MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

CONSOLIDATED

AUDITED INFORMATION

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
10000000	**TOTAL ASSETS**	**20,500,331**	**22,091,954**	**22,425,018**
11000000	**TOTAL CURRENT ASSETS**	**3,953,722**	**4,339,575**	**4,442,958**
11010000	CASH AND CASH EQUIVALENTS	597,201	1,372,896	1,250,143
11020000	SHORT-TERM INVESMENTS	0	0	0
11020010	AVAILABLE-FOR-SALE INVESTMENTS	0	0	0
11020020	TRADING INVESTMENTS	0	0	0
11020030	HELD-TO-MATURITY INVESTMENTS	0	0	0
11030000	TRADE RECEIVABLES, NET	2,406,764	2,018,013	2,240,534
11030010	TRADE RECEIVABLES	4,614,301	4,025,091	4,059,229
11030020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	-2,207,537	-2,007,078	-1,818,695
11040000	OTHER RECEIVABLES, NET	243,217	396,207	459,803
11040010	OTHER RECEIVABLES	243,217	396,207	459,803
11040020	ALLOWANCE FOR DOUBTFUL ACCOUNTS	0	0	0
11050000	INVENTORIES	105,471	152,756	165,629
11051000	BIOLOGICAL CURRENT ASSETS	0	0	0
11060000	OTHER CURRENT ASSETS	601,069	399,703	326,849
11060010	PREPAYMENTS	52,188	79,580	55,032
11060020	DERIVATIVE FINANCIAL INSTRUMENTS	0	184,911	55,782
11060030	ASSETS AVAILABLE FOR SALE	460,462	0	0
11060040	DISCONTINUED OPERATIONS	0	0	0
11060050	RIGHTS AND LICENSES	0	0	0
11060060	OTHER	88,419	135,212	216,035
12000000	**TOTAL NON-CURRENT ASSETS**	**16,546,609**	**17,752,379**	**17,982,060**
12010000	ACCOUNTS RECEIVABLE, NET	15,470	17,712	27,346
12020000	INVESTMENTS	9,647	9,667	44,341
12020010	INVESTMENTS IN ASSOCIATES AND JOINT VENTURES	9,647	9,667	44,341
12020020	HELD-TO-MATURITY INVESTMENTS	0	0	0
12020030	AVAILABLE-FOR-SALE INVESTMENTS	0	0	0
12020040	OTHER INVESTMENTS	0	0	0
12030000	PROPERTY, PLANT AND EQUIPMENT, NET	13,997,994	15,423,023	15,769,472
12030010	LAND AND BUILDINGS	430,990	430,990	430,990
12030020	MACHINERY AND INDUSTRIAL EQUIPMENT	29,602,272	27,518,874	26,312,273
12030030	OTHER EQUIPMENT	4,329,151	4,052,225	3,671,214
12030040	ACCUMULATED DEPRECIATION	-21,654,810	-19,021,012	-16,733,820
12030050	CONSTRUCTION IN PROGRESS	1,290,391	2,441,946	2,088,815
12040000	INVESTMENT PROPERTY	0	0	0
12050000	BIOLOGICAL NON- CURRENT ASSETS	0	0	0
12060000	INTANGIBLE ASSETS,NET	224,676	265,001	305,326
12060010	GOODWILL	0	0	0
12060020	TRADEMARKS	0	0	0
12060030	RIGHTS AND LICENSES	0	0	0
12060031	CONCESSIONS	224,676	265,001	305,326
12060040	OTHER INTANGIBLE ASSETS	0	0	0
12070000	DEFERRED TAX ASSETS	2,081,718	1,853,392	1,628,471
12080000	OTHER NON-CURRENT ASSETS	217,104	183,584	207,104
12080001	PREPAYMENTS	85,291	55,142	75,765
12080010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0
12080020	EMPLOYEE BENEFITS	0	0	0
12080021	AVAILABLE FOR SALE ASSETS	0	0	0
12080030	DISCONTINUED OPERATIONS	0	0	0
12080040	DEFERRED CHARGES	63,946	60,494	65,445
12080050	OTHER	67,867	67,948	65,894
20000000	**TOTAL LIABILITIES**	**15,412,057**	**16,289,768**	**14,697,497**
21000000	**TOTAL CURRENT LIABILITIES**	**4,294,526**	**4,026,758**	**4,733,399**
21010000	BANK LOANS	117,547	0	280,000
21020000	STOCK MARKET LOANS	0	0	0
21030000	OTHER LIABILITIES WITH COST	294,422	380,880	375,996
21040000	TRADE PAYABLES	2,404,471	2,395,837	2,668,135
21050000	TAXES PAYABLE	135,703	168,319	153,733
21050010	INCOME TAX PAYABLE	135,703	168,319	153,733

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

CONSOLIDATED

AUDITED INFORMATION

Final Printing

REF	ACCOUNT / SUBACCOUNT	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
21050020	OTHER TAXES PAYABLE	0	0	0
21060000	OTHER CURRENT LIABILITIES	1,342,383	1,081,722	1,255,535
21060010	INTEREST PAYABLE	276,043	297,107	261,692
21060020	DERIVATIVE FINANCIAL INSTRUMENTS	46,532	16,888	127,549
21060030	DEFERRED REVENUE	631,298	567,878	667,665
21060050	EMPLOYEE BENEFITS	0	0	0
21060060	PROVISIONS	281,808	59,855	100,000
21060061	CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0	0
21060070	DISCONTINUED OPERATIONS	0	0	0
21060080	OTHER	106,702	139,994	98,629
22000000	**TOTAL NON-CURRENT LIABILITIES**	**11,117,531**	**12,263,010**	**9,964,098**
22010000	BANK LOANS	940,378	838,904	0
22020000	STOCK MARKET LOANS	9,952,727	10,702,656	9,453,182
22030000	OTHER LIABILITIES WITH COST	161,540	400,253	214,685
22040000	DEFERRED TAX LIABILITIES	0	0	0
22050000	OTHER NON-CURRENT LIABILITIES	62,886	321,197	296,231
22050010	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0
22050020	DEFERRED REVENUE	33,900	33,900	33,900
22050040	EMPLOYEE BENEFITS	19,452	21,935	19,972
22050050	PROVISIONS	0	253,129	223,824
22050051	NON-CURRENT LIABILITIES RELATED TO AVAILABLE FOR SALE ASSETS	0	0	0
22050060	DISCONTINUED OPERATIONS	0	0	0
22050070	OTHER	9,534	12,233	18,535
30000000	**TOTAL EQUITY**	**5,088,274**	**5,802,186**	**7,727,521**
30010000	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	5,088,274	5,802,186	7,727,521
30030000	CAPITAL STOCK	6,625,536	6,625,536	6,625,536
30040000	SHARES REPURCHASED	0	0	0
30050000	PREMIUM ON ISSUANCE OF SHARES	644,710	644,710	644,710
30060000	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0	0
30070000	OTHER CONTRIBUTED CAPITAL	0	0	0
30080000	RETAINED EARNINGS (ACCUMULATED LOSSES)	-2,152,621	-1,443,752	626,374
30080010	LEGAL RESERVE	0	0	0
30080020	OTHER RESERVES	162,334	162,334	162,334
30080030	RETAINED EARNINGS	-1,606,086	464,040	611,663
30080040	NET INCOME FOR THE PERIOD	-708,869	-2,070,126	-147,623
30080050	OTHERS	0	0	0
30090000	ACCUMULATED OTHER COMPREHENSIVE INCOME (NET OF TAX)	-29,351	-24,308	-169,099
30090010	GAIN ON REVALUATION OF PROPERTIES	0	0	0
30090020	ACTUARIAL GAINS (LOSSES) FROM LABOR OBLIGATIONS	0	0	0
30090030	FOREING CURRENCY TRANSLATION	0	0	0
30090040	CHANGES IN THE VALUATION OF FINANCIAL ASSETS AVAILABLE FOR SALE	0	0	0
30090050	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	-29,351	-24,308	-169,099
30090060	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0	0
30090070	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0	0
30090080	OTHER COMPREHENSIVE INCOME	0	0	0
30020000	NON-CONTROLLING INTERESTS	0	0	0

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF FINANCIAL POSITION
INFORMATIONAL DATA

AT 31 DECEMBER 2012, 31 DECEMBER 2011 AND 01 JANUARY 2011

(Thousand Pesos)

CONSOLIDATED

AUDITED INFORMATION

Final Printing

REF	CONCEPTS	ENDING CURRENT	PREVIOUS YEAR END	HOME PREVIOUS YEAR
		Amount	Amount	Amount
91000010	SHORT-TERM FOREIGN CURRENCY LIABILITIES	1,624,996	1,761,144	2,194,202
91000020	LONG TERM FOREIGN CURRENCY LIABILITIES	10,639,204	11,478,717	9,646,477
91000030	CAPITAL STOCK (NOMINAL)	6,625,536	6,625,536	6,625,536
91000040	RESTATEMENT OF CAPITAL STOCK	0	0	0
91000050	PLAN ASSETS FOR PENSIONS AND SENIORITY PREMIUMS	0	0	0
91000060	NUMBER OF EXECUTIVES (*)	185	205	214
91000070	NUMBER OF EMPLOYEES (*)	5,257	6,250	6,967
91000080	NUMBER OF WORKERS (*)	1,081	1,569	1,799
91000090	OUTSTANDING SHARES (*)	8,769,353,223	8,769,353,223	8,769,353,223
91000100	REPURCHASED SHARES (*)	0	0	0
91000110	RESTRICTED CASH (1)	10,709	52,127	58,121
91000120	GUARANTEED DEBT OF ASSOCIATED COMPANIES	0	0	0

(1) THIS CONCEPT MUST BE FILLED WHEN THERE ARE GUARANTEES OR RESTRICTIONS THAT AFECCT CASH AND CASH EQUIVALENTS
(*) DATA IN UNITS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENTS OF COMPREHENSIVE INCOME

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2012 AND 2011

AUDITED INFORMATION

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40010000	**REVENUE**	**10,189,732**	**2,417,722**	**10,829,405**	**2,768,383**
40010010	SERVICES	10,189,732	2,417,722	10,829,405	2,768,383
40010020	SALE OF GOODS	0	0	0	0
40010030	INTERESTS	0	0	0	0
40010040	ROYALTIES	0	0	0	0
40010050	DIVIDENDS	0	0	0	0
40010060	LEASES	0	0	0	0
40010061	CONSTRUCTIONS	0	0	0	0
40010070	OTHER REVENUE	0	0	0	0
40020000	**COST OF SALES**	**2,854,785**	**669,287**	**2,799,269**	**677,881**
40021000	GROSS PROFIT	7,334,947	1,748,435	8,030,136	2,090,502
40030000	**GENERAL EXPENSES**	**7,669,838**	**1,972,439**	**7,564,190**	**1,974,659**
40040000	**PROFIT (LOSS) BEFORE OTHER INCOME (EXPENSE), NET**	**-334,891**	**-224,004**	**465,946**	**115,843**
40050000	**OTHER INCOME (EXPENSE), NET**	**-199,987**	**-190,812**	**-419,450**	**-394,687**
40060000	**OPERATING PROFIT (LOSS) (*)**	**-534,878**	**-414,816**	**46,496**	**-278,844**
40070000	FINANCE INCOME	819,597	4,805	22,340	0
40070010	INTEREST INCOME	21,967	4,805	22,340	0
40070020	GAIN ON FOREIGN EXCHANGE, NET	797,630	0	0	0
40070030	GAIN ON DERIVATIVES, NET	0	0	0	0
40070040	GAIN ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	0	0	0	0
40070050	OTHER FINANCE INCOME	0	0	0	0
40080000	FINANCE COSTS	1,166,710	363,714	2,352,798	725,725
40080010	INTEREST EXPENSE	1,057,513	274,731	1,002,580	250,494
40080020	LOSS ON FOREIGN EXCHANGE, NET	0	80,475	1,276,332	463,634
40080030	LOSS ON DERIVATIVES, NET	0	0	0	0
40080050	LOSS ON CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS	109,197	8,508	73,886	11,597
40080060	OTHER FINANCE COSTS	0	0	0	0
40090000	**FINANCE INCOME (COSTS), NET**	**-347,113**	**-358,909**	**-2,330,458**	**-725,725**
40100000	SHARE OF PROFIT (LOSS) OF ASSOCIATES AND JOINT VENTURES	-20	-4	-141	-82
40110000	**PROFIT (LOSS) BEFORE INCOME TAX**	**-882,011**	**-773,729**	**-2,284,103**	**-1,004,651**
40120000	INCOME TAX EXPENSE	-173,142	-183,882	-213,977	53,643
40120010	CURRENT TAX	53,022	8,477	73,105	38,365
40120020	DEFERRED TAX	-226,164	-192,359	-287,082	15,278
40130000	**PROFIT (LOSS) FROM CONTINUING OPERATIONS**	**-708,869**	**-589,847**	**-2,070,126**	**-1,058,294**
40140000	PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	0	0	0	0
40150000	**NET PROFIT (LOSS)**	**-708,869**	**-589,847**	**-2,070,126**	**-1,058,294**
40160000	PROFIT (LOSS), ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40170000	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT	-708,869	-589,847	-2,070,126	-1,058,294

40180000	BASIC EARNINGS (LOSS) PER SHARE	-.08	-.07	-.24	-.12
40190000	DILUTED EARNINGS (LOSS) PER SHARE	0	0	0	0

STATEMENTS OF COMPREHENSIVE INCOME
OTHER COMPREHENSIVE INCOME (NET OF INCOME TAX)

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2012 AND 2011

AUDITED INFORMATION

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
40200000	**NET PROFIT (LOSS)**	**-708,869**	**-589,847**	**-2,070,126**	**-1,058,294**
	DISCLOSURES NOT BE RECLASSIFIED ON INCOME				
40210000	PROPERTY REVALUATION GAINS	0	0	0	0
40220000	ACTUARIAL EARNINGS (LOSS) FROM LABOR OBLIGATIONS	0	0	0	0
40220100	SHARE OF INCOME ON REVALUATION ON PROPERTIES OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
	DISCLOSURES MAY BE RECLASSIFIED SUBSEQUENTLY TO INCOME				
40230000	FOREING CURRENCY TRANSLATION	0	0	0	0
40240000	CHANGES IN THE VALUATION OF FINANCIAL ASSETS HELD-FOR-SALE	0	0	0	0
40250000	CHANGES IN THE VALUATION OF DERIVATIVE FINANCIAL INSTRUMENTS	-5,043	3,869	144,791	-911
40260000	CHANGES IN FAIR VALUE OF OTHER ASSETS	0	0	0	0
40270000	SHARE OF OTHER COMPREHENSIVE INCOME OF ASSOCIATES AND JOINT VENTURES	0	0	0	0
40280000	**OTHER COMPREHENSIVE INCOME**	**0**	**0**	**0**	**0**
40290000	**TOTAL OTHER COMPREHENSIVE INCOME**	**-5,043**	**3,869**	**144,791**	**-911**
40300000	**TOTAL COMPREHENSIVE INCOME**	**-713,912**	**-585,978**	**-1,925,335**	**-1,059,205**
40320000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	0	0	0	0
40310000	COMPREHENSIVE INCOME, ATTRIBUTABLE TO OWNERS OF PARENT	-713,912	-585,978	-1,925,335	-1,059,205

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENTS OF COMPREHENSIVE INCOME
INFORMATIONAL DATA

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2012 AND 2011

AUDITED INFORMATION

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	CURRENT YEAR		PREVIOUS YEAR	
		ACCUMULATED	QUARTER	ACCUMULATED	QUARTER
92000010	OPERATING DEPRECIATION AND AMORTIZATION	3,073,240	796,072	3,102,824	774,833
92000020	EMPLOYEES PROFIT SHARING EXPENSES	4,955	1,537	4,955	2,008

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENTS OF COMPREHENSIVE INCOME
INFORMATIONAL DATA (12 MONTHS)

CONSOLIDATED

FOR THE TWELVE AND THREE MONTHS ENDED 31 DECEMBER, 2012 AND 2011

AUDITED INFORMATION

(Thousand Pesos)

Final Printing

REF	ACCOUNT / SUBACCOUNT	YEAR	
		CURRENT	PREVIOUS
92000030	REVENUE NET (**)	10,189,732	10,829,405
92000040	OPERATING PROFIT (LOSS) (**)	-534,878	46,496
92000050	PROFIT (LOSS), ATTRIBUTABLE TO OWNERS OF PARENT(**)	-708,869	-2,070,126
92000060	NET PROFIT (LOSS) (**)	-708,869	-2,070,126
92000070	OPERATING DEPRECIATION AND AMORTIZATION (**)	3,073,240	3,102,824

(*) TO BE DEFINED BY EACH COMPANY

(**) INFORMATION LAST 12 MONTHS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF CASH FLOWS

TO DECEMBER 31 OF 2012 AND 2011

(Thousand Pesos)

