministry of Labor and Social Welfare for the northern border geographic area of the country, and 756% above the general minimum wage established for the rest of the country.

Since this year was not like other years, our recruitment was stable.

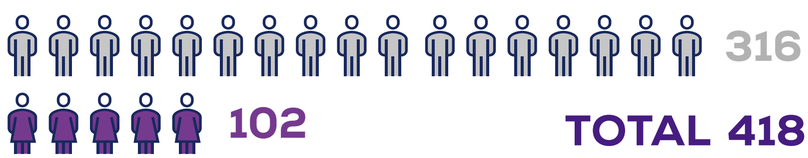
New hires by gender

New hires by region, gender and age

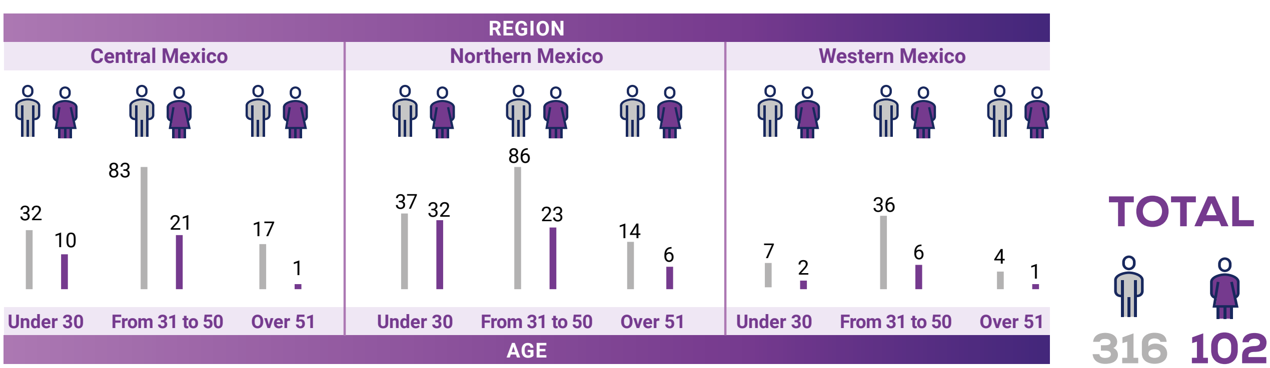


8% rate of new hires in 2020.

Turnover by region, gender and age



Turnover by region, gender and age

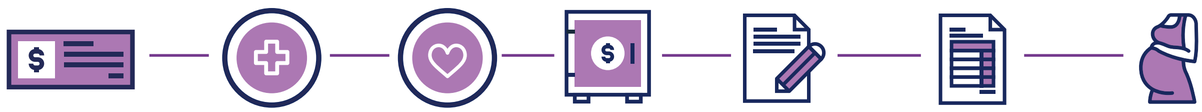


9% turnover rate in 2020.

Faced with the new reality, we understood that we had to transform work dynamics, leadership strategies and the exercise of leadership, understanding time flexibility and management control, among many other things.

We provide all our employees with additional benefits than those required by Mexican law.

Axtel benefit plan



- **Double bonus days**
- **Major medical insurance**[12]
- **Life insurance**
- **Savings bank**
- **20 days leave for personal matters**
- **Coverage for disability**
- **Maternity and paternity leave**

During 2020, we granted 48 maternity leaves and 23 paternity leaves, of which 83% and 96% returned to work at the end of their leave.

In addition, we have the *Visiónate* program for Axtel executives close to retirement age, with the intention of preparing them in order to ease their transition to this new stage of their life. In 2020, we provided this program virtually to three executives who met the age requirements.

Health and safety

At Axtel, the integral health of our employees has always been a priority. To this end, we have a health and safety management system that is constantly audited to ensure compliance with the requirements of the Ministry of Labor and Social Welfare (STPS, by its acronym in Spanish).

Our Health and Safety Committee is responsible for inspecting workplaces, guiding workplace accident investigations, following up on safety measures arising from such findings, and handling health-related crises. Eighty percent of our employees are represented on this committee.

In response to the health crisis, this year we created an **Emergency Response Committee**, which meets every 15 days to review requests for support from our employees who have been affected by the disease, as well as to define or update the preventive measures to be implemented in operations. It is made up of one member from each Executive Management.

[12]With COVID-19 coverage.

In general, to eliminate hazards and minimize occupational risks, we defined a process based on the Safety Guidelines to identify and assess health, social and environmental risks.

Safety guidelines

1 **Tasks and activities are described by job position.**

2 **The AST (Task Safety Analysis) format is applied to identify the risk steps and classify them based on their probability-consequence.**

3 **A risk matrix is established and evaluated.**

4 **The level of risk (hierarchy of control or prioritization) is defined to establish priorities.**

5 **Risk mitigation and control measures (elimination, prevention and control) are proposed.**

In order to stay up to date with the pandemic, in 2020, we created the internal page **Together against COVID-19**, which contains information and awareness material, the protocols and responsibilities to be followed by our employees regarding health, hygiene, safety and prevention, messages from General Management and a space for psychological support.

We provided all employees with the program **Everything you need to know about preventing COVID-19** from the Mexican Social Security Institute (IMSS, by its acronym in Spanish), consisting of two parts, the first a video to learn about basic hygiene measures in case you need to enter our facilities, and the second is a course with theoretical and practical elements to understand what the COVID-19 epidemic is, how to limit its spread and avoid infection; 3,619 employees completed the course in 2020.

In addition, we created the COVID-19 Access Plan and Code of Conduct, a document in which we ensure that employees who visit our facilities are aware of and committed to putting into practice the phrase *"You take care of me, I take care of you"*. Around 1,200 employees who have visited our facilities have signed it.

We invested Ps. 5,671,190 in the delivery of safety kits and other COVID-19 prevention and attention actions to our employees.

Moreover, in order to comply with NOM 035, since 2019 we have been working on the Wellbeing 360° strategy, which consists of a series of guidelines to create healthy work environments, free of any form of violence, abuse, retaliation and/or discrimination, as well work-family balance. In addition, the My Leadership and Wellness program was provided virtually, with a 95% participation rate.

With the pandemic, the way to implement the Wellness 360° strategy guidelines accelerated and changed.

Throughout the year, we implemented a communication campaign on topics relevant to employees and their families. Some of the topics covered were insomnia, family life, stress reduction exercises, how to lead remotely, wellness, physical and mental health care, productivity management and remote work. We even provided courses on effective video calls, use of Teams and VUCA[13] environments.

In addition to the above, we strengthened the **360° Wellness Program**, composed of three dimensions: health, professional and balance, through which we are seeking to create an integral environment founded on three pillars: wellness, training and work-family balance.

360° Wellness Program

Health

We defined guidelines and protocols on various topics such as NOM 035 psychosocial risk factors, handling traumatic events, COVID-19 prevention and mental health care.

Professional

We created Axtel Digital institutional programs and organized webinars with experts, as well as virtual events such as the Executive Forum, loyalty recognition and the annual toast.

Balance

We launched the Balance, Management and Home Office campaign, offered virtual Yoga and Pilates classes, as well as cooking, soap, vegetable garden and knitting workshops, and celebrated Children's Day, Mother's Day and Father's Day with various family activities.

[13]The VUCA concept refers to a changing context that poses a great challenge for companies and requires a series of guidelines from the leaders of organizations to promote proper internal communication.

We also provide health and safety training courses for our employees every year, as well as specific training courses for certain job positions.

General

- Accident prevention
- Fire extinguisher use and handling
- Building evacuation

Specific

- Induction to the Health and Safety Commission
- Tower and at-heights work safety
- Storage and material handling safety

As part of our disease prevention efforts, we implemented an influenza vaccination campaign that benefited more than 1,600 employees and their families.

Since most of our employees performed their activities from home, their exposure to the risk of accidents or occupational diseases decreased significantly. As a result, this year there were only three injuries to the lumbar regions, hands and knees, and no occupational illnesses and/or fatalities.

Indicators related to occupational injuries

Item	Number	Rate
Deaths	0	0
Injuries with major consequences	1	0.11
Recordable injuries	3	0.32

A total of 9,353,296 hours worked were considered for the rate calculation.

By contrast, as a result of COVID-19, 320 of our employees were infected and, unfortunately, five professionals lost their lives. It is important to note that the infections did not occur at our facilities or as a result of field work.
At the end of this report, 311 employees had already recovered.

As part of our ongoing activities, we encouraged the health of our associates through the dissemination of disease prevention campaigns. In addition, in our work centers we provide medical service, which, during 2020, was active nationwide through digital media such as WhatsApp and email, which included the provision of timely follow-up and support to employees or their families who were infected by COVID-19.

Employee development

One of the positive effects of the pandemic for our business was the speed to increase the digital competencies of all our employees. We had been focusing our efforts on this issue for more than three years, which were consolidated during 2020.

During the month of June, we applied an online survey in which 55% of our employees participated. The purpose of this survey was to learn about their perspective and concerns regarding remote work and thus define strategies to improve the transition to Axtel Digital. The results of the opinion of more than half of our workforce are reflected below:

> I am 100% digital is a new fully remote way of working and collaborating at Axtel.

93% of respondents are working at home.

79% of those who work from home have a dedicated space to do so.

75% believe that communication with internal and external clients was maintained.

65% believe that communication with their coworkers was maintained.

63% believe that remote work has improved their productivity.

50% consider that they have less stress and anxiety than before.

Based on the results obtained, new training programs were developed and those we already had were strengthened, in addition to reinforcing the dissemination of internal campaigns focused on the physical and psychological wellbeing of our people and their families. Part of this business transformation included adapting or redesigning training activities, and hybrid training programs were designed for engineers working at heights.

Institutional Program	Method	Trained workforce
Health, Safety and Hygiene (COVID-19)	Virtual	89%
Digital Productivity (Axtel Digital)	Virtual	86%
Sustainability	Virtual	87%
Innovation	Virtual	89%
Data Security	Virtual	94%
Welcome kit (Sales Executives)**	Virtual	81%*
Welcome kit (Engineers)	Virtual	51%*
New Hires **	Virtual	84%*
Technical Training		
Tower Climbing	Hybrid	90%*
Work at Heights	Hybrid	64%*

*Percentage calculated based on population surveyed.
**Induction courses for new hires; Welcome kit for Sales Executives and New Hires; the remaining workforce were transferred to electronic modes, and we even launched new evaluations in order to improve.

Despite the changes in the way we train our employees, the lines of action remained the same: in 2020, **UniAlestra** had three development programs in which 646 Axtel employees participated, obtaining a 69% certification rate. In addition, 178 employees obtained 233 certifications in different technologies, learning from institutions such as Amazon Web Services, AZURE, Avaya, Check Point, CISCO, EC-Council, Fortinet, ISACA, ISO, ITIL, Microsoft, PMI, Oracle, SCRUM, Six Sigma and Symantec.

In addition, we began implementing a couple of employee-on-employee training initiatives. Five personnel members provided 15 hours of mentoring on business and leadership skills to another five colleagues; in the coming years we will seek to expand this initiative to other areas. Through an internal training network, 65 employees provided 5,765 hours of technical and induction courses to 856 members of the commercial and operational areas.

In 2020, we invested Ps. 11,508,636 in training.

Average hours of training by job category and gender

Job category	Total training hours (men)	Total training hours (women)	Average training hours (men)	Average training hours (women)
Executive Directors	125	0	16	0
Directors	965	129	25	32
Managers	3,363	828	30	44
Middle management	11,239	3,434	32	33
Employees	78,916	29,850	31	36
Analysts	7,922	5,776	30	30
TOTAL	**102,530**	**40,017**	**31**	**35**

90% of the training we provided during 2020 was virtual.

As we do every year, and in order to identify the skills and competencies developed by our employees, as well as their strengths and areas of opportunity, we conducted two types of performance evaluations.

We evaluated 692 employees, middle managers, managers and directors, 135 of whom are women and 557 men, under the 180° and 360° methodology. In addition, 186 managers were evaluated under the 2020 objectives and behaviors scheme.

Social outreach

2020 was marked by social distancing, however, at Axtel we joined efforts to continue supporting the community with what we do best.

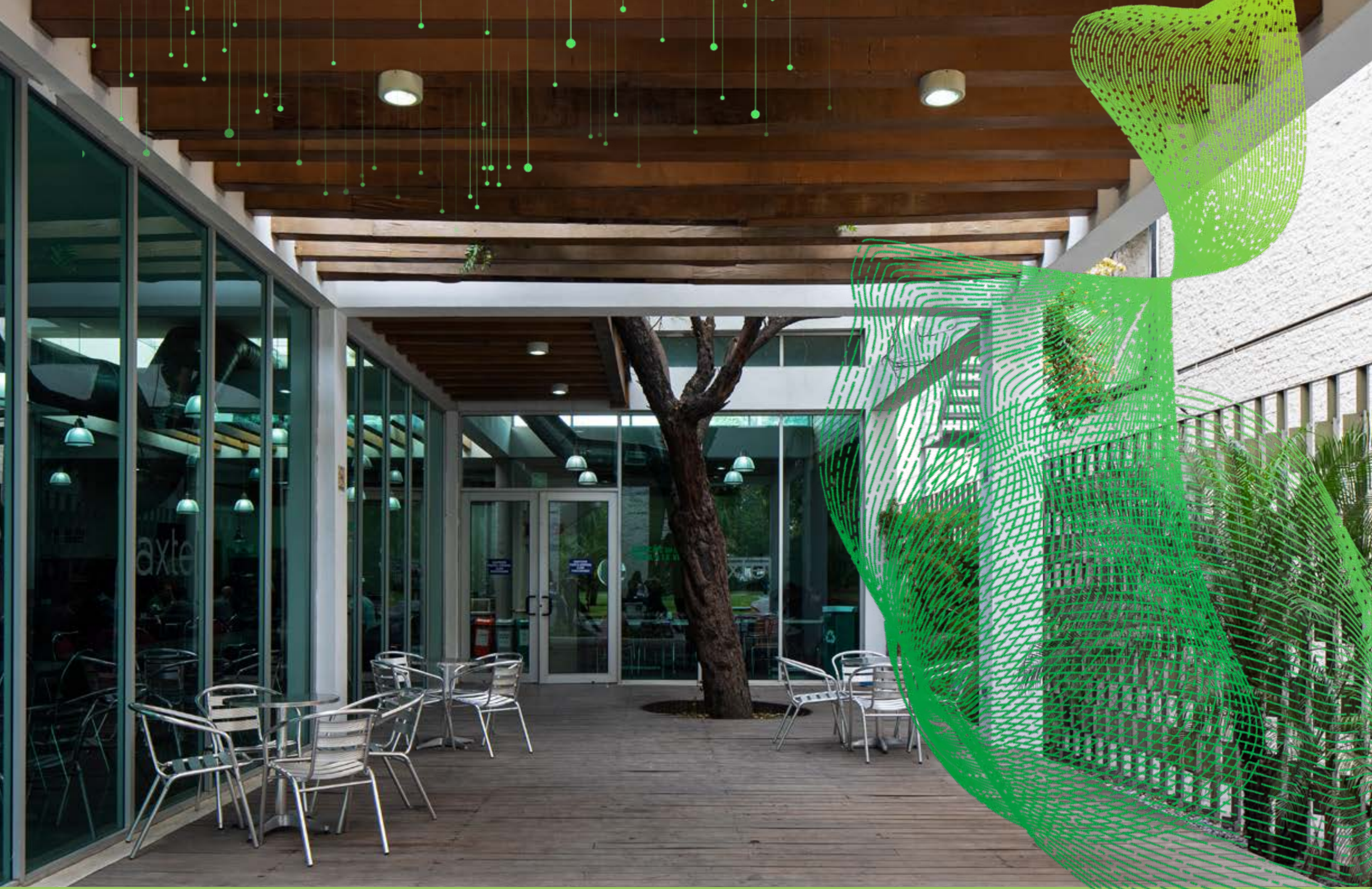
Through Alestra and together with other entities, we donated connectivity services and software to the National Support Center for Epidemiological Contingencies and Disasters, A.C. (CENACED) to create a free psychological tele-assistance service for the benefit of Mexican society.

