

# 4<sup>th</sup> Quarter 2016



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**San Pedro Garza Garcia, Mexico, February 14, 2017** - Axtel, S.A.B. de C.V. (“Axtel” or “the Company”), a Mexican Information and Communications Technology company, announced today its unaudited fourth quarter results ended December 31, 2016<sup>(1)</sup>. Axtel is a subsidiary of Alfa S.A.B. de C.V. (“ALFA”).

Million Pesos	Q4	Q3	Q4	(% 4Q16 vs.		LTM	LTM
	2016	2016	2015	3Q16	4Q15	dic-16	dic-15
Revenues <sup>(2)(3)</sup>	3,783	3,836	2,832	-1%	34%	13,937	10,150
EBITDA <sup>(7)</sup>	910	1,265	416	-28%	>100%	3,673	3,208
EBITDA Margin	24.1%	33.0%	14.7%	- 891 bps	+ 936 bps	26.4%	31.6%
Net (loss) Income	-1,055	-451	-604	>100%	-75%	-3,599	-1,732
Capital Expenditures	885	942	473	-6%	87%	4,065	2,011
Net Debt	20,095	19,693	11,074	2%	81%		
Net Debt / EBITDA <sup>(8)</sup>	4.6x	4.2x	3.1x				

*Note: Figures shown throughout the document include Alestra S. de R.L. de C.V. and its subsidiaries (“Alestra”) as of February 15, 2016. However, in order to explain variations, reference is also made to pro forma figures, which include Alestra as of the beginning of each period.*

## Highlights:

- ❖ Pro forma revenues declined 10% in 2016, as government segment revenues declined 37%. This government segment decline results from the reduction of federal government spending in 2016 and also from non-recurrent equipment sales and projects’ revenues registered in 2015 and not replicated in 2016. However, Axtel’s quarterly recurrent enterprise and government segment revenues have shown a positive trend in 2016, particularly from enterprise customers, providing encouraging prospects for 2017.
- ❖ During the fourth quarter, Axtel continued executing the post-merger integration plan with positive results. At the end of the year, Axtel was able to achieve run-rate EBITDA synergies of approximately Ps. 1,000 million.
- ❖ Axtel is pleased to participate in ALTÁN Redes, the consortium granted with the exclusive rights to exploit the 700 MHz band for the creation of a nationwide 4G wholesale network, also known as Red Compartida. This project enhances Axtel’s mobility strategy and represents an opportunity for the Company to become a strategic supplier to Red Compartida.

### Media Relations:

Julio Salinas  
contacto@axtel.com.mx  
+52(81) 8114-1144

### Investor Relations:

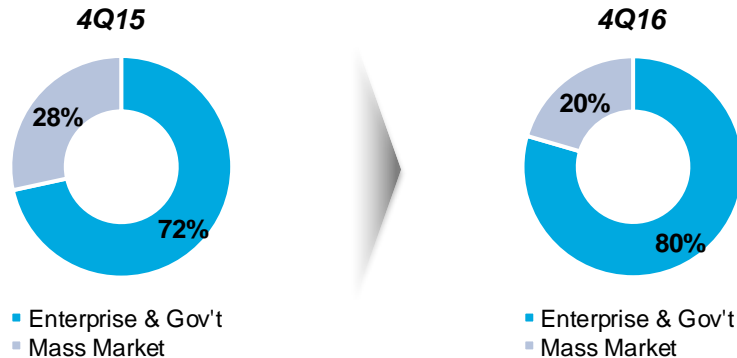
Adrian de los Santos  
IR@axtel.com.mx  
+52(81) 8114-1128

Nancy Llovera  
IR@axtel.com.mx  
+52(81) 8114-1128

## Revenues

Million Pesos	Q4 2016	Q3 2016	Q4 2015	(% 4Q16 vs.)	
				Q3 2016	Q4 2015
ENTERPRISE	2,451	2,431	1,203	1%	>100%
GOVERNMENT	558	628	825	-11%	-32%
MASS MARKET	775	778	804	0%	-4%
<b>TOTAL</b>	<b>3,783</b>	<b>3,836</b>	<b>2,832</b>	<b>-1%</b>	<b>34%</b>

Note: Figures shown throughout the document include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period. For historic figures, please see page 7, Notes 2 and 3.