CONSOLIDATED

AUDITED INFORMATION

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURRENT YEAR	PREVIOUS YEAR
		Amount	Amount
OPERATING ACTIVITIES			
50010000	**PROFIT (LOSS) BEFORE INCOME TAX**	**-882,011**	**-2,284,103**
50020000	+(-) ITEMS NOT REQUIRING CASH	-596,157	1,463,027
50020010	+ ESTIMATE FOR THE PERIOD	201,473	186,695
50020020	+ PROVISION FOR THE PERIOD	0	0
50020030	+(-) OTHER UNREALISED ITEMS	-797,630	1,276,332
50030000	+(-) ITEMS RELATED TO INVESTING ACTIVITIES	3,094,239	3,535,805
50030010	DEPRECIATION AND AMORTISATION FOR THE PERIOD	3,073,240	3,102,824
50030020	(-)+ GAIN OR LOSS ON SALE OF PROPERTY, PLANT AND EQUIPMENT	-429	71,493
50030030	+(-) LOSS (REVERSAL) IMPAIRMENT	0	36,938
50030040	(-)+ EQUITY IN RESULTS OF ASSOCIATES AND JOINT VENTURES	20	141
50030050	(-) DIVIDENDS RECEIVED	0	0
50030060	(-) INTEREST RECEIVED	0	0
50030070	(-) EXCHANGE FLUCTUATION	0	0
50030080	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	21,408	324,409
50040000	+(-) ITEMS RELATED TO FINANCING ACTIVITIES	1,160,474	1,070,230
50040010	(+) ACCRUED INTEREST	1,057,513	1,002,580
50040020	(+) EXCHANGE FLUCTUATION	0	0
50040030	(+) DERIVATIVE TRANSACTIONS	109,197	73,886
50040040	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	-6,236	-6,236
50050000	**CASH FLOWS BEFORE INCOME TAX**	**2,776,545**	**3,784,959**
50060000	CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES	-572,338	-237,168
50060010	+(-) DECREASE (INCREASE) IN TRADE ACCOUNTS RECEIVABLE	-590,225	35,826
50060020	+(-) DECREASE (INCREASE) IN INVENTORIES	47,284	12,873
50060030	+(-) DECREASE (INCREASE) IN OTHER ACCOUNTS RECEIVABLE	107,474	45,969
50060040	+(-) INCREASE (DECREASE) IN TRADE ACCOUNTS PAYABLE	-36,632	-209,987
50060050	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	-32,211	-96,604
50060060	+(-) INCOME TAXES PAID OR RETURNED	-68,028	-25,245
50070000	**NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES**	**2,204,207**	**3,547,791**
INVESTING ACTIVITIES			
50080000	NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	-2,031,298	-2,534,282
50080010	(-) PERMANENT INVESTMENTS	0	-2,405
50080020	+ DISPOSITION OF PERMANENT INVESTMENTS	0	0
50080030	(-) INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	-2,016,223	-2,532,772
50080040	+ SALE OF PROPERTY, PLANT AND EQUIPMENT	0	0
50080050	(-) TEMPORARY INVESTMENTS	0	0
50080060	+ DISPOSITION OF TEMPORARY INVESTMENTS	0	0
50080070	(-) INVESTMENT IN INTANGIBLE ASSETS	0	0
50080080	+ DISPOSITION OF INTANGIBLE ASSETS	0	0
50080090	(-) ACQUISITIONS OF VENTURES	0	0
50080100	+ DISPOSITIONS OF VENTURES	0	0
50080110	+ DIVIDEND RECEIVED	0	0
50080120	+ INTEREST RECEIVED	0	0
50080130	+(-) DECREASE (INCREASE) ADVANCES AND LOANS TO THIRD PARTS	0	0
50080140	-(+) OTHER INFLOWS (OUTFLOWS) OF CASH	-15,075	895
FINANCING ACTIVITIES			
50090000	NET CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	-1,002,967	-828,624
50090010	+ BANK FINANCING	261,862	964,092
50090020	+ STOCK MARKET FINANCING	0	0
50090030	+ OTHER FINANCING	0	0
50090040	(-) BANK FINANCING AMORTISATION	0	-352,000
50090050	(-) STOCK MARKET FINANCING AMORTISATION	0	0
50090060	(-) OTHER FINANCING AMORTISATION	-333,027	-416,254
50090070	+(-) INCREASE (DECREASE) IN CAPITAL STOCK	0	0
50090080	(-) DIVIDENDS PAID	0	0
50090090	+ PREMIUM ON ISSUANCE OF SHARES	0	0
50090100	+ CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0
50090110	(-) INTEREST EXPENSE	-1,038,846	-969,724
50090120	(-) REPURCHASE OF SHARES	0	0
50090130	(-)+ OTHER INFLOWS (OUTFLOWS) OF CASH	107,044	-54,738

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF CASH FLOWS

TO DECEMBER 31 OF 2012 AND 2011

(Thousand Pesos)

CONSOLIDATED

AUDITED INFORMATION

Final Printing

REF	ACCOUNT/SUBACCOUNT	CURREENT YEAR	PREVIOUS YEAR
		Amount	Amount
50100000	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**	**-830,058**	**184,885**
50110000	**EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS**	**54,363**	**-62,132**
50120000	CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,372,896	1,250,143
50130000	**CASH AND CASH EQUIVALENTS AT END OF PERIOD**	**597,201**	**1,372,896**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

STATEMENT OF CHANGES IN EQUITY

(THOUSAND PESOS)

CONSOLIDATED

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CONCEPTS	CAPITAL STOCK	SHARES REPURCHASED	PREMIUM ON ISSUANCE OF SHARES	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	OTHER CAPITAL CONTRIBUTED	RETAINED EARNINGS (ACCUMULATED LOSSES)		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	EQUITY ATTRIBUTABLE TO OWNERS OF PARENT	NON-CONTROLLING INTERESTS	TOTAL EQUITY
						RESERVES	UNAPPROPRIATED EARNINGS (ACCUMULATED LOSSES)				
BALANCE AT JANUARY 1, 2011	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**464,040**	**-169,099**	**7,727,521**	**0**	**7,727,521**
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	0	0	0	0	0	0	0	0	0	0	0
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	-2,070,126	144,791	-1,925,335	0	-1,925,335
BALANCE AT DECEMBER 31, 2011	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-1,606,086**	**-24,308**	**5,802,186**	**0**	**5,802,186**
BALANCE AT JANUARY 1, 2012	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-1,606,086**	**-24,308**	**5,802,186**	**0**	**5,802,186**
RETROSPECTIVE ADJUSTMENTS	0	0	0	0	0	0	0	0	0	0	0
APPLICATION OF COMPREHENSIVE INCOME TO RETAINED EARNINGS	0	0	0	0	0	0	0	0	0	0	0
RESERVES	0	0	0	0	0	0	0	0	0	0	0
DIVIDENDS	0	0	0	0	0	0	0	0	0	0	0
CAPITAL INCREASE (DECREASE)	0	0	0	0	0	0	0	0	0	0	0
REPURCHASE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN PREMIUM ON ISSUE OF SHARES	0	0	0	0	0	0	0	0	0	0	0
(DECREASE) INCREASE IN NON-CONTROLLING INTERESTS	0	0	0	0	0	0	0	0	0	0	0
OTHER CHANGES	0	0	0	0	0	0	0	0	0	0	0
COMPREHENSIVE INCOME	0	0	0	0	0	0	-708,869	-5,043	-713,912	0	-713,912
BALANCE AT DECEMBER 31, 2012	**6,625,536**	**0**	**644,710**	**0**	**0**	**162,334**	**-2,314,955**	**-29,351**	**5,088,274**	**0**	**5,088,274**

DISCUSSION AND ANALYSIS OF THE ADMINISTRATION ON THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION OF THE COMPANY

SEE THE ATTACHED FILE

SEE THE ATTACHED FILE

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

(THOUSAND PESOS)

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COMPANY NAME	PRICIPAL ACTIVITY	NUMBER OF SHARES	% OWNER SHIP	TOTAL AMOUNT	
				ACQUISITION COST	CURRENT VALUE
CONECTIVIDAD INALAMBRICA 7GHZ S. DE R.L.	SERVICIOS DE TELECOMUNICACIONES	2	50.00	24,497	9,647
TOTAL INVESTMENT IN ASSOCIATES				24,497	9,647

NOTES

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

AUDITED INFORMATION

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CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	CONTRACT SIGNING DATE	EXPIRATION DATE	INTEREST RATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
BANKS																
FOREIGN TRADE																
SECURED																
CREDITO SINDICADO	NOT	17/11/2011	17/11/2015	ENTRE 300 Y 450	N/A	40,520	162,081	162,081	0	0						
CREDITO SINDICADO	YES	17/11/2011	17/11/2015	ENTRE 300 Y 450							N/A	77,027	308,108	308,108	0	0
COMMERCIAL BANKS																
OTHER																
TOTAL BANKS					**0**	**40,520**	**162,081**	**162,081**	**0**	**0**	**0**	**77,027**	**308,108**	**308,108**	**0**	**0**

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

AUDITED INFORMATION **CONSOLIDATED**

Final Printing

CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	CONTRACT SIGNING DATE	EXPIRATION DATE	INTEREST RATE	MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
STOCK MARKET																
LISTED STOCK EXCHANGE																
UNSECURED																
SECURED																
PRIVATE PLACEMENTS																
UNSECURED																
SENIOR NOTES FEB 2007	YES	02/02/2007	01/02/2017	7.63							N/A	0	0	0	0	3,577,778
SENIOR NOTES SEP 2009	YES	22/09/2009	22/09/2019	9							N/A	0	0	0	0	3,903,030
SENIOR NOTES MAR 2010	YES	22/03/2010	22/09/2019	9							N/A	0	0	0	0	2,471,919
SECURED																
TOTAL STOCK MARKET LISTED IN STOCK EXCHANGE AND PRIVATE PLACEMENT					0	0	0	0	0	0	0	0	0	0	0	9,952,727

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

BREAKDOWN OF CREDITS

(THOUSAND PESOS)

CONSOLIDATED

AUDITED INFORMATION

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CREDIT TYPE / INSTITUTION	FOREIGN INSTITUTION (YES/NO)	DATE OF AGREEMENT	EXPIRATION DATE		MATURITY OR AMORTIZATION OF CREDITS IN NATIONAL CURRENCY						MATURITY OR AMORTIZATION OF CREDITS IN FOREIGN CURRENCY					
					TIME INTERVAL						TIME INTERVAL					
					CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE	CURRENT YEAR	UNTIL 1YEAR	UNTIL 2 YEAR	UNTIL 3 YEAR	UNTIL 4 YEAR	UNTIL 5 YEAR OR MORE
OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST																
OTROS PASIVOS CON COSTO	NOT				N/A	201,514	79,061	14,583	337	0						
OTROS PASIVOS CON COSTO	NOT										N/A	92,908	45,507	19,126	2,843	83
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES WITH COST					0	201,514	79,061	14,583	337	0	0	92,908	45,507	19,126	2,843	83
SUPPLIERS																
PROVEEDORES	NOT				N/A	1,248,152										
PROVEEDORES	NOT										N/A	892,900				
PROVEEDORES	YES										N/A	263,419				
TOTAL SUPPLIERS					0	1,248,152					0	1,156,319				
OTHER CURRENT AND NON-CURRENT LIABILITIES																
OTROS PASIVOS	NOT				N/A	1,043,641	60,184	0	0	0						
OTROS PASIVOS	NOT										N/A	298,742	2,702	0	0	0
TOTAL OTHER CURRENT AND NON-CURRENT LIABILITIES					0	1,043,641	60,184	0	0	0	0	298,742	2,702	0	0	0
GENERAL TOTAL					**0**	**2,533,827**	**301,326**	**176,664**	**337**	**0**	**0**	**1,624,996**	**356,317**	**327,234**	**2,843**	**9,952,810**

NOTES

MONETARY FOREIGN CURRENCY POSITION

CONSOLIDATED

AUDITED INFORMATION

(THOUSAND PESOS)

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FOREIGN CURRENCY POSITION (THOUSANDS OF PESOS)	DOLLARS		OTHER CURRENCIES		THOUSAND PESOS TOTAL
	THOUSANDS OF DOLLARS	THOUSAND PESOS	THOUSANDS OF DOLLARS	THOUSAND PESOS	
MONETARY ASSETS	62,082	807,687	0	0	807,687
CURRENT	62,082	807,687	0	0	807,687
NON CURRENT	0	0	0	0	0
LIABILITIES POSITION	942,668	12,264,200	0	0	12,264,200
CURRENT	124,903	1,624,996	0	0	1,624,996
NON CURRENT	817,765	10,639,204	0	0	10,639,204
NET BALANCE	-880,586	-11,456,513	0	0	-11,456,513

NOTES

FINANCIAL LIMITATIONS IN CONTRACT, ISSUED DEED AND / OR TITLE

• ISSUED INDEBTEDNESS DUE IN FEBRUARY 2017 AND SEPTEMBER 2019 (SENIOR NOTES) CONTEMPLATES ONLY ONE FINANCIAL COVENANT, WHICH IS TO HAVE:

1. A RATIO OF TOTAL DEBT TO ADJUSTED EBITDA OF NO MORE THAN 4 TIMES.

• SINDICATED CREDIT AGREEMET WITH BANAMEX, CREDIT SUISSE, BANORTE, ING AND STANDARD BANK INCLUDES THE FOLLOWING FINANCIAL RATIOS:

1.DEBT SERVICE, WHICH IS TO HAVE A RATIO OF TOTAL DEBT TO ADJUSTED EBITDA AS PER THE FOLLOWING TABLE OF NO MORE THAN

FISCAL QUARTER ENDED:	RATIO:
SEPTEMBER 30, 2011	3.50:1.00
DECEMBER 31, 2011	3.50:1.00
MARCH 31, 2012	3.50:1.00
JUNE 30, 2012	4.00:1.00
SEPTEMBER 30, 2012	4.25:1.00
DECEMBER 31, 2012	4.25:1.00
MARCH 31, 2013	4.25:1.00
JUNE 30, 2013	4.00:1.00
SEPTEMBER 30, 2013	4.00:1.00
DECEMBER 31, 2013	3.75:1.00
MARCH 31, 2014 AND THEREAFTER	3.50:1.00

2.INTEREST COVERAGE CONSISTING IN MAINTAINING A RATIO OF ADJUSTED EBITDA TO INTEREST EXPENSE AS PER THE FOLLOWING TABLE HIGHER THAN:

FISCAL QUARTER ENDED:	RATIO:
SEPTEMBER 30, 2011	3.00:1.00
DECEMBER 31, 2011	3.00:1.00
MARCH 31, 2012	3.00:1.00
JUNE 30, 2012	3.00:1.00
SEPTEMBER 30, 2012	2.75:1.00
DECEMBER 31, 2012	2.50:1.00
MARCH 31, 2013	2.50:1.00
JUNE 30, 2013	2.50:1.00
SEPTEMBER 30, 2013	2.50:1.00
DECEMBER 31, 2013	2.75:1.00
MARCH 31, 2014 AND THEREAFTER	3.00:1.00

ACTUAL SITUATION OF FINANCIAL LIMITED

THE COMPANY IS IN COMPLIANCE WITH ALL COVENANTS

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL** QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

DISTRIBUTION OF REVENUE BY PRODUCT

CONSOLIDATED

AUDITED INFORMATION

TOTAL INCOME
(THOUSAND PESOS)

Final Printing

MAIN PRODUCTS OR PRODUCT LINE	NET SALES		MARKET SHARE (%)	MAIN	
	VOLUME	AMOUNT		TRADEMARKS	CUSTOMERS
NATIONAL INCOME					
SERVICIOS LOCALES	0	3,619,022	0		
SERVICIOS DE L.D.	0	1,236,414	0		
DATOS	0	2,796,542	0		
TRAFICO INTL.	0	655,328	0		
OTROS SERVICIOS	0	1,882,426	0		
EXPORT INCOME					
INCOME OF SUBSIDIARIES ABROAD					
TOTAL	**0**	**10,189,732**			

NOTES

MEXICAN STOCK EXCHANGE

STOCK EXCHANGE CODE: **AXTEL**

QUARTER: **04** YEAR: **2012**

AXTEL, S.A.B. DE C.V.

ANALYSIS OF PAID CAPITAL STOCK

CONSOLIDATED

AUDITED INFORMATION

CHARACTERISTICS OF THE SHARES

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SERIES	NOMINAL VALUE	VALID COUPON	NUMBER OF SHARES				CAPITAL STOCK	
			FIXED PORTION	VARIABLE PORTION	MEXICAN	FREE SUBSCRIPTION	FIXED	VARIABLE
A	0.00000	0	96,636,627	0	96,636,627	0	73,012	0
B	0.00000	0	8,672,716,596	0	0	8,672,716,596	6,552,524	0
TOTAL			8,769,353,223	0	96,636,627	8,672,716,596	6,625,536	0

TOTAL NUMBER OF SHARES REPRESENTING THE PAID IN CAPITALSTOCK ON THE DATE OF SENDING THE INFORMATION 8,769,353,223

NOTES

DERIVATIVE FINANCIAL INSTRUMENTS

SEE THE ATTACHED FILE

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

San Pedro Garza Garcia, Mexico, February 18, 2013 - Axtel, S.A.B. de C.V. ("AXTEL" or "the Company"), a leading Mexican fixed-line integrated telecommunications company, announced today its unaudited fourth quarter results ended December 31, 2012(1).

For additional information, please contact Adrian de los Santos, Investor Relations Officer and Corporate Finance Director at IR@axtel.com.mx

Highlights:

- On January 31, 2013, AXTEL successfully completed the execution of its recapitalization plan, divesting 883 tower sites for $249 million, and exchanging existing debt for new secured and convertible debt and a cash payment. On a pro forma basis, as of December 31, 2012, AXTEL reduced its net debt leverage ratio from 4.0x to 2.4x.

- During the fourth quarter, AXTEL reinforced its productivity initiatives by downsizing its organization in approximately 1,350 collaborators, which will be reflected in savings of approximately 15% on its personnel expenses. AXTEL will now have a leaner and more focused organization concentrated in the implementation of its key strategic initiatives.

- On January 30, 2013, the Company launched its "AXTEL TV" pay television service in Mexico City, Guadalajara and Monterrey. This represents a key step in AXTEL´s competitive position in the mass market segment. AXTEL TV's image quality and innovative features are the result of the capacity and reliability of the Company's end-to-end fiber network.

- AXTEL's operating performance in the fourth quarter was negatively impacted by certain extraordinary expenses, as well as lost revenues due to the uncertainty surrounding the successful execution of its recapitalization plan. This revenue loss is expected to be gradually recovered as the recapitalization plan was successfully completed.

Revenues from operations

Revenues from operations totaled Ps. 2,418 million in the fourth quarter of year 2012 from Ps. 2,768 million for the same period in 2011, a decrease of Ps. 351 million or 13%.