Moreover, in order to support our people in medical, hospital and funeral expenses, we launched the internal campaign 1 PESO EQUALS 2, which consisted of raising funds with voluntary contributions from employees that were doubled by Axtel.

Voluntary contributions from our more than 800 employees amounted to Ps. 1.1 million, which were doubled by Axtel, raising Ps. 2.2 million in total.

Similarly, we participated in a campaign in the municipality of San Pedro Garza García in Nuevo León by donating computer equipment so that local students could continue their studies remotely. In Mexico City, we donated 1,640 workstations to the educational centers of the Educational Assistance Foundation which provides education, food and health services to low-income children.

We donated connectivity services and software to CENACED to create a free psychological telecare service.



Environmental concern

Aware of the impact our operations have on the environment, we are working to reduce that impact through four main areas: diversifying energy sources, implementing responsible material disposal processes, developing better cooling practices, and taking advantage of high-efficiency lighting technologies.

Environmental management

The main guideline that governs the way we take advantage of resources at Axtel is our **Environmental Policy**, which contains guidelines to prevent the environmental impact created by our operations. In addition, we have three specific policies that comply with the above in the areas of: Waste, Energy Saving and Water Consumption.

As part of ALFA, we participate in Environmental Committee sessions, where we review issues related to current legislation and regulations, as well as the initiatives to be developed in each company of the group.

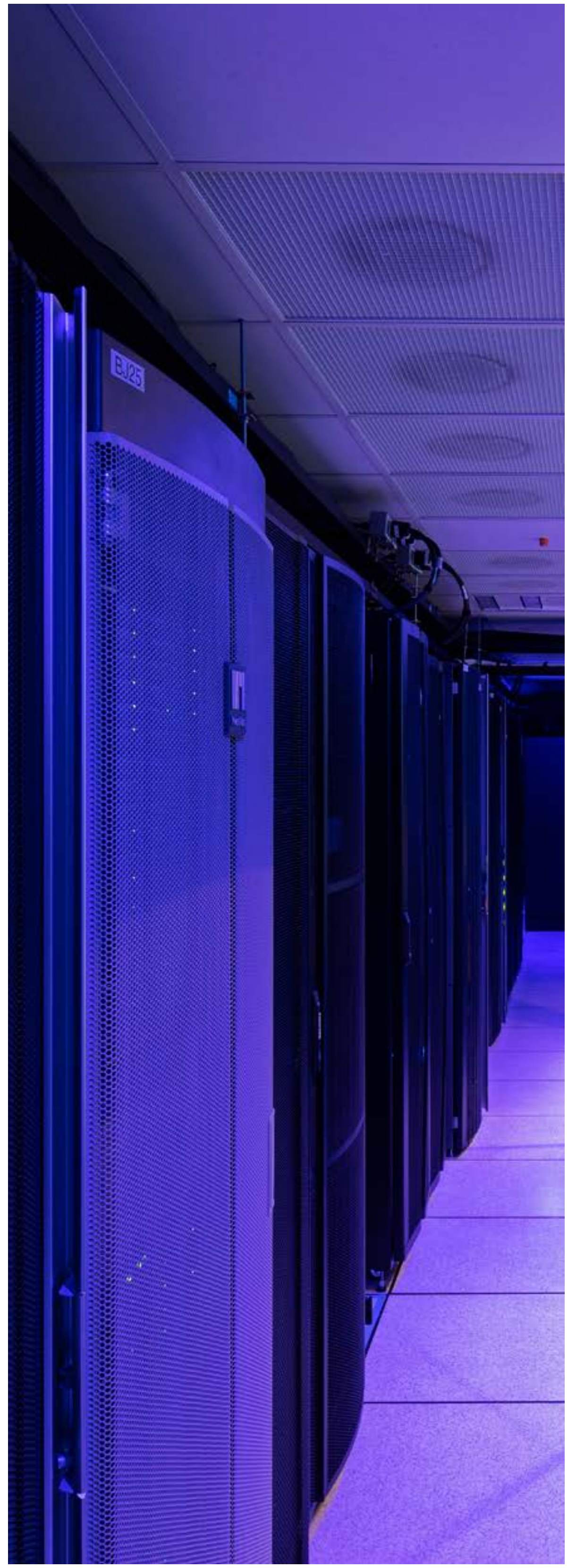
Energy use

As a telecommunications company, energy is an essential resource that we use to power electronic equipment, air conditioning and lighting.

To ensure that we use energy efficiently and pursuant to industry best practices, we have an **Energy Saving Policy**.

Committed to improving the way we manage and report environmental information, for the first time we developed our Greenhouse Gas (GHG)[14] emissions inventory, in which we measure GHG emissions from our operations.

For this project, we identified the direct and indirect emission sources associated with our activities and the related energy use. This inventory considers the fuels used to operate the generators at our sites and those corresponding to our land fleet, as well as the purchased electrical energy we use at 1,045 of the sites and administrative offices under our operational control. We also measured the emissions associated with our business travel and gasoline consumption resulting from the bonuses given to our executives.



[14]Because this is the first time, we have conducted such a project of this magnitude, some of the figures presented in previous years may not be comparable to the data reported for 2020.

Generator consumption (fixed sources)

Type	Liters	GJ
LP Gas	12,677	331
Diesel	139,567	5,320
Gasoline	2,152	82
TOTAL	**154,396**	**5,733**

In 2016, we established commitments up to the year 2020, which we successfully achieved, regardless of the changes the company has undergone during this period.

Reduce electricity use by **2%**

Reduce fuel consumption by **5%**

In 2020 we managed to reduce our electricity consumption by 12% as a result of initiatives focused on optimization and energy efficiency.

- Equipment shutdown
- Transition to clean energy sources
- Replacement of lighting fixtures
- Optimization of cooling levels
- Application of thermal insulating technologies in sites
- Home office strategy that reduces air conditioning and lighting use
- Technological renovation

Fleet consumption (mobile sources)

Type	Liters	GJ
Infrastructure		
Gasoline	1,455,024	51,186
Diesel	22,373	787
Services		
Gasoline	176,156	6,197
Diesel	5,341	188
TOTAL	**1,658,894**	**58,358**

Electricity consumption

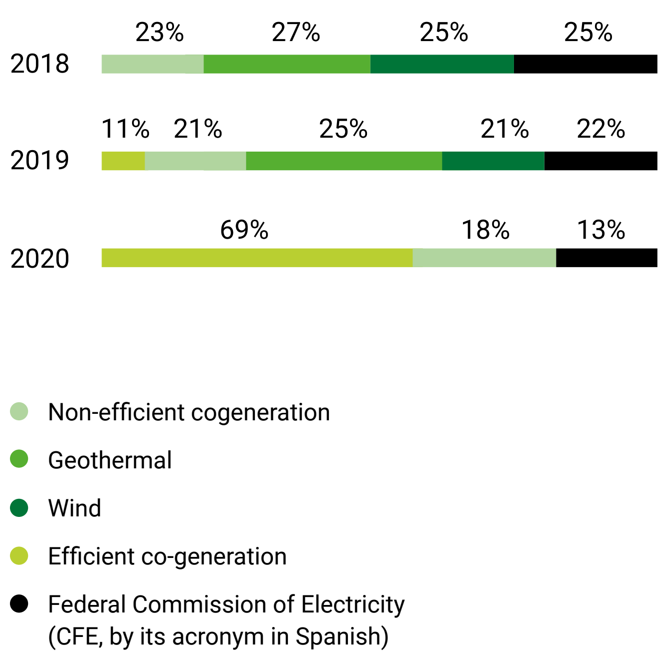
Type	MWh	GJ
Conventional	65,432	235,554
Normal co-generation	15,579	56,084
Efficient co-generation	54,811	197,320
Renewable geothermal	197	710
TOTAL	**136,019**	**489,668**

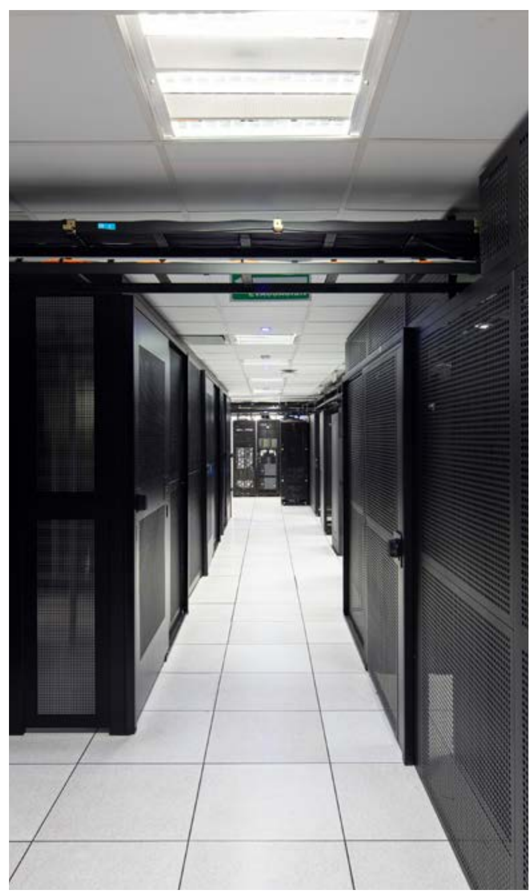
Due to the preparation of our first emissions inventory for the 2020 period, we redefined the sources of electricity and fuel consumption according to Axtel's current activities and operations, setting this year as the baseline for the definition of goals related to the reduction of emissions.

Looking to the future, we have set the following objectives:

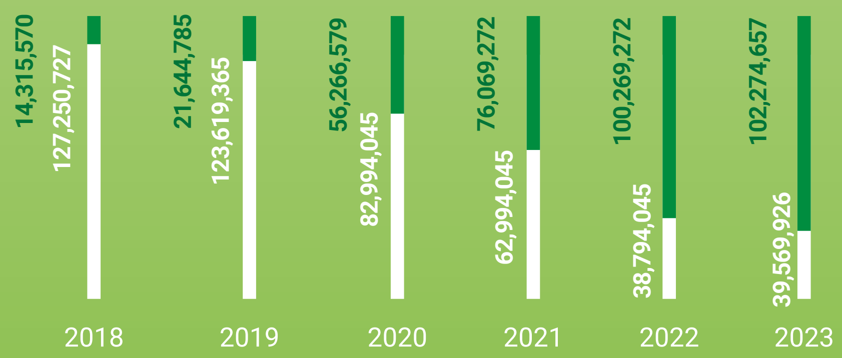
- **To migrate to clean energy sources:** 76 GWh per year of efficient cogeneration by 2022 and 30 GWh per year of wind or photovoltaic energy by 2023.
- To continue the migration to environmentally friendly refrigerants and to replace R-22.
- To comply with the maintenance program exceeding 95% compliance.
- To migrate our lighting to LED lamps by 2022, equivalent to a reduction in energy use of 0.35 GWh annually.

Electricity consumption per generator (%)





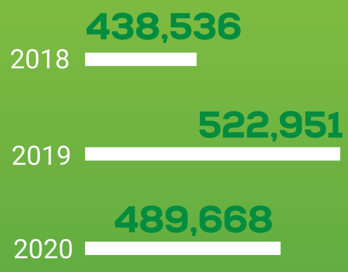
Migration to clean energy (kWh)



- Clean energy
- Conventional energy

By 2023, Axtel aims for 72% of our energy use to come from clean sources; in 2020 this metric represented 40% of our energy use.

Conventional electric power use (GJ)



Energy intensity[15]

In 2020, 44.81 GJ were consumed per billion pesos in revenues, considering Ps. 12.4 billion and a total energy use of 553,759 GJ. This calculation only includes energy use within Axtel.

Total energy use (GJ)

Electricity: **489,668**

Fleet: 58,358

Generators: 5,733

TOTAL: 553,759

For every million Mexican pesos in revenues, the following were consumed

2018: 59.37 GJ/MMDP
(considering Ps. 12.8 billion in revenues and 759,233 GJ).

2019: 48.28 GJ/MMDP
(considering Ps. 12.8 billion in revenues and 617,251 GJ).

2020: 44.81 GJ/MMDP
(considering Ps. 12.4 billion in revenues and 553,759 GJ).

Notes on energy use calculations. - •
- The new reference year we use for the energy use calculation is 2020.
- All the information for the energy calculation was compiled by Axtel.
- The conversion factors used are those established by the Ministry of the Environment and Natural Resources (SEMARNAT).
- With the use of alternative and renewable energies, we avoided the emission of 9,913 tons of CO$_2$e into the atmosphere. Estimate made considering the emission factor for conventional electricity.

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

Throughout the year, we implemented several initiatives to improve our energy use, aimed at cost optimization.

Initiative	Emissions avoided
Equipment shutdown due to the obsolescence process in which, once the equipment has completed its life cycle, it is shut down and eventually deinstalled.	Telephone booths - 91 tons of CO_2e Power plants - 414 tons of CO_2e Sites - 808 tons of CO_2e
Load migration, we are transitioning from the use of traditional energy sources to co-generation schemes with suppliers that produce their energy from wind, solar and clean co-generation with natural gas.	6,130 tons of CO_2e
Replacement of lighting fixtures in all facilities with new LED technology.	177 tons of CO_2e
Optimization of cooling levels for sites housing equipment, with the aim of using less cooling energy.	308 tons of CO_2e
Use of thermal insulation technologies at the sites to reduce heating due to environmental conditions, thereby reducing the demand on cooling systems.	10 tons of CO_2e
Home office for most of the employees, which has allowed us to minimize the use of office space and therefore of air conditioning and lighting.	2,429 tons of CO_2e

Initiative	Renewals
To update the vehicle fleet with no units more than five years old according to the standard. This year we renewed close to 25% of our vehicles.	89 units
Technological renewal strategy for backup batteries, focused on lithium technologies to gradually eliminate the use of lead and harmful acids.	81 banks
Replacement of emergency generators, refrigeration equipment and UPS with new, more efficient technologies.	Seven generators 52 air conditioner equipment Six UPS units

Greenhouse Gas Emissions

We consume electricity and fuels that generate Greenhouse Gas (GHG) emissions. Due to the impact this represents, we prepared our Greenhouse Gas (GHG) emissions inventory for the first time, identifying and reporting emissions related to the nature of Axtel's activities.