FTTx proportion within the revenue mix decreased from 15% in 4Q15 to 14% in 4Q16; wireless declined from 13% to 7%; Enterprise increased from 42% to 65% and Government declined from 29% to 15%.

## Enterprise

Million Pesos	Q4 2016	Q3 2016	Q4 2015	(% 4Q16 vs.)	
				Q3 2016	Q4 2015
<b>TELECOM</b>	<b>2,207</b>	<b>2,209</b>	<b>1,163</b>	<b>0%</b>	<b>90%</b>
Voice	627	685	395	-8%	59%
Data and Internet	832	770	174	8%	>100%
Managed Networks	747	754	594	-1%	26%
<b>IT</b>	<b>243</b>	<b>221</b>	<b>39</b>	<b>10%</b>	<b>&gt;100%</b>
<b>TOTAL ENTERPRISE</b>	<b>2,451</b>	<b>2,431</b>	<b>1,203</b>	<b>1%</b>	<b>&gt;100%</b>

Quarterly revenues totaled Ps. 2,451 million, compared to Ps. 1,203 million in the same period in 2015, a 104% increase. On a pro forma basis, Enterprise revenues declined 6% compared to fourth quarter 2015 revenues of Ps. 2,616 million mainly due to a decline in *managed networks*.

Telecom revenues, on a pro forma basis, decreased 7%. *Voice* revenues decreased 10% due to declines in fix-to-mobile and toll-free (800s) revenues and a 51% decline in international traffic revenues explained by lower volume. *Data and Internet* revenues increased 14% due to strong demand for dedicated internet and private lines services from existing enterprise customers. In the fourth quarter of 2015, the Company recorded an extraordinary high level of equipment sales which offset the positive performance of recurring revenues in fourth quarter 2016.

IT revenues, on a pro forma basis, increased 2%, mainly due to a 46% increase in *hosting* and 25% in *cloud services*, partially mitigated by a 56% decline in *system integration* revenues.

## Government

Million Pesos	Q4 2016	Q3 2016	Q4 2015	(% 4Q16 vs.	
				Q3 2016	Q4 2015
<b>TELECOM</b>	<b>247</b>	<b>281</b>	<b>440</b>	<b>-12%</b>	<b>-44%</b>
<i>Voice</i>	36	32	75	12%	-52%
<i>Data and Internet</i>	100	88	60	14%	68%
<i>Managed Networks</i>	111	161	306	-31%	-64%
<b>IT</b>	<b>311</b>	<b>347</b>	<b>385</b>	<b>-10%</b>	<b>-19%</b>
<b>TOTAL GOVERNMENT</b>	<b>558</b>	<b>628</b>	<b>825</b>	<b>-11%</b>	<b>-32%</b>

Government segment revenues amounted to Ps. 558 million in the fourth quarter of 2016, compared to Ps. 825 million in the same period in 2015, a 32% decrease. On a pro forma basis, revenues declined 48% compared to fourth quarter 2015 revenues of Ps. 1,069 million mainly due to a decline in Telecom *managed networks* and IT *system integration* revenues.

Telecom revenues, on a pro forma basis, declined 49%. *Voice revenues* declined 56% due to declines in fix-to-mobile and toll-free (800s) revenues. *Managed networks* declined 66% due to extraordinary levels of equipment sales in the fourth quarter of 2015.

IT revenues, on a pro forma basis, declined 47%. *System integration* revenues declined 70% also due to extraordinary revenues in the fourth quarter of 2015 related to equipment sales and *hosting* revenues declined 39%.

## Mass Market <sup>(4)</sup>

Million Pesos	Q4 2016	Q3 2016	Q4 2015	(% 4Q16 vs.	
				Q3 2016	Q4 2015
FTTx	520	499	437	4%	19%
Legacy Technologies	255	279	367	-9%	-31%
<b>TOTAL MASS MARKET</b>	<b>775</b>	<b>778</b>	<b>804</b>	<b>0%</b>	<b>-4%</b>

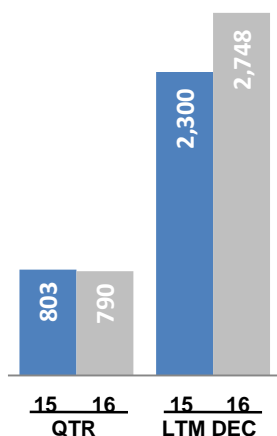
Quarterly revenues decreased 4%:

*FTTx* revenues totaled Ps. 520 million in the fourth quarter of 2016, compared to Ps. 437 million for same period in 2015, representing a 19% increase in line with a 19% increase in customers. *Voice* revenues increased 13% resulting from a 24% increase in monthly rent revenues mitigating a decline in fixed-to-mobile revenues. *Internet* and *video* revenues increased 15% and 28% respectively, mainly due to increases in internet and video subscribers.