Revenues from operations totaled Ps. 10,190 million in the twelve month period ended December 31, 2012, compared to Ps. 10,829 million in the same period in 2011, a decrease of Ps. 640 million, or 6%.

Sources of Revenues

IMPORTANT DISCLOSURE. Unless otherwise stated, comments in this section exclude revenues generated by our major wholesale customer (see note 9 for further information).

Local services. Local service revenues totaled Ps. 876 million in the fourth quarter of 2012, compared to Ps. 930 million for same period in 2011, representing a decrease of Ps. 53 million,

explained by Ps. 13 million, Ps. 14 million and Ps. 27 million decreases in monthly rents, measured service and cellular revenues, respectively. The 21% decrease in measured services is explained by 5% and 16% decreases in billed-traffic volume and prices, respectively. The 16% decrease in cellular revenue is explained by a 20% decrease in price, resulting from a market trend linked to lower interconnection tariffs and partially compensated by a 5% increase in cellular billed-traffic volume. Revenues coming from monthly rents represented 77% of local revenues during the three-month period ended December 31, 2012. For the twelve month period ended December 31, 2012, local revenues totaled Ps. 3,604 million, compared to Ps. 3,795 million registered in the same period in 2011, a decrease of Ps. 191 million or 5% mostly explained by Ps. 28, Ps. 58 and Ps. 105 million declines in monthly rents, measured service and cellular revenues.

Long distance services. Revenues totaled Ps. 276 million in the fourth quarter of 2012, compared to Ps. 285 million for same period in 2011, representing a decrease of Ps. 8 million, or 3%, explained by a 16% decrease in billed-traffic prices, partially compensated by a 16% increase in billed-traffic volume. For the twelve month period ended December 31, 2012, long distance revenues totaled Ps. 1,099 million compared to Ps. 1,152 million registered in 2011, a Ps. 52 million, or 5%, decline.

Data & Network. Data and network revenues amounted to Ps. 716 million in the fourth quarter of 2012, compared to Ps. 666 million in the same period in 2011, a Ps. 50 million increase driven by mass-market, or, “on-demand” internet services revenues, which increased 39% year-over-year, and a 2% increase in dedicated internet. Private lines revenues declined 11%. Mass-market, or, “on-demand” internet services, represented 31% of data & network revenues during the quarter. During the twelve month period ended on December 31, 2012, data and network services revenues totaled Ps. 2,788 million from Ps. 2,585 million registered in 2011, an increase of Ps. 203 million, or 8%.

International traffic. In the fourth quarter of 2012, international traffic revenues totaled Ps. 146 million, a decrease of Ps. 190 million or 57% versus same quarter of previous year, explained by a blended 44% decline in prices and a 23% reduction in volume. In peso terms, the decline was also affected by a 5% appreciation of the Mexican peso vis-à-vis the US dollar. For the twelve month period ended December 31, 2012, revenues from international traffic totaled Ps. 655 million from Ps. 1,246 million in the same period in 2011, a decline of 47% explained by a 20% decline in volume and a 34% decline in prices.

Other services. Quarterly revenues from other services totaled Ps 358 million in the fourth quarter of 2012, from Ps. 484 million in the same quarter of previous year, an decrease of Ps. 126 million or 26%, mostly explained by a Ps. 105 million decrease in integrated services. For the twelve month period ended December 31, 2012, revenues totaled Ps. 1,848 million from Ps. 1,585 million registered in 2011, an increase of Ps. 263 million, or 17%.

Revenues by segment **(Excludes International Traffic and Major Wholesale Customer)*

Mass Market. Revenues totaled Ps. 971 million in the fourth quarter of 2012, compared to Ps. 946 million for the same quarter in 2011, an increase of 3%. This was mainly due to a 36% increase in data, a 4% increase in long distance and a 16% increase in other revenues. On the other hand, local revenues for this segment declined 44 million or 7%. For the twelve month period ended December 31,

2012, revenues totaled Ps. 3,897 million, an increase of 4% compared to the same period in 2011, mostly explained by a 46% increase in data revenues.

Enterprise (including Government). Revenues for this segment amounted to Ps. 1,050 million in the three-month period ended December 31, 2012, a decrease of 10% versus the same period in 2011. This is explained by decreases of Ps. 138 million or 36% in integrated services and equipment sales and Ps. 2 million in local revenues, partially mitigated by increases of Ps. 14 million or 8% in long distance revenues and Ps. 12 million or 3% in data revenues. For the twelve month period ended December 31, 2012, revenues increased 3%, from Ps. 4,406 million registered in the twelve month period ended December 31, 2011, to Ps 4,555 million in 2012, due to an increase of 243 million or 21% in integrated services and equipment sales, partially offset by declines in local, long distance and data revenues of 6%, 2% and 2%, respectively.

Interconnection, Public Telephony and Carriers. Revenues for this segment declined 19%, from Ps. 254 million in the fourth quarter 2011 to Ps. 206 million in 2012, due to decreases in local, long distance and data revenues, which declined Ps. 7 million, Ps. 25 million and Ps. 17 million respectively and partially offset by an increase in other revenues. For the twelve month period ended December 31, 2012 revenues reached Ps. 978 million, a decline of 9% compared to the same period in 2011, primarily explained by a 66% decrease in local and long distance revenues.

Consumption

Local Calls. Local calls excluding our largest wholesale customer totaled 461 million calls in the fourth quarter of 2012, compared to 445 million calls for same period in 2011, representing an increase of 16 million calls, or 4%. Billed local calls decreased 5 million or 5%, while local calls included in commercial offers increased by 21 million or 6%. Business and residential customers contributed with 3 million and 2 million calls respectively to the billed local calls decline. Local calls included in commercial offers represented 80% of total calls in the fourth quarter of 2012. For the twelve month period ended December 31, 2012, local calls totaled 1,818 million excluding our largest wholesale customer, compared to 1,843 million registered in the same period in 2011, a decline of 25 million calls, or 1%.

Cellular ("Calling Party Pays"). Minutes of use of calls completed to a cellular line excluding our largest wholesale customer amounted to 170 million in the three-month period ended December 31, 2012, compared to 157 million in the same period in 2011, an increase of 9% equivalent to 13 million minutes. Billed cellular minutes increased 6 million or 5%, while minutes in modules included in a monthly rent increased 8 million minutes or 19%. Billed cellular minutes represented 72% of cellular minutes in the fourth quarter of 2012, compared to 74% in the year-earlier quarter. For the twelve month period ended December 31, 2012 and excluding our largest wholesale customer, cellular minutes increased 49 million, or 8%, from 620 million registered in the twelve month period ended December 31, 2011, to 669 million in 2012.

Long distance. Excluding our largest wholesale customer, which represents 13% of total volume, outgoing long distance minutes amounted to 547 million for the three-month period ended December 31, 2012, from 480 million in the same period in 2011, a 14% increase. This, resulting from a 1% decrease and 17% increase in traffic from residential and business customers, respectively. Billed long

distance minutes during the fourth quarter of 2012 increased 16% compared to the same period in 2011. Domestic long distance minutes represented 96% of total traffic during the quarter. For the twelve month period ended December 31, 2012 and excluding our largest wholesale customer, outgoing long distance minutes amounted 2,022 million, compared to 1,905 million registered in 2011, an increase of 117 million of minutes, or 6%, explained by increased traffic from both residential and business customers and further penetration of commercial offers including national and North America region long distance minutes within a monthly rent.

Operating Data

RGUs[(8)] and Customers. As of December 31, 2012, RGUs (Revenue Generating Units) totaled 1,490 thousand, an increase of 1% or 15 thousand versus the same date in 2011. During the fourth quarter of 2012, RGU net-disconnections totaled 20 thousand, compared to 29 thousand net-additions in the fourth quarter of 2011, attributable to a greater number of disconnections from voice RGUs. As of December 31, 2012, customers totaled 709 thousand, a decline of 48 thousand from the same date in 2011. Total customers declined 28 thousand on a sequential basis.

Voice RGUs (lines in service). As of December 31, 2012, lines in service totaled 997 thousand, a 42 thousand reduction from the same date in 2011. During the fourth quarter of 2012, gross additional lines totaled 50 thousand compared to 72 thousand in the fourth quarter of 2011. Disconnections in the fourth quarter of 2012 totaled 74 thousand compared to 72 thousand in the year-earlier quarter. Voice-only customers in low-ARPU offers represented the majority of disconnections during the quarter. Lines-in-service in the fourth quarter of 2012 decreased 23 thousand, compared to 1 thousand net-disconnections in the same period of 2011. As of December 31, 2012, residential lines represented 66% of total lines in service.

Broadband RGUs (broadband subscribers). Broadband subscribers increased 13% year-over-year totaling 493 thousand subs as of December 31, 2012. During the fourth quarter of 2012, broadband subscribers increased 3 thousand compared to 29 thousand in the same period of 2011. As of December 31, 2012, WiMAX broadband subs reached 377 thousand, compared to 368 thousand a year ago, while AXTEL X-tremo, or FTTH customers, totaled 100 thousand. The slower pace in broadband additions is explained by the acceleration of WiMAX disconnections that cannot be totally compensated by the acquisition of new FTTH subscribers. Broadband penetration reached 49% at the end of the fourth quarter of 2012, compared to 42% a year ago.

Internet subscribers. As of December 31, 2012, Internet subscribers reached 493 thousand, compared to 444 thousand a year ago, representing an 11% increase.

Line equivalents (E0 equivalents). We offer from 64 kilobytes per second ("KBps") up to 150 megabytes per second ("MBps") dedicated data links in all of our thirty-nine existing cities. We account for data links by converting them to E0 equivalents in order to standardize our comparisons versus the industry. As of December 31, 2012, line equivalents totaled 631 thousand, 30% increase.

Cost of Revenues and Operating Expenses

Cost of Revenues. For the three-month period ended December 31, 2012, the cost of revenues represented Ps. 669 million, a decrease of Ps. 9 million, compared with the same period of year 2011, mainly explained by decreases of Ps. 31 million and Ps. 14 million in international traffic and fixed-to-mobile termination costs due to lower volume; these benefits are reduced by a Ps. 28 million increase in Internet links. The fixed-to-mobile lower volume is explained by the phase-out of the contract with Nextel. For the twelve month period ended December 31, 2012, cost of revenues reached Ps. 2,855 million, an increase of Ps. 56 million in comparison with year 2011, mainly due to in increases in costs related to equipment sales and integrated services, partially offset by decreases in fixed-to-mobile and international traffic costs.

Gross Profit. Gross profit is defined as revenues minus cost of revenues. For the fourth quarter of 2012, the gross profit accounted for Ps. 1,748 million, a decrease of Ps. 342 million compared with the same period in year 2011. The gross profit margin decreased from 75.5% to 72.3% year-over-year, influenced by (i) reduced margins of international traffic revenues, as market prices significantly declined and (ii) lower enterprise segment gross margin due to market competitiveness. Excluding the effect of international traffic, gross profit margin would have been approximately 76%. For the twelve month period ended December 31, 2012, our gross profit totaled Ps. 7,335 million, compared to Ps. 8,030 million recorded in year 2011, a decrease of Ps. 695 million.

Operating expenses. In the fourth quarter of year 2012, operating expenses totaled Ps. 1,176 million, Ps. 23 million lower than the Ps. 1,200 million recorded in the same period in year 2011, explained by an Ps. 80 million decrease in personnel and outsourcing expenses that compensated the increase in uncollectible reserve, marketing and other expenses. For the twelve month period ended December 31, 2012, operating expenses totaled Ps. 4,597 million, coming from Ps. 4,461 million in the same period in 2011. Personnel represented 43% of total operating expenses in the twelve month period ended December 31, 2012.

Adjusted EBITDA, D&A and Operating Income

Adjusted EBITDA[(5)]. The Adjusted EBITDA totaled Ps. 572 million for the three-month period ended December 31, 2012, compared to Ps. 891 million for the same period in 2011. As a percentage of total revenues, Adjusted EBITDA represented 23.7% in the fourth quarter of 2012, 851 bps lower than the margin recorded in the year-earlier quarter. For the twelve-month period ended December 31, 2012, Adjusted EBITDA amounted to Ps. 2,738 million, compared to Ps. 3,569 million in year 2011.

Depreciation and Amortization[(11)]. Depreciation and amortization totaled Ps. 796 million in the three-month period ending on December 31, 2012 compared to Ps. 775 million for the same period in year 2011. Depreciation and amortization for the twelve-month period ended December 31, 2012 reached Ps. 3,073 million, from Ps. 3,103 million in the same period in year 2011, a decrease of Ps. 30 million.

Operating Income (loss). In the three-month period ended December 31, 2012, the Company recorded an operating loss of Ps. 415 million compared to an operating loss of Ps. 279 million registered

in the same period in year 2011. For the twelve month period ended December 31, 2012 our operating loss reached Ps. 535 million when compared to the operating income of Ps. 47 million in the same period of year 2011, a variation of Ps. 581 million.

CFR, Indebtedness, Cash, Investments and Derivative Instruments

Comprehensive financial result. Net interest expense for the fourth quarter 2012 increased Ps. 19 million vis-à-vis the fourth quarter 2011 due to larger interest payments and commitment fees for the syndicated bank facility and its committed line tranche. During the fourth quarter 2012, a 1% peso depreciation against the U.S. dollar generated a Ps. 80 million FX loss, compared to an FX loss of Ps. 464 million related to a 4% peso depreciation recorded in the fourth quarter of 2011. Concerning variations in the fair value of financial instruments, these are partially explained by 9% and 12% declines in the price of AXTELCPO during the fourth quarters of 2012 and 2011, respectively, which affected the valuation of AXTEL´s position held in its own stock through the zero-strike-calls instruments. The Ps. 347 million comprehensive financial loss for year ended in December 2012, compared to a Ps. 2,330 million comprehensive financial loss for year ended in December 2011, is mainly explained by a 5% appreciation of the Mexican peso against the U.S. dollar in the 2012 period, compared to a 9% depreciation in the 2011 period.

Debt[(10)]. At the end of the fourth quarter of 2012, total debt decreased Ps. 856 million in comparison with the same date in 2011, explained by (i) a Ps. 271 million net increase in bank debt related to the drawdown under the revolving facility, (ii) a decrease of Ps. 339 million in leases and financial obligations, (iii) a Ps. 32 million decrease in notes issuance and deferred financing costs, and (iv) a Ps. 814 million non-cash decrease caused by the 5% appreciation of the Mexican peso.

Cash[(10)]. As of the end of the fourth quarter of 2012, our cash and equivalents balance totaled Ps. 608 million, compared to Ps. 1,425 million a year ago, and Ps. 678 million at the beginning of the quarter. As of the end of the quarter, 26 percent of the cash balance was maintained in dollars, the rest in pesos.

Capital Investments. In the fourth quarter of 2012, capital investments totaled Ps. 545 million, or $42 million, compared to Ps. 774 million, or $57 million, in the year-earlier quarter. Accumulated for the twelve-month period ended December 31, 2012, capital investments totaled Ps. 2,016 million, or $153 million, compared to Ps. 2,531 million, or $204 million, in year 2011.

Other Investments. As of December 31, 2012, the Company maintained an economic position equivalent to 30.4 million AXTELCPOs in ZSC.

Derivative Instruments. The following table summarizes the Company's derivatives position as of December 31, 2012.

	AXTEL receives	AXTEL pays	Other
Interest-Only Cross-Currency Swap (MXN/US$)			
Notional	US$44 million	Ps. 614 million	

Interest	libor + 4% quarterly	5.06% quarterly	
Principal payments	n.a.	n.a.	
Expiration Date			Nov. 2012
Estimated Fair Value			Ps. 0 million
Full Cross-Currency Swap (MXN/US$) "principal included"			
Notional	US$44 million	Ps. 593 million	
Interest	libor + 4% quarterly	11.51% quarterly	
Principal payments	n.a.	n.a.	
Expiration Date			Nov.2012 -Nov. 2015
Estimated Fair Value			Ps. (46.5) million
Zero-strike Equity Call Option			
Notional			30.4 million AXTELCPO
Value	30.4 million AXTELCPO times CPO's market price	Strike price: ¢1 per CPO	
Settlement			In cash
Expiration Date			January 2013
Valuation			Ps. 88.5 million

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Information as of December 31, 2012 compared with information as of December 31, 2011

Assets

As of December 31, 2012, total assets sum Ps. 20,500 million compared to Ps. 22,092 million as of December 30, 2011, a decline of Ps. 1,592 million.

Cash and equivalents. As of December 31, 2012, we had cash and cash equivalents of Ps. 597 million compared to Ps. 1,373 million in the same date of year 2011, a decrease of Ps. 776 million or 57%.

Accounts Receivable. As of December 31, 2012, the accounts receivable were Ps. 2,407 million compared with Ps. 2,018 million in the same date of 2011, an increase of Ps. 389 million.

Property, plant and equipment, net. As of December 31, 2012, the net of depreciation value of property, plant and equipment was Ps. 13,998 million compared with Ps. 15,423 million as of December 31, 2011, a decrease of Ps. 1,425 million. The property, plant and equipment without adjusting for the accumulated depreciation, was Ps. 35,653 million and Ps. 34,444 million as of December 31, 2012 and December 31, 2011, respectively. The increase in property, plant and equipment is due to a higher investment during this period.

Liabilities

Total liabilities were Ps. 15,412 million as of December 31, 2012 compared to Ps. 16,290 million as of December 31, 2011, a decrease of Ps. 878 million.

Accounts payable & accrued expenses. On December 31, 2012, the accounts payable and accrued expenses were Ps. 2,404 million compared with Ps. 2,396 million on December 31, 2011, an increase of Ps. 9 million.

Stockholders Equity

On December 31, 2012, the stockholders equity of the Company was Ps. 5,088 million compared with Ps. 5,802 million as of December 31, 2011, a decrease of Ps. 714 million, or 12%. The capital stock remained unchanged at Ps. 6,626 million as of December 31, 2012 and 2011.

