



U.S.\$500,000,000

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

6.375% Senior Notes due 2024

We are offering U.S.\$500,000,000 aggregate principal amount of our 6.375% Senior Notes due 2024 (the “notes”). We will pay interest on the notes semi-annually in arrears on May 14 and November 14 of each year, beginning on May 14, 2018. The notes will mature on November 14, 2024.

We may redeem the notes, in whole or in part, at any time on or after November 14, 2020, at the applicable redemption prices set forth in this offering memorandum, plus accrued and unpaid interest and additional amounts thereon. Prior to November 14, 2020, we may also redeem the notes, in whole or in part, at a redemption price based on a “make-whole” premium plus accrued and unpaid interest and additional amounts thereon. In addition, at any time on or prior to November 14, 2020, we may redeem up to 35% of the notes at a redemption price equal to 106.375% of their principal amount, plus accrued and unpaid interest and additional amounts thereon, using the proceeds of certain equity offerings. In addition, in the event of certain changes in the Mexican withholding tax treatment relating to payments of interest on the notes, we may redeem the notes, in whole but not in part, at 100% of their principal amount, plus accrued and unpaid interest and additional amounts thereon. There is no sinking fund for the notes. If a change in control occurs with respect to us, unless we have exercised our option to redeem the notes, each holder of the notes will have the right to require us to repurchase all or any part of that holder’s notes at 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest and additional amounts thereon.

The notes will be unconditionally guaranteed by certain of our subsidiaries. The notes and the subsidiary guarantees will be our and our subsidiary guarantors’ respective senior unsecured obligations (subject to certain statutory preferences under Mexican law, such as tax, social security, and labor obligations), and will rank equally in right of payment to all of our and our subsidiary guarantors’ respective existing and future senior unsecured indebtedness. The notes and the subsidiary guarantees will rank effectively junior in right of payment to any of our and our subsidiary guarantors’ respective existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and will be structurally junior to all liabilities and guarantees of our non-guarantor subsidiaries.

No public market currently exists for the notes. The Irish Stock Exchange Plc has approved this offering memorandum as listing particulars (“Listing Particulars”). Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange.

Investing in the notes involves risks. See “Risk Factors” beginning on page 16.

Issue Price: 100.000% plus accrued interest, if any, from November 14, 2017.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE NATIONAL SECURITIES REGISTRY (REGISTRO NACIONAL DE VALORES, OR “RNV”) MAINTAINED BY THE MEXICAN NATIONAL BANKING AND SECURITIES COMMISSION (COMISIÓN NACIONAL BANCARIA Y DE VALORES, OR “CNBV”), AND MAY NOT BE OFFERED OR SOLD PUBLICLY IN MEXICO, EXCEPT THAT THE NOTES MAY BE SOLD, ON A PRIVATE PLACEMENT BASIS, TO INSTITUTIONAL AND QUALIFIED INVESTORS IN MEXICO PURSUANT TO THE PRIVATE PLACEMENT EXEMPTION SET FORTH IN ARTICLE 8 OF THE MEXICAN SECURITIES MARKET LAW (LEY DEL MERCADO DE VALORES) AND REGULATIONS THEREUNDER. WE WILL NOTIFY THE CNBV OF THE TERMS AND CONDITIONS OF THE OFFERING OF THE NOTES OUTSIDE OF MEXICO, TO COMPLY WITH A LEGAL REQUIREMENT AND FOR INFORMATIONAL PURPOSES ONLY. THE DELIVERY OF SUCH NOTICE TO, AND THE RECEIPT THEREOF BY, THE CNBV DOES NOT CONSTITUTE OR IMPLY ANY CERTIFICATION AS TO THE INVESTMENT QUALITY OF THE NOTES, OUR SOLVENCY, LIQUIDITY OR CREDIT QUALITY OR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH HEREIN. THIS OFFERING MEMORANDUM IS SOLELY OUR RESPONSIBILITY AND HAS NOT BEEN REVIEWED OR AUTHORIZED BY THE CNBV.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act (“Regulation S”)) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, we are offering the notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act (“Rule 144A”) and outside the United States to non-U.S. persons in reliance on Regulation S. You are hereby notified that sellers of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. See “Transfer Restrictions” for additional information about eligible offerees and transfer restrictions.