In addition, we voluntarily report our emissions to the **Carbon Disclosure Project** (CDP) in the climate change and supplier modules.

Scope 1 (direct emissions)

Direct scope 1 emissions from our activities represent 7% of total reported emissions. These correspond to the use of fuels for power generation (stationary sources) at our sites and for the use of our fleet (mobile sources).

Emissions Scope 1 (stationary sources)

Type	Tons of CO_2e
LP Gas	21
Diesel	395
Gasoline	6
TOTAL	**422**

Emissions Scope 1 (mobile sources)

Type	Liters
Infrastructure	
Gasoline	3,692
Diesel	59
Services	
Gasoline	447
Diesel	14
TOTAL	**4,213**

Emissions Scope 1 (tons of CO_2e)

2018: **14,511**
2019: **3,324**
2020: **4,635**

Scope 2 (indirect emissions)

Our scope 2 emissions are derived from the purchase of electricity for use at sites and administrative offices and represent 91% of total emissions from our operations.

Emissions Scope 2 (tons of CO_2e)

2018: **70,896**
2019: **69,519**
2020: **58,777**

Emissions Scope 3 (travel)

Our most relevant sources of scope 3 emissions come from business air travel by our employees, as well as from benefits in the form of gasoline consumption bonuses granted to our executives. These two sources represent 2% of our total reported emissions.

In 2020, our executives made business trips in and out of Mexico, mostly in the first three months of the year due to the restrictions imposed by the health emergency. These trips together accumulated 2,973,848 kilometers and the indirect emission of 508 tons of CO_2e.

Issues Scope 3 (bonuses)

We also give gasoline bonuses to our executives, which we use to calculate the indirect emissions generated by their use. In 2020, these emissions were equivalent to 522 tons of CO_2e.

Total Scope 3 emissions (tons of CO_2e)

2018: **2,699**
2019: **1,204**
2020: **1,030**

Notes on the calculation of emissions.
- We use the Greenhouse Gas (GHG) Protocol methodology to prepare the emissions inventory, as well as the methodological agreements of the National Emissions Registry Program and its Regulations to calculate emissions and obtain the corresponding factors and references.
- For Scope 2 emissions we use the 2019 National Electric System emission factor: 0.505 tons of CO_2eMWh.
- The consolidation approach used for emissions was operational control.
- For the calculation of Scope 1, 2 and 3 emissions, the information was compiled by Axtel.

Emissions intensity

In 2020, 5.21 tons of CO_2e were emitted for each GJ consumed, considering 64,441 tons CO_2e for total energy use.

For each million Mexican pesos in revenues, the following were issued

2018: 6.97 TONS OF CO_2e/MMDP
(considering Ps. 12.8 billion in revenues) and 89,163 tons of CO_2e emitted).

2019: 5.79 TONS OF CO_2e/MMDP
(considering Ps. 12.8 billion in revenues) and 74,047 tons of CO_2e emitted).

2020: 5.21 TONS OF CO_2e/MMDP
(considering Ps. 12.4 billion in revenues) and 64,441 tons of CO_2e emitted).

Water consumption

Water is not a vital resource for our operations to function, however, we understand the importance of its conservation and appropriate use with our employees and in our operations. This commitment is embodied in the **Efficient Water Use Policy**.

The total volume of water we consume comes from the municipal supply of the states where we are located and it is discharged under this same process. In Mexico City, we have 571 m^3 of water stored in cisterns for fire hydrants, restroom services, and precision air equipment. On the other hand, during 2020 we did not record any impact on water sources due to our water consumption.

Water supply per source (m^3)

Municipal supply:
57,763 M^3

Water consumption (m^3)

2018: **87,825**
2019: **47,974**
2020: **57,763**

Waste management and disposal

We adhere to Mexican Official Standards, current Mexican environmental legislation, and our **Waste Management Policy**[16] to manage the waste we generate in the company.

Given that the technology solutions we offer are intangible, the vast majority of the materials we consume are used in the operational functions of the organization and not in the delivery of our services.

Since 2018, we began implementing circular economy initiatives that ended up being consolidated in 2020 through a **Deinstallation, Review and Implementation Project (DRIM, by its acronym in Spanish)**, which consists of reconditioning some of the fiber optic equipment we deinstalled to give it a second use instead of discarding it.

Materials that we collect and that, for whatever reason, cannot be reconditioned are sold to a specialized third party, who is responsible for their relocation or proper disposal.

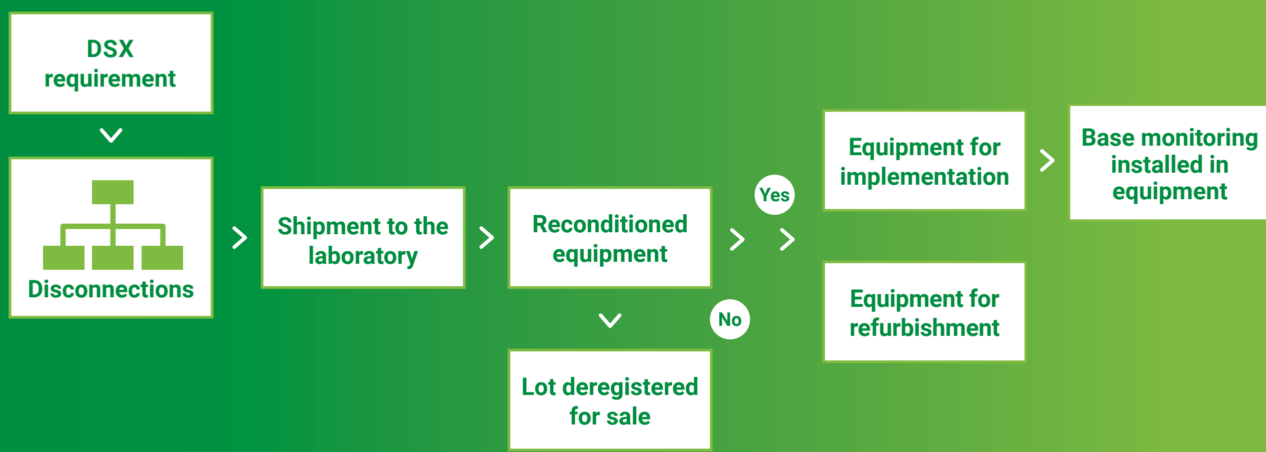
In 2020, we were able to return almost Ps. 10 million to production and avoid the purchase of new equipment for the amount of Ps. 36 million.

Currently, three out of ten of the materials we de-install are reconditioned. We are working to reverse this trend so that more and more customers, both internal and external, trust that our equipment is of high quality and choose them in order to extend their useful life. In addition, we have defined the goal of maintaining the recovery and reuse of one ton of these materials per month, as well as increasing the percentage of electronic waste reused to 40% by 2021.

With this initiative we avoided the purchase of 170 pieces of equipment per month, equivalent to the generation of one ton of electronic waste per month.

[16]Consult our Waste and Waste Management Policy at: https://www.axtelcorp.mx/sites/axtelcpo.mx/files/Politica Waste Management and Disposal.pdf

DRIM Team Deinstallation + Recovery + Implementation + Continuous Improvement



Hazardous waste is stores in a temporary warehouse and, through specialized suppliers, we deliver it for proper disposal and confinement. The same applies to lead-acid batteries, which we send with a specialized carrier for the same purpose.

Waste disposal (tons)

	2018	2019	2020
Recycling	32	124	74
Landfill	623	600	782
Confinement	614	59	10
TOTAL	**716**	**783**	**866**

In 2020, we sent 50,572 kilograms of paper for recycling, of which 92% was due to the release of buildings in Monterrey. Of the waste generated in 2020 that could not be reused, 10 tons were sent to certified suppliers for proper confinement.

In addition, as a result of the process of freeing up workspaces, many of the electronics used in our offices were left unused, so more than one ton of this equipment was sent for recycling, while 2,080 pieces were delivered to certified suppliers for their proper confinement.

In 2020, we did not receive any fines or non-monetary sanctions for non-compliance with environmental regulations.

Financial Statements

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

Independent Auditors' Report and Consolidated Financial Statements as of and for the years ended December 31, 2020 and 2019

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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, 2020 and 2019, and the consolidated statements of operations, the consolidated statements of comprehensive income (loss), 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 Axtel, S. A. B. de C. V. and Subsidiaries, as of December 31, 2020 and 2019, as well as their consolidated financial performance and their consolidated 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.

Other Matters

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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.

Assessment of impairment tests of intangible assets with indefinite useful life and goodwill

As described in Note 3 and 12 to the consolidated financial statements, the Company performs annual impairment tests to the intangible assets with an indefinite useful life and goodwill.
We have identified the evaluation of intangible assets with indefinite useful life and goodwill 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"), along with the changes in the current economic environment caused by the global pandemic of the coronavirus disease (COVID-19) in business, besides the relevance of the balance for the consolidated financial statements of the Company, which is made up of goodwill of $323 million pesos, and assets with a definite and indefinite useful life of $13,108 million pesos. This requires a high level of judgement, an important increase in the level of audit effort and the incorporation of our expert valuation specialists.

We performed the following audit procedures on the following significant assumptions that the Company considered when estimating future projections to evaluate the recovery value of intangible assets with indefinite useful lives and goodwill, among others; projections of income and expenses, expected gross and operating profit margins, discount rate, the industry growth rate, income projections, discount rate, comparison of the expected gross profit margin, projected flows considering the effects originated by the COVID-19. As follows:

• We tested the design and implementation and the operational effectiveness of the controls on the determination of the recovery value and the assumptions used.

• We evaluated with the assistance of our valuation specialists, the reasonableness of the i) methodology for determining the recovery value of intangible assets with indefinite useful lives and goodwill and ii) we challenge the financial projections including the impacts of COVID- 19 in business operations, comparing them with the performance and historical trends of the business and corroborating the explanations of the variations with the administration. Likewise, we evaluated internal processes and management's ability to accurately carry out projections, including proper supervision and analysis by the Board of Directors and confirm the result of the projections, which are in line with the approved budget.

• We analyzed the projection assumptions used in the impairment model, specifically including the projections of cash flow, operating margins, profit margin before financial result, taxes, depreciation and amortization (“EBITDA”) and long-term growth. We test the mathematical accuracy, completeness, and accuracy of the impairment model. The valuation specialists performed a sensitivity analysis for all CGUs, independent calculations of the recovery value to assess whether the assumptions used would need to be modified and the probability that such modifications would occur.

• We independently evaluated the applicable discount rates, comparing them with the discount rates used by management.

• We evaluated the factors and variables used to determine the CGUs, among which the analysis of operating flows and debt policies, analysis of the legal structure, production allocation and understanding of the operation of the commercial and sales area were considered.

The results of our procedures were satisfactory, and we agree with the determination of the recovery value of the CGUs and we believe the assumptions used by management 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; i) 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 the Instructions accompanying those provisions (the “Provisions”). The Annual Report is expected to be available to us after the date of this auditors’ report; and ii) the other information, which is a measure that is not required by IFRS, and has been incorporated with the purpose of providing an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the ability to meet obligations regarding Profit before financial result, taxes, depreciation, amortization and impairment of assets (“EBITDA” or adjusted “EBITDA”) of the Company. This information is presented in the Notes 17 and 30.

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. When we read the Annual Report, we will issue the declaration on its reading, required in Article 33, Section I, subsection b), numeral 1.2. of the Provisions. Also, and in relation to our audit of the consolidated financial statements, our responsibility is to read and recalculate the additional information, which in this case is the measure not required by IFRS and when doing so, consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or which 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. We have nothing to inform in this regard.

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. Hector García Garza
Monterrey, Nuevo León México
January 31, 2021

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, 2020 and 2019
Thousands of Mexican pesos

Assets	Note	2020	2019
Current assets:		$	$
Cash and cash equivalents	6	3,123,955	857,742
Restricted cash	7	261,827	-
Trade and other accounts receivable, net	8	2,901,248	3,344,674
Inventories	9	78,720	93,982
Financial instruments at fair value	4	-	92,673
Prepayments	3.j	713,711	521,406
Long-lived assets held for sale	2.b	-	1,124,613
Total current assets		7,079,461	6,035,090
Non-current assets:			
Property, plant and equipment, net	10	11,577,650	12,963,991
Right of use asset, net	11	592,871	661,246
Goodwill and intangible assets, net	12	1,260,696	1,052,258
Deferred income taxes	20	2,540,543	2,876,287
Other non-current assets	13	652,624	741,897
Total non-current assets		16,624,384	18,295,679
Total assets		$23,703,845	$24,330,769

Liabilities and Shareholders' Equity	Note	2020	2019
Current liabilities::		$	$
Debt	17	1,609,301	131,632
Lease liability	18	294,749	451,775
Trade and other accounts payable	14	3,851,293	4,169,016
Provisions	15	18,417	220,190
Deferred income	16	116,054	153,229
Derivative financial instruments	4	154,077	51,814
Total current liabilities		6,043,891	5,177,656

Liabilities and Shareholders' Equity	Note	2020	2019
Non-current liabilities:		$	$
Debt	17	13,034,985	13,836,310
Lease liability	18	332,275	414,323
Accounts payable to related parties	28	-	703,348
Employee benefits	19	742,847	695,498
Derivative financial instruments	4	53,120	91,898
Deferred income taxes	20	1,454	759
Total non-current liabilities		14,164,681	15,742,136
Total liabilities		20,208,572	20,919,792
Shareholders' equity:			
Controlling interest:			
Capital stock	21	464,368	464,368
Retained earnings		3,252,002	3,104,427
Other comprehensive loss		(221,097)	(157,818)
Total controlling interest		3,495,273	3,410,977
Non-controlling interest		-	-
Total shareholders' equity		3,495,273	3,410,977
Total liabilities and shareholders' equity		$23,703,845	$24,330,769

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, 2020 and 2019
Thousands of Mexican pesos

	Note	2020	2019
Revenues	23	$12,355,981	$12,783,633
Cost of sales		(6,171,287)	(6,104,427)
Gross profit		6,184,694	6,679,206
Administration and selling expenses		(5,412,063)	(5,841,918)
Other income (expenses), net	25	1,999,869	(63,453)
Operating income		2,772,500	773,835
Financial income	26	38,878	60,253
Financial expenses	26	(1,378,015)	(1,468,752)
Exchange fluctuation (loss) gain, net	26	(385,284)	290,275
Gain (loss) on changes in fair value of financial instruments		105,809	(8,919)
Financial result, net		(1,618,612)	(1,127,143)
Income (loss) before income taxes		1,153,888	(353,308)
Income taxes (expense) benefit	20	(792,633)	15,291
Income (loss) from continuing operations		361,255	(338,017)
Discontinued operations	22	-	324,078
Net consolidated income (loss)		$361,255	$(13,939)
Income (loss) income attributable to:			
Controlling interest		$361,255	$(13,939)
Non-controlling interest		-	-
		$361,255	$(13,939)
Income (loss) per basic and diluted share from continuing operations		0.018	(0.017)
Profit per basic and diluted share from discontinued operations		-	0.016
Profit (loss) profit per basic and diluted share		0.018	(0.001)
Weighted average common outstanding shares (thousands of shares)		19,987,579	20,183,560