Liquidity and Capital Resources

Historically we have relied primarily on vendor financing, the proceeds of the sale of securities, internal cash from operations and the proceeds from bank debt to fund our operations, capital expenditures and working capital requirements. Additionally, and subject to (i) market conditions, (ii) our liquidity position and (iii) contractual obligations, from time to time, we might acquire senior secured and unsecured notes in the open market or in privately negotiated transactions. Although we believe that we would be able to meet our debt service obligations and fund our operating requirements in the future with cash flow from operations, we may seek additional financing with commercial banks or in the capital markets from time to time depending on market conditions and our financial requirements. We will continue to focus on investments in property, systems and infrastructure and working capital management, including the collection of accounts receivable and management of accounts payable.

Cash Flow Statement

For the Three-Month period Ended December 31, 2012 compared with the Three-Month period Ended December 31, 2011

Net resources provided by operating activities were Ps. 383 million for the three-month period ended on December 31, 2012 compared to Ps. 1,298 million recorded in the same period of year 2011.

Net resources used in investing activities were Ps. (562) million for the three-month period ended on December 31, 2012 compared to Ps. (778) million recorded in the same period of year 2011. These flows primarily reflect investments in fixed assets of Ps. (545) million and Ps. (774) million, respectively.

Net resources (used in) provided by financing activities were Ps. 112 million and Ps. 292 million for the three-month periods ended on December 31, 2012 and 2011, respectively.

As of December 31, 2012, the ratios of net debt to Adjusted EBITDA and interest coverage of the company were 4.0x and 2.6x, respectively. As December 31, 2011 the ratios of net debt to Adjusted EBITDA and interest coverage, were 3.1x and 3.6x, respectively.

Since the beginning of operations of the Company, AXTEL has invested approximately Ps. 36 billion in infrastructure. The Company expects to do more investments in the future, according to the expansion of the network in other geographical areas of Mexico in order to gain market and to maintain its current infrastructure and network.

Cash Flow Statement

For the Twelve Months Ended December 31, 2012 compared with Twelve Months Ended December 31, 2011

Net resources provided by operating activities were Ps. 2,204 million for the twelve-month period ended on December 31, 2012 compared to Ps. 3,548 million recorded in the same period of year 2011.

Net resources used in investing activities were Ps. (2,031) million for the twelve-month period ended on December 31, 2012 compared to Ps. (2,534) million recorded in the same period of year 2011. These flows primarily reflect investments in fixed assets of Ps. (2,016) million and Ps. (2,533) million, respectively.

Net resources (used in) provided by financing activities were Ps. (1,003) million and Ps. (829) million for the twelve-month period ended on December 31, 2012 and 2011, respectively.

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 and September 30, 2012, and December 31, 2011; and twelve-month period ending on December 31, 2012 and December 31, 2011, and

    - Balance sheet information as of December 31, 2012 and 2011; and September 30, 2012.

2) Revenues are derived from:

    i. Local services. We generate revenue by enabling our customers to originate and receive calls within a defined local service area and by providing offers with local calls, calls completed on a cellular line ("calling party pays," or CPP calls) and long distance minutes included in the monthly rent. Customers are charged a flat monthly fee for a variety of commercial offers and in certain offers, a per call fee for local calls ("measured service"), a per minute usage fee for CPP calls and value added services.

    ii. Long distance services. We generate revenues by providing long distance services (domestic and international) for our customers' completed calls from AXTEL lines.

    iii. Data & network. We generate revenues by providing data, Internet access and network services, like virtual private networks and private lines.

    iv. International traffic. We generate revenues terminating international traffic from foreign carriers.

    v. Other services. Include among others, activation fees, customer premises equipment (''CPE'') sales and revenues generated from integrated telecommunications services provided to corporate customers, financial institutions and government entities.

3) Cost 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.

4) Operating expenses include costs incurred in connection with general and administrative matters which incorporate compensation and benefits, the costs of leasing land related to our operations and costs associated with sales and marketing and the maintenance of our network.

5) Adjusted EBITDA is defined as net income plus interest, taxes, depreciation and amortization, and further adjusted for unusual or non-recurring items. For additional detail on the Adjusted EBITDA Reconciliation, go to AXTEL's web site at www.axtel.com.mx

6) Earnings per CPO are calculated dividing the net income by the average number of Series A and Series B shares outstanding during the period divided by seven. The number of outstanding Series A and Series B shares was 96,636,627 and 8,672,716,596, respectively, as of December 31, 2012.

7) Net Debt to Adjusted EBITDA: The figure comes from dividing the net debt, including cash and mark-to-market of derivative instruments, at the end of the period by the respective Adjusted EBITDA.

8) Revenue Generating Unit, or RGU, represents individual service subscriber who generates recurring revenue for the Company. Total RGUs include the sum of all lines in service and broadband service customers or subscribers.

9) Breakdown of AXTEL's revenues including its major wholesale customer:

Million Pesos	Q4 2012	Q4 2011	Q3 2012	LTM dec-12	LTM dec-11
Local	880	953	904	3,619	4,160
Long Distance	306	323	316	1,236	1,224
Data & Network	718	668	706	2,797	2,595
Int'l. Traffic	146	335	141	655	1,246
Other	368	490	514	1,882	1,604
	2,418	2,768	2,581	10,190	10,829

10) RECAPITALIZATION PLAN — **Subsequent Material Events**

On January 31, 2013, the Company closed the sale of 883 telecommunications sites to MATC Digital, S. de R.L. de C.V. (MATC) for $249 million, and also agreed to lease space on these telecommunications sites back from MATC for approximately $20 million in annual net lease expense for the Company and for a term ranging from 6 years to 15 years depending on the technology installation at each site.

Concurrent with the tower sale, the Company exchanged $142 million and $355 million of its existing Senior Unsecured Notes due 2017 and 2019, respectively, for $249 million and $22 million of new Senior Secured Notes and Senior Secured Convertible Notes, respectively, both due in 2020, and a cash payment of $83 million to tendering bondholders.

Proceeds from the tower sale were used as follow:

	(Ps. millions)	(US$ millions)
Tower sale proceeds	3,233	249
(+/-) Estimated tower sale and EO fees	(195)	(15)
(+/-) Secured Bank Facility	(1,053)	(81)
(+/-) Unwind Bank Facility Swaps	(80)	(6)
(+/-) Cash payment on Exchange Offer	(1,074)	(83)
(=) Incremental cash balance	831	64

Pro forma total debt and net debt as of December 31, 2012, considering the tower sale, the estimated $20 million in annual net lease expenses and the exchange offer results, are the following:

Million Pesos	Q4 2012	Adjustments	Q412 Proforma
2017 Senior Unsecured Notes	3,578	(1,848)	1,730
2019 Senior Unsecured Notes	6,375	(4,624)	1,751
2020 Secured Senior Notes	-	3,235	3,235
2020 Secured Convertible Notes	-	289	289
Other financing obligations	136	-	136
Financial Leases	434	-	434
Bank Facilities	1,058	(1,058)	-
Notes Premium	42	-	42
Notes issuance and deferred financing costs	(156)	-	(156)
Total Debt	**11,467**	**(4,006)**	**7,461**
(+/-) Mark-to-market Derivative Instruments	47	(47)	-
(-) Cash and cash equivalents	(608)	(831)	(1,439)
Net Debt	**10,905**	**(4,884)**	**6,021**
Net Debt / Adj EBITDA	4.0x		2.4x

11) Depreciation and amortization includes depreciation of all communications network and equipment and amortization of pre-operating expenses and cost of spectrum licenses, among others.

12) Subject to market conditions, the Company's liquidity position and its contractual obligations, from time to time, the Company may acquire its senior secured and unsecured notes in the open market or in privately negotiated transactions.

Analyst Coverage: The analysts mentioned below currently cover Axtel S.A.B. de C.V.

- Actinver Casa de Bolsa S.A. de C.V.
- Bank of America-Merrill Lynch
- Barclays Capital Inc.
- BBVA Bancomer, S.A.

- BTG Pactual
- Casa de Bolsa Banorte Ixe, Grupo Financiero Banorte
- Citigroup Global Markets Inc.
- Credit Suisse Securities (USA) LLC
- GBM
- Goldman Sachs do Brasil CTVM S.A.
- Morgan Stanley & Co. LLC
- Scotiabank Inverlat

About AXTEL

Axtel is a Mexican telecommunications company with a significant growth in the broadband segment, and one of the leading companies in information and communication technologies solutions in the corporate, financial and government sectors. The Company serves all market segments -corporate, financial, government, wholesale and residential with the most robust offering of integrated communications services in Mexico. Its world-class network consists of different access technologies like fiber optic, fixed wireless access, point to point and point to multipoint links, in order to offer solutions tailored to the needs of its customers.

AXTELCPO trades on the Mexican Stock Exchange since 2005. AXTEL's American Depositary Shares are eligible for trading in The PORTAL Market, a subsidiary of the NASDAQ Stock Market, Inc.

Visit AXTEL's Investor Relations Center on www.axtel.com.mx

These financial statements have been translated from Spanish language original and for the convenience of foreign English – speaking readers

(1) Reporting entity

Axtel, S.A.B. de C.V. ("AXTEL") is a Mexican corporation engaged in operating and/or exploiting a public telecommunication network to provide voice, sound, data, text, and image conducting services, and local, domestic and international long-distance calls. A concession is required to provide these services and carry out the related activities, (see notes 6 (j) and 12). In June 1996, the Company obtained a concession from the Mexican Federal Government to install, operate and exploit public telecommunication networks for an initial period of thirty years. The corporate domicile of the Company located in Blvd. Díaz Ordaz km 3.33 L-1, Colonia Unidad San Pedro, 66215 San Pedro Garza García, Nuevo León, Mexico. Axtel's primary activities are carried out through different operating entities which are its direct or indirect subsidiaries (collectively with Axtel referred to herein as the "Company").

(2) Significant events

On December 4, 2012, the Extraordinary General Meeting of Shareholders authorized to negotiate, incur or execute financing operations and debt restructuring on terms and conditions that management deems appropriate and in according with current market conditions, and is authorized to grant part or all of the tangible and intangible assets, present and / or future of the Company to ensure the financing and restructuring operations.

In recent quarters of 2012, the Company has experienced declines in revenues and cash flows, affecting its liquidity. This situation is negatively impacting the Company´s investment program, thus slowing the Company´s growth. The Company plans to address this situation is as follow:

- reduce operating expenses, through the implementation of different programs such as restructuring corporate structure and reducing workforce, and the not renewal of certain offices space under operating leases,
- pursuing a liability management plan targeting to reduce current long term debt to achieve a more affordable debt level,
- selling of non-strategic assets, through sale and lease back transactions,
- launching different commercial offers and new products that were in developing stages and are ready to begin its commercial launch in the coming quarters.

In order to implement the strategic plans, the Company is restructuring certain operations (see note 18).

On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc in order to strengthen liquidity, provide cash flows for future capital investments, debt repayment and other corporate general purposes (see note 15).

(3) International Financial Reporting Standards

Beginning January 1, 2012, the Company adopted the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") as the regulatory base to prepare and present consolidated financial statements.

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and are the Company's first annual consolidated financial statements under these standards. The Company applied IFRS 1 "First-time Adoption of International Financial Reporting Standards". Previously, the Company's financial statements have been prepared on the basis of Mexican Financial Reporting Standards ("FRS"). The effects of transition to IFRS are disclosed in note 25.

(4) Consolidation of financial statements

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

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

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

(5) Basis of preparation

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

These are the first annual financial statements prepared in accordance with IFRS and has applied IFRS 1 "First-time Adoption of International Financial Reporting Standards".

The effects of transition to IFRS are disclosed in note 25, and an explanation of how it affected the financial position, financial performance and cash flows reported by the Company are disclosed in note 25.

On February 28, 2013, the Director of Administration and Human Resources of the Company authorized the issuance of the accompanying consolidated financial statements and related notes thereto.

b) Basis of measurement

The information presented in the consolidated financial statements has been prepared on a historical cost basis, except certain financial instruments. The historical cost is generally based on the fair value of the consideration granted in exchange of the related assets.

c) Functional and presentation currency

These consolidated financial statements are presented in mexican pesos, which is the Company's functional currency. All financial information presented in pesos or "Ps.", are to Mexican pesos; likewise, references to dollars or U.S. $, or USD are to dollars of the United States of America.

(6) Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2011 for the purposes of the transition to IFRSs, unless otherwise indicated.

a) Cash and cash equivalents

Cash and cash equivalents consist of short-term investments, highly liquid, readily convertible into cash and are subject to insignificant risk of changes in value, including overnight repurchase agreements and certificates of deposit with an initial term of less than three months.

b) Restricted cash

The Company restricted cash as of December 31, 2012 and 2011 and January 1, 2011, presented in the consolidated statements of financial position, amounted to $ 10,709, $52,127 and $58,121, respectively, derived from various financial instrument contracts mentioned in note 8 and the syndicated loan mentioned in note 15.

c) **Financial assets**

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

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

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

Financial assets are classified within the following specific categories: “financial assets at fair value with changes through profit or loss,” “investments held to maturity”, “assets available for sale” “loans and accounts payable.” The classification depends on the nature and purpose thereof and is determined upon initial recognition.

Financial assets valued at fair value through profit or loss

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as such or that are not classified in any of the previously mentioned categories and do qualify as held-to-maturity investments. Available-for-sale financial assets represent investments with a quoted price in an active market and can therefore be reliably valued at their fair value. After initial measurement, available-for sale financial assets are valued at their fair value and the unrealized gains or losses are recognized as a separate item in the other comprehensive income in the stockholders’ equity within other comprehensive income. When the available-for-sale financial assets are sold and all of the risks and benefits have been transferred to the buyer, all previous fair value adjustments recognized directly in the other comprehensive income in the stockholders’ equity are reclassified to the consolidated statements of comprehensive income.

Receivables

Trade accounts receivable and other accounts receivable with fixed or determinable payments that are not traded on an active market are classified as “Receivables”. Receivables are valued at amortized cost using the effective interest rate method, less any impairment losses. Interest income is recognized applying the effective interest rate method.

Effective interest method

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

Write-off of financial assets

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

d) Impairment of financial instruments

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

Financial assets carried at amortized cost

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

Available-for-sale financial instruments

If an available-for-sale asset is impaired, the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the consolidated interim statement of comprehensive income, is reclassified from comprehensive income or loss in stockholders' equity to the consolidated statement of comprehensive income. For equity instruments classified as available-for-sale, if there is a significant or prolonged decline in their fair value to below acquisition cost, impairment is recognized directly in the consolidated statement of comprehensive income but subsequent reversals of impairment are not recognized in the consolidated statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the consolidated statement of comprehensive income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized.

e) Derivative financial instruments

Hedging instruments

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

Cash flow hedges

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

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

Embedded derivatives

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

f) Fair value of financial instruments

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

g) Inventories and cost of sales

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

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

h) Investments in associates and joint ventures and other equity investments

Investments in associates are those in which significant influence is exercised on their administrative, financial and operating policies.

Such investments are initially valued at acquisition cost, and subsequently, using the equity method, the result thereof is recognized on profit and loss.

Other equity investments in which the Company does not exercise significant influence the investees' capital stock are recorded at cost as their fair value is not reliably determinable.

i) Property, systems and equipment

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

Property, plant and equipment are presented using the cost method foreseen in IAS 16, "Property, Plant and Equipment." Depreciation is calculated using the straight line method based on the value of the assets and their estimated useful life, which is periodically reviewed by the Company's management.

Depreciation

The estimated useful lives of the Company's assets property, systems and equipment are as follows:

	Useful lives
Building	25 years
Computer and electronic equipment	3 years
Transportation equipment	4 years
Furniture and fixtures	10 years
Network equipment	6 to 28 years
Leasehold improvements	5 to 14 years

Leasehold improvements are amortized over the useful life of the improvement or the related contract term, whichever is shorter.

Subsequent costs

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

Decommissioning and remediation obligations

The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalized the associated cost as a component of the related asset. Adjustments to such obligations resulting from changes in the expected cash flows are added to, or deducted from, the cost of the related asset in the current period, except to the extent that the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognized immediately in profit or loss.

Borrowing costs

Borrowing costs directly related to the acquisition, construction of production of qualifying assets, which constitute assets that require a substantial period until they are ready for use, are added to the cost of such assets during the construction stage and until commencing their operations and/or exploitation. Yields obtained from the temporary investment of funds from specific loans to be used in qualifying assets are deducted from costs for loans subject to capitalization. All other borrowing costs are recognized in profits and losses during the period in which they were incurred.

j) Intangibles assets

The amounts expensed for intangible assets are capitalized when the future economic benefits derived from such investments, can be reliably measured. According to their nature, intangible assets are classified with determinable and indefinite lives. Intangible assets with determinable lives are amortized using the straight line method during the period in which the economic benefits are expected to be obtained. Intangible assets with an indefinite life are not amortized, as it is not feasible to determine the period in which such benefits will be materialized; however, they are subject to annual impairment tests. The price paid in a business combination assigned to intangible assets is determined according to their fair value using the purchase method of accounting. Research and development expenses for new products are recognized in results as incurred.

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

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

As a consequence of the acquisition of Avantel, the Company identified and recognized the following intangible assets: trade name, customer relationships and concession rights (see note 12).

k) Impairment of non-financial assets

The Company reviews carrying amounts of its tangible and intangible assets in order to determine whether there are indicators of impairment. If there is an indicator, the asset recoverable amount is calculated in order to determine, if applicable, the impairment loss. The Company undertakes impairment tests considering asset groups that constitute a cash-generating unit (CGU). Intangible assets with indefinite useful lives are subject to impairment tests at least every year, and when there is an indicator of impairment.

The recoverable amount is the higher of fair value less its disposal cost and value in use. In assessing value in use, estimated future prices of different products are used to determine estimated cash flows, discount rates and perpetuity growth. Estimated future cash flows are discounted to their fair value using a pre-tax discount rate that reflects market conditions and the risks specific to each asset for which estimated future cash flows have not been adjusted.