The notes will be represented by global notes in registered form. We expect that delivery of the notes will be made to investors in book-entry form through the facilities of The Depository Trust Company (“DTC”) for the accounts of its direct and indirect participants, including for Euroclear Bank SA/NV (“Euroclear”) and Clearstream Banking, S.A. (“Clearstream”), on or about November 14, 2017.

Joint Book-Running Managers

**BBVA
J.P. Morgan**

**Citigroup
Santander**

The date of these Listing Particulars is December 18, 2017.

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You should rely only on the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with information that is different or additional from that contained in this offering memorandum, and we take no responsibility for any other information that others may give you. If anyone provides you with different or additional information, you should not rely on it. You should assume that the information in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum, regardless of time of delivery of this offering memorandum or any sale of the notes. Our business, financial condition, results of operations and prospects may change after the date on the front cover of this offering memorandum. This document may only be used where it is legal to sell the notes. Neither we nor any of the initial purchasers is making an offer to sell the notes in any jurisdiction where such an offer is not permitted.

Unless otherwise indicated or the context otherwise requires, all references in this offering memorandum to:

- “Axtel,” “our company,” “the Company”, “we,” “us,” “our” or similar terms refer to Axtel, S.A.B. de C.V., together with its consolidated subsidiaries; and
- the “Issuer” refer to Axtel, S.A.B. de C.V. on an individual basis.

NOTICE TO INVESTORS

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or the public generally to subscribe for or otherwise acquire the notes.

Neither we nor the initial purchasers are making an offer to sell the notes in any jurisdiction except where such an offer or sale is permitted. You must comply with all applicable laws and regulations in force in your jurisdiction and you must obtain any consent, approval or permission required by you for the purchase, offer or sale of the notes under the laws and regulations in force in your jurisdiction to which you are subject or in which you make such purchase, offer or sale, and neither we nor the initial purchasers will have any responsibility therefor.

We are relying upon an exemption from registration under the Securities Act for an offer and sale of securities which do not involve a public offering. We have submitted this offering memorandum solely to a limited number of qualified institutional buyers in the United States and to investors outside the United States so they can consider a purchase of the notes. This offering memorandum may be used only for the purposes for which it has been published. By accepting delivery of this offering memorandum, you acknowledge that the use of the information in this offering memorandum for any purpose other than to consider a purchase of the notes is strictly prohibited. These undertakings and prohibitions are for our benefit, and we may enforce them. U.S. federal securities laws restrict trading in our securities while in possession of material non-public information with respect to us. By accepting delivery of this offering memorandum and by purchasing the notes, you will be deemed to have made certain acknowledgments, representations and agreements as set forth under “Transfer Restrictions” in this offering memorandum. The notes are subject to restrictions on transfer and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser of the notes, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time.

This offering memorandum is based on information provided by us and other sources that we believe to be reliable. We and the initial purchasers cannot assure you that the information provided by other sources is accurate or complete. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely upon your own examination of our company and of the terms of the offering and the notes, including the merits and risks involved. Neither we nor the initial purchasers are making any representation to any purchaser regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, financial, business or tax advice. You should consult your own counsel, accountant, business advisor and tax advisor for legal, accounting, business and tax advice regarding any investment in the notes.

We reserve the right to withdraw this offering of notes at any time and we and the initial purchasers reserve the right to reject any commitment to subscribe for the notes in whole or in part and to allot to any prospective investor less than the full amount of notes sought by that investor. The initial purchasers and certain related entities may acquire for their own account a portion of the notes.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future.

None of the U.S. Securities and Exchange Commission (“SEC”), the CNBV or any state or foreign securities commission or any other regulatory authority has approved or disapproved the offering of the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

ENFORCEMENT OF CIVIL LIABILITIES

We are a *sociedad anónima bursátil de capital variable* organized under the laws of the United Mexican States (“Mexico”) and our subsidiary guarantors are incorporated and formed under the laws of Mexico. Almost all of the directors, executive officers and controlling persons named herein are non-residents of the United States and substantially all of our assets and the assets of such non-resident persons are located in Mexico or elsewhere outside the United States. As a result, it may not be possible for investors to effect service of process outside Mexico on us or our directors or executive officers, or to enforce judgments of courts located outside Mexico predicated on civil liabilities under the laws of jurisdictions other than Mexico, including judgments predicated on the civil liability provisions of the U.S. federal securities laws or other laws of the United States. We have appointed CT Corporation System, 111 Eighth Avenue New York, NY 10011, as our agent to receive service of process with respect to any action brought against us in any federal or state court in the State of New York arising from the offering and issuance of the notes.