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

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

Consolidated Statements of Comprehensive Income (Loss)

For the years ended December 31, 2020 and 2019
Thousands of Mexican pesos

	Note	2020	2019
Net consolidated income (loss)		$361,255	$(13,939)
Other comprehensive (loss) income for the year:			
Items that will be reclassified to the consolidated statement of operations:			
Effect of currency translation	20	1,152	(2,468)
Fair value of derivative financial instruments, net of taxes		(43,679)	(88,940)
Items that will not be reclassified to the consolidated statement of operations:			
Remeasurements of employee benefits, net of taxes	20	(20,752)	(49,438)
Total other comprehensive loss for the year		(63,279)	(140,846)
Total comprehensive (loss) income of the year		$297,976	$(154,785)
Attributable to:			
Controlling interest		$297,976	$(154,785)
Non-controlling interest		-	-
Comprehensive income (loss) of the year		$297,976	$(154,785)

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, 2020 and 2019
Thousands of Mexican pesos

Controlling

	Capital stock	Additional paid- in capital	Retained earnings
Balances as of January 1, 2019	$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
Transactions with stockholders:			
Repurchase of shares	-	-	(213,680)
Total transactions with stockholders	-	-	(213,680)
Net consolidated income	-		361,255
Total other comprehensive income for the year	-	-	-
Comprehensive income	-	-	361,255
Balances as of December 31, 2020	$464,368	$ -	$3,252,002

Las notas adjuntas son parte integrante de los estados financieros consolidados.

interest

Other comprehensive loss	Total controlling interest	Non-controlling interest	Total shareholders' equity
$ (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
-	(213,680)	-	(213,680)
-	(213,680)	-	(213,680)
-	361,255	-	361,255
(63,279)	(63,279)	-	(63,279)
(63,279)	297,976	-	297,976
$(221,097)	$3,495,273	$ -	$3,495,273

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

	2020	2019
Cash flows from operating activities		
Income (loss) before income taxes	$1,153,888	$(353,308)
Depreciation and amortization	3,384,219	3,578,541
Exchange fluctuation loss (gain), net	385,284	(290,275)
Allowance for doubtful accounts	48,891	8,874
(Gain) loss from sale of property, plant and equipment	(2,022,963)	5,046
Interest income	(38,878)	(60,253)
Interest expense	1,378,015	1,468,752
Current PTU	6,891	12,524
Impairment of goodwill	96,754	-
Others	72,539	113,255
Change in unrealized fair value and settlement of financial instruments	(105,809)	8,919
Changes in working capital:		
Trade and other accounts receivable, net	420,656	120,012
Inventories	85,859	131,289
Trade accounts payable, related parties and other accounts payable	(528,915)	(1,340,992)
Employee benefits	17,703	32,835
Paid PTU	(11,847)	(9,178)
Deferred income	(37,175)	(383,223)
Operating cash flows from discontinued operations	-	(29,633)
Subtotal	4,305,112	3,013,185
Income taxes paid	(97,274)	(56,481)
Net cash flows generated by operating activities	4,207,838	2,956,704
Cash flows from investing activities		
Acquisitions of property, plant and equipment	(1,591,980)	(1,691,354)
Disposal of property, plant and equipment	3,147,703	-
Acquisition of intangible assets	(553,826)	(70,676)
Interest received	38,877	60,254
Restricted cash and other assets	(247,104)	93,908
Investment in shares of Altán	(64,568)	(69,959)
Investing cash flows from discontinued operations	-	1,150,000
Net cash flows generated by (used in) investing activities	729,102	(527,827)

	2020	2019
Cash flows from financing activities		
Proceeds of current and non-current debt	1,485,012	-
Payments of current and non-current debt	(1,411,749)	(550,000)
Lease payments	(545,855)	(638,067)
Payment of account payable to holding company	(713,972)	(1,237,640)
Repurchase of shares	(213,680)	(56,536)
Interest paid and other financial expenses	(1,200,297)	(1,338,736)
Net cash flows used in financing activities	(2,600,541)	(3,820,979)
Net increase (decrease) of cash and cash equivalents	2,336,399	(1,392,102)
Effect of changes in exchange rates	(70,186)	689
Cash and cash equivalents at the beginning of the year	857,742	2,249,155
Cash and cash equivalents at the end of the year	$3,123,955	$857,742

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, 2020 and 2019
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 corporate offices are located at Avenida Munich No. 175 Colonia Cuauhtémoc, 66450 San Nicolás de los Garza, 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 an Information and Communication Technology company that serves the enterprise, government and wholesale markets, through its business units Alestra (services) and Axtel Networks (infrastructure). The portfolio of the services unit for the business and government segments includes advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of the infrastructure unit for wholesale clients or operators (including the services unit) include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others. 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

2020

a. Impacts due to COVID-19

As a result of the outbreak of the infectious disease virus SARS-COV-2 ("COVID-19") and its recent global expansion to a large number of countries, the World Health Organization classified the viral outbreak as a pandemic on March 11, 2020. Therefore, actions were taken under three main priorities, the safety and well-being of all employees, the needs and support for customers, as well as the continuity of the business and its operations.

The Company's operations have not been interrupted as a result of the COVID-19 pandemic and it has led to increased demand for products that allow customers to sustain remote and virtual interactions, such as connectivity, network access, cybersecurity perimeters and cloud solutions, among others.

The impacts of the COVID-19 pandemic were mainly reflected in the income of the business segment, where there was an increase in income of $23 million pesos related to the growth of bandwidth services. Additionally, the Company had a decrease of $40 million pesos and made investments on working capital through the granting of a longer payment term to clients, whose book value is $63 million pesos.

As of the date of approval of the consolidated financial statements, the Company's management continues to implement measures to face the economic conditions of the market, as part of its risk management strategy.

b. Closing of agreement with Equinix

On January 8, 2020, the Company informed the definitive closing of the strategic agreement with Equinix to strengthen its offering of IT and cloud solutions. As announced on October 3, 2019, Equinix acquired the operations and assets of three data centers from Axtel; two located in Querétaro and one in the metropolitan area of Monterrey. The valuation of this transaction was US $ 175 million, which was settled in cash, except for US$13 million related to an escrow, which were released on January 8, 2021. (see Note 7 and 31).

Excluding operating expenses and the balance in custody, resources of approximately US $154 million will be used to strengthen the financial structure of the Company. The Company did not have an impact on cash flow due to tax consequences, since it applied tax losses that were pending amortization for $2,644,367.

c. Debt prepayment.

On February 14, 2020, the Company prepaid the total of the syndicated loan maintained with HSBC as the leader of the participating financial institutions in the amount of $1,320,000 (US$67 million). Derived from this prepayment, the Company immediately recognized in the consolidated statement of operations, the costs of obtaining debt that were pending amortization at that date for $8,130. Additionally, during 2020, the Company made payments to Alfa, S. A. B. de C. V. for $ 703,348 and $10,624 for principal and interest, respectively.

2019

d. 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.

e. Sale of data center in Apodaca and Querétaro

On October 3, 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 that belonged to Axtel, two of these data centers are located in Querétaro and one in the metropolitan area of Monterrey. The amount of the transaction is US$175 million, which were settled in cash, except US$13 that remained as 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, were 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.

f. 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 in the consolidated statement of operations, the outstanding debt costs as of that date of $8,250.

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.

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The conclusions related to their adoption are described as follows:

Amendments to IFRS 16, Rent concessions related to Covid-19

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

a. The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b. Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and

c. There is no substantive change to other terms and conditions of the lease.

The Company evaluated these modifications to IFRS 16, and determined that the implementation of this modification did not have a significant effect on the results, because the benefits from rental concessions derived from the COVID-19 pandemic were not material.

Additionally, the Company adopted the following amendments, which did not have any effects on the consolidated financial statements in the current year:

• Amendments to IAS 1 and IAS 8, Definition of Materiality
• Amendments to IFRS 3, Definition of a Business
• Amendments to IFRS 9, IAS 39 and IFRS 7, Interest Rate Benchmark Reform

ii. New and revised IFRS in issue but not yet effective

At the date of authorization of these consolidated financial statements, the Company has not applied the following new and revised IFRS that have been issued but are not yet effective. The Company does not expect that the adoption of the following standards will have a material impact on the consolidated financial statements in future periods, considering they have no significant applicability:
• Amendments to IAS 1, Classification of Liabilities as Current or Non-current (1)
• Amendments to IAS 16, Property, Plant and Equipment Proceeds Before Intended Use (1)
• Amendments to IFRS 9, Financial Instruments (1)
• IFRS 17, Insurance Contracts (2)
(1) Effective for annual reporting periods beginning on January 1, 2022
(2) Effective for annual reporting periods beginning on January 1, 2023

Additionally, the Company is continuously monitoring the progress of the reference interest rate reform project that modifies the regulations as mentioned below:

Phase 2 of the Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, have been questioned for their long-term viability as benchmarks. The Interest Rate Benchmark Reform on its phase 2 refers to the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements and disclosure of financial instruments. These amendments are effective for annual reporting periods beginning on or after January 1, 2021 with retrospective application, without the need to restate the comparative periods.

With respect to the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient, which implies updating the effective interest rate.

On the other hand, regarding the hedge accounting, the hedging relationships and related documentations, must reflect modifications to the hedged item, hedging instrument and hedged risk. Hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements.

Finally, regarding the disclosures, the entities should disclose how it is managing the transition from IBORs to alternative benchmark rates and the risks may arise from the transition, quantitative information about non-derivative financial assets and liabilities, as well as derivatives that continue to reference interest rate benchmarks subject to the reform and changes arisen on the risk management strategy.

The Company is in the process of evaluating the impacts derived of the application of these amendments.

c. Consolidation

iii. 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, 2020 and 2019, the main subsidiary companies of Axtel were as follows:

Shareholding interest (%)

	Country	2020	2019	Functional currency
Axtel, S. A. B. de C. V. (Controladora) (3) (4)	Mexico			Mexican peso
Servicios Axtel, S. A. de C.V. (1)	Mexico	100	100	Mexican peso
Alestra Innovación Digital, S. de R. L. de C. V. (3)	Mexico	100	100	Mexican peso
Axes Data, S. A. de C. V.(1)	Mexico	100	100	Mexican peso
Contacto IP, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Instalaciones y Contrataciones, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Ingeniería de Soluciones Alestra, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra USA, Inc. (2)	USA	100	100	U.S. dollar
S&C Constructores de Sistemas, S. A. de C. V. ("S&C")	Mexico	100	100	Mexican peso
Estrategias en Tecnología Corporativa, S. A. de C. V. ("Estratel")(3)	Mexico	100	100	Mexican peso
Servicios Alestra TI, S. A. de C. V. (1)	Mexico	100	100	Mexican peso
Alestra Procesamiento de Pagos, S. A. de C. V. (3)	Mexico	100	100	Mexican Peso
La Nave del Recuerdo, S. A. de C. V. (5)	Mexico	100	100	Mexican Peso
Contacto IP FTTH de México, S. A. de C. V. (5)	Mexico	100	100	Mexican Peso
Alestra Servicios Móviles, S. A. de C. V. (3)	Mexico	100	100	Mexican Peso
Fomento de Educación Tecnológica, S. C. (6)	Mexico	100	-	Mexican Peso
Axtel Networks, S. A. de C. V. (5)	Mexico	100	-	Mexican Peso
Servicios Axtel Networks, S. A. de C. V. (5)	Mexico	100	-	Mexican Peso
AXE Redes e Infraestructura, S. A. de C. V. (5)	Mexico	100	-	Mexican Peso

(1) Provider of administrative services.

(2) Leasing of telecommunications and infrastructure equipment.

(3) Provider of telecommunication services.

(4) 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 Company's operations at the consolidated level.

(5) Legally created companies with no operations.

(6) Training and development services

As of December 31, 2020 and 2019, there are no significant restrictions for the investment in shares of the subsidiary companies mentioned above.

iv. 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.

v. 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.

vi. 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, 2020 and 2019, the Company has no investments in 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. Los saldos de activos y pasivos monetarios expresados en la moneda de registro, se convirtieron a los tipos de cambio de cierre.

b. A los saldos históricos de los activos y pasivos no monetarios y del capital contable convertidos a moneda funcional se le adicionaron los movimientos ocurridos durante el período, los cuales fueron convertidos a los tipos de cambios históricos. En el caso de los movimientos de las partidas no monetarias reconocidas a su valor razonable, ocurridos durante el período expresado en la moneda de registro, se convirtieron utilizando los tipos de cambio históricos referidos a la fecha en la que se determinó dicho valor razonable.

c. Los ingresos, costos, y gastos de los períodos, expresados en la moneda de registro, se convirtieron a los tipos de cambio históricos de la fecha en que se devengaron y reconocieron en el estado consolidado de resultados, salvo que se hayan originado de partidas no monetarias, en cuyo caso se utilizaron los tipos de cambios históricos de las partidas no monetarias.

d. Las diferencias cambiarias se reconocen en el estado consolidado de resultados en el período en que se originaron.

A continuación, se enlistan los principales tipos de cambio en los diferentes procesos de conversión:

Moneda local a pesos mexicanos

		Closing exchange rate as of December 31,		Average annual exchange rate	
Country	Local currency	2020	2019	2020	2019
United States	U.S. dollar	19.95	18.85	21.50	19.27

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

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, 2020 and 2019, 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, 2020 and 2019, 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 has defined as the breach threshold, the period from which the recovery of the account receivable subject to analysis is marginal; in this case, for the services segment it considers 120 days for the business clients and 150 days for the government clients, and for the infrastructure segment it considers 120 days for business clients, 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, 2020 and 2019, 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.

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 inventories corresponding to materials and consumables, includes equipment installation costs, other direct costs and indirect expenses. Excludes borrowing costs. The net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

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 to 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

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 a right-of-use asset 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 a right-of-use asset 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

Leases, determined based on the definition of IFRS 16, for which the Company acts as lessor, are classified as financial or operating. As long as the terms of the lease transfer substantially all the risks and benefits of the property to the lessee, the contract is classified as a finance lease. The other leases are classified as operating leases.

Income from operating leases is recognized in a straight line during the corresponding lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the book value of the leased asset and are recognized straight-line over the term of the lease. The amounts for financial leases are recognized as accounts receivable for the amount of the Company's net investment in the leases.

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 to 7
Concessions	20 to 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, 2020 and 2019, 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.

During fiscal year 2020, the Company recognized $ 374,238 as an account payable related to income tax adjustments from prior fiscal years derived from a review by the authorities to prior fiscal years.