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

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

l) Non-current assets held for sale

Non-recurrent assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. This means that the asset is available for immediate sale and is sale is highly probable. A non-current asset classified as held for sale is measured at the lower of its fair value less cost to sell and its carrying amount. Any impairment loss for write-down of the asset to fair value less costs to sell is recognized in the statement of comprehensive income.

m) Financial liabilities

Initial recognition and measurement

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

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

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

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

Financial liabilities at fair value with changes to profit or loss

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

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

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

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

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

Financial debt and interest bearing loans

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

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

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

n) Leases

Leases are classified as financial leases when under the terms of the lease, the risks and benefits of the property are substantially transferred to the lessee. All other leases are classified as operating leases.

The Company as a lessee

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

o) Provisions

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

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

p) Employee benefits

Short-term employee benefits

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

Seniority premiums granted to employees

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

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

Termination benefits

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

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

q) Statutory employee profit sharing

In conformity with Mexican labor law, the Company must distribute the equivalent of 10% of its annual taxable income as employee statutory profit sharing. This amount is recognized in the consolidated statement of comprehensive income.

r) Income taxes

Current income taxes

The tax currently payable is based on taxable profit for the year, which for companies in Mexico is comprised of the regular income tax (ISR) and the business flat tax (IETU). Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred income taxes

Deferred income tax is calculated based on management's financial projections according to whether it expects the Company to incur ISR or IETU in the future. The recognition of deferred tax assets and liabilities reflects the tax consequences that the Company expects at the end of the period, to recover or settle the carrying amount of its assets and liabilities.

Deferred income tax is recognized on temporary differences between the book and tax values of assets and liabilities, including tax loss benefits. Deferred tax assets or liabilities are not recognized if temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences related to with investments in subsidiaries, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Current and deferred tax for the year are recognized in profit or loss, except where they are related to items recognized in the "Other comprehensive income" line item in the stockholders' equity, in which case the current and deferred taxes are recognized in the stockholders' equity.

s) Revenue recognition

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

- *Telephony Services* – Customers are charged a flat monthly fee for basic service, a per-call fee for local calls, a per-minute usage fee for calls completed on a cellular line and domestic and international long distance calls, and a monthly fee for value-added services.
- *Activation* – At the moment of installing the service when the customer has a contract with indefinite life; otherwise is recognized over the average contract life.
- *Equipment* – At the moment of selling the equipment and when the customer acquires the property of the equipment and assumed all risks.
- *Integrated services* – At the moment when the client receives the service.

t) Earnings per share

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

u) Segments

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

(7) Critical accounting judgments and key uncertainty sources in estimates

In applying accounting policies, the Company's management use judgments, estimates and assumptions on certain amounts of assets and liabilities in the consolidated financial statements. Actual results may differ from such estimates.

Underlying estimates and assumptions are reviewed regularly.

The critical accounting judgments and key uncertainty sources when applying the estimates performed as of the date of the consolidated financial statements, and that have a significant risk of resulting in an adjustment to the book values of the assets and liabilities during the following financial period are as follows:

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

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

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

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

e) Decommission and remediation provision - The Company recognizes a provision for the present value associated with the Company's decommissioning and remediation obligations to remove its telecommunication towers and capitalizes the associated cost as a component of the related asset.

f) Deferred income taxes - The Company prepares future cash flows projections to determine whether it will pay ISR or IETU in future periods, in order to estimate the reversal dates for the temporary differences that result in deferred tax assets and liabilities.

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

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

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

(8) Financial instruments

Categories of financial instruments

		December 31, 2012	December 31, 2011	January 1, 2011
Financial assets				
Cash and cash equivalents	Ps	597,201	1,372,896	1,250,143
Restricted cash		10,709	52,127	58,121
Accounts receivables		2,406,764	2,018,013	2,240,534
Fair value through profit or loss		88,419	135,212	216,035
Derivative financial instruments		-	184,911	55,782
Financial liabilities				
Derivative financial instruments		46,532	16,888	127,549
Amortized cost		13,871,085	14,718,530	12,991,998

(a) Financial risk management objectives

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

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the board of directors. Compliance with policies and exposure limits is reviewed by the Company's management on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(b) Market and interest rate risk

The Company undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Monetary assets and liabilities denominated in dollars as of December 31, 2012 and 2011, and January 1, 2011 are as follows:

		(Thousands of US dollars)		
		December 31, 2011	**December 31, 2011**	**January 1, 2011**
Current assets	US$	62,082	117,550	131,409
Current liabilities		(124,903)	(125,882)	(177,566)
Non-current liabilities		(817,765)	(820,471)	(780,642)
Foreign currency liabilities, net	US$	(880,586)	(828,803)	(826,799)

The U.S. dollar exchange rates as of December 31, 2012 and 2011 and January 1, 2011 were Ps. 13.01, Ps. 13.99 and Ps. 12.35, respectively. As of February 28, 2013, the exchange rate was Ps. 12.86.

The Company's activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates, because it borrows funds at both fixed and floating interest rates and has contracted principal and interest payments in US dollars. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings, and by the use of cross currency interest rate swap contracts (CCS) and currency swap contracts (CS). Hedging activities are evaluated regularly to align with exchange rate and interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

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

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign currency risk and interest rate risk, including:

US$ 100 Million Syndicated loan CCS

During November 2011, the Company closed a syndicated loan of up to the equivalent of US $ 100 million. This loan is divided in two tranches, one in pesos amounting to $512,373,031 and the other in US dollar amounting to US $62,117,156. As of December 31, 2012 US$ 53.3 million (equivalent to Ps. 693 million) and Ps. 365 million have been utilized, of which approximately Ps.246 million remains unutilized as of December 31, 2012. The Company decided to hedge an increase in interest rates and exchange rate risks (devaluation of the peso versus the U.S. dollar) associated with the entire portion of principal and interest of the syndicated loan by entering into Cross Currency Swaps (CCS) with Credit Suisse and Banorte – IXE. The CCSs has been designated as a cash flow hedge for accounting purposes.

Counterparty	Notional Amount	Terms	Fair Value Asset (Liability) December 31, 2012	December 31, 2011	January 1, 2011
Credit Suisse	Ps.614 US$44.4	Pays fixed rate in pesos of 5.06% and receives LIBOR + 400	-	(1,630)	-
Credit Suisse	Ps.464 US$34.5	Pays fixed rate in pesos of 11.63% and receives LIBOR + 400	(40,299)	-	-
Ixe	Ps.128 US$10	Pays fixed rate in pesos of 11.11% and receives LIBOR + 400	(6,233)	-	-

For the year ended December 31, 2012, the change in the fair value of the CCSs amounted to an unrealized loss of Ps. 41,165. This loss was recognized within other comprehensive income in the stockholders equity, net of deferred taxes of Ps. 12,350.

U.S. $275 Million Senior Notes Currency Swaps

In August 2007, the Company issued senior unsecured notes for U.S. $275 million at a fixed rate. The Company decided to enter into a CS derivative contract to hedge exchange rate risk (devaluation of the peso versus the U.S. dollar) derived from the senior notes. Under this agreement, the Company will receive semiannual payments calculated based on the aggregate notional amount of U.S. $275 million at a fixed annual rate of 7.625%, and the Company will make semiannual payments calculated based on the aggregate of Ps. 3,038 million (notional value) at a fixed annual rate of 8.43%.

The Currency Swap information is as follows:

Counterparty	Notional Amount	Terms	December 31, 2012	Fair Value Asset (Liability) December 31, 2011	January 1, 2011
Credit Suisse	Ps.3,039 US$275	Pays fixed annual rate of 8.43% and receives fixed annual rate in USD of 7.625%	-	18,640	12,688

During October 2010, the Company decided to enter into a CS derivative to hedge the exchange rate derived from the issuance mentioned in the preceding paragraph, for the period between February 2012 and August 2014, under these agreements, the Company will receive and will make the payments listed in the following table:

Counterparty	Notional Amount	Terms	December 31, 2012	Fair Value Asset (Liability) December 31, 2011	January 1, 2011
Credit Suisse	Ps.2,480 US$200	Pays fixed annual rate of 8.16% and receives fixed annual rate in USD of 7.625%	-	50,650	12,623
Citibank	Ps.929 US$75	Pays fixed annual rate of 8.57% and receives fixed annual rate in USD of 7.625%	-	7,638	(5,325)

In February 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US$100 million of the US$275 million senior notes, for the period between February and August 2015. In May of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.16,802 as a gain within the statement of comprehensive income.

U.S. $300 and U.S. $190 Million Senior Notes Currency Swaps

In September 2009 and March 2010, the Company issued senior unsecured notes for U.S.$ 300 million and U.S. $190 million, respectively, at a fixed rate. The Company decided to hedge the exchange rate risk derived from these issuances with CS derivative financial instruments as follows (during the last quarter of 2011, the Company cancelled the hedge of U.S. $65 million entered into with Deutsche Bank A.G. and replaced it with Citibank):

			Fair Value Asset (Liability)		
Counterparty	**Notional Amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Credit Suisse	Ps.2,885 US$ 225	Pays fixed rate in pesos of 9.059% and receives fixed rate in USD of 9.00%	-	98,431	30,471
Deutsche Bank	Ps.1,320 US$100	Pays fixed rate in pesos of 10.107% and receives fixed rate in USD of 9.00%	-	(9,754)	(57,880)
Citibank	Ps. 861 US$65	Pays fixed rate in pesos of 9.62% and receives fixed rate in USD of 9.00%	-	7,013	-
Deutsche Bank	Ps.819 US$65	Pays fixed rate in pesos of 9.99% and receives fixed rate in USD of 9.00%	-	-	(19,284)
Merrill Lynch	Ps.658 US$50	Pays fixed rate in pesos of 10.0825% and receives fixed rate in USD of 9.00%	-	(4,154)	(25,143)
Merrill Lynch	Ps.315 US$25	Pays fixed rate in pesos of 9.98% and receives fixed rate in USD of 9.00%	-	2,539	(6,910)
Morgan Stanley	Ps.327 US$25	Pays fixed rate in pesos of 10.080% and receives fixed rate in USD of 9.00%	-	(1,350)	(13,007)

During January and March of 2012, the Company entered into a CS derivative to hedge the exchange rate associated with US$200 million of the US$300 million senior notes, for the period between March and September of 2015. In June of 2012, the Company canceled the derivative instruments disclosed in the previous paragraphs, recognizing Ps.79,206 as a loss within the statement of comprehensive income.

Margins calls and required collateral associated with the Company's derivative financial instruments are established with the counterparties to the agreement depending on their authorized credit lines. The Company does not operate with counterparties that do not offer reasonable lines of credit. As of, December 31, 2012 and 2011 and January 1, 2010 the Company had Ps.$0, Ps. 28 million (U.S.$2.0) and Ps. 58 million (U.S. $4.7), respectively, held as collateral.

(c) Market and interest rate sensitivity analysis

Exchange rate sensitivity analysis

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

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

Peso strengthens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase by Ps.1,041,501.

- equity would increase by Ps.969,032.

Peso weakens 10% against the US dollar:
- profit for the year ended December 31, 2012 would increase decrease by Ps.1,145,651.
- equity would decrease by Ps.1,095,470.

Interest rate sensitivity analysis

The Company has completely hedged the interest rate risk associated with its variable rate borrowings through its derivative instrument hedging strategy as described above.

(d) Other price risks (equity price risk)

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

				Fair value Asset (Liability)	
Counterparty	**Notional amount**	**Terms**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	Ps 88,419	Ps 135,212	Ps 216,035

For the year ended December 31, 2012 and 2011 the change in the fair value of the Zero Strike Calls resulted in an unrealized loss of Ps.46,793 and Ps.80,823, respectively, recognized in the fair value loss on financial instruments, net, line item.

(e) Equity price risk sensitivity analysis

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

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

- profit and equity for the year ended December 31, 2012 and 2011 would increase by Ps. 8,842 and Ps.13,521, respectively.

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

- profit and equity for the year ended December 31, 2012 and 2011 would decrease by Ps.8,038 and Ps.12,292, respectively.

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas throughout Mexico. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

Apart from companies A and B, the largest customers of the Company, the Company does not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Company A and B should not exceed 20% of gross monetary assets at any time during the year. Concentration of credit risk to any other counterparty should not exceed 5% of gross monetary assets at any time during the year.

Company A represented 15%, 0.2% and 0.1% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company A for the year ended December 31, 2012 and 2011 were 3% and 0%, respectively.

Company B represented 7%, 8% and 6% of the Company's accounts receivable as of December 31, 2012 and 2011 and January 1, 2011, respectively. Additionally, revenues associated with Company B for the year ended December 31, 2012 and 2011 were 1.9% and 2.7%, respectively.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Company does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

(g) Liquidity risk management

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

Ultimate responsibility for liquidity risk management rests with the Company's board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short-, medium- and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring actual and forecasted cash flows, and by matching the maturity profiles of financial assets and liabilities.
The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rates at the end of the reporting period. The contractual maturity is based on the earliest date on which the Company may be required to pay.

		Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5+ years
December 31, 2012							
Variable interest rate instruments	Ps	181,921	408,763	373,370	6,466	15	-
Fixed interest rate instruments		949,927	890,272	873,577	849,231	4,424,371	7,522,440
Capacity lease		179,171	179,171	-	-	-	-
	Ps	1,311,019	1,478,206	1,246,947	855,697	4,424,386	7,522,440

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

The following table details the Company's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

		Less than 1 year	1-2 years	2 - 3 years	3 - 4 years	Total
December 31, 2012						
Cross currency swaps	Ps	51,555	320,919	290,256	67,783	730,513
	Ps	51,555	320,919	290,256	67,783	730,513

(h) Financing facilities

Short-term debt of Ps. 280,000 associated with the Company's financing facilities as of January 1, 2011 consisted of a revolving unsecured credit agreement with Banamex in Mexican pesos, renewable on a quarterly basis. The interest rate is TIIE + 375 basis points and is due monthly. During November 2011 this loan was paid in full.

(i) Fair value of financial instruments

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

	December 31, 2012		December 31, 2011		January 1, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities						
Financial liabilities held at amortized cost:						
U.S. $275 million Senior Unsecured Notes	3,577,778	1,842,555	3,847,360	2,770,099	3,398,203	3,397,863
U.S. $300 million Senior Unsecured Notes	3,903,030	2,068,606	4,197,120	3,189,811	3,707,130	3,561,811
U.S. $190 million Senior Unsecured Notes	2,514,015	1,310,117	2,706,508	2,020,214	2,402,418	2,255,813
Syndicated loan	1,057,925	964,663	838,904	626,645	-	-
Other long-term financing	251,182	225,166	468,245	454,626	549,472	468,375
Capacity lease	318,984	327,442	453,237	467,619	127,642	130,173

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

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

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments or option pricing models as best applicable. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and include other adjustments to arrive at fair value as applicable (i.e. for counterparty credit risk).

- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

	December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Zero strike calls	**88,419**	**-**	**-**	**88,419**
Financial liabilities				
Derivative financial liabilities	**-**	**46,532**	**-**	**46,532**

	December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	184,911	-	184,911
Zero strike calls	135,212	-	-	135,212
Total	**135,212**	**184,911**	-	**320,123**
Financial liabilities				
Derivative financial liabilities	**-**	**16,888**	**-**	**16,888**

	January 1, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets				
Derivative financial assets	-	55,782	**-**	55,782
Zero strike calls	216,035	-	**-**	216,035
Total	**216,035**	**55,782**	**-**	**271,817**
Financial liabilities				
Derivative financial liabilities	**-**	**127,549**	**-**	**127,549**

(9) Accounts receivable

Accounts receivable consist of the following:

		December 31, 2012	**December 31, 2011**	**January 1, 2011**
Trade accounts receivable	Ps	4,614,301	4,025,091	4,059,229
Less allowance for doubtful accounts		2,207,537	2,007,078	1,818,695
Trade accounts receivable, net	Ps	2,406,764	2,018,013	2,240,534

Given their short-term nature the carrying value of trade accounts receivable approximates its fair value as of December 31, 2012 and 2011 and as of January 1, 2011.