No treaty exists between the United States and Mexico for the reciprocal enforcement of judgments issued in the other country. Generally, Mexican courts would enforce final judgments rendered in the United States if certain requirements were met, including the review in Mexico of the U.S. judgment to ascertain compliance with certain basic principles of due process and the non-violation of Mexican law or public policy (*orden público*), provided that U.S. courts would grant reciprocal treatment to Mexican judgments issued in analogous cases. Additionally, there is doubt as to the enforceability, in original actions in Mexican courts, of liabilities predicated, in whole or in part, on U.S. federal securities laws and as to the enforceability in Mexican courts of judgments of U.S. courts obtained in actions predicated on the civil liability provisions of U.S. federal securities laws.

AVAILABLE INFORMATION

We are not subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). To permit compliance with Rule 144A in connection with resales of notes, we will be required under the indenture under which the notes are issued (the “indenture”), upon the request of a holder of Rule 144A notes or Regulation S notes (during the restricted period, as defined in the legend included under “Transfer Restrictions”), to furnish to such holder and any prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) under the Securities Act, unless we either furnish information to the SEC in accordance with Rule 12g3-2(b) under the Exchange Act or furnish information to the SEC pursuant to Section 13 or 15(d) of the Exchange Act. Any such request may be made to us in writing at our main office located at Blvd. Diaz Ordaz Km 3.33 L1, Unidad San Pedro, C.P. 66215, San Pedro Garza García, Nuevo León, México.

The indenture will further require that we furnish to the trustee (as defined herein) all notices of meetings of the holders of notes and other reports and communications that are generally made available to holders of the notes. At our request, the trustee will be required under the indenture to deliver these notices, reports and communications received by it from us to all record holders of the notes promptly upon receipt. See “Description of the Notes.”

Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange, in accordance with its rules. This offering memorandum forms, in all material respects, the listing memorandum for admission to the Irish Stock Exchange. We will be required to comply with any undertakings given by us from time to time to the Irish Stock Exchange in connection with the notes, and to furnish to them all such information as the rules of the Irish Stock Exchange may require in connection with the listing of the notes.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements. These statements relate to our future prospects, developments and business strategies and are identified by our use of terms and phrases such as “anticipate,” “believe,” “can,” “could,” “continue,” “would,” “will,” “estimate,” “expect,” “intend,” “may,” “might,” “potential,” “plan,” “predict,” “project,” “goals,” “target,” “seek,” “shall,” “should,” “strategy” and similar terms and phrases, and may include references to assumptions. These statements are contained in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Industry,” “Business” and other sections of this offering memorandum.

Forward-looking statements are based on our current expectations and assumptions regarding our business, the economy and other future conditions. Because forward-looking statements relate to the future, by their nature, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. Our actual results may differ materially from those contemplated by the forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global economic, business, market and regulatory conditions, without limitation, and the following:

- general economic conditions in Mexico, the United States, and any significant economic, political, regulatory or social developments in those countries;
- the competitive nature of providing information technology (“IT”), data, internet and local and long distance telephone services;
- termination or revocation of our concessions and authorizations, including the timely receipt of compensation therefor;
- our ability to attract new customers;
- the loss of one or more significant customers;
- changes in our regulatory environment, particularly changes to the telecommunications industry;
- changes to applicable law permitting additional foreign investment in the telecommunications industry in Mexico;
- the perspective of the regulators regarding the validity of our concessions, or interpretations that may result in a revocation or non-extension of our concessions;
- the risks associated with our ability to implement our strategy;
- customer turnover;
- loss of reputation of our brands;
- interruptions or failures in our information technology systems, including as a result of malware;
- declining revenues originated from voice services;
- technological innovations;
- connectivity limitations;
- our need for substantial capital;
- performance of financial markets and our ability to refinance our financial obligations when they come due;