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.

As of December 31, 2020 and 2019, the Company recognized a termination expense in the consolidated statement of operations for $171,893 and $ 92,989, respectively.

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 income (loss)

Comprehensive income (loss) is comprised of net income (loss) 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 is 5.78 times and 6.13 times as of December 31, 2020 and 2019, 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, 2020	2019
Cash and cash equivalents	$3,123,955	$857,742
Restricted cash	261,827	-
Financial assets at amortized cost:		
Trade and other accounts receivable	2,844,473	3,310,000
Financial assets at fair value with changes through profit or loss [1]		
Financial instruments (zero strike call)	-	92,673
Total financial assets	$6,230,255	$4,260,415
Financial liabilities at amortized cost:		
Current debt	$1,609,301	$131,632
Lease liability	627,024	866,098
Trade payables, related parties and sundry creditors	2,376,195	2,905,871
Non-current debt	13,034,985	13,836,310
Other non-current accounts payable	-	703,348
Financial liabilities measured at fair value with changes in results:		
Derivative financial instruments [1]	207,197	143,712
Total financial liabilities	$17,854,702	$18,586,971

[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

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, 2020 and 2019.

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

	As of December 31, 2020		As of December 31, 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities:				
Debt (*)	$14,655,875	$14,999,100	$14,006,129	$14,737,276
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, 2020 and 2019 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, 2020:

	USD (translated to thousands of MXP)
Financial assets	$3,075,425
Financial liabilities	(12,217,941)
Foreign exchange monetary position	$(9,142,516)

During 2020 and 2019, 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 $914,252 on the consolidated statement of operations and consequently on the shareholders' equity.

Financial instruments and derivative financial instruments

<u>Financial instruments</u>

As of December 31, 2019, the Company had Over the Counter (OTC) transaction agreements with Bank of America Merrill Lynch (BAML), 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, 2020 and 2019, 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	
				2020	2019
Bank of America Merrill Lynch [1]	30,384,700	2010 y 2009	CPO's Axtel	$ -	$92,673
				$ -	$92,673

[1] During July and August of 2020, the financial instrument maintained with Bank of America Merrill Lynch was fully exercised. For the year ended December 31, 2020 and 2019, the changes in fair value of the Zero Strike Calls gave rise to a realized gain of $105,809 and an unrealized gain $8,919, respectively. These were recognized in the consolidated statement of operations within financial income and expenses.

Derivative financial instruments

As of December 31, 2020 and 2019, the Company maintains the following derivative financial instrument:

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	2020	2019
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	$(207,198)	$(137,177)
Change in the fair value of the swap to measure ineffectiveness	$(205,774)	$(135,329)
Reclassification from OCI to income	$5,784	$653
Balance recognized in OCI net of reclassifications	$201,414	$136,524
Ineffectiveness recognized in income	-	-
Change in the fair value of the hedged item to measure ineffectiveness	$210,604	$147,478
Change in the fair value DFI vs 2019	$(70,021)	$(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, 2020 and 2019, 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 96.7% and 100%, in 2020 and 2019, 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 73% and 93%, in 2020 and 2019, 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, in December 2019, it 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
Currency	USD
Total notional	US$15,900
	19.6560
Average strike	MXN/USD
Maturity	May 12, 2020
Forward's book value	$(6,535)
Change in the fair value of the forwards	
to measure ineffectiveness	$(6,535)
Reclassification from OCI to income	$4,043
Balance recognized in OCI net of reclassifications	$2,492
Ineffectiveness recognized in income	-
Change in the fair value of the hedged item to measure ineffectiveness	$6,535
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% for 2019, 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 2019. 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, no ineffectiveness was recognized in gain or loss.

As of December 31, 2020, a gain of $ 63,990 was recognized in the consolidated statement of operations for the settlement of said hedging instrument.

(ii). Interest rate and cash flow risk

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

As of December 31, 2020, 9% of Axtel's total debt generates variable interest rates while the remaining 91% 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, 2020, 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 $45,413 and $(45,413), 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, 2020, 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 5% and 4% of the Company's total accounts receivable as of December 31, 2020 and 2019, respectively. Additionally, revenues associated to Company A for the years ended December 31, 2020 and 2019 was 1% and 2%, respectively.

Company B accounts for 3% and 2% of the Company's total accounts receivable as of December 31, 2020 and 2019, respectively. Additionally, revenues related to Company B for the years ended December 31, 2020 and 2019 was 1% and 1%, respectively.

As of December 31, 2020 and 2019, the allowance for impairment totaled $373,335 and $1,208,739 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, 2020			
Current debt	$1,609,301	$ -	$ -
Trade payable, related parties and creditors	2,376,195	-	-
Derivative financial instruments	154,077	53,120	-
Non-current debt	-	10,858,023	2,294,360
Lease liability	294,749	325,276	6,999
Non-accrued interest payable	867,657	2,700,810	309,430
December 31, 2019			
Current debt	$131,632	$ -	$ -
Trade payable, related parties and creditors	2,905,871	-	-
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

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, 2020, the Company has short-term uncommitted, unused lines of credit for approximately $590,000 (US$30 million). Additionally, as of December 31, 2020, Axtel has committed credit lines for US$ 50 million in the short term, of which $987,589 (US$ 49.5 million) has been used and $9,846 (US$0.5 million) is available.

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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, 2020 and 2019:

As of December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets (liabilities):	$ -	$(207,197)	$ -	$(207,197)
Interest rate swap	$ -	$(207,197)	$ -	$(207,197)

As of December 31, 2019

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

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. Impairment and useful lives of long-lived 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.

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.

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 20). 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. 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:

	2020	2019
Cash on hand and in banks	$1,747,864	$139,197
Short-term investments	1,376,091	718,545
Total cash and cash equivalents	$3,123,955	$857,742

7. Restricted cash

As of December 31, 2020 and 2019, the balance of restricted cash was $261,827 (US$13 million) and $0, respectively.

The balance as of December 31, 2020 is related to an escrow originated from the sale transaction of the three data centers located in Queretaro and Monterrey to Equinix. This balance was released on January 8, 2021. See Note 31.

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 related to the disputes on the resale interconnection rates established between Alestra and Telmex and Telefonos del Norte ("Telnor", a subsidiary of Telmex), 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:

	2020	2019
Current:		
Trade accounts receivable	$2,168,349	$3,634,751
Allowance for impairment of accounts receivable (1)	(373,335)	(1,208,739)
Trade accounts receivable, net	1,795,014	2,426,012
Recoverable taxes	56,775	34,674
Notes and other accounts receivable	1,041,257	860,528
Related parties	8,202	23,460
	$2,901,248	$3,344,674

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

	2020	2019
Initial balance	$1,208,739	$2,172,343
Write-off of doubtful accounts(2)	48,891	45,631
Allowance for doubtful accounts for the year	(884,295)	(1,009,235)
Ending balance	$373,335	$1,208,739

(2) The net variance in the allowance for doubtful accounts in 2020 and 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, 2020

Clients or group of clients	Probability range of default	Severity of loss
Carriers	10.0% - 100.0%	87.50%
Business	7.5% - 100.0%	87.50%
Government	10.0% - 100.0%	70.00%

As of December 31, 2019

Clients or group of clients	Probability range of default	Severity of loss
Carriers	10.0% - 100.0%	87.50%
Empresarial	7.5% - 100.0%	87.50%
Gobierno	10.0% - 100.0%	70.00%

9. Inventories

As of December 31, 2020 and 2019, inventories of $78,720 and $93,982, respectively, were composed by materials and consumables.

The cost of inventories recognized as an expense and included in the cost of sales amounted to $142,418 and $141,649 for 2020 and 2019, respectively. As of December 31, 2020 and 2019, there were no inventories pledged as collateral.

10. Property, plant and equipment

Depreciable assets

	Buildings	Telecommunications network	Office equipment	Computers
For the year ended December 31, 2019				
Reclassifications to the right of use	$ -	$ (217,449)	$721)	$(51,092)
Net opening balance	1,056,183	12,974,137	93,476	312,307
Translation effect	-	(944)	-	-
Additions	-	9,431	109	6,413
Transfers	6,230	1,589,353	2,162	36,278
Transfers held for sale	(761,495)	(337,571)	(4,786)	(205)
Disposals	-	(116,063)	(33)	(4,882)
Depreciation charge recognized in the year	(28,468)	(2,790,819)	(17,623)	(130,305)
Ending balance	$272,450	$11,110,075	$72,584	$168,514
As of December 31, 2019				
Cost	$626,382	$53,703,112	$503,650	$4,162,306
Accumulated depreciation	(353,932)	(42,593,037)	(431,066)	(3,993,792)
Net carrying amount as of December 31, 2019	$272,450	$11,110,075	$ 72,584	$168,514
For the year ended December 31, 2020				
Net opening balance	$272,450	$11,110,075	$72,584	$168,514
Translation effect	-	1,408	-	-
Additions	-	14,943	32	16,492
Transfers	(26,703)	1,315,594	7,302	10,019
Disposals	-	(117,272)	(151)	(183)
Depreciation charges recognized in the year	(12,853)	(2,599,835)	(14,753)	(73,169)
Ending balance	$232,894	$ 9,724,913	$65,014	$121,673
As of December 31, 2020				
Cost	$597,111	$44,180,820	$415,120	$3,535,059
Accumulated depreciation	(364,217)	(34,455,907)	(350,106)	(3,413,386)
Net carrying amount as of December 31, 2020	$232,894	$9,724,913	$65,014	$121,673

	Depreciable assets		Non-depreciable assets		
	Vehicles	Leasehold improvements	Land	Investments in process	Total
	$(6,862)	$ -	$ -	$ -	$(276,124)
	20,994	96,684	481,905	1,069,838	16,105,524
	-	-	-	-	(944)
	175	-	-	1,443,097	1,459,225
	677	9,900	-	(1,644,600)	-
	-	-	(20,556)	-	(1,124,613)
	(963)	(156)	-	(75,008)	(197,105)
	(9,047)	(25,710)	-	-	(3,001,972)
	$4,974	$80,718	$461,349	$793,327	$12,963,991
	$149,149	$640,387	$461,349	$793,327	$61,039,662
	(144,175)	(559,669)	-	-	(48,075,671)
	$4,974	$80,718	$461,349	$793,327	$12,963,991
	$4,974	$80,718	$461,349	$793,327	$12,963,991
	-	-	-	-	1,408
	-	-	-	1,473,919	1,505,386
	-	24,033	-	(1,332,292)	(2,047)
	(70)	-	-	(33,760)	(151,436)
	(4,092)	(34,950)	-	-	(2,739,652)
	$812	$69,801	$461,349	$901,194	$11,577,650
	$112,678	$587,269	$461,349	$901,194	$50,790,600
	(111,866)	(517,468)	-	-	(39,212,950)
	$812	$69,801	$461,349	$901,194	$11,577,650

Of the total depreciation expense, $2,667,981 and $2,879,263 were charged to cost of sales, $71,670 and $122,709 to selling and administrative expenses, and $0 and $162,780 in discontinued operations for 2020 and 2019, 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, 2020 and 2019, the Company capitalized $12,776 and $15,434, respectively, of borrowing costs related to qualifying assets of $583,175 and $410,323, respectively. These amounts were capitalized based on an interest rate of 7.59% and 7.63%, 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, 2020 and 2019, is integrated as follows:

	Land & buildings	Telecommuni-cations equipment and networks	Furniture and office equipment	Computer equipment	Vehicles	Total
Net book value						
Adoption effect	$680,405	$ -	$ -	$ -	$ -	$ 680,405
Property, plant and equipment reclassification	-	217,449	721	51,092	6,862	276,124
Balances as of January 1, 2019	$680,405	$217,449	$721	$51,092	$6,862	$956,529
Balances as of December 31, 2019	$440,826	$187,192	$642	$28,324	$4,263	$661,246
Balances as of December 31, 2020	$366,510	$154,500	$549	$28,668	$42,644	$592,871
Accumulated depreciation 2019	$(238,408)	$(30,256)	$(79)	$(22,768)	$(2,599)	$(294,110)
Accumulated depreciation 2020	$(218,706)	$(32,355)	$(79)	$(27,248)	$(9,586)	$(287,974)

Additions to the net book value of the right of use asset as of December 31, 2020 and 2019 amounted to $239,952 and $7,103, respectively.

ii. Expenses recognized in the consolidated statement of operations for the year ended December 31, 2020 and 2019.

	2020	2019
Rent expenses from low-value asset leases	$ -	$ -
Rent expenses from short-term leases	$893,842	$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

	Concessions	Trademarks	Relationships with customers
As of January 1, 2019	$7,208	$33,724	$130,176
Additions	23,733	-	-
Disposals	-	-	-
Transfers	-	-	-
Amortization charges recognized in the year	(2,200)	(22,392)	(18,765)
Ending balance as of December 31, 2019	$28,741	$11,332	$111,411
Cost	$693,405	$258,904	$516,600
Accumulated amortization	(664,664)	(247,572)	(405,189)
Ending balance as of December 31, 2019	$28,741	$11,332	$111,411
As of January 1, 2020	$28,741	$11,332	$111,411
Additions	422,848	-	-
Disposals	(2,341)	-	-
Transfers	-	-	-
Impairment recognized in the year	-	-	-
Amortization charges recognized in the year	(11,757)	(7,999)	(16,398)
Ending balance as of December 31, 2020	$437,491	$3,333	$95,013
Cost	$ 468,838	$79,573	$190,739
Accumulated amortization	(31,347)	(76,240)	(95,726)
Ending balance as of December 31, 2020	$ 437,491	$3,333	$95,013

Non-compete agreements	Software and licenses	Other	Goodwill	Total
$60,632	$447,618	$306,493	$419,536	$1,405,387
-	70,246	1,026	-	95,005
-	(2,895)	-	-	(2,895)
-	-	-	-	-
(50,271)	(206,466)	(145,146)	-	(445,239)
$10,361	$308,503	$162,373	$419,536	$1,052,258
$809,793	$1,811,138	$710,411	$ 419,536	$5,219,787
(799,432)	(1,502,634)	(548,038)	-	(4,167,529)
$10,361	$308,504	$162,373	$419,536	$1,052,258
$10,361	$308,504	$162,373	$ 419,536	$1,052,258
-	178,750	69,710	-	671,308
-	(9,229)	12	-	(11,558)
-	-	2,035	-	2,035
-	-	-	(96,754)	(96,754)
(7,314)	(207,075)	(106,050)	-	(356,593)
$3,047	$270,950	$128,080	$322,782	$1,260,696
$36,569	$1,602,164	$586,695	$322,782	$3,287,360
(33,522)	(1,331,214)	(458,615)	-	(2,026,664)
$3,047	$270,950	$128,080	$322,782	$1,260,696

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, $11,757 and $2,131 were charged to cost of sales and $344,836 and $443,108 to selling and administrative expenses in 2020 and 2019, 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.