Movement in the allowance for doubtful accounts:

		December 31, 2012	**December 31, 2011**	**January 1, 2011**
Opening balance	Ps	2,007,078	1,818,695	1,658,055
Allowance for the year		201,473	186,695	161,860
Effect of exchange rate		(1,014)	1,688	(1,220)
Balances at period end	Ps	2,207,537	2,007,078	1,818,695

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

Aging of impaired trade receivables:

December 31, 2012	**December 31, 2011**	**January 1, 2011**

30 - 60 days	Ps	35,418	28,978	30,105
60 - 90 days		31,282	24,871	27,284
90 - 120 days		42,719	27,203	29,642
120 + days		2,098,118	1,926,026	1,731,664
Total	Ps	2,207,537	2,007,078	1,818,695

(10) Inventories

Inventories consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Routers	Ps	17,209	38,552	41,022
Installation material		19,836	24,276	33,723
Network spare parts		13,622	20,796	26,510
Tools		10,864	13,332	15,261
Telephones and call identification devices		13,734	9,122	11,024
Other		30,206	46,678	38,089
Total inventories	Ps	105,471	152,756	165,629

(11) Property, systems and equipment

Property, systems and equipment are as follows:

Cost	Land and Building	Computer and electronic equipment	Transport-ation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2011	430,990	2,717,392	355,631	207,057	26,312,273	391,134	2,088,815	32,503,292
Additions	-	163	7,635	797	536,424	179	2,440,896	2,986,094
Transfer of completed projects in progress	-	322,723	24,792	8,065	1,381,776	26,644	(1,764,000)	-
Disposals	-	-	(9,987)	-	(806,363)	-	(229,000)	(1,045,350)
Balance as of December 31, 2011	430,990	3,040,278	378,071	215,919	27,424,110	417,957	2,536,711	34,444,036
Additions	-	247	2,814	2	572,753	-	1,481,933	2,057,749
Transfer of completed projects in progress	-	235,402	25,095	5,178	2,411,698	7,190	(2,684,563)	-
Transfer to assets held for sale	-	-	-	-	(817,077)	-	-	(817,077)
Disposals	-	(26)	(10,569)	-	(21,307)	-	-	(31,902)
Balance as of December 31, 2012	430,990	3,275,901	395,411	221,099	29,570,177	425,147	1,334,081	35,652,806

Depreciation and impairment	Land and Building	Computer and electronic equipment	Transp-ortation equipment	Furniture and fixtures	Network equipment	Leasehold improvements	Construction in progress	Total
Balance as of January 1, 2011	93,226	1,064,654	151,854	134,996	15,069,521	219,569	-	16,733,820
Depreciation for the year	14,286	64,371	75,072	14,458	2,820,714	39,600	-	3,028,501
Disposals	-	-	(4,971)	-	(736,337)	-	-	(741,308)
Balance as of December 31, 2011	107,512	1,129,025	221,955	149,454	17,153,898	259,169	-	19,021,013
Depreciation for the year	14,286	101,517	76,790	14,063	2,776,095	38,459	-	3,021,210
Disposals	-	-	(9,588)	-	(21,208)	-	-	(30,796)
Transfer to assets held for sale	-	-	-	-	(356,615)	-	-	(356,615)
Balance as of December 31, 2012	121,798	1,230,542	289,157	163,517	19,552,170	297,628	-	21,654,812
Property, systems and equipment, net	309,192	2,045,359	106,254	57,582	10,018,007	127,519	1,334,081	13,997,994

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

During the year ended December 31, 2012 and 2011 the Company capitalized Ps.61,399 and Ps. 57,157, respectively of borrowing costs in relation to Ps.716,915 and Ps. 611,387 in qualifying assets. Amounts were capitalized based on a capitalization rate of 8.57% and 9.42%, respectively.

For the year ended December 31, 2012 and 2011 interest expenses are comprised as follows:

		December 31, 2012	December 31, 2011
Interest expense	Ps	(1,118,912)	(1,059,737)
Amount capitalized		61,399	57,157
Net amount in consolidated statements of comprehensive income	Ps	(1,057,513)	(1,002,580)

As of December 31, 2012, certain financial leases amounting to approximately Ps.10 million were guaranteed with the equipment acquired with those leases.

The depreciation expense for the year ended December 31, 2012 and 2011, amounts to Ps. 3,021,210 and Ps. 3,028,501, respectively.

Non-current assets held for sale

Certain of the Company´s communications towers are presented as held for sale due to a formal plan to sell these assets. The sale took place on January 31, 2013, see note 26. As of December 31, 2012 assets held for sale amounted to $460,462 less liabilities (decommissioning and remediation obligations) of $281,808.

(12) Intangible assets

Intangible assets with defined useful lives consist of the following:

	Telephone concession rights Axtel	Telephone concession rights Avantel	Customers relationships	Trade name “Avantel”	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	67,871	1,351,411
Additions	-	-	-	-	-	-	-	5,298	5,298
Balances as of December 31, 2011	571,520	110,193	312,438	179,332	58,982	21,045	30,030	73,169	1,356,709
Additions	-	-	-	-	-	-	-	14,161	14,161
Balances as of December 31, 2012	571,520	110,193	312,438	179,332	58,982	21,045	30,030	87,330	1,370,870

Amortization and impairment	Telephone concession rights Axtel	Telephone concession rights Avantel	Customers relationships	Trade name “Avantel”	Telmex / Telnor infrastructure costs	World Trade Center concession rights	Rights of use	Others	Total
Balance as of January 1, 2011	336,317	40,070	312,438	179,332	26,337	7,665	11,565	66,915	980,639
Amortization expense	30,307	10,018	-	-	4,081	1,673	2,886	1,610	50,575
Balances as of December 31, 2011	366,624	50,088	312,438	179,332	30,418	9,338	14,451	68,525	1,031,214
Amortization expense	30,307	10,018	-	-	4,080	1,672	2,886	2,071	51,034
Balances as of December 31, 2012	396,931	60,106	312,438	179,332	34,498	11,010	17,337	70,596	1,082,248
Intangible assets, net	174,589	50,087	-	-	24,484	10,035	12,693	16,734	288,622

Concessions rights of the Company

The main concessions of the Company are as follows:

- On June, 1996 Axtel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

- On September 15, 1995 Avantel obtained a concession to offer local and long distance telephony services, for a period of thirty years. To maintain this concession the Company needs to comply with certain conditions. It can be renewed for another period of thirty years;

- Concessions of different frequencies of radio spectrum for 20 years and renewable for additional periods of 20 years, as long as Axtel complies with all of its obligations, and with all conditions imposed by the law and with any other condition that Secretaria de Comunicaciones y Transporte (SCT) imposes.

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

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

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

Intangible assets arising from the acquisition of Avantel

Derived from the acquisition of Avantel in 2006, the Company recorded certain intangible assets such as: trade name “Avantel”, customer relationships and telephone concession rights, whose value were determined by using an independent external expert appraiser at the acquisition date and accounted for in accordance to previous GAAP. The trade name and customer relationships are amortized over a three-year period; meanwhile the concession is amortized over the remaining term of the concession on a straight-line basis. At December 31, 2012 the values of the trade name “Avantel” and of customer relationships were totally amortized

(13) Investments in associates and joint ventures and other equity investments

As of December 31, 2012, the investment in shares of associated company through Avantel, S. de R.L. de C.V. is represented by a non-controlling 50% interest in the equity shares of Conectividad Inalámbrica 7GHZ, S. de R.L., amounting to $9,647. The operation of this company consists of providing radio communication services in Mexico under the concession granted by the SCT. Such concession places certain performance conditions and commitments to this company, such as (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) to present a code of marketing strategies, (v) to register rates of service, (vi) to provide a bond and (vii) fulfilling the program of investments presented when the Company requested the concession.

During 2011 the Company recognized an impairment regarding its investments in Opanga Networks and Eden Rock Communications for Ps. 17,798 and Ps. 16,735, respectively.

Summarized financial information in respect of the Company's associates accounted for under the equity method is set out below.

	Ownership			Investment amount		
	December 31, 2012	**December 31, 2011**	**January 1, 2011**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Conectividad Inalámbrica 7GHZ, S. de R.L.	50%	50%	50%	9,647	9,667	9,808
Opanga Networks	19.8%	19.8%	20%	17,798	17,798	17,798
Eden Rock Communications	10.5%	10.5%	11.7%	16,735	16,735	16,735
				44,180	44,200	44,341
Less impairment				(34,533)	(34,533)	-
Total investments				9,647	9,667	44,341

Conectividad Inalámbrica 7GHZ, S. de R.L

		December 31, 2012	December 31, 2011	January 1, 2011
Total assets	Ps	20,791	20,830	20,864
Total liabilities		1,497	1,497	1,249
Net assets		19,294	19,333	19,615
Share of net assets of associates		9,647	9,667	9,808
Net (loss) income for the period		(40)	(282)	12
Share of loss of associates accounting by the equity method	Ps	(20)	(141)	6

(14) Other assets

Other assets consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Long-term prepaid expenses	Ps	170,633	144,785	146,697
Account receivable Telmex (see note 24 (b))		47,395	139,790	225,654
Guarantee deposits		47,631	48,357	41,983
Advances to suppliers		10,419	11,204	13,427
Other		18,519	14,355	17,695
Other assets		294,597	358,491	445,456
Current portion of other assets		141,439	235,401	303,798
Other long-term assets	Ps	153,158	123,090	141,658

(15) Long-term debt

Long-term debt as of December 31, 2012 and 2011 and January 1, 2011 consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
U.S. $275,000,000 in aggregate principal amount of 7 $^5/_8$ % Senior Unsecured Notes due in 2017. Interest is payable semiannually on February 1 and August 1 of each year.	Ps	3,577,778	3,847,360	3,398,203
U.S. $300,000,000 in aggregate principal amount of 9% Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		3,903,030	4,197,120	3,707,130
U.S. $190,000,000 in aggregate principal amount of 9 % Senior Unsecured Notes due in 2019. Interest is payable semiannually on March and September of each year.		2,471,919	2,658,176	2,347,849
Premium on Senior Unsecured Notes with an aggregate principal of U.S. $190,000,000 with an interest rate of 9%, due in 2019.		42,096	48,332	54,569
Syndicated loan totaling U.S. $100 million with variable interest rate from LIBOR + 3.0% to LIBOR + 4.5% and from TIIE + 3.0% to TIIE + 4.5% according to the leverage of the Company. Interest payments are made quarterly. As of December 31, 2011 U.S. $ 53.3 million and Ps. 364.7 million have been utilized.		1,057,925	838,904	-
Capacity lease agreement with Teléfonos de Mexico, S.A.B. de C.V. of approximately Ps. 800,000 payable monthly and expiring in 2011. Renewed in 2011 of approximately Ps. 484,000 payable monthly.		318,984	453,237	127,642
Other long-term financing with several credit institutions with interest rates fluctuating between 3.60% and 7.20% for those denominated in dollars and TIIE (Mexican average interbank rate) plus 1.5 and 3 percentage points for those denominated in pesos.		251,179	468,245	549,472
Note issuance and deferred financing costs		(156,297)	(188,681)	(141,002)
Total long-term debt		11,466,614	12,322,693	10,043,863
Less current maturities		411,969	380,880	375,996
Long-term debt, excluding current maturities	Ps	11,054,645	11,941,813	9,667,867

Annual installments of long-term debt are as follows:

Year		Amount
2014	Ps	708,958
2015		503,899
2016		3,178
2017		3,577,863
2018 and thereafter		6,260,747
	Ps	11,054,645

Note issuance and deferred financing costs directly attributable to the issuance of the Company's borrowings are amortized based on the effective interest rate over the term of the related borrowing. The Company incurred Ps. 66,849 related to the issuance of its syndicated loan in 2011.

For the year ended December 31, 2012 and 2011, the interest expense was Ps. 1,118,912 and Ps. 1,059,737 respectively.

On November 17, 2011, the Company closed a syndicated loan with Banco Nacional de Mexico, SA, a member of Grupo Financiero Banamex; Banco Mercantil del Norte SA, Institución de Banca Múltiple, Grupo Financiero Banorte; Credit Suisse AG, Cayman Islands Branch; ING Bank NV, Dublin Branch and Standard Bank Plc. The total amount is U.S. $ 100 million with a four year period, two year grace period of principal and made up of a funded amount and a committed short term revolving facility. The loan is secured by the accounts receivable of certain corporate customers of the Company. As of December 31, 2012 US$ 53.3 million and Ps. 365 million have been funded, while the revolving facility has not been disbursed. The operation contemplates a variable rate from LIBOR+3.0% to LIBOR+4.5% in dollars and a TIIE+3.0% to TIIE+4.5% in pesos, according to the leverage of the Company. Interest payments are on a quarterly basis and the purpose of the loan is to strengthen liquidity, capital investments, debt repayment and other corporate general purposes.

Certain debt agreements establish affirmative and negative covenants, the most significant of which refer to limitations on dividend payments and the compliance with certain financial ratios. As of December 31, 2012 and February 28, 2013, the Company was in compliance with all covenants contained in its debt agreements.

(16) Other current liabilities

As of December 31, 2012 and 2011 and January 1, 2011 other accounts payable consist of the following:

		December 31, 2012	December 31, 2011	January 1, 2011
Guarantee deposit	Ps	10,261	11,034	9,746
Payroll and other liabilities [(1)]		96,441	128,960	88,883
	Ps	106,702	139,994	98,629

[(1)] Payroll and other liabilities mainly include christmas bonus, vacation premium and other benefits

(17) Employee benefits

The cost, obligations and other elements of the Company's seniority premium liability for reasons other than restructuring have been determined based on computations prepared by independent actuaries at, December 31, 2012 and 2011 and January 1, 2011. The components of the net periodic cost for the years ended December 31, 2012 and 2011 are as follows:

		December 31, 2012	**December 31, 2011**
Net period cost:			
Current service cost	Ps	3,527	3,564
Interest cost		1,403	1,270
Actuarial gain		(7,593)	-
Amortization of net actuarial loss		(453)	(453)
Net period (benefit) cost	Ps	(3,116)	4,381

The actuarial present value of benefit obligations of the plans at December 31, 2012 and 2011, and January 1, 2011 are follows:

		December 31, 2012	**December 31, 2011**
Initial balance	Ps	21,935	19,972
Benefits paid		(343)	(1,375)
Current service cost and interest cost		4,930	4,834
Actuarial gain		(7,070)	(1,496)
Net projected liability	Ps	19,452	21,935

The amount included in the consolidated statement of financial position arising from the entity's obligation in respect of its seniority premium benefits is as follows:

	December 31, 2012	**December 31, 2011**	**January 1, 2011**
Total present value of obligations	18,131	20,635	18,686
Amendments to plan	267	866	1,319
Actuarial losses (gains)	1,054	434	(33)
Liability recognized for defined benefit obligation	19,452	21,935	19,972

The most significant assumptions used in the determination of the net periodic cost are the following:

	December 31, 2012	December 31, 2011
Discount rate used to reflect the present value of obligations	6.5%	7.5%
Rate of increase in the minimum wage	3.5%	4%
Real rate of increase in future salary levels	4%	4%
Average remaining labor life of employees	19 years	21 years

(18) Provisions

The Company's provisions as of December 31, 2012 and 2011and January 1, 2011 are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Decommissioning and remediation obligations	Ps	281,808	253,129	223,824
Restructuring provision		-	59,855	100,000
Total		281,808	312,984	323,824
Current portion of provisions		281,808	59,855	100,000
Long-term portion of provisions	Ps	-	253,129	223,824

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

Decommissioning and remediation obligations

		December 31, 2012	December 31, 2011
Initial balance	Ps	253,129	223,824
Additional provisions recognized		-	3,543
Unwinding of discount and effect of changes in the discount rate		28,679	25,762
Ending balance	Ps	281,808	253,129

The Company conducted an analysis of the obligation associated with the retirement of property, systems and equipment, mainly identifying sites built on leased land on which it has a legal obligation or assumed the retirement thereof.

Restructuring provision		December 31, 2012	December 31, 2011
Initial balance	Ps	59,855	100,000
Additional provisions recognized		-	63,500
Payments		(59,855)	(103,645)
Ending balance	Ps	-	59,855

In order to implement its strategic plans, the Company has restructured certain of its operations. The cost of restructuring, which consists of compensation and employee severance payments, is included in the statement of comprehensive income as component of operating (loss) income.

(19) Transactions and balances with related parties

The transactions with related parties during the years ended December 31, 2012 and 2011 are as follows:

		2012	2011
Banamex:			
Telecommunication service revenues	Ps	514,287	596,517
Commission and administrative services		14,176	14,811
Interest expense		28,795	22,883
Other related parties:			
Rent expense		39,914	37,061
Installation service expense		32,027	26,693
Other		5,950	21,691

The balances with related parties as of December 31, 2012 and 2011 and January 1, 2011, included in accounts payable are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Accounts payable short-term:				
Banco Nacional de México, S.A. [(1)]	Ps	434,693	385,289	445,532
Instalaciones y Desconexiones Especializadas, S.A. de C.V. [(2)]		991	843	949
GEN Industrial, S.A. de C.V. [(2)]		73	54	162
Total	Ps	435,757	386,186	446,643
Accounts payable long-term:				
Banco Nacional de México, S.A. [(1)]	Ps	33,900	33,900	33,900

[(1)] Derived from transactions related to master services agreement signed between the Company and Banamex in November 2006. Under this contract, the Company provides telecommunications services (including, local, long distance and other services) to Banamex and its affiliates located in Mexico.

[(2)] Mainly rents and other administrative services.

The benefits and aggregate compensation paid to executive officers and senior management of the Company during the year ended December 31, 2012 and 2011 were as follows:

		2012	2011
Short-term employee benefits paid	Ps	108,185	67,645

(20) Income tax (IT) and Flat Rate Tax (IETU)

Under the current tax legislation, companies must pay the greater of their Income Tax or Business Flat Tax (IETU). If IETU is payable, the payment will be considered final and not subject to recovery in subsequent years. In accordance with the tax reforms effective as of January 1, 2010, the IT rate for fiscal years 2010 to 2012 is 30%, 30% for 2013, 29% for 2014 and 28% for 2015 and thereafter. The IETU rate is 17.5 % for 2010 and thereafter.