*Legacy technologies* revenues amounted to Ps. 255 million in the fourth quarter of 2016, a 31% decrease compared the same period in 2015 explained by a 35% decline in customers.

## Cost of Revenues

(in MPs.)



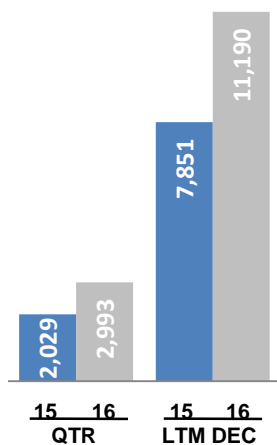
## Cost of revenues and Operating and Other expenses

Note: Figures in graphs include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period.

**Cost of revenues<sup>(5)</sup>.** For the three month period ended December 31, 2016, the cost of revenues represented Ps. 791 million, a 2% or Ps. 13 million decline compared to the same period of year 2015. On a pro forma basis, costs declined 25% compared to Ps. 1,051 million in the year-earlier quarter, mainly due to a decline in *Telecom managed network costs* and *IT system integration costs* within the government segment, both in line with a lower level of revenues. *Mass market costs* increased 3% due to increases in FTTx video and internet costs.

## Gross Profit

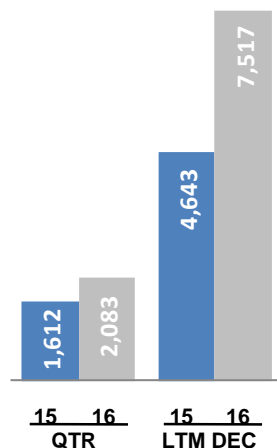
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**Gross Profit.** Gross profit is defined as revenues minus cost of revenues. For the fourth quarter of 2016, the gross profit accounted for Ps. 2,993 million, 48% higher than the same period in year 2015. On a pro forma basis, gross profit declined 13% compared to Ps. 3,438 million in the fourth quarter 2015 mainly due to the decline in *Telecom gross margin* resulting from lower *voice* and *managed networks* revenues. The gross profit margin increased from 77% to 79% year-over-year resulting from improved *IT* segment margins and also from a lower proportion of revenues of both *IT* and *Telecom* segments within the revenue mix, which have lower margins.

## Expenses

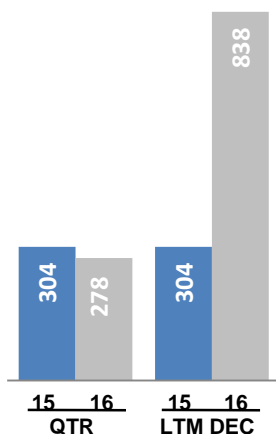
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**Operating and other expenses<sup>(6)</sup>.** In the fourth quarter of year 2016, expenses totaled Ps. 2,083 million, 29% higher than the expenses recorded in the same period in 2015. On a pro forma basis, expenses decreased 6% compared to Ps. 2,218 million in the fourth quarter of 2015. The declines in personnel mitigated the increase in maintenance expenses which resulted from a larger number of customer-related maintenance contracts and the impact of the peso devaluation on the network maintenance contracts.

## Merger Expenses

(in MPs.)



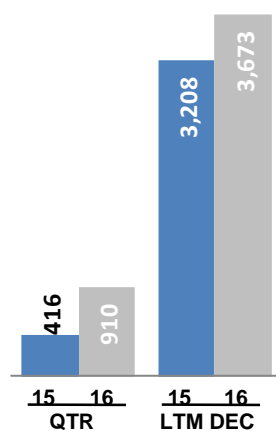
## Merger expenses, EBITDA, Operating income (loss)

Note: Figures in graphs include Alestra as of February 15, 2016. However, in order to explain variations, reference is made to pro forma figures, which include Alestra as of the beginning of each period.