In 2020, the Federal Telecommunications Institute (IFT for its Spanish initials) delivered in favor of Axtel, upon acceptance of new conditions and payment of consideration, authorizations for the extension of the 20-year validity of the concessions to use, take advantage of and exploit frequency bands for specific use in the frequencies of 7 GHz. (1 concession), 10 GHz. (15 concessions), 15 GHz. (4 concessions), 23 GHz. (6 concessions) and 38 GHz. (5 concessions).

Through another subsidiary called Alestra Innovación Digital, S. de R. L. de C. V. the Company had 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).

However, due to a corporate restructuring, various legal-regulatory acts were carried out to provide another subsidiary company called Alestra Servicios Móviles, S. A. de C. V., so that it would be the one that would provide the mobility services as of November 23, 2020, among which the transfer in its favor of the Single Concession for Commercial Use that Alestra Innovación Digital, S. de R. L. de C. V., which led to the transfer of the three concessions to use, exploit and exploit frequency bands for specific use in the frequencies of 7 GHz (1 concession) and 10 GHz (2 concessions) in favor of Axtel.

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

Service	Period	Expiration
Single concession for commercial use of Axtel (1)	30 years	2046
Single concession for commercial use of Alestra Servicios Moviles	30 years	2048
Various radio spectrum frequencies for the provision of point-to-point	20 years	2038
and point-to-multipoint microwave links		

(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.

Impairment testing of goodwill

Goodwill is comprised of the amount paid in excess of the carrying amount of net assets and liabilities of $322,782, which were allocated to the services segment.

During 2020, goodwill impairment was recorded for $ 96,754 associated with the Company S&C Constructores de Sistemas, S. A. de C. V.

The following describes the discount rates and long-term growth rates used for the years ended December 31, 2020 and 2019:

	2020	2019
Discount rate, after tax	10.2%	10.5%
Long-term growth rate	3.2%	3.6%

13. Other non-current assets

	2020	2019
Investments of shares	$291,816	$294,530
Prepaid connection leases	10,468	21,238
Guarantee deposits	52,810	41,192
Prepaid maintenance	235,289	301,242
Other	62,241	83,695
Total other non-current assets	$652,624	$741,897

14. Trade and other accounts payable

Trade and other accounts payable are analyzed as follows:

	2020	2019
Current:		
Trade accounts payable	$2,375,715	$2,897,853
Related parties	480	8,018
Value added tax and other federal and local taxes payable	1,136,511	880,277
Accrued expenses payable	244,414	207,603
Other	94,173	175,265
	$3,851,293	$4,169,016
Non-current:		
Related parties	$ -	$ 703,348

15. Provisions

	Litigation	Restructuring[1]	Total
As of January 1, 2019	$23,629	$288,755	$312,384
Additions	14,187	86,070	100,257
Payments	(9,326)	(183,125)	(192,451)
As of December 31, 2019	$28,490	$191,700	$220,190
Additions	$2,292	$ -	$2,292
Payments	(12,365)	(191,700)	(204,065)
As of December 31, 2020	$18,417	$ -	$18,417

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

Provisions as of December 31, 2020 and 2019 are short-term

16. Deferred income

Deferred income movements during the year are shown as follows:

	2020	2019
Beginning balance	$153,229	$536,452
Increases	491,935	1,054,418
Recognized income of the year	(529,110)	(1,437,641)
Ending balance	$116,054	$ 153,229

17. Debt

	2020	2019
Banco Nacional de Comercio Exterior, S.N.C	$ 3, 243,750	$3,263,529
Syndicated loan	-	1,320,000
Senior Notes [(1)]	9,974,350	9,422,600
Export Development Canada (EDC)	987,590	-
MUFG Banck México	200,000	-
Banorte	110,000	-
Other loans	140,185	-
Accrued interest payable	105,809	111,853
Issuance costs	(117,398)	(150,040)
Total debt	14,644,286	13,967,942
Current portion of debt	(1,609,301)	(131,632)
Non-current debt	$13,034,985	$13,836,310

[(1)] Non-bank borrowings.
The terms, conditions and carrying amounts of debt are as follows:

Interest rate

	Country	Currency	Contractual	Effective	Maturity date	Interest payment periodicity	2020	2019
Bancomext[(1)]	Mexico	MXP	TIIE + 2.10%	6.57%	30/08/2028	Quarterly	$3,243,750	$3,263,529
Syndicated loan	Mexico	MXP	TIIE + 2.75%	-	-	-	-	1,320,000
Senior Notes	International	USD	6.375%	6.64%	14/11/2024	Semi-	9,974,350	9,422,600
EDC	Canada	MXP	TIIE + 1.375%	5.86%	01/06/2021	annually	50,000	-
EDC	Canada	USD	Libor + 1.625%	1.77%	01/06/2021	Monthly	937,590	-
MUFG	Mexico	MXP	TIIE + 1.70%	6.18%	19/03/2021	Monthly	200,000	-
Banorte	Mexico	MXP	TIIE + 1.75%	6.22%	10/02/2021	Monthly	110,000	-
Other loans	Mexico	MXP	Various	Various	Various	Monthly	140,185	-
Total bank loans							14,655,875	14,006,129
Debt issuance costs							(117,398)	(150,040)
Interests payable							105,809	111,853
Total debt							$14,644,286	$13,967,942

As of December 31, 2020, annual maturities of non-current debt are as follows:

	2022	2023	2024	2025 onwards	Total [1]
Bank loans	$128,563	$168,121	$227,458	$2,630,603	$3,154,745
Senior Notes	-	-	9,974,350	-	9,974,350
Other loans	22,807	481	-	-	23,288
	$151,370	$168,602	$10,201,808	$2,630,603	$13,152,383

[1] The total is presented gross of issuance costs.

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, 2020 and 2019 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 3.0 times.

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, 2020, for Senior Notes, the leverage ratio cannot exceed 4.25 times and for the bank loan 3.50 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, 2020 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, 2020	2019
Current portion:		
USD:	$77,720	$186,801
MXN:	217,029	264,974
Current lease liability	$294,749	$451,775
Non-current portion:		
USD:	$131,101	$233,049
MXN:	495,923	633,049
	627,024	866,098
Less; Current portion of lease liability	294,749	451,775
Non-current lease liability	$332,275	$414,323

For the years ending on December 31, 2020 and 2019, changes in the lease liability related to the finance activities in accordance with the consolidated statement of cash flow are integrated as follows:

	2020	2019
Initial balance	$ -	$680,405
Financial lease reclassification	-	740,113
Beginning balance	866,098	1,420,518
New contracts	239,952	7,103
Write-offs	(22,159)	-
Interest expense from lease liability	68,157	99,072
Lease payments	(545,855)	(638,067)
Exchange gain (loss)	20,831	(22,528)
Ending balance	$627,024	$866,098

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

	As of December 31, 2020	2019
Less than 1 year	$308,942	$473,476
Over 1 year and less than 5 years	334,577	415,759
Over 5 years	6,999	12,989
Total	$650,518	$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 $290,459 and $282,312 as of December 31, 2020 and 2019, 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:

	2020	2019
Obligations in the consolidated statement of financial position:		
Pension benefits	$444,764	$405,110
Post-employment medical benefits	7,624	8,076
Defined contribution additional liability	290,459	282,312
Liability recognized in the consolidated statement of financial position	$742,847	$695,498
Charge in the consolidated statement of operations for:		
Pension benefits	$68,416	$57,093
Medical benefits to retirement	603	447
	$69,019	$57,540
Remeasurements for accrued employee benefit obligations recognized in other comprehensive income for the year	$29,646	$70,625

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 fully funded.

The amounts recognized in the consolidated statement of financial position are determined as follows:

	2020	2019
Present value of obligations equal to the liability in the consolidated statement of financial position	$742,847	$695,498

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

	2020	2019
As of January 1	$413,186	$345,892
Current service cost	40,105	25,023
Financial cost	28,914	32,517
Actuarial remeasurements	29,646	70,625
Past service cost	8,714	7,343
Benefits paid	(12,068)	(7,893)
Reductions	(56,109)	(60,321)
As of December 31	$452,388	$413,186

The primary actuarial assumptions were as follows:

	2020	2019
Discount rate	6.75%	7.00%
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%	$(30,077)	$34,234
Medical inflation rate	1%	$(9,046)	$6,746

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:

	2020	2019
Current income tax	$(49,602)	$(73,606)
Deferred income tax	(364,025)	86,766
Prior years' adjustment	(379,006)	2,131
Income tax (expense) benefit	$(792,633)	$15,291

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

	2020	2019
Income (loss) before taxes	$1,153,888	$(353,309)
Statutory rate	30%	30%
(Expense) benefit at statutory rate	(346,166)	105,993
(Plus) less tax effect on:		
Tax effects of inflation	(118,037)	(145,179)
Non-deductibles	(31,591)	(43,483)
Other differences, net	(296,839)	97,960
Total income tax (expense) benefit charged to income	$(792,633)	$15,291
Effective rate	(69)%	(4)%

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

	2020	2019
Tax loss carryforwards	$813,140	$1,274,483
Allowance for doubtful accounts	640,832	626,165
Property, plant and equipment	871,738	719,079
Provisions and other	405,326	262,916
Intangible assets and other	(190,493)	(6,356)
Deferred tax asset	$2,540,543	$2,876,287
Property, plant and equipment	$(4,401)	(3,489)
Intangible assets and other	2,947	2,730
Deferred tax liability	(1,454)	$(759)

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, 2020 for which a tax asset was recognized amount to $2,710,466. The Company reduced tax losses by $154,500 as their realization was not considered probable.

Tax losses as of December 31, 2020 expire in the following years:

Year of expiration	Amount
2021	$296,120
2022	68,408
2023	140,203
2024 onwards	2,360,235
	$2,864,966

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

	2020			2019		
	Before taxes	Tax charged/ (credited)	After taxes	Before taxes	Tax charged/ (credited)	After taxes
Effect of currency translation	$1,152	$ -	$1,152	$(2,468)	$ -	$(2,468)
Derivative financial instruments of hedging	(62,399)	18,720	(43,679)	(127,057)	38,117	(88,940)
Remeasurements of employee benefits	(29,646)	8,894	(20,752)	(70,625)	21,187	(49,438)
	$(90,893)	$27,614	$(63,279)	$(200,150)	$59,304	$(140,846)

21. Shareholders' equity

At the Ordinary General Shareholders' Meeting held on February 25, 2020, a reserve for the repurchase of shares of $ 400 million pesos was approved, which was partially used. For the year ended December 31, 2020, share repurchases were made for a total of 237,843,543 shares, which represented a decrease in the fund of $213,680.

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.

As of December 31, 2020 and 2019, the balance of the reserve for the repurchase of share is $186,320 and $93,464, respectively.

After the above-mentioned events, the Company's capital stock as of December 31, 2020 was $464,368 and was comprised of 19,837,069,861 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, 2019	20,249,227,481
Repurchase of shares	174,314,077
Shares as of December 31, 2019	20,074,913,404
Repurchase of shares	237,843,543
Shares as of December 31, 2020	19,837,069,861

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, 2020, the tax value of the CUFIN and tax value of the Capital Contribution Account (CUCA from Spanish) amounted to $705,299 and $26,052,146, 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

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.

Condensed information related to the consolidated statement of operations of the discontinued operation for the period ended May 1, 2019:

	2019
Revenues	$302,367
Cost of sales	(263,283)
Gross profit	39,084
Administration and selling expenses	(317,567)
Operating loss	(278,483)
Loss before taxes	(278,483)
Income taxes	83,545
Loss net income	(194,938)
Gain on sale of the discontinued operation	519,016
Income from discontinued operations, net of income taxes	$324,078

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.

Condensed information regarding the cash flows of the discontinued operation for the period ended May 1, 2019:

	2019
Cash flows from operating activities	$(29,633)
Cash flows from investment activities	1,150,000

23. Revenues

a. Income for services:

	2020	2019
Voice	$1,283,749	$1,873,716
Managed networks	4,074,645	4,056,632
Internet data	4,551,367	4,419,477
Administrative applications	305,967	360,404
Hosting	518,727	740,579
System integration	770,191	557,797
Security	464,395	410,300
Cloud services	298,565	269,069
Other services	88,375	95,659
Total	$12,355,981	$12,783,633

b. Income by geographical areas:

	2020	2019
Mexico	$12,319,963	$12,743,540
Outside Mexico	36,018	40,093
Total	$12,355,981	$12,783,633

24. Expenses classified by their nature

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

	2020	2019
Service cost [1]	$3,458,788	$3,353,046
Employee benefit expenses (Note 27)	2,633,733	2,456,136
Maintenance	677,386	797,674
Depreciation and amortization	3,384,219	3,578,541
Advertising expenses	54,225	63,864
Energy and fuel consumption	272,669	351,402
Travel expenses	20,342	53,864
Lease expenses	893,842	892,752
Technical assistance, professional fees and administrative services	165,850	250,946
Other	22,296	148,120
Total	$11,583,350	$11,946,345

[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 income (expenses), net

	2020	2019
Impairment of non-current assets	$(170,315)	$(113,462)
Gain (loss) on sale of property, plant and equipment [1]	2,022,963	(5,046)
Other income, net	147,221	55,055
Total other income (expenses), net	$1,999,869	$(63,453)

[1] It includes the sale of the data centers. See Note 2.b.

26. Financial result, net

	2020	2019
Financial income:		
Interest income on short-term bank deposits	$38,878	$54,679
Other financial income	-	5,574
Total financial income	$38,878	$60,253
Financial expenses:		
Interest expense on bank loans	$(408,080)	$(562,108)
Interest expense on senior notes	(817,685)	(644,331)
Interest expense on leases	(68,157)	(99,072)
Expenses related to other interest and commissions	-	(1,626)
Financial expenses related to employee benefits	(28,914)	(32,517)
Other financial expenses	(55,179)	(129,098)
Total financial expenses	$(1,378,015)	$(1,468,752)
Exchange fluctuation (loss) gain, net:		
Gain on exchange fluctuation	$7,217,500	$2,855,976
Loss on exchange fluctuation	(7,602,784)	(2,565,701)
Exchange fluctuation (loss) gain, net	$(385,284)	$290,275

27. Employee benefit expenses

	2020	2019
Salaries, wages and benefits	$2,191,558	$2,028,983
Social security fees	338,279	335,709
Employee benefits	40,105	25,023
Other fees	63,791	66,421
Total	$2,633,733	$2,456,136

28. Transactions with related parties

Balances with related parties as of December 31, 2020 and 2019, were as follows:

December 31, 2020
Loans received from related parties

	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
Affiliates	$8,202	$480	-	-	-	-	-
Total	$8,202	$480	-	-	-	-	-

December 31, 2019
Loans received from related parties

	Accounts receivable	Accounts payable	Amount	Interest	Currency	Expiration date MM/DD/YY	Interest rate
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			

(1) Indemnification (see Note 2).