The deferred income taxes are as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Income Tax	Ps	1,890,998	1,731,332	1,482,021
Business Flat Tax		190,720	122,060	146,450
Deferred income taxes	Ps	2,081,718	1,853,392	1,628,471

The subsidiaries Avantel, S. de R.L., Avantel, S.A. Asociación en Participación, Servicios Axtel, S.A. de C.V. and Instalaciones y Contrataciones, S.A. de C.V., will pay IETU. The main differences that generated the deferred IETU asset as of December 31, 2012 and 2011 and January 1 2011 in these subsidiaries is as follows:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Accounts payable	Ps	345,534	286,473	183,830
Deferred revenues		87,308	81,192	98,818
Provisions		30,278	21,948	21,843
Other		17,917	37,815	8,405
Total deferred tax assets		481,037	427,428	312,896
Deferred tax liability				
Accounts receivable		271,628	281,139	141,129
Telephone concession rights		9,854	11,291	12,728
Property, systems and equipment		7,219	11,186	10,614
Other		1,616	1,752	1,975
Total deferred tax liability		290,317	305,368	166,446
Net deferred tax assets	Ps	190,720	122,060	146,450

The main differences that gave rise to the deferred income tax assets as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2012	December 31, 2011	January 1, 2011
Deferred tax assets:				
Net operating loss carry forwards	Ps	599,839	700,066	448,762
Allowance for doubtful accounts		438,602	345,348	281,586
Fair value of derivative financial instruments		26,073	-	93,736
Accrued liabilities and other provisions		246,221	166,688	315,633
Premium on bond issuance		12,629	14,500	16,371
Property, systems and equipment		661,615	637,900	450,494
Total deferred tax assets		1,984,979	1,864,502	1,606,582
Deferred tax liabilities:				
Telephone concession rights		55,628	63,215	78,065
Fair value of derivative financial instruments		-	37,459	-
Intangible and other assets		38,353	32,496	46,496
Total deferred tax liabilities		93,981	133,170	124,561
Deferred tax assets, net	Ps	1,890,998	1,731,332	1,482,021

A reconciliation between tax expense and income before income taxes multiplied by the statutory income tax rate for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Statutory income tax rate	30%	30%
Difference between book and tax inflationary effects	9%	4%
Change in valuation allowance	(4%)	(7%)
Non-deductible expenses	(8%)	(6%)
Effect of IETU tax rate	4%	-
IETU effect	(11%)	(7%)
ISR cancellation of subsidiary	-	(2%)
Other	-	(3%)
Effective tax rate	20%	9%

The roll forward for the net deferred tax asset as of December 31, 2012 and 2011 and January 1, 2011 are presented below:

		December 31, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 2012
Net operating loss carry forwards	Ps	700,066	(100,227)	-	599,839
Allowance for doubtful accounts		345,348	93,254	-	438,602
Fair value of derivative financial instruments		(37,459)	61,370	2,162	26,073
Accrued liabilities and other provisions		166,688	79,533	-	246,221
Premium on bond issuance		14,500	(1,871)	-	12,629
Deferred IETU		122,060	68,660	-	190,720
Property, systems and equipment		637,900	23,715	-	661,615
Telephone concession rights		(63,215)	7,587	-	(55,628)
Intangible and other assets		(32,496)	(5,857)	-	(38,353)
	Ps	1,853,392	226,164	2,162	2,081,718

		January 1, 2011	Effects on profit and loss	Effects on stockholders' equity	December 31, 2011
Net operating loss carry forwards	Ps	448,762	251,304	-	700,066
Allowance for doubtful accounts		281,586	63,762	-	345,348
Fair value of derivative financial instruments		93,736	(69,034)	(62,161)	(37,459)
Accrued liabilities and other provisions		315,633	(148,945)	-	166,688
Premium on bond issuance		16,371	(1,871)	-	14,500
Deferred IETU		146,450	(24,390)	-	122,060
Property, systems and equipment		450,494	187,406	-	637,900
Telephone concession rights		(78,065)	14,850	-	(63,215)
Intangible and other assets		(46,496)	14,000	-	(32,496)
	Ps	1,628,471	287,082	(62,161)	1,853,392

As of December 31, 2012, the tax loss carry forwards and the refundable tax on assets expire as follows:

Year		Tax loss carry forwards	Tax on assets
2013	Ps	558,544	88,002
2014		111,123	84,424
2015		-	30,885
2016		24,210	27,901
2017		-	56,291
2018		434,013	-
2020		178,932	-
2021		1,783,597	-
2022		571,266	-
	Ps	3,661,685	287,503

At December 31, 2012, the valuation allowance of deferred tax assets is Ps 607,378, of which Ps178,321 relate to tax loss carry forwards, Ps 141,554 to estimating doubtful accounts and Ps287,503 to tax recoverable asset.

The recoverable tax loss carry - forwards includes Ps 1,007,001 from companies in which deferred IETU was calculated.

(21) Stockholders' equity

The main characteristics of stockholders' equity are described below:

(a) Capital stock structure

As of December 31, 2012, the common stock of the Company is Ps 6,625,536. The Company has 8,769,353,223 shares issued and outstanding. Company's shares are divided in two Series: Series A and B; both Series have two type of classes, Class "I" and Class "II", with no par value. Of the total shares, 96,636,627 are series A and 8,672,716,596 series B. At December 31, 2012 the Company has issued only Class "I".

	Shares			Amount		
	December 31, 2012	**December 31, 2011**	**January 1, 2011**	**December 31, 2012**	**December 31, 2011**	**January 1, 2011**
Authorized and issued capital:						
Series A	96,636,627	96,636,627	96,636,627	73,012	73,012	73,012
Series B	8,672,716,596	8,672,716,596	8,672,716,596	6,552,524	6,552,524	6,552,524

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

The acquisition of Avantel also included a Series B Shares Subscription Agreement (''Subscription Agreement'') with Tel Holding, an indirect subsidiary of Citigroup, Inc., for an amount equivalent to up to 10% of Axtel's common stock. For this to come into effect, the Company obtained stockholder approval (i) to increase capital by issuing Series B Shares in a number that was sufficient for Tel Holding to issue and pay Series B Shares (in the form of CPOs) representing up to a 10% equity share in Axtel; and (ii) for the subscription and payment of the Series B Shares that represented the shares issued by Tel Holding and any shares issued by stockholders that elected to issue and pay for additional Series B Shares in exercise of their preferential right granted by the Mexican General Corporation Law.

On December 22, 2006 pursuant to the Subscription Agreement, the Company received notice from Tel Holding confirming that it acquired 533,976,744 Series B Shares (represented by 76,282,392 CPOs) from the Mexican Stock Exchange (Bolsa Mexicana de Valores, or ''BMV'') and confirming its intention to issue and pay for 246,453,963 new Series B Shares (represented by 35,207,709 CPOs). The new Series B Shares were subscribed and paid for by Tel Holding through the CPOs Trust on January 4, 2007.

(b) Stockholders' equity restrictions

Stockholders' contributions, restated for inflation as provided in the tax law, totaling Ps 8,644,068 may be refunded to stockholders tax-free.

No dividends may be paid while the Company has a deficit. Additionally, certain of the Company's debt agreements mentioned in note 15 establish limitations on dividend payments.

(c) Comprehensive loss income

The balance of other comprehensive income items and its activity as of December 31, 2012 and 2011, is as follows:

		2012	2011
Net loss	Ps	(708,869)	(2,070,126)
Valuation of the effective portion of derivative financial instruments		(7,205)	206,952
Effect of income tax		2,162	(62,161)
Valuation of the effective portion of derivative financial instruments, net		(5,043)	144,791
Net comprehensive income (loss)	Ps	(713,912)	(1,925,335)

(22) Telephone services and related revenues

Revenues consist of the following:

		2012	2011
Local calling services	Ps	3,619,022	4,160,082
Long distance services		1,236,414	1,223,985
Data services		2,796,542	2,594,528
International traffic		655,328	1,246,418
Other services		1,882,426	1,604,392
	Ps	10,189,732	10,829,405

(23) Other expenses, net

Other expenses consists of the following

		2012	2011
Restructuring cost	Ps	(190,984)	(63,500)
Write off of fixed assets inventories		-	(324,409)
Impairment of other permanent investments		-	(36,938)
Other, net		(9,003)	5,397
	Ps	(199,987)	(419,450)

(24) Commitments and contingencies

As of December 31, 2012, the Company has the following commitments and contingencies:

(a) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. On the second quarter of the year 2007, and the first quarter of the year 2008, the Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*) (“**Cofetel**”) ruled interconnection disagreements between the Company and the following mobile carriers: Radiomovil Dipsa, S.A. de C.V. (“**Telcel**”), Iusacell PCS, S.A. de C.V. and others (“**Grupo Iusacell**”), Pegaso PCS, S.A. de C.V. and others (“**Grupo Telefonica**”) and Operadora Unefon, S.A. de C.V. (“**Unefon**”).

With respect to Telcel, when the Cofetel issued the ruling where it determined the interconnection tariffs for the years 2005 to 2007, both Telcel and Axtel challenged such ruling via amparo trial, such trial being attracted by the Supreme Court of Justice (*Suprema Corte de Justicia de la Nación)* (“**SCJN**”). The SCJN decided, in public sessions that took place on February 25, 26 and 28 of the year 2013, to deny the amparo trials filed by the Company and Telcel, and therefore confirming the ruling issued in the past by Cofetel. The result of this amparo trial, do not creates an economic contingency for the Company due to the fact that during the years 2005, 2006 and 2007, the Company paid the interconnection tariffs set forth by the Cofetel in the above mentioned disagreements.

With respect to Grupo Iusacell, Grupo Telefonica and Unefon, the Company filed an administrative review proceeding, wich was resolved on September 1, 2008 by the Department of Communications and Transportation (*Secretaría de Comunicaciones y Transportes*) (“**SCT**”). The SCT decided to revoke the resolutions issued by the Cofetel, and established cost based tariffs for the years 2006 and 2007.

The above mentioned mobile carriers challenged the resolutions issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceedings filed by Axtel, and that the Cofetel is the authority that should rule on these administrative review proceedings.

Therefore, during the following months, the Cofetel will have to decide yet again, the interconnection tariffs applicable between Axtel and the mobile carriers mentioned in the precedent paragraphs, and consequently, the interconnection tariffs that Axtel shall pay to these carriers is not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

(b) Interconnection Disagreements – Mobile Carriers – Years 2005 to 2007. With respect to Telcel, the Company filed an interconnection disagreement early on the year 2008, such proceeding being decided in fist instance by the SCT, on the first day of September, 2008, which as mentioned before, arose from a proceeding filed by Axtel. In such ruling, the SCT set the cost based interconnection tariffs of $0.5465 pesos, $0.5060 pesos, $0.4705 and $0.4179 pesos for the years 2008, 2009, 2010 and 2011, respectively.

Telcel challenged the resolution issued by the SCT via amparo trial, and on February, 2012, the SCJN ruled that the SCT had to standing to decide on the administrative review proceeding filed by Axtel, and that the Cofetel is the authority that should determine such interconnection tariffs

Due to the above mentioned SCJN ruling, the Cofetel will have to set forth the interconnection tariffs applicable between Axtel and Telcel, and consequently, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

With respect to Grupo Telefonica, the Cofetel determined on October 20th, 2010, the interconnection tariffs for Axtel and Grupo Telefonica applicable to the period between 2008 and 2011, which consider the same amounts set forth by the SCT in the ruling issued on September 1, 2008, that is, $0.5465 pesos per real minute for 2008, $0.5060 pesos for 2009, $0.4705 pesos for 2010, and $0.4179 pesos for 2011.

This ruling was challenged via amparo trial by Grupo Telefonica, and its currently on its first stage. Final ruling on this matter is expected on the first semester of the year 2014.

With respect to Grupo Iusacell and Unefon, the Cofetel determined the interconnection tariffs for the years of 2008 to 2010, on the second quarter of the year 2009, such determination being challenged by the Company via an administrative review proceeding, wich is in the process of being solved by the Cofetel. As a result, the interconnection tariffs are not yet definitely defined, due to the fact that these new rulings might be, once again, challenged by the parties involved.

As a consequence of the rulings issued by the SCT on September 2008, the Company recognized since August 2008, the interconnection tariff of: $0.5465 pesos, $0.5060 pesos, $0.4705 y $0.4179 per real minute for Telcel, and of $0.6032 pesos for the other mobile carriers.

The tariffs that the Company was paying prior to the rulings, was of $1.3216 pesos per real minute to Telcel, and $1.21 pesos per rounded minute to the other mobile carriers. As of December 31, 2012, the difference between the amounts paid by the Company according to these tariffs, and the amounts billed by the mobile carriers, amounted to approximately Ps. 2,073 million not including value added tax.

After evaluating the actual status of the foregoing proceedings, and taking into consideration the information available and the information provided by the legal advisors, the Company's Management consider that there are enough elements to maintain the actual accounting treatment, and that at the end of the legal proceedings, the interests of the Company will prevail.

(c) **Interconnection Disagreements – Telmex – Years 2009 to 2010**. In March 2009, the Cofetel resolved an interconnection disagreement proceeding existing between the Company (Axtel) and Teléfonos de México, S.A.B. de C.V. ("Telmex") related to the rates for the termination of long distance calls from the Company to Telmex with respect to year 2009. In such administrative resolution, the Cofetel approved a reduction in the rates for termination of long distance calls applicable to those cities where Telmex does not have interconnection access points. These rates were reduced from Ps. 0.75 per minute to US$0.0105 or US$0.0080 per minute (depending on the place where the Company delivers the long distance call).

Until June 2010, Telmex billed the Company for the termination of long distance calls applying the rates that were applicable prior to the resolutions mentioned above, and after such date, Telmex has billed the resultant amounts, applying the new interconnection rates. As of December 31, 2012, the difference between the amounts paid by the Company to Telmex according to the new rates, and the amounts billed by Telmex, amount to approximately to Ps. 1,240 million, not including value added tax.

Telmex filed for the annulment of the proceeding with the Federal Court of Tax and Administrative Justice (*Tribunal Federal de Justicia Fiscal y Administrativa*) requesting the annulment of Cofetel's administrative resolution. The Company (Axtel and Avantel) have a contingency in case that the Federal Tax and Administrative Court rules against the Company, and as a result, establishes rates different to those set forth by Cofetel. Telmex obtained a suspension for the application of the interconnection rates established by Cofetel, such suspension came into effect on January 26, 2010, but ceased to be in force and effect as of February 11, 2010, since the Company decided to exercise its right to leave without effect the suspension by guaranteeing any damages that could be caused to Telmex. Nonetheless, the above mentioned Court revoked the guarantee given to Telmex, taking into consideration the issuance of resolution P/140410/189, whereby Cofetel ruled the same low rates between Axtel and Telmex for the year 2010.

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

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

As of December 31st 2012, the Company believes that the rates determined by the Cofetel in its resolutions will prevail, and therefore it has recognized the cost, based on the rates approved by Cofetel.

As of December 31, 2009, there was a letter of credit for U.S. $34 million issued by Banamex in favor of Telmex for the purpose of guaranteeing the Company's obligations, which were acquired through several interconnection agreements. The amounts under the letter of credit were drawn by Telmex in the month of January 2010, claiming that Avantel had debts with such company. As of December 31, 2012, Avantel has been able to recover Ps.395 million of pesos from the amount mentioned above, through compensation with regard to certain charges for services rendered by Telmex to Avantel on a monthly basis. The remaining balance of Ps. 47 million of pesos is recognized in the "other accounts receivable" line item in the balance sheet.

(d) Spectrasite Contingency. On January 24, 2001, an agreement was entered into with Global Towers Communications Mexico, S. de R.L. de C.V. (Formerly Spectrasite Communications Mexico, S. de R.L. de C.V.), with expiration on January 24, 2004, whereby Global Towers was to provide to the Company with services for the location, construction, setting up and selling of sites within the Mexican territory. As part of the operation, the Company agreed to lease from Global Towers 650 sites in a time frame period of three years.

On January 24, 2001, the Company received 13 million dollars from Global Towers to secure the acquisition of the 650 sites at 20,000 dollars per site. During 2002, Spectrasite Communications México, S. de R.L. de C.V., filed an Ordinary Mercantile Trial against the Company, claiming the refund of the guarantee deposit. On December 15 2011, the trial was ruled in favor of Axtel, releasing the Company from any and all liability, and therefore finalizing this contingency.

(e) **Contingency – Payment of Duties.** With respect to the contingency that the Company had for the payment of rights for the years 2001 to 2011 for the installation and use of a cable in the exclusive economic geographic zone in Mexico related to certain landing points in "Playa Niño", region 86, Benito Juarez, Itancah Tulum, Carrillo Puerto, and Quintana Roo, after several trials and as a consequence of several approaches with the General Management of Ports of the Department of Communications and Transportation, after which, the surface over which the duties for the for the maritime cable were to be calculated was modified and considerably reduced, on the 4th day of September 2012, it was delivered to the Company a new authorization in order to use for a period of ten years, an area of the Mexican territorial seafloor, for which the Company paid, for the period from the year 2001 to the third quarter of the year 2012, the amount of Ps. 2,569 (including adjustments and surcharges).

The above brings this contingency litigation to an end, due to the fact that the Company made the payment for the full period of time and a new authorization title was issued.

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

(g) In compliance with commitments made in the acquisition of concession rights, the Company has granted surety bonds to the Federal Treasury and to the Department of Communications and Transportation amounting to Ps 5,236 and to other service providers amounting to Ps 1,243,020.

(h) The concessions granted by the Department of Communications and Transportation (SCT), mentioned in note 2, establish certain obligations to the Company, including, but not limited to: (i) filing annual reports with the SCT, including identifying main stockholders of the Company, (ii) reporting any increase in common stock, (iii) providing continuous services with certain technical specifications, (iv) filing monthly reports about disruptions, (v) filing the services' tariff, and (vi) providing a bond.

(i) The Company leases some equipment and facilities under operating leases. Some of these leases have renewal clauses. Lease expense for year ended December 31, 2012 and 2011 amounted to Ps 641,977 and Ps 567,986, respectively.

The annual payments under these leases as of December 31, 2012 are as follows:

		Leases contracts in:	
		Pesos (thousands)	Dollars (thousands)
2013	Ps	217,027	10,483
2014		185,584	10,512
2015		149,616	6,702
2016		125,670	4,441
2017		106,716	1,091
2018 and thereafter		206,444	1,250
	Ps	991,057	34,479

(j) As of December 31, 2012, the Company has placed purchase orders which are pending delivery from suppliers for approximately Ps. 965,058.

(25) Impacts of Adopting International Financial Reporting Standards

The Company adopted IFRS on January 1, 2012, as required by the National Banking and Securities Commission ("CNBV"). The consolidated financial statements for the year ending December 31, 2012 to be issued by the Company will be its first annual financial statements that comply with IFRS.

The Company has applied the following applicable mandatory exceptions to the retroactive application of IFRSs as established by IFRS 1 as follows:

Accounting estimates – IFRS estimates are consistent with those of MFRS at the same date.

Hedge accounting - Hedge accounting is applied only if the hedge relationship meets the criteria established by IFRS as of the transition date.

The Company applied the following optional exemptions to the retroactive application of IFRS:

Business combinations - The Company elected not to apply IFRS 3, "Business Combinations," to business combinations as well as to acquisitions of associates prior to its transition date.