- credit and financing risks, including restructuring of our consolidated debt;
- limitations on our access to sources of financing on competitive terms;
- trade barriers, including tariffs or import taxes and changes in existing trade policies or changes to, or withdrawals from, free trade agreements, including the North American Free Trade Agreement (“NAFTA”), to which Mexico is a party and which is currently undergoing renegotiation;
- changes in the currency exchange rates, including the Mexican Peso/U.S. dollar exchange rate;
- changes in the costs of doing business, including but not limited to costs associated with billing and collection, marketing and sales, and personnel training and travel expenses;
- difficulties, uncertainties, liabilities, unenforceability of provisions (including indemnifications) and regulations related to mergers, acquisitions, strategic alliances or joint ventures;
- loss of key personnel;
- risks related to our controlling shareholder, Alfa, S.A.B. de C.V., whose interests may not be aligned with yours;
- terrorist and organized criminal activities as well as geopolitical events;
- controls imposed by governmental agencies;
- changes in applicable fixed-to-mobile termination rates, including legal challenges that could materially delay or cancel any benefits arising from new resolutions from the authorities;
- changes in the policies of central banks or foreign governments; and
- other factors described under “Risk Factors” and elsewhere in this offering memorandum.

Should one or more of these factors or situations materialize, or should any of the underlying assumptions prove to be incorrect, the actual results may differ considerably from those that are described, foreseen, considered, estimated, expected, predicted or intended in this offering memorandum.

These forward-looking statements speak only as of the date of this offering memorandum and we undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events or otherwise. Additional factors affecting our business emerge from time to time and it is not possible for us to predict all of these factors, nor can we assess the impact of all such factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Although we believe that the plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that those plans, intentions or expectations will be achieved. In addition, you should not interpret statements regarding past trends or activities as assurances that those trends or activities will continue in the future. All written, oral and electronic forward-looking statements attributable to us or to the persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

CERTAIN DEFINITIONS

Except where indicated or the context otherwise requires, the following terms used in this offering memorandum have the meanings specified below:

- “AGNS Mexico” means AT&T Global Network Services de México S. de R.L. de C.V.;
- “ADSL” means asymmetric digital subscriber line, a method of transferring data over copper telephone lines. ADSL has different maximum data transfer rates for uploading and downloading data;
- “ADSL2” also referred to as ITU G.992.3 is an International Telecommunication Union standard which optionally extends the capability of basic ADSL in data rates to 12 Mbit/s downstream and, depending certain circumstances, up to 3.5 Mbit/s;
- “Alestra” means Alestra, S. de R.L. de C.V., which was merged into the Issuer on May 1, 2017. Prior to the Alestra Merger, Alestra was the IT and telecommunications business unit of Alfa;
- “Alestra Merger” means the merger between Axtel and Onexa that became effective on February 15, 2016, as of which date Alfa became the majority owner of Axtel and Alestra became a wholly-owned subsidiary of Axtel;
- “Alfa” means Alfa, S.A.B. de C.V., the parent company of the Issuer;
- “America Movil” means América Móvil, S.A.B. de C.V. including subsidiary and affiliate companies;
- “AT&T” means AT&T Corporation, including subsidiaries and affiliate companies;
- “AT&T Mexico” means AT&T Desarrollo de Comunicaciones de Mexico, S. de R.L. de C.V., Grupo AT&T Celular, S. de R.L. de C.V., AT&T Nortel, S. de R.L. de C.V., AT&T Comercialización Movil, S. de R.L. de C.V. and AT&T Comunicaciones Digitales, S. de R.L. de C.V.;
- “Avantel” means both, Avantel Concesionaria and Avantel Infraestructura;
- “Avantel Concesionaria” means Avantel, S. de R.L. de C.V.;
- “Avantel Infraestructura” means Avantel Infraestructura, S. de R.L. de C.V., which changed its name to Alestra Comunicación, S. de R.L. de C.V.;
- “Bancomext” means Banco Nacional de Comercio Exterior, S.N.C.;
- “BBVA Bancomer” means BBVA Bancomer S.A., Institución de Banca Múltiple, Grupo Financiero BBVA Bancomer;
- “Bestel” means Bestel, S.A. de C.V., a telecommunications and IT services company, subsidiary of Televisa;
- “Big Data” means voluminous amounts of structured or unstructured data that demands fast, innovative and cost-effective ways to process for review and decision-making;
- “BMV” or “Mexican Stock Exchange” means Bolsa Mexicana de Valores, S.A.B. de C.V.;
- “Cablecom” means Grupo Cable TV, S.A. de C.V.;
- “Cablemas” means Cablemás, S.A. de C.V.;