**Merger and integration expenses.** For the fourth quarter 2016 expenses related to the Axtel-Alestra merger totaled Ps. 278 million pesos. In the year-earlier quarter, merger-related expenses totaled Ps. 304 million. For the twelve month period ended December 31, 2016, merger expenses totaled Ps. 838 million, the most relevant being severance payments, a non-cash pension-related charge and consulting fees.

## EBITDA

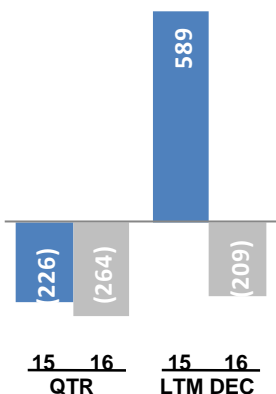
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**EBITDA<sup>(7)</sup>.** For the fourth quarter of 2016, EBITDA reached Ps. 910 million, a 119% increase from the same period in 2015. Pro forma EBITDA declined 25% compared to Ps. 1,220 million in the fourth quarter of 2015 summarized as the result of a 16% decline in revenues thus a 13% decline in gross profit and a higher expense to sales ratio. EBITDA margin decreased from 27.2% to 24.1%.

## Operating income (loss)

(in MPs.)



**Operating income (loss).** In the fourth quarter of 2016, operating loss totaled Ps. 264 million, compared to an operating loss of Ps. 226 million. On a pro forma basis, operating income decreased Ps. 570 million compared to an operating income of Ps. 306 million in the fourth quarter of 2015, mainly due to lower gross profit and an increase in depreciation, amortization and asset impairment in the 2016 period.

## Comprehensive Financing Result

Million Pesos	Q4 2016	Q3 2016	Q4 2015	(% 4Q16 vs.)		LTM	LTM
				Q3 2016	Q4 2015	Q4 2016	Q4 2015
Net interest expense	(320)	(268)	(309)	19%	3%	(1,853)	(1,199)
FX gain (loss), net	(908)	(483)	(122)	88%	>100%	(2,779)	(1,659)
Ch. in FV of fin. Instruments	(41)	(79)	56	-48%	n.a.	(224)	164
<b>Total</b>	<b>(1,268)</b>	<b>(829)</b>	<b>(375)</b>	<b>53%</b>	<b>&gt;100%</b>	<b>(4,856)</b>	<b>(2,695)</b>

The comprehensive financing cost reached Ps. 1,268 million in the fourth quarter of 2016, compared to a cost of Ps. 375 million in the same period of 2015, or Ps. 435 million on a pro forma basis. The increase in comprehensive financing result is mostly explained by greater FX losses during the fourth quarter of 2016 compared to the fourth quarter of 2015 due to a 6% depreciation of the Mexican peso in the fourth quarter 2016 compared to a 1% depreciation in the same period of 2015.

## Total Debt and Net Debt <sup>(10)</sup>

Million Pesos	Q4 2016	Q3 2016	Q4 2015
2017 and 2019 Senior Notes	-	-	2,618
2020 Senior Secured Notes	-	-	9,435
Syndicated Credit Facility	16,592	16,010	-
Other loans	4,380	3,809	318
Other financing obligations	591	666	733
Accrued interests	133	114	545
<b>Total Debt</b>	<b>21,695</b>	<b>20,599</b>	<b>13,650</b>
(-) Cash and cash equivalents	(1,600)	(906)	(2,575)
<b>Net Debt</b>	<b>20,095</b>	<b>19,693</b>	<b>11,074</b>

**Total Debt.** At the end of the fourth quarter 2016, total debt increased Ps. 8,046 million in comparison with fourth quarter 2015, mostly explained by (i) a Ps. 14,863 million increase related to the new Syndicated Credit Facility which refinanced Ps. 12,053 million of 2017, 2019 and 2020 Notes, (ii) an increase of Ps. 3,621 million related to Alestra's debt and (iii) a Ps. 2,414 million non-cash increase caused by the 17% depreciation of the Mexican peso.