Transactions with related parties for the years ended December 31, 2020 and 2019, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

Year ended December 31, 2020

	Income Telecommunication services	Costos y gastos	
		Interests	Others
Holding company	$ -	$10,625	$ -
Affiliates	170, 756	-	9,480
Total	$170, 756	$10,625	$9,480

Year ended December 31, 2019

	Income Telecommunication services	Costos y gastos	
		Interests	Others
Holding company	$ -	$ -	$84,935
Affiliates	165,087	5,803	-
Total	$165,087	$5,803	$84,935

For the year ended December 31, 2020, compensation and benefits paid to the Company's main officers totaled $116,791 ($106,080 in 2019), 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, 2020, 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).

<u>2018 rates</u>

i. Two amparo lawsuits regarding interconnection (ITX), one by Axtel, S. A. B. de C. V. (Axtel), and the other by Alestra Comunicación, S. de RL de C. V (now Alestra Innovación Digital, S. de RL de CV), where it appears as an interested third party.

ii. January 2018: the Company was notified of two writs of amparo 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).

iii. Second instance matters.

iv. Current status: suspended on the SCJN's instruction at the request of the IFT, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovación Digital appears as an interested third party. Likewise, in January 2019, the Company (where Axtel is an interested third party) was notified of an amparo lawsuit filed by Telcel against the rates resolved in 2018 (also as Virtual Mobile Operator) for the period of 2019 by of the IFT, which is pending today, as well as the 2018 tariff trial, this matter was also suspended, until the SCJN does not resolve a related matter.

<u>2019 rates</u>

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party

ii. January 2019: the Company was notified of awrit of amparo filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the period of 2019.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party.

2020 rates

i. An amparo lawsuit, in matters of ITX and virtual mobile networks, where Axtel appears as an interested third party

ii. January 2020: the Company was notified of awrit of amparo filed by Telcel against the rates determined by the IFT, in terms of ITX and as Axtel's Virtual Mobile Operator (OMV), for the period of 2020

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

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

b. Telefónica Group.

2018 rates

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. January 2018: the Company was notified of two writs of amparo filed by Telefonica 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 within the file 1100/2015 (Zero Rate).

iii. June 2018: the Company was notified of an amparo lawsuit filed by Telefonica against OMV's ITX rates for the period of 2018, determined by the IFT.

iv. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

v. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party.

2019 rates

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2019: the Company was notified of an amparo lawsuit filed by Telefonica against the rates for the period of 2019, determined by the IFT.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

2020 rates

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2020: the Company was notified of an amparo lawsuit filed by Telefonica against the rates for the period of 2020, determined by the IFT.

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

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

c. Grupo Iusacell (today AT&T).

2019 rates

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2019: the Company was notified of an amparo lawsuit filed by AT&Ta against the rates for the period of 2019, determined by the IFT.

iii. Pending trial, first instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

2020 rates

i. Two amparo lawsuits, on ITX and virtual mobile networks, where Axtel is an interested third party.

ii. June 2020: the Company was notified of an amparo lawsuit filed by AT&T against the rates for the period of 2020, determined by the IFT.

iii. Pending trial, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is to the matters that will be analyzed by the SCJN.

Nowadays, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

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

c. Interconnection disagreements with Telmex & Telnor.

2011 rates

i. A lawsuit was filed by Telmex before the Federal Court of Administrative Justice (TFJA for its Spanish initials), Axtel is considered a third party interested.

ii. Trail resolved in favor of the interests of the Company by the TFJA.

iii. Telmex filed an amparo lawsuit against this decision, where the Collegiate Court (TC) granted Telmex the amparo for formal defects.

iv. TFJA, corrected formal defects and confirmed a rsolution favorable to Axtel's interests.

v. Current status: pending to the possibility that Telmex interposes some means of defense.

The company and its advisers consider that the rates will prevail based on the determined resolutions.

There is historical information of similar lawsuits that were resolved favorably. Therefore, to date, the Company has recognized, paid and compensated, the cost based on these rates, so there are no provisions associated with this contingency.

2012 rates

i. A lawsuit was filed by Telmex, Alestra is considered a third party interested.

ii. Trail resolved in favor of the interests of the Company by the TFJA.

iii. Current status: Telmex filed a direct amparo, it is in the process of second instance.

The Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT.

It is estimated that the most adverse scenario is a referral of the matter to the IFT for the creation of a specific regulation for rates 2018, 2019 and 2020, in which the existing rate could be ratified as of today.

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

2018 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2018: The Company was notified of two amparo lawsuits, against the rates for the 2018 period, determined by the IFT

iii. Cases in process: OMV first instance and ITX in second instance

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party

2019 rates

i. Two lawsuits regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2019: The Company was notified of two amparo lawsuits, against the rates for the 2019 period, determined by the IFT.

iii. Cases in process: OMV first instance and ITX in second instance.

iv. Current status: suspended by instruction of the SCJN, for being related to a series of lawsuits to be resolved by this Court, including one in which Alestra Innovacion Digital appears as an interested third party, and waiting to be resolved.

2020 rates

i. A lawsuit regarding ITX / OMV, Axtel is considered an interested third party.

ii. January 2020: The Company was notified of one amparo lawsuit, against the rates for the 2020 period, determined by the IFT

iii. Trial pending, first instance. It is considered that the delivery of the sentence will eventually be suspended because it is related to the matters that will be analyzed by the SCJN.

As of the date of issuance of the consolidated financial statements, the Company and its advisers consider that the rates will prevail based on the resolutions obtained before the IFT or the former Federal Telecommunications Commission (COFETEL).

It is estimated that the most adverse scenario is a referral of the matter to said Institute for the creation of a specific regulation for Rates 2018, 2019 and 2020, within which the existing rate could be ratified as of today.

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

On the other hand, during 2016, the IFT began a process to review the preponderance measures imposed on América Móvil as a holding company for Telmex and Telcel. From this review, the agreement P / IFT / EXT / 270217/119 was issued by which the IFT plenary session modifies and adds the measures imposed on the AEP in 2014, which tend to generate a telecommunications sector where conditions of competition exist.

These measures were again modified in December 2020 by resolution P / IFT / 021220/488.

As of December 31, 2020, the preponderant agent status of Telmex, Telnor and Telcel has not been modified.
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.

With regard to the lawsuits concerning the Merger Opposition agreements, the Secretariat of Labour and Social Welfare, CONAFOR and the Secretariat of Social Development 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.

Lawsuits between Axtel vs. Integradores y Operadores del Norte S. A. de C. V.

ii. Axtel, in 2007, hired Integradores y Operadores del Norte S.A. de C.V. (ION).

In 2017, ION filed a commercial lawsuit claiming Axtel to pay $ 113,000 for services, interest, damages and costs.

In October 2020, Integradores y Operadores del Norte, S.A. de C.V, obtained a favorable protection, managing to modify the sentence in his favor to collect $ 12,199 from Axtel; however, Axtel fought the new resolution.

As of the date of issuance of the consolidated financial statements, the Company is reserving the corresponding provisions for the sentence issued.

Compensatory Procedures in the Federal Superior Auditors (“ASF” for its Spanish initials)

iii. 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 and which is pending.

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.

Other contingencies and notes:

iv. The Company is involved in various lawsuits and claims, derived from the normal course of its operations, which are expected not to have a significant effect on its financial position and future results, and provisions, were recorded in the books associated with these contingencies.

Derived from the Covid-19 health emergency, the SCJN, the Federal Judicial Branch, Federal Courts and Local Courts, have suspended terms and periods in various periods of 2020 and 2021, thus prolonging the processing and resolutions of the matters where the Company is part of.

30. Segment information

As of 2020, the information used by the CEO, who is the highest authority in making operational decisions, allocation of resources and evaluation of performance, is presented through its business units, Alestra being the services unit and Axtel Networks the infrastructure unit. Therefore, derived from the new approach of evaluating the business, the segment information of 2019 has been restructured for comparative purposes.

The portfolio of the services unit for the business and government segments includes advanced solutions for managed networks, collaboration and information technology (IT) such as systems integration, cloud services, cybersecurity, among others. On the other hand, the connectivity solutions of the infrastructure unit for wholesale clients or operators (including the services unit) include last-mile access, IP transit, spectrum, fiber to the tower and fiber to the data center, among others.

Axtel has the second largest fiber network in Mexico, with an infrastructure of approximately 43,300 kilometers of fiber (including 11,600 kilometers of capacity), with which it has the capacity to provide coverage to more than 90% of the Mexican market.

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 Chief Executive Officer.

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 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:

2020

	Services	Infrastructure	Inter-units	Total
Sales by segment	$9,824,022	$4,982,716	(2,450,757)	$12,355,981
Service cost	(5,533,688)	(375,857)	2,450,757	(3,458,788)
Expenses	(944,721)	(37,771)	-	(982,492)
Business unit contribution (BUC)	3,345,613	4,569,088	-	7,914,701
Unallocated expenses	(1,466,523)	(2,141,909)	-	(3,608,432)
EBITDA	1,879,090	2,427,179	-	4,306,269
Sale of the data center	-	2,020,765	-	2,020,765
Adjusted EBITDA				6,327,034
Impairment of non-current assets				(170,315)
Depreciation and amortization				(3,384,219)
Depreciation and amortization of discontinued				-
operations				-
Less the effects of discontinued operations				
Operating income				2,772,500
Financial result, net				(1,618,612)
Financial result, net of discontinued operations				-
Income (loss) before taxes				$1,153,888

2019

	Services	Infrastructure[2]	Inter-units	Total
Sales by segment	$10,176,900	$5,170,315	$(2,563,582)	$12,783,633
Service cost	(5,434,750)	(481,878)	2,563,582	(3,353,046)
Expenses	(972,418)	(69,772)	-	(1,042,190)
Business unit contribution (BUC)	3,769,732	4,618,665	-	8,388,397
Unallocated expenses	(1,590,692)	(2,331,868)		(3,922,560)
EBITDA	2,179,040	2,286,797	-	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				(162,780)
operations				(462,968)
Less the effects of discontinued operations (1)				
Operating income				773,835
Financial result, net				(1,127,143)
Financial result, net of discontinued operations				-
Income (loss) before tax				(353,308)

(1) The items of the discontinued operation that were analyzed as operating item in 2019 are comprised of the operating income of the massive segment plus the gain on sale of the discontinued operation of $519,016, presented in Note 22, gross of the corresponding taxes.

(2) Includes the results of the data center transaction.

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, 2020 and through January 31, 2021, (issuance date of the consolidated financial statements), and identified the following:

a) On January 8, 2021, the Company released the balances from the escrow originated from the sale of the data centers to Equinix, for US $ 13 million. See note 7.

b) On January 22, 2021, Rolando Zubirán Shetler, Chief Executive Officer of the Company, announced his retirement. The Company's Board appointed Eduardo Escalante Castillo as Acting Chief Executive Officer as of this date, and during the selection process of Axtel's new Chief Executive Officer.

32. Authorization to issue the financial statementss

On January 31, 2021, the issuance of the accompanying consolidated financial statements was authorized by Eduardo Escalante Castillo, 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.

Report parameters

In order to share our operating, corporate governance, labor, social, environmental and financial results, as well as the main initiatives we are carrying out to address the COVID-19 crisis, we hereby submit the Axtel 2020 Integrated Annual Report.

This year, we are committed to improving the way we manage sustainability issues, and in addition to the contents of the GRI Standards, for the first time we included information to address the Sustainability Accounting Standards Board (SASB) standards applicable to the telecommunications, software and IT services industries of which we are a part. We also took the first steps to disclose information on our climate-related risks and opportunities, in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

The information contained herein covers the period from January 1 to December 31, 2020 and is limited to Axtel's operations in Mexico and does not include the results of other companies, entities, institutions, shareholders, customers or business partners.

During the year, Equinix acquired the operations and assets of three Axtel Data Centers, two located in Querétaro and one in the Monterrey metropolitan area, with a total capacity of approximately 5,300 m^2 of white floor space. The valuation of this transaction was USD 175 million, with Axtel maintaining a minority interest in the new company. Excluding operating expenses and the balance in escrow, the proceeds of approximately US$157 million will be used to strengthen the company's financial structure.

Moreover, as part of the different actions we undertook as a result of the COVID-19 pandemic crisis, we permanently closed 1,810 workspaces in Monterrey, Guadalajara and Mexico City, equivalent to 22,726 m^2, which is mainly reflected in energy, water and materials use, emissions and waste generation. For the remaining cases, the restatement of information with respect to previous years is indicated as applicable.

This report has been prepared in accordance with the GRI Standards: Core option. It was verified by e3 Consultora Ambiental.

GRI, SASB and TCFD content index

GRI Standard or SASB indicator		Description	Page or response
GRI 101: Foundation			
1. Organizational profile 2016			
GRI 102: General disclosures 2016	102-1	Name of the organization.	Axtel, S.A.B. de C.V.
	102-2	Activities, brands, products, and services.	9
	102-3	Location of headquarters.	8, 9
	102-4	Location of operations.	9
	102-5	Ownership and legal form.	Axtel, S.A.B. de C.V.
	102-6	Markets served.	8, 9
	102-7	Scale of the organization.	9
	102-8	Information on employees and other workers.	61
	102-9	Supply chain.	25
	102-10	Significant changes to the organization and its supply chain.	8, 9, 161
	102-11	Precautionary Principle or approach.	38
	102-12	External initiatives.	20
	102-13	Membership of associations.	20
2. Strategy 2016			
GRI 102: General disclosures 2016	102-14	Statement from senior decision-maker.	4
	102-15	Key impacts, risks, and opportunities.	38
TCFD - Strategy	a)	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	38
	b)	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	38
	c)	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Not reported.
3. Ethics and integrity 2016			
GRI 102: General disclosures 2016	102-16	Values, principles, Standards, and norms of behavior.	40, 53
	102-17	Mechanisms for advice and concerns about ethics.	40
4. Governance 2016			
GRI 102: General disclosures 2016	102-18	Governance structure.	29
	102-19	Delegating authority.	29
	102-20	Executive-level responsibility for economic, environmental, and social topics.	29
	102-22	Composition of the highest governance body and its committees.	29

GRI 102: General disclosures 2016	102-23	Chair of the highest governance body.	29
	102-24	Nominating and selecting the highest governance body.	29
	102-25	Conflicts of interest.	40
	102-26	Role of highest governance body in setting purpose, values and strategy.	29
	102-27	Collective knowledge of highest governance body.	29
	102-29	Identifying and managing economic, environmental, and social impacts.	38
	102-30	Effectiveness of risk management processes.	38
	102-31	Review of economic, environmental, and social topics.	29, 38
	102-32	Highest governance body's role in sustainability reporting.	Executive Director of Human Capital.
	102-33	Communicating critical concerns.	40
	102-34	Nature and total number of critical concerns.	29, 40
	102-35	Remuneration policies.	29
	102-36	Process for determining remuneration.	29
	102-37	Stakeholders' involvement in remuneration.	We do not involve our stakeholders in determining remuneration for our directors. This decision is made by the Board of Directors and its committees.
	102-38	Annual total compensation ratio.	This information is kept confidential to protect the security of our employees.
	102-39	Percentage increase in annual total compensation ratio.	
TCFD - Governance	a)	Describe the organization's governance around climate-related risks and opportunities.	38
	b)	Describe management's role in assessing and managing climate-related risks and opportunities.	30
TCFD - Risk Management	a)	Describe the organization's processes for identifying and assessing climate-related risks.	38
	b)	Describe the organization's processes for managing climate-related risks.	38
	c)	Describe how processes for identifying, assessing, and managing climated-related risks are integrated into the organization's overall risk management.	38
5. Stakeholder engagement 2016			
GRI 102: General disclosures 2016	102-40	List of stakeholder groups.	59
	102-41	Collective bargaining agreements.	No Axtel employee is unionized.
	102-42	Identifying and selecting stakeholders.	59
	102-43	Approach to stakeholder engagement.	59
	102-44	Key topics and concerns raised.	25
6. Reporting practice 2016			
GRI 102: General disclosures	102-45	Entities included in the consolidated financial statements.	39
	102-46	Defining report content and topic Boundaries.	57
	102-47	List of material topics.	57
	102-48	Restatements of information.	161
	102-49	Changes in reporting.	161
	102-50	Reporting period.	161
	102-51	Date of most recent report.	161
	102-52	Reporting cycle.	161