- “Cablevision” means Empresas Cablevisión, S.A.B. de C.V.;
- “CATV” means community access television, or cable television;
- “Central Switchboard” means Equipment that delivers voice data and creates the pertinent connections, allowing telephone calls to be realized;
- “Citibanamex” means Banco Nacional de México, S.A., integrante del Grupo Financiero Banamex and its affiliates;
- “CNBV” means Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission);
- “Cofetel” means the Comisión Federal de Telecomunicaciones (Federal Telecommunications Commission), which acted as the telecommunication industry regulator until September 9, 2013;
- “CPOs” means Certificados de Participación Ordinarios (Ordinary Participating Certificates);
- “Data Center” means a facility composed of networked computers and storage, used to organize, process, store and disseminate large amounts of data;
- “DMS switch” or “DMS equipment” means Nortel Networks’ Central Switchboard model DMS100;
- “Ethernet” means the IEEE 802.3 protocol, a network protocol that controls how data is transmitted over a LAN;
- “Estratel” means Estrategias en Tecnología Corporativa, S. A. de C. V., a wholly-owned subsidiary of Axtel, specializing in the integration of IT solutions for the enterprise and government sectors;
- “FTTx” means optical fiber to home or business;
- “GHz” means gigahertz, which is a unit of measurement that accounts for frequency relative to a time unit and is measured in thousands of millions of cycles per second;
- “GPON” means Gigabit-capable Passive Optical Network;
- “Grupo Salinas” means, among other companies, TV Azteca, S.A.B. de C.V., Totalplay Telecomunicaciones, S.A. de C.V. and affiliates;
- “GTel” means G Tel Comunicación, S.A.P.I. de C.V., a company acquired by Alestra in 2013, currently merged into Alestra Comunicación, S. de R.L. de C.V.;
- “IASB” means the International Accounting Standards Board;
- “ICT” means Information and Communication Technologies;
- “IFRIC” means the International Financial Reporting Interpretations Committee;
- “IFRS” means International Financial Reporting Standards, as issued by the IASB;
- “IFT” means Instituto Federal de Telecomunicaciones (Federal Telecommunications Institute), the industry regulator created on June 11, 2013 that has absorbed all of the Cofetel’s functions;

- “Innovation Hub” means Axtel’s Innovation Center, a flexible and configurable space designed to foster creativity, encourage collaboration, generate and develop ideas and technological prototypes;
- “INEGI” means the Instituto Nacional de Estadística y Geografía (National Institute of Statistics and Geography of Mexico);
- “IP” means Internet Protocol;
- “IT” means Information Technology;
- “Iusacell” or “Grupo Iusacell” means the following companies, together or individually: Iusacell PCS, S.A. de C.V., Iusacell PCS de México, S.A. de C.V., Portatel del Sureste, S.A. de C.V., Comunicaciones Celulares de Occidente, S.A. de C.V., Sistemas Telefónicos Portátiles Celulares, S.A. de C.V., Telecomunicaciones del Golfo, S.A. de C.V., Operadora Unefón, S.A. de C.V. and SOS Telecomunicaciones, S.A. de C.V.;
- “LAN” means local access network;
- “LD” means long distance;
- “LFCE” means the Ley Federal de Competencia Económica (Federal Law of Economic Competition);
- “LFTR” means the Ley Federal de Telecomunicaciones y Radiofusión (Federal Telecommunications and Broadcasting Law) published in the Official National Gazette on July 14, 2014 and effective since August 13, 2014;
- “LIBOR” means London Interbank Offered Rate;
- “LMV” means Ley del Mercado de Valores (Mexican Securities Market Law) published in the Official National Gazette on December 30, 2005, as amended from time to time;
- “Maxcom” means Maxcom Telecomunicaciones, S.A.B. de C.V.;
- “Megacable” means Megacable Holdings, S.A.B. de C.V. including subsidiary and affiliate companies;
- “Mexican Central Bank” means Banco de México;
- “MHZ” means megahertz, which is a unit of measurement of frequency measured in millions of cycles per second. In radio, it refers to the number of oscillations of electromagnetic radiation per second;
- “Ministry of Communications and Transport” or “SCT” means Secretaría de Comunicaciones y Transportes;
- “NAFTA” means the North American Free Trade Agreement effective as of January 1, 1994 and currently undergoing renegotiation by all parties;
- “NAVE” means our ICT corporate incubator focused on identifying and developing start-ups and scale-ups related primarily to “Big Data”, mobility, the internet of things, social networks, security and virtualization solutions;
- “Nextel” means Comunicaciones Nextel de México, S.A. de C.V.;
- “Nokia” means Nokia Siemens Networks, S.A. de C.V.;