**Cash.** As of the end of the fourth quarter of 2016, the cash balance totaled Ps. 1,600 million, compared to Ps. 2,575 million or Ps. 3,404 million pro forma a year ago, and Ps. 906 million at the beginning of the quarter. The cash balance at the end of the quarter includes Ps. 153 million in restricted cash.

## Capital Expenditures

In the fourth quarter of 2016, capital investments totaled Ps. 885 million, or \$45 million, compared to pro forma Ps. 1,023 million, or \$61 million, in the year-earlier quarter. Capex for the full year, on a pro forma basis, was oriented 55% to enterprise segment, 20% to the mass market segment and remaining 25% to network and maintenance.

## Appendix

### Other important information

1) We are presenting financial information based on International Financial Reporting Standards (IFRS) in nominal pesos for the following periods:

- Consolidated income statement information for the three month periods ending on December 31, 2016 and 2015, and September 30, 2016; and twelve month period ending on December 31, 2016 and 2015, and
- Balance sheet information as of December 31, 2016 and 2015; and September 30, 2016.

2) 2015 and 2016 revenues (include Alestra as of February 15, 2016):

Million Pesos	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>ENTERPRISE</b>	<b>928</b>	<b>1,013</b>	<b>1,099</b>	<b>1,203</b>	<b>1,631</b>	<b>2,272</b>	<b>2,431</b>	<b>2,451</b>
Telecom	908	992	1,076	1,163	1,512	2,051	2,209	2,207
IT	20	21	23	39	119	220	221	243
<b>GOVERNMENT</b>	<b>632</b>	<b>695</b>	<b>440</b>	<b>825</b>	<b>438</b>	<b>400</b>	<b>628</b>	<b>558</b>
Telecom	521	505	262	440	244	150	281	247
IT	111	190	178	385	194	250	347	311
<b>MASS MARKET</b>	<b>856</b>	<b>834</b>	<b>822</b>	<b>804</b>	<b>771</b>	<b>806</b>	<b>778</b>	<b>775</b>
FTTx	391	415	427	437	447	494	499	520
Legacy Technologies	465	419	394	367	324	313	279	255
<b>TOTAL</b>	<b>2,416</b>	<b>2,542</b>	<b>2,360</b>	<b>2,832</b>	<b>2,840</b>	<b>3,478</b>	<b>3,836</b>	<b>3,783</b>

3) Pro forma 2015 and 2016 revenues (include Alestra as of the beginning of each period):

Million Pesos	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
<b>ENTERPRISE</b>	<b>2,239</b>	<b>2,353</b>	<b>2,487</b>	<b>2,616</b>	<b>2,355</b>	<b>2,272</b>	<b>2,431</b>	<b>2,451</b>
Telecom	2,089	2,187	2,312	2,378	2,144	2,051	2,209	2,207
IT	151	166	175	238	212	220	221	243
<b>GOVERNMENT</b>	<b>710</b>	<b>828</b>	<b>677</b>	<b>1,069</b>	<b>495</b>	<b>400</b>	<b>628</b>	<b>558</b>
Telecom	565	542	312	485	259	150	281	247
IT	145	286	365	585	236	250	347	311
<b>MASS MARKET</b>	<b>856</b>	<b>834</b>	<b>822</b>	<b>804</b>	<b>771</b>	<b>806</b>	<b>778</b>	<b>775</b>
FTTx	391	415	427	437	447	494	499	520
Legacy Technologies	465	419	394	367	324	313	279	255
<b>TOTAL</b>	<b>3,805</b>	<b>4,015</b>	<b>3,986</b>	<b>4,489</b>	<b>3,620</b>	<b>3,478</b>	<b>3,836</b>	<b>3,783</b>

4) Mass market operating data:

In thousands	Q4 2016	Q3 2016	Q4 2015
<b>FTTX</b>			
Customers	233	225	197
RGUs	639	614	527
Lines in service	281	266	224
Broadband subscribers	234	225	195
Video subscribers	124	123	109
<b>LEGACY TECHNOLOGIES</b>			
Customers	207	241	317
RGUs	393	445	579
Lines in service	226	263	344
Broadband subscribers	167	182	235

\* Revenue Generating Units, represent individual service subscriptions (line, broadband, video) which generate recurring revenues for the Company.