Revaluation as deemed cost - The Company has opted for using the cost or depreciated cost basis, adjusted to reflect changes in a general or specific price index for property, systems and equipment, which include inflation adjustments through December 31, 2007 in accordance with MFRS as of the transition date.

Borrowing costs – The Company has applied the borrowing cost exemption as of the transition date.

A reconciliation of the Company's stockholders' equity as of January 1, 2011 and December 31, 2011 is as follows:

			2011	
			January 1	**December 31**
Stockholders' equity per MFRS	**note**	Ps	**7,633,468**	**5,740,146**
Intangible assets- effects of inflation	a)		(242,292)	(208,018)
Property, systems and equipment	b)		-	(94,765)
Employee benefits	c)		55,816	54,956
Deferred employee statutory profit sharing	d)		(18,581)	(18,082)
Derivative financial instruments	f)		2,536	1,456
Deferred income taxes	g)		296,574	326,493
Stockholders' equity per IFRS		Ps	**7,727,521**	**5,802,186**

A reconciliation of the Company's comprehensive income for the year ended December 31, 2011 is as follows:

	note		**December 31, 2011**
Net loss per MFRS		Ps	**(1,893,322)**
Effects of inflation in intangibles assets	a)		34,274
Property, systems and equipment – borrowing costs	b)		(94,765)
Employee benefits	c)		(860)
Deferred employee statutory profit sharing	d)		499
Derivative financial instruments	f)		(1,080)
Deferred income taxes	g)		29,919
Comprehensive loss per IFRS		Ps	**(1,925,335)**

The following notes describe the adjustments associated with the transition to IFRS:

a) Elimination of inflation in intangible assets and contributed capital

According to MFRS, the Mexican peso ceased to be a currency of an inflationary economy in December 2007, since cumulative inflation for the previous three years as of such date did not exceed 26%. According to IAS 29, "Financial Reporting in Hyperinflationary Economies," the last hyperinflationary period for the Mexican peso was in 1997. As a result, the Company eliminated the cumulative inflation recognized within intangible assets and contributed capital, for IFRS purposes.

b) Borrowing costs

In accordance with MFRS, the Company had capitalized exchange rate fluctuations, which in accordance with IFRS have been derecognized as they were not considered to be an adjustment to interest costs.

c) Employee benefits

According to MFRS, a severance provision and the corresponding expense, must be recognized based on the entity's experience in terminating the employment relationship before the retirement date. For IFRS purposes, this provision was eliminated as it does not meet the definition of a termination benefit pursuant to IAS 19, "Employee Benefits." Accordingly, at the transition date, the Company derecognized its termination obligation recorded under MFRS.

d) Deferred employee profit sharing

In accordance with MFRS, the Company records deferred employee profit sharing, which for purposes of IFRS has been derecognized given that this provision does not meet its recognition principles.

e) Debt issuance costs

In accordance with IAS 39, debt issuance costs are presented net of the associated debt given that they are considered to be a component of the effective interest cost.

f) Derivative financial instruments

Embedded derivatives

For MFRS purposes, the Company recorded embedded derivatives for lease agreements denominated in US dollars. Pursuant to the principles set forth in IAS 39, "Financial Instruments: Recognition and Measurement", there is an exception for embedded derivatives on those contracts that are denominated in certain foreign currencies, if for example the foreign currency is commonly used in the economic environment in which the transaction takes place. The Company concluded that all of its embedded derivatives fell within the scope of this exception. Therefore, at the transition date, the Company derecognized all embedded derivatives recognized under MFRS.

Credit risk associated with financial instruments

IAS 39, "Financial Instruments: Recognition and Measurement", establishes that both the Company's own and counterparty credit risk be considered in the fair value determinate of financial instruments measured at fair value through profit or loss, which impacted the valuation of its derivative financial instruments.

g) Deferred income taxes

The adjustments to IFRS recognized by the Company had an impact on the deferred income tax calculation, according to the requirements set forth by IAS 12, "Income Taxes." In addition, the Company recognized its deferred income tax liabilities, except to the extent that the deferred tax liability arose from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affected neither accounting profit nor taxable profit.

h) **Presentation of comprehensive income items**

The Company reclassified certain items within its statement of comprehensive income to conform with the requirements of IAS 1, "Presentation of Financial Statements," such as the reclassification of certain expenses, which for purposes of IFRS are considered to be operating in nature.

(26) Recently Issued Accounting Standards not yet in Effect

The following standards become effective in subsequent periods and management is in the process of assessing their possible impact on its consolidated financial position and results of operations.

Standards and amendments to be adopted in 2013

IAS 27, "Separate Financial Statements," establishes the requirements applicable to the accounting of investments in subsidiaries, associates and joint ventures, when an entity elects or is required by the local regulations, to present individual financial statements. This standard does not dictate which entities produce separate financial statements available for public use; it is applicable when an entity prepares such financial statements in accordance with IFRS. The separate financial statements are those presented by a controlling entity, an investor with joint control or significant influence, in which investments are accounted at cost or in accordance with IFRS 9. The effective date of IAS 27 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 28 (2011), IFRS 10, IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements.

IAS 28, "Investments in Associated Companies and Joint Ventures," prescribes the accounting for Investments in associated companies and establishes the requirements to apply the equity method when those investments and the investments in joint ventures are accounted. The standard is applicable to all the entities that own control or significant influence over another entity. This standard supersedes the previous version of IAS 28, Investments in associated companies. The effective date of IAS 28 (2011) is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IFRS 10, IFRS 11 and IFRS 12.

IFRS 10, "Consolidated Financial Statements," establishes the principles for the presentation and preparation of the consolidated financial statements when an entity controls one or more entities. The standard requires the controlling company to present its consolidated financial statements; modifies the definition about the principle of control and establishes such definition as the basis for consolidation; establishes how to apply the principle of control to identify if an investment is subject to be consolidated. The standard replaces IAS 27, Consolidated and Separate Financial Statements and SIC 12, Consolidation – Special Purpose Entities. The effective date of IFRS 10 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 11 and IFRS 12. This standard does not impact the Company's consolidated financial statements and has not been early adopted.

IFRS 11, “Joint Arrangements,” classifies joint arrangements as either joint operations (combining the existing concepts of jointly controlled assets and jointly controlled operations) or joint ventures (equivalent to the existing concept of a jointly controlled entity). Joint operation is a joint arrangement whereby the parties that have joint control have rights to the assets and obligations for the liabilities. Joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method. The determination of as to whether a joint arrangement is a joint operation or a joint venture is based on the parties’ rights and obligations under the arrangement, with the existence of a separate legal vehicle no longer being the key factor. The effective date of IFRS 11 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 12. This standard does not impact the Company’s consolidated financial statements and has not been early adopted.

IFRS 12, “Disclosure of Interests in Other Entities,” has the objective to require the disclosure of information to allow the users of financial information to evaluate the nature and risk associated with their interests in other entities, and the effects of such interests in their position, financial performance and cash flows. The effective date of IFRS 12 is January 1, 2013, with early application permitted in certain circumstances, but it must be applied in conjunction with IAS 27 (2011), IAS 28 (2011), IFRS 10 and IFRS 11. This standard does not impact the Company’s consolidated financial statements and has not been early adopted.

IFRS 13, “Fair Value Measurement,” establishes a single framework for measuring fair value where that is required by other standards. The standard applies to both financial and non-financial items measured at fair value. Fair value is defined as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date”. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, and applies prospectively from the beginning of the annual period in which the standard is adopted. This standard does not impact the Company’s consolidated financial statements and has not been early adopted.

Standards and amendments to be adopted in 2015

IFRS 9, “Financial Instruments,” issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

The standard requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognized in profit or loss.

(27) Subsequent events

a) On January 31, 2013, the Company completed the sale of 883 sites to MATC Digital telecommunications, S. de RL de CV ("MATC"), a subsidiary of American Tower Corporation, in amount of U.S. 249 million. Additionally, the Company agreed to lease certain spaces at these locations in terms ranging from 6 to 15 years, depending on the type of technology installed at each site, for a net cost of approximately $ 20 million.

b) On the same date, the Company completed the exchange of 142 and 335 million of unsecured notes due 2017 and 2019, respectively, for 249 and 22 million secured bonds and a convertible bond, respectively, both with due on 2020, plus a cash payment of 83 million to participating holders.

c) On January 30, 2013, the Company launched its pay-TV service "AXTEL TV" in Mexico City, Guadalajara and Monterrey.

DERIVATIVE FINANCIAL INSTRUMENTS

Axtel, S.A.B. de C.V. reports their operations with financial derivative instruments, complementary to the 4th Quarter Financial Information Report:

Qualitative and Quantitative Information:

Derivatives Policy

Axtel, S.A.B. de C.V. (" The Company or Axtel ")’s internal policy is to contract derivative instruments to mitigateprimarily exchange and interest rate risk exposurewith respect to our foreign currency obligations or commitments contracted in currenciesdifferent thanthe Mexican peso.

The strategy of the Company depends on the particular risk to be hedged, in accordance to the established policy. We prefer instruments that comply with IFRS of the International Financial Information Rules as hedge instruments, although other instruments can be considered also as long as such instruments reduce Axtel’s risks against its foreign currency exposure. Once defined the type of financial instrument to be used, the Company deals with international counterparties on the Over the Counter market (“OTC”). The Counterparty must have investment grade by the major rating agencies or met Axtel’s internal Treasury policies.The Company requests at least two quotes from counterparties. These are compared and analyzed under the parameters of the Financial Information Standard (IFRS), and then the most competitive is selected. All the operations must be authorized by the Finance, Treasury and Investor Relations Director.

The valuation agentsare established in the contract of financial derivative instruments or International Swap Derivatives Association, ("ISDA") and theirschedules. These documents contain the terms and conditions and the required documentation for each transaction, such as: payment dates, calculation agent, defaults, currency of delivery, margin calls and applicable legislation among others.In order to determine the mark to market on a specific date, the Company realizes their own valuations extracting economic information from specialized sources such as Reuters, Bloomberg, Banxico’sweb page, and other financialinstitutions.

During the 4th quarter 2012 no hedge transactions were traded by the company.

Margin calls, collateral and credit lines.

Margins callsand collaterals are established also in the ISDA agreement. These are established by the counterparties depending on the authorized credit lines and determined threshold limits. The Company does not operate with counterparties that do not offer reasonablelines relative to the size of the transaction closed. A transaction is not negotiated with a counterparty that does not offer a sufficient line related to that specific hedge.

Levels of authorization

The authorized officers to close derivative transactions are the Finance, Treasury and Investor Relations Director, with approval of the Chief Financial Officer. Depending on the notional amount of each transaction, the internal Treasury committeeis informed and subsequently approves certain transactions, according to Axtel's internal Treasury policies. The procedure of every operation is realized with two or more quotes which are shown by the Finance, Treasury and Investor Relations Director to the Chief Financial Officer whodecides to proceed or notwith such operation.

Procedures of internal control

Once the transaction is closed the counterparty sends a confirmation which specifies the terms and conditions of the deal to the Company.The Company´s Treasury department ("Treasury") reviews it and sends it to the Accounting department forits proper registration.

In order to keep control over each transaction,on a monthly basis,Treasury executes valuations to determine the mark to market and the effectiveness of the derivative instruments. These valuations are performed with tests established in the IFRS. Once these valuations are made, the information is passed alongto the Accounting department for proper registration in the books. On a quarterly basis, our external auditors review the above mentioned records applying their own valuation and calculation methods.

External Review

KPMG Cardenas Dosal, S.C., the Company´s external auditors, reviews periodically the valuation and accounting records of these operations.

Valuation Techniques

The valuation of derivative instruments with hedging purposesis realized using its fair value method.

It should be noted that because such assessments are made above according to international standards IFRS, the market value registered by the company include counterparty risk, for that reason and in case the market value is in favor of Axtel (asset) this includes the CDS (Credit Default Swap) of the counterparty, and if the market value is in favor of the counterparty (liability) the record includes counterparty risk in the record Axtel (Z-spread).

With the purpose of monitoring the effectiveness of derivatives with hedging purposes, prospective (analysis of linear regression) and retrospectives (periodic or accumulated compensation) tests are realized using statistical samples of market variables (interest and exchange rates), in accordance to the IFRS. This technique allows the monitoring of the derivative instruments' performance and the likelihood that a particular derivative instrument could not be treated as a hedge instrument in the future.

Axtel prepares its own valuations, which is compared against the counterparty's valuation. If there is a significant difference, further clarification is requested.

In order to determine the effectiveness of the hedging, the method of periodic compensation is used.

At least once a year, the external auditors of the Company (KPMG Cardenas Dosal, S.C) review the derivative instruments accounting records and validate their effectivenessin accordance with the IFRS.

Sources of Liquidity.

Most ofcompany's revenues arepesos denominated. With the purpose of eliminating the risk associated of having revenues in Pesos and interest payment obligationsin Dollars associated with the Senior Notes (see "Debt Profile"), the Company entered into"Interest Only Swaps" and FX Forwards, whereby, the Company effectively locksthe above mentioned interest payments intoPesos, metwith the cash flow generated by its operation.

The Company Do not currently have lines of credit for this type of instruments, however, transactions are collateralized or guaranteed by a part of the corporate portfolio in a trust established which in also guarantees a syndicated loan

Changes in the risk exposure

The risks that are identified arethe decrease of the exchange rate for all the derivative instruments.

Quantitative Information (figures expressed in thousands except that another reference is indicated).

As of December 31st, 2012, the fair value of the derivative instruments contracted, and represents a liability or short position of $46.5 million. Details of the derivative instruments of the 4th quarter 2012 are disclosed in the following table:

Hedge Type	Notional amount		Fair value		Credit line (USD)
			Actual Quarter	PAst Quarter	
1	**SWAP**	**614,113**	**Terminated**	(1,428)	**0**
2	**SWAP**	**464,368**	**(40,299)**	(41,065)	**0**
3	**SWAP**	**128,250**	**(6,233)**	(5,628)	**0**

All operations described in the above table are for hedging purposes. The reference variable for all transactions is $13.0101 for the current quarter, and 12.9170 for the previous quarter

Annual flows payable on derivative financial instruments (amounts in thousands of pesos):

Counterparty		Principal	2012	2013	2014	2015
1	**CREDIT SUISSE**	**614,113**	33,173	-	-	-
2	**CREDIT SUISSE**	**464,368**	-	107,975	228,917	194,053
3	**BANORTE-IXE**	**128,250**	-	28,257	62,144	53,148

Annual flows receivable on derivative financial instruments (amounts in thousands):

	Counterparty	Principal	2012	2013	2014	2015
1	**CREDIT SUISSE**	**44,453**	2,044	-	-	-
2	**CREDIT SUISSE**	**34,453**	-	5,356	15,907	14,986
3	**BANORTE-IXE**	**10,000**	-	1,554	4,617	4,349

Sensibility analysis:

Axtel´s derivative instruments have been effective, and it is expected that it will continue to be according to the regression analysis realized on December 31, 2012.

In carrying out the quarterly prospective effectiveness test, the data used wasfor the last 20 weeks prior to the date of each quarterly analysis.

Axtelhasthe support of the external auditor, who reviews the compliance of the internal policy, and makes sure that the results are reasonable.

It is important to mention that none of the operations of derivative instruments contracted by AXTEL puts the Company´s operation at risk, given that the nature of the instruments are to reduce the exchange and interest rates exposure in a foreign currency.

However the company conducts its tests of effectiveness in accordance with applicable accounting standards our tests were conducted analysis of "stress" or sensitivity taking into account the risk in here within derivative contracts by the Company, whose variable for the same would be sharp appreciation in the peso dollar, which could affect the market value thereof. These tests were conducted under three different scenarios:

1) Appreciation of 5% in the Peso/dollar exchange rate at the end of 4th quarter (12.3596)
2) Appreciation of 10% in the Peso/dollar exchange rate at the end of 4th quarter (11.7091)
3) Appreciation of 15% in the Peso/dollar exchange rate at the end of 4th quarter (11.0586)

The estimated market values with the different scenarios whereas follows (figures in thousands of pesos):

				Estimated FV		
Counterparty	Term	Contracted FX	Actual FV	5%	10%	15%
CREDIT SUISSE	quarterly	13.8149	(Terminated)			
CREDIT SUISSE	quarterly	13.4783	(40,299)	(75,190)	(98,955)	(122,720)
BANORTE-IXE	quarterly	12.8250	(6,233)	(13,148)	(20,046)	(26,944)
Totales			(46,532)	(88,338)	(119,001)	(149,664)

Due that this hedges contracted by the company have a credit warranty there would not be a margin calls in the case of a significant appreciation of the Fx rate.

Below are the details of the derivative instruments from the Company as well as the mark to market and the financial statements corresponding to December314th, 2012:

Counterparty	Principal Thousands of MXP	Axtel Pays	Period	Principal Thousands of USD	Axtel receives
CREDIT SUISSE	464,368	11.63	quarterly	34,453	Libor + 400
BANORTE-IXE	128,250	11.1100	quarterly	10,000	Libor + 400

Counterparty	Period	Exchange Rate	Starting Date	Ending Date	Mark to Market Thousands of MXP
CREDIT SUISSE	quarterly	13.4783	06/01/2012	20/11/2015	(40,299)
BANORTE-IXE	quarterly	12.8250	17/02/2012	20/11/2015	(6,233)
				Total	(46,532)

Presentation of the Financial statements:

Asset account "Derivative Instruments" (Mark to Market): $0 (see line 11060020 of the Balance Sheet).

Liability account "Derivative Instruments" (Mark to Market): $46,532 (see line 21060020 of the Balance Sheet).

Equity account “Accumulated Effect by Valuation of Derivative Instruments": $29,351 (see line 30090050 of the Balance Sheet).

Debit to the Comprehensive Financial Result for "Variation of the Fair Value of Derivative Financial Instruments": $109,197 (see line 40080050 of the Income Statements).