- “Onexa” means Onexa, S.A. de C.V., the parent company of Alestra, which merged into Axtel, S.A.B. de C.V. on February 15, 2016. Prior to the Alestra Merger, Onexa was a wholly-owned subsidiary of Alfa;
- “POP” or “POPs” means Point of Presence, infrastructure or access point, part of a telecommunications network that is connected to other points via fiber optic or microwave links. It may have equipment installations to provide voice, transport and/or data services;
- “Promotora de Sistemas” means Promotora de Sistemas de Teleinformática, S.A. de C.V.;
- “S&C” means S&C Constructores de Sistemas, S.A. de C.V.
- “Softtek” means Valores Corporativos Softtek, S.A. de C.V.;
- “Telcel” means Radiomóvil Dipsa, S.A. de C.V. and affiliated companies that all together are subsidiaries of America Movil;
- “Telefónica Movistar” or “Grupo Telefónica”, or “Telefónica” means the following companies, together or individually: Pegaso PCS, S.A. de C.V., Baja Celular Mexicana, S.A. de C.V., Pegaso Comunicaciones y Sistemas, S.A. de C.V., Celular de Telefonía, S.A. de C.V., Telefonía Celular del Norte, S.A. de C.V., Movitel del Noroeste, S.A. de C.V., and Grupo de Telecomunicaciones Mexicanas, S.A. de C.V.;
- “Televisa” means Grupo Televisa S.A.B., including subsidiary and affiliate companies;
- “Tel Holding” means Telecomunicaciones Holding Mx, S. de R.L. de C.V.;
- “Telmex” means Teléfonos de México, S.A.B. de C.V., including subsidiary and affiliate companies that are considered subsidiaries of America Movil;
- “Telnor” means Teléfonos del Noroeste, S.A. de C.V.;
- “TIIE” means the interest rate applicable to credit operations in Mexico (Tasa de Interés Interbancaria de Equilibrio) and published, from time to time, by the Mexican Central Bank (Banco de México);
- “TVI” means Televisión Internacional, S.A. de C.V.;
- “VPN” or “VPNs” means Virtual Private Network; and
- “WiMAX” means Worldwide Interoperability for Microwave Access, Standardized protocol of wireless broadband access known as the standard 802.16e that can be fixed, nomadic, portable and mobile.

PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Financial Information

Our annual audited consolidated financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014, together with the notes thereto (the “Annual Audited Financial Statements”), as well as the other financial information of Axtel included in this offering memorandum related to the Annual Audited Financial Statements, have been prepared in accordance with the IFRS. Our unaudited condensed consolidated interim financial statements as of September 30, 2017 and for the nine months ended September 30, 2017 and 2016, together with the notes thereto (the “Interim Unaudited Financial Statements” and, together with the Annual Audited Financial Statements, the “Financial Statements”), as well as the other financial information of Axtel included in this offering memorandum related to these Interim Unaudited Financial Statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”), as issued by the IASB, applicable to the preparation of interim financial statements.