- 5) Costs of revenues include expenses related to the termination of our customers' cellular and long distance calls in other carriers' networks, as well as expenses related to billing, payment processing, operator services and our leasing of private circuit links.
- 6) Operating expenses are those incurred in connection with general and administrative matters, such as personnel, land and tower leases, sales and marketing, maintenance of our network and net other not recurrent expenses including merger and integration expenses.
- 7) EBITDA is defined as operating income (loss) plus depreciation and amortization, plus impairment of assets.
- 8) Net Debt to EBITDA ratio: Net debt translated into U.S. Dollars using the exchange rate of the end of the period divided by the respective LTM pro forma EBITDA translated into U.S. Dollars using the average exchange rate for each month.
- 9) Total debt includes accrued interests for each period. Net debt is calculated subtracting cash and equivalents, including non-current restricted cash, from total debt.
- 10) Other long-term liabilities: During 2016 and as part of the post-merger integration process, accounting policies were standardized including the provisioning of past-due receivables. In this respect and according to the Merger Transaction Agreement, a Ps. 984 million account payable in favor of ALFA was recorded in the fourth-quarter of 2016, mainly from past-due account receivables from government customers, originated in periods previous to 2016. The payment of this amount could be reduced upon future collection results and is subject to Axtel's financial conditions.
- 11) The number of outstanding paid Series B shares was 19,229,939,531 as of December 31, 2016, equivalent to 2,747,134,219 CPOs. On July 21, 2016, all former Series A shares were converted into Series B shares.

#### **About AXTEL**

Axtel is a Mexican Information and Communication Technology Company that serves the enterprise, government and residential markets with a robust portfolio of solutions through its brand Alestra (enterprise and government services) and its brand Axtel (residential and small businesses services).

With a network infrastructure of over 40 thousand kilometers and more than 7 thousand square meters of data center, Axtel enables organizations to be more productive and brings people together to improve their quality of life.

As of February 15, 2016, Axtel is a subsidiary of Alfa, which owns 51% of its equity.

Axtel shares, represented by Ordinary Participation Certificates, or CPOs, trade on the Mexican Stock Market under the symbol "AXTELCPO" since 2005.

Axtel's Investor Relations Center: [www.axtelcorp.mx](http://www.axtelcorp.mx)

Enterprise and Government services website: [www.alestra.mx](http://www.alestra.mx)

Mass Market services website: [www.axtel.mx](http://www.axtel.mx)



**Axtel, S.A.B. de C.V. and Subsidiaries**

Unaudited Consolidated Balance Sheet

December 31, 2016 and 2015

*(in Thousand Mexican pesos)*

	<u>December-2016</u>	<u>December-2015</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and equivalents	1,447,118	2,575,221
Accounts receivable	3,129,046	2,454,656
Related parties	20,949	-
Refundable taxes and other accounts receivable	916,831	852,472
Advances to suppliers	517,457	52,648
Inventories	109,388	53,069
Financial Instruments	152,978	378,099
<b>Total current assets</b>	<b><u>6,293,766</u></b>	<b><u>6,366,165</u></b>
<b>Non current assets</b>		
Restricted cash	153,040	-
Property, plant and equipment, net	19,619,451	13,216,179
Long-term accounts receivable	8,642	128,613
Intangible assets, net	1,838,727	124,994
Deferred income taxes	4,048,385	2,235,469
Investment in shares of associated company & other inve	1,708	8,212
Other assets	203,597	119,591
<b>Total non current assets</b>	<b><u>25,873,548</u></b>	<b><u>15,833,058</u></b>
<b>TOTAL ASSETS</b>	<b><u>32,167,315</u></b>	<b><u>22,199,223</u></b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Account payable & Accrued expenses	3,183,091	2,676,816
Accrued Interest	132,815	545,208
Short-term debt	400,000	130,000
Current portion of long-term debt	495,773	375,655
Taxes payable	17,357	5,875
Deferred Revenue	1,022,982	509,416
Provisions	129,647	-
Other accounts payable	2,198,215	1,401,073
<b>Total current liabilities</b>	<b><u>7,579,880</u></b>	<b><u>5,644,043</u></b>
<b>Long-term debt</b>		
Long-term debt	20,485,861	12,504,870
Derivative Financial Instruments	-	65,222
Employee Benefits	467,036	28,231
Other LT liabilities <sup>(10)</sup>	987,904	83,420
<b>Total long-term debt</b>	<b><u>21,940,802</u></b>	<b><u>12,681,743</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>29,520,682</u></b>	<b><u>18,325,786</u></b>
<b>STOCKHOLDERS EQUITY</b>		
Capital stock	10,362,334	6,861,986
Additional paid-in capital	644,710	644,710
Reserve for repurchase of shares	-	90,000
Cumulative earnings (losses)	(8,360,412)	(3,723,259)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b><u>2,646,633</u></b>	<b><u>3,873,437</u></b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b><u>32,167,315</u></b>	<b><u>22,199,223</u></b>