GRI 102: General disclosures	102-53	Contact point for questions regarding the report.	161
	102-54	Claims of reporting in accordance with the GRI Standards.	161
	102-55	GRI content index.	162
	102-56	External assurance.	161
Innovation of products and services			
GRI 103: Management approach 2016	103-1	Explanation of the material topic and its Boundary.	17
	103-2	The management approach and its components.	17
	103-3	Evaluation of the management approach.	17
GRI 200: Economic standards			
GRI 201: Economic performance 2016	103-1	Explanation of the material topic and its Boundary.	45
	103-2	The management approach and its components.	45
	103-3	Evaluation of the management approach.	45
	201-1	Direct economic value generated and distributed.	45
	201-3	Defined benefit plan obligations and other retirement plans.	Our resources met the obligations of the pension plan during 2020.
	201-4	Financial assistance received from government.	Axtel did not receive financial assistance from the government in any form during 2020.
GRI 202: Market presence 2016	202-2	Proportion of senior management hired from the local community.	61
GRI 204: Procurement practices 2016	204-1	Proportion of spending on local suppliers.	25
GRI 205: Anti-corruption 2016	103-1	Explanation of the material topic and its Boundary.	40
	103-2	The management approach and its components.	40
	103-3	Evaluation of the management approach.	40
	205-1	Operations assessed for risks related to corruption.	40
	205-2	Communication and training about anti-corruption policies and procedures.	40
	205-3	Confirmed incidents of corruption and actions taken.	40
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 2020.
GRI 207: Tax 2019	207-1	Approach to tax.	45
	207-2	Tax governance, control, and risk management.	45
	207-3	Stakeholder engagement and management of concerns related to tax.	45
	207-4	Country-by-country reporting.	45

GRI 300: Environmental standards			
TCFD - Metrics and Targets	a)	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	Not reported.
	b)	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	78, 79
	c)	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	75, 81
GRI 301: Materials 2016	301-3	Reclaimed products and their packaging materials.	81
SASB: Product End-of-life Management	TC-TL-440a.1	Materials recovered through take back programs, percentage of recovered materials that were reused, recycled, and landfilled.	81
GRI 302: Energy 2016	302-1	Energy consumption within the organization.	73
	302-2	Energy consumption outside of the organization.	73
	103-1	Explanation of the material topic and its Boundary.	73
	103-2	The management approach and its components.	73
	103-3	Evaluation of the management approach.	73
	302-3	Energy intensity.	73
	302-4	Reduction of energy consumption.	73
	302-5	Reductions in energy requirements of products and services.	73
SASB: Environmental Footprint of Hardware Infrastructure, and of Operations	TC-SI-130a.1 TC-TL-130a.1	Total energy consumed, percentage grid electricity, percentage renewable.	73
	Extra	Weighted average efficiency of energy use for data centers.	PUE Monterrey CIT DH1: 1.6 PUE Monterrey CIT DH2-3: 1.9 PUE Guadalajara: 1.9
GRI 303: Water and effluents 2018	303-1	Interactions with water as a shared resource.	80
	303-2	Management of water discharge-related impacts.	80
	303-3	Water withdrawal.	80
	303-4	Water discharge.	80
	303-5	Water consumption.	80
SASB: Environmental Footprint of Hardware	TC-SI-130a.2	Total water withdrawn, total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress.	80 We did not carried out an analysis to determine if the water we consume comes from areas of water stress.
GRI 305: Emissions 2016	305-1	Direct (Scope 1) GHG emissions.	78
	305-2	Energy indirect (Scope 2) GHG emissions.	78
	305-3	Other indirect (Scope 3) GHG emissions.	78
	305-4	GHG emissions intensity.	78
	305-5	Reduction of GHG emissions.	78

GRI 306: Waste 2020	103-1	Explanation of the material topic and its Boundary.	81
	103-2	The management approach and its components.	81
	103-3	Evaluation of the management approach.	81
	306-1	Waste generation and significant waste-related impacts.	81
	306-2	Management of significant waste-related impacts.	81
	306-3	Waste generated.	81
	306-4	Waste diverted from disposal.	81
	306-5	Waste directed to disposal.	81
GRI 307: Environmental compliance 2016	103-1	Explanation of the material topic and its Boundary.	Axtel did not register any cases of noncompliance with environmental laws and/or regulations in 2020.
	103-2	The management approach and its components.	
	103-3	Evaluation of the management approach.	
	307-1	Non-compliance with environmental laws and regulations.	
GRI 308: Supplier environmental assessment 2016	103-1	Explanation of the material topic and its Boundary.	25
	103-2	The management approach and its components.	25
	103-3	Evaluation of the management approach.	25
	308-1	New suppliers that were screened using environmental criteria.	25
	308-2	Negative environmental impacts in the supply chain and actions taken.	25
GRI 400: Social standards			
GRI 401: Employment 2018	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
	401-1	New employee hires and employee turnover.	61
	401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	61
	401-3	Parental leave.	61
SASB: Recruiting & Managing a Global, Diverse & Skilled Workforce	TC-SI-330a.1	Percentage of employees that are foreign nationals and located offshore.	61
	TC-SI-330a.2	Employee engagement as a percentage.	69
	TC-SI-330a.3	Percentage of gender and racial/ethnic group representation for management, technical staff, and all other employees.	61

GRI 403: Occupational health and safety 2018	103-1	Explanation of the material topic and its Boundary.	65
	103-2	The management approach and its components.	65
	103-3	Evaluation of the management approach.	65
	403-1	Occupational health and safety management system.	65
	403-2	Hazard identification, risk assessment, and incident investigation.	65
	403-3	Occupational health services.	65
	403-4	Worker participation, consultation, and communication on occupational health and safety.	65
	403-5	Worker training on occupational health and safety.	65
	403-6	Promotion of worker health.	65
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships.	65
	403-8	Workers covered by an occupational health and safety management system.	65
	403-9	Work-related injuries.	65
	403-10	Work-related ill health.	65
GRI 404: Training and education 2016	103-1	Explanation of the material topic and its Boundary.	69
	103-2	The management approach and its components.	69
	103-3	Evaluation of the management approach.	69
	404-1	Average hours of training per year per employee.	69
	404-2	Programs for upgrading employee skills and transition assistance programs.	69
	404-3	Percentage of employees receiving regular performance and career development reviews.	69
GRI 405: Diversity and equal opportunity 2016	405-1	Diversity of governance bodies and employees.	61
GRI 406: Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken.	40
GRI 407: Freedom of association and collective bargaining 2016	407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	During 2020 we did not identify any operation or supplier under this problem.

GRI 408: Child labor 2016	408-1	Operations and suppliers at significant risk for incidents of child labor.	During 2020 we did not identify any operation or supplier under this problem.
GRI 409: Forced or compulsory labor 2016	409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor.	During 2020 we did not identify any operation or supplier under this problem.
GRI 410: Security practices 2016	410-1	Security personnel trained in human rights policies or procedures.	44
GRI 412: Human rights assessment 2016	103-1	Explanation of the material topic and its Boundary.	44
	103-2	The management approach and its components.	44
	103-3	Evaluation of the management approach.	44
	412-1	Operations that have been subject to human rights reviews or impact assessments.	44
	412-2	Negative social impacts in the supply chain and actions taken.	44
	412-3	Operations with significant actual and potential negative impacts on local communities.	44
GRI 413: Local communities 2016	103-1	Explicación del tema material y su Cobertura.	71
	103-2	El enfoque de gestión y sus componentes.	71
	103-3	Evaluación del enfoque de gestión.	71
	413-1	Operations with local community engagement, impact assessments, and development programs.	71
GRI 414: Suppler social assessment 2016	103-1	Explanation of the material topic and its Boundary.	25
	103-2	The management approach and its components.	25
	103-3	Evaluation of the management approach.	25
	414-1	New suppliers that were screened using social criteria.	25
	414-2	Negative social impacts in the supply chain and actions taken.	25
GRI 415: Public policy 2016	415-1	Political contributions.	During 2020 we did not made contributions to political parties and/or political representatives in any way.
GRI 417: Marketing and labeling 2016	417-3	Incidents of non-compliance concerning marketing communications.	During 2020 we did not record any breaches related to marketing communications.

SASB: Intellectual Property Protection, Competitive Behavior & Open Internet	TC-SI-520a.1 TC-TL-520a.1	Total amount of monetary losses as a result of legal proceedings associated with anticompetitive behavior regulations.	40
	TC-TL-520a.2	Average actual sustained download speed of owned and commercially-associated content and non-associated content.	Does not apply to our business.
	TC-TL-520a.3	Description of risks and opportunities associated with net neutrality, paid peering, zero rating, and related practices.	23
GRI 418: Customer privacy 2016	103-1	Explanation of the material topic and its Boundary.	23
	103-2	The management approach and its components.	23
	103-3	Evaluation of the management approach.	23
	418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	23, 40
SASB: Data Privacy & Freedom of Expression	TC-SI-220a.1 TC-TL-220a.1	Description of policies and practices relating to behavioral advertising and customer/user privacy.	23
	TC-SI-220a.2 TC-TL220a.2	Number of customers/users whose information is used for secondary purposes.	23
	TC-SI-220a.3 TC-TL-220a.3	Total amount of monetary losses as a result of legal proceedings associated with customer/user privacy.	23
	TC-SI-220a.4 TC-TL-220a.4	Number of law enforcement requests for customer/user information, number of customers/users whose information was requested, percentage resulting in disclosure.	During 2020 we did not received any of these requests.
	TC-SI-220a.5	List of countries where core products or services are subject to government-required monitoring, blocking, content filtering, or censoring.	During 2020 Axtel, as an Internet service provider in Mexico, was not subject to these provisions.
Data security			
SASB: Data Security	103-1	Explanation of the material topic and its Boundary.	21
	103-2	The management approach and its components.	21
	103-3	Evaluation of the management approach.	21
	TC-SI-230a.1 TC-TL-230a.1	Number of data breaches, percentage involving personally identifiable information (PII), number of customers/users affected.	During 2020 we did not record data breaches by this concept.
	TC-SI-230a.2 TC-TL-230a.2	Description of approach to identifying and addressing data security risks, including use of third-party cybersecurity standards.	21
SASB: Managing Systemic Risks from Technology Disruptions	TC-SI-550a.1	Number of performance issues and service disruptions; total customer downtime.	23
	TC-SI-550a.2	Description of business continuity risks related to disruptions of operations.	23
	TC-TL-550a.1	System average interruption frequency and customer average interruption duration.	23
	TC-TL-550a.2	Discussion of systems to provide unimpeded service during service interruptions.	23

Network reliability			
SASB: Activity Metrics	103-1	Explanation of the material topic and its Boundary.	23
	103-2	The management approach and its components.	23
	103-3	Evaluation of the management approach.	23
	TC-SI-000.A	Number of licenses or subscriptions, percentage cloudbased.	Does not apply to our business.
	TC-SI-000.B	Data processing capacity, percentage outsourced.	The data processing capacity of our Cloud service to clients is 1,345 racks, of which 54% are outsourced.
	TC-SI-000.C	Amount of data storage, percentage outsourced.	We have 0.285 Petabytes of storage, of which 57% are outsourced.
	TC-TL-000.A	Number of wireless subscribers.	Does not apply to our business.
	TC-TL-000.B	Number of wireline subscribers.	Does not apply to our business.
	TC-TL-000.C	Number of broadband subscribers.	Does not apply to our business.
	TC-TL-000.D	Network traffic.	Network traffic is 1,031 Gigabytes per second considering the peak hour traffic demanded by our clients' services.

Verification letter

Independent verification report

CONSULTORA AMBIENTAL · ecología · evaluación · economía

We announce to the stakeholders of the Axtel 2020 Annual Integrated Report, that:

RYM Servicios Ambientales Internacionales S.C, e3 Consultora Ambiental, has concluded an independent review of the environmental, social and governance disclosures performance of Axtel, corresponding to the period of 2020.

Summary of activities

e3 Consultora Ambiental reviewed the general and specific disclosures, that were included on the Axtel 2020 Annual Integrated Report, in accordance with the GRI Standards of the Global Reporting Initiative and the SASB Standards of the Sustainability Accounting Standards Board. To validate the quality of a sample of key performance indicators linked with the materiality assessment of the company, we requested access to the consolidated information records shared among the Company's departments.

Recommendations

The findings and recommendations are provided separately in an internal report addressed to Sustainability Manager of Axtel.

Methodologies

This independent verification report was prepared based on the following standards: AA1000APS, ISAE 3000 and The External Assurance of Sustainability Reporting (GRI).

The application of the principles for the definition of the contents of the report and the coverage of the disclosures related to the material topics and the presentation of the GRI Standards Index of Contents was confirmed in accordance with the Standard GRI 101. The application of the SASB Standards was confirmed in accordance with the guidelines of SASB Standards Application Guidance.

Sample of verified indicators

102-8	102-22	102-18	202-2	301-3	302-1 a 302-3
305-1 a 305-5	401-1 y 401-3	403-1 a 403-10	Waste (103-1 a 103-3)	405-1	TC-SI-130a.1, TC-TL-130a.1
TC-SI-220a.1 TC-TL-220a.1	TC-SI-330a.1	TC-SI-330a.2	TC-SI-330a.3	TC-TL-440a.1	TCFD - Metrics and targets

Conclusions

- There was no evidence to indicate that the definition of the content of the Axtel 2020 Annual Integrated 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 report, no situations arose that led us to conclude that there are any significant errors or omissions in the information disclosed in the Axtel 2020 Annual Integrated Report.
- There is no evidence that led us to object to the Axtel 2020 Annual Integrated Report have been prepared in accordance with the Core option of the GRI Standards and the SASB Standards guidelines.

David Parra
Director
e3 Consultora Ambiental

NOTES. *This work covers a limited verification exercise conducted under the assignment of Axtel, that was completed in February 2021. 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 assurance team did not take part in the preparation of the Axtel 2020 Annual Integrated Report.*

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