**Axtel, S.A.B. de C.V. and Subsidiaries**  
Unaudited Consolidated Income Statement  
Periods ended December 31, 2016 and 2015  
*(in Thousand Mexican pesos)*

	Fourth Quarter ended December 31			LTM ended December 31		
	2016	2015	Δ%	2016	2015	Δ%
Total Revenues	3,783,302	2,831,924	34%	13,937,320	10,150,435	37%
Operating cost and expenses						
Cost of sales and services	(790,408)	(803,259)	-2%	(2,747,613)	(2,299,858)	19%
Selling and administrative expenses	(1,811,947)	(1,285,042)	41%	(6,667,334)	(4,739,635)	41%
Other income (expenses), net	(270,828)	(327,335)	-17%	(849,372)	96,910	n.a.
Asset impairment	(104,348)	-	n.a.	(52,794)	-	n.a.
Depreciation and amortization Cost	(836,532)	(596,108)	40%	(3,196,491)	(2,377,756)	34%
Depreciation and amortization Expenses	(233,707)	(45,909)	>100%	(633,096)	(240,812)	
	<u>(4,047,769)</u>	<u>(3,057,653)</u>	<u>32%</u>	<u>(14,146,700)</u>	<u>(9,561,151)</u>	<u>48%</u>
Operating income (loss)	<u>(264,468)</u>	<u>(225,729)</u>	<u>17%</u>	<u>(209,379)</u>	<u>589,284</u>	<u>n.a.</u>
Comprehensive financing result:						
Interest expense	(326,526)	(315,377)	4%	(1,877,763)	(1,236,308)	52%
Interest income	6,940	6,485	7%	24,381	36,929	-34%
Foreign exchange gain (loss), net	(907,628)	(122,162)	>100%	(2,778,680)	(1,659,066)	67%
Change in the fair value of financial instruments	(40,852)	55,593	n.a.	(224,338)	163,706	n.a.
Comprehensive financing result, net	<u>(1,268,067)</u>	<u>(375,461)</u>	<u>&gt;100%</u>	<u>(4,856,400)</u>	<u>(2,694,739)</u>	<u>80%</u>
Equity in results of associated company	<u>(265)</u>	<u>(5)</u>	<u>&gt;100%</u>	<u>(5,189)</u>	<u>(5)</u>	<u>&gt;100%</u>
Income (loss) before income taxes,	<u>(1,532,800)</u>	<u>(601,195)</u>	<u>&gt;100%</u>	<u>(5,070,968)</u>	<u>(2,105,460)</u>	<u>&gt;100%</u>
Income taxes:						
Current	762	13,596	-94%	(85,160)	(61,305)	39%
Deferred	477,230	(16,066)	n.a.	1,556,866	434,498	>100%
Total income taxes	<u>477,992</u>	<u>(2,470)</u>	<u>n.a.</u>	<u>1,471,706</u>	<u>373,193</u>	<u>&gt;100%</u>
Net Income (Loss)	<u>(1,054,807)</u>	<u>(603,665)</u>	<u>75%</u>	<u>(3,599,262)</u>	<u>(1,732,267)</u>	<u>&gt;100%</u>

**Axtel, S.A.B. de C.V. and Subsidiaries**Unaudited **PRO FORMA** Consolidated Income Statement

Periods ended December 31, 2016 and 2015

*(in Thousand Mexican pesos)*

	Fourth Quarter ended December 31		Δ%
	2016	2015	
Total Revenues	3,783,302	4,489,321	-16%
Operating cost and expenses			
Cost of sales and services	(790,408)	(1,051,010)	-25%
Selling and administrative expenses	(1,811,947)	(1,899,082)	-5%
Other income (expenses), net	(270,828)	(318,937)	-15%
Asset impairment	(104,348)	(3,014)	>100%
Depreciation and amortization Cost	(836,532)	(819,593)	2%
Depreciation and amortization Expenses	(233,707)	(91,869)	>100%
	<u>(4,047,769)</u>	<u>(4,183,505)</u>	-3%
Operating income (loss)	<u>(264,468)</u>	<u>305,816</u>	n.a.
Comprehensive financing result:			
Interest expense	(326,526)	(353,448)	-8%
Interest income	6,940	34,683	-80%
Foreign exchange gain (loss), net	(907,628)	(171,770)	>100%
Change in the fair value of financial instruments	(40,852)	55,593	n.a.
Comprehensive financing result, net	<u>(1,268,067)</u>	<u>(434,943)</u>	>100%
Equity in results of associated company	<u>(265)</u>	<u>-</u>	n.a.
Income (loss) before income taxes,	<u>(1,532,800)</u>	<u>(129,127)</u>	>100%
Income taxes:			
Current	762	(23,650)	n.a.
Deferred	477,230	(114,038)	n.a.
Total income taxes	<u>477,992</u>	<u>(137,688)</u>	n.a.
Net Income (Loss)	<u>(1,054,807)</u>	<u>(266,815)</u>	>100%

## Axtel, S.A.B. de C.V. and Subsidiaries

Unaudited **PRO FORMA** Consolidated Income Statement

2015 and 1Q16

(in Thousand Mexican pesos)

	<u>1Q</u> <u>2015</u>	<u>2Q</u> <u>2015</u>	<u>3Q</u> <u>2015</u>	<u>4Q</u> <u>2015</u>	<u>1Q</u> <u>2016</u>
Total Revenues	3,805,441	4,015,060	3,985,940	4,489,321	3,620,328
Operating cost and expenses					
Cost of sales and services	(773,124)	(808,362)	(889,895)	(1,051,010)	(689,342)
Selling and administrative expenses	(1,729,865)	(1,735,563)	(1,736,049)	(1,899,082)	(1,799,099)
Other income (expenses), net	737,930	(293,003)	38,610	(318,937)	(496,989)
Asset impairment	(762)	(2,412)	1,042	(3,014)	(204)
Depreciation and amortization Cost	(837,220)	(763,497)	(800,259)	(819,593)	(806,967)
Depreciation and amortization Expenses	(92,000)	(90,743)	(132,754)	(91,869)	(120,062)
	<u>(2,695,040)</u>	<u>(3,693,580)</u>	<u>(3,519,304)</u>	<u>(4,183,505)</u>	<u>(3,912,663)</u>
Operating income (loss)	<u>1,110,401</u>	<u>321,480</u>	<u>466,635</u>	<u>305,816</u>	<u>(292,335)</u>
Comprehensive financing result:					
Interest expense	(327,361)	(331,206)	(371,169)	(353,448)	(1,037,091)
Interest income	13,253	15,688	13,887	34,683	6,699
Foreign exchange gain (loss), net	(421,310)	(383,227)	(1,332,544)	(171,770)	(464,707)
Change in the fair value of financial instruments	26,189	(9,482)	91,406	55,593	(8,778)
Comprehensive financing result, net	<u>(709,229)</u>	<u>(708,227)</u>	<u>(1,598,419)</u>	<u>(434,943)</u>	<u>(1,503,877)</u>
Equity in results of associated company	<u>(155)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Income (loss) before income taxes,	<u>401,018</u>	<u>(386,747)</u>	<u>(1,131,784)</u>	<u>(129,127)</u>	<u>(1,796,212)</u>
Income taxes:					
Current	(105,620)	(87,428)	(15,442)	(23,650)	(52,881)
Deferred	(11,234)	171,289	322,048	(114,038)	616,532
Total income taxes	<u>(116,854)</u>	<u>83,861</u>	<u>306,606</u>	<u>(137,688)</u>	<u>563,650</u>
Net Income (Loss)	<u><u>284,164</u></u>	<u><u>(302,886)</u></u>	<u><u>(825,178)</u></u>	<u><u>(266,815)</u></u>	<u><u>(1,232,562)</u></u>