Our annual audited consolidated financial statements as of December 31, 2015 and for the years ended December 31, 2015 and 2014 included in this offering memorandum were audited by KPMG Cárdenas Dosal, S.C., independent auditors, as stated in their report included herein. As a result of the Alestra Merger that became effective on February 15, 2016, PricewaterhouseCoopers, S.C. became our independent auditors and the annual audited consolidated financial statements as of and for the year ended December 31, 2016 included in this offering memorandum were audited by them, as stated in their report included herein. On April 24, 2017, our board of directors approved the appointment of Galaz, Yamazaki, Ruiz Urquiza, S.C. (Member of Deloitte Touche Tohmatsu Limited) as our new independent auditors effective for all periods after December 31, 2016. The Annual Audited Financial Statements included in these listing particulars include consolidated financial information for both guarantor and non-guarantor subsidiaries of the Issuer.

Due to the consolidation of Onexa into our financial statements as of February 15, 2016 in connection with the Alestra Merger, our financial information for the year ended December 31, 2016 and for the nine months ended September 30, 2017 and 2016 included in this offering memorandum is not comparable to our consolidated financial information for prior periods. For more information regarding the Alestra Merger, see “Business—Our History.”

Exchange Rate Information

Unless stated otherwise, references herein to “Mexican Pesos,” “Pesos” or “Ps.” are to Mexican pesos, the legal currency of Mexico and references to “U.S. Dollars,” “Dollars,” “U.S.\$” or “\$” are to United States dollars, the legal currency of the United States.

This offering memorandum contains translations of certain Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. Furthermore, the exchange rate for purposes of the convenience translation is not necessarily the same rate we used in preparing our financial statements, which means that U.S. Dollar-denominated items, including U.S. Dollar-denominated expenses and liabilities, may have been translated into Pesos using one exchange rate (or an average exchange rate) and have been reconverted into U.S. Dollars for the convenience of the reader using the convenience translation exchange rate.

Unless otherwise indicated, the exchange rate used for purposes of the convenience translations is:

- with respect to statement of financial position data, the exchange rate published by the Mexican Central Bank in the Federal Official Gazette (*Diario Oficial de la Federación*) as the rate for the payment of obligations denominated in foreign currency (the “Official Exchange Rate”), on December 31, 2016 (Ps. 20.6640 to U.S.\$1.00) or on September 30, 2017 (Ps. 18.1979 to U.S.\$1.00); and
- with respect to financial information other than statement of financial position data, the average exchange rate for the year ended December 31, 2016, which consists of the daily average of the Official Exchange Rate on each day during the year ended December 31, 2016 (Ps. 18.6567 to

U.S.\$1.00) or the daily average exchange rate for the nine months ended September 30, 2017, which consists of the average of the Official Exchange Rate on each day during the nine months ended September 30, 2017 (Ps. 18.9274 to U.S.\$1.00).

See “Exchange Rates” for further information regarding the rates of exchange between the Peso and the U.S. Dollar.

Rounding Adjustments

Certain figures included in this offering memorandum have been rounded for ease of presentation. Any discrepancies in tables between the total and the amounts listed are due to rounding. Percentage figures included in this offering memorandum have not been calculated on the basis of such rounded figures but have in all cases been calculated on the basis of such amounts prior to rounding. For this reason, certain percentage amounts in this offering memorandum may vary from those obtained by performing the same calculations using the figures in our financial statements included elsewhere in this offering memorandum. Certain other amounts that appear in this offering memorandum may not sum due to rounding.

Non-GAAP Financial Measures

A body of generally accepted accounting principles is commonly referred to as “GAAP.” A non-GAAP financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure.

The Company determines EBITDA, which is a non-GAAP financial measure, as consolidated net loss or income plus or less, as applicable, financial gain (loss) net, income tax and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA less merger-related expenses, impairment of non-current assets, and equity in the results of associated companies, net. This is considered a useful measurement of the Company’s operating performance as it provides a significant analysis of its commercial performance, by excluding specific items reported separately due to their nature or incidence. Interest income or expense are not allocated to the reporting segments, as this activity is handled globally by the group’s central treasury.

EBITDA and Adjusted EBITDA are measurements that are not defined under IFRS. A non-IFRS financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be adjusted in the most comparable IFRS measure.

Our calculation of Adjusted EBITDA may not be comparable to other companies’ calculation of similarly titled measures. For a reconciliation of Adjusted EBITDA for the years ended December 31, 2016, 2015 and 2014 and for the nine months ended September 30, 2017 and 2016, see “Selected Historical Financial Data and Other Information.”

Industry and Market Data

Market data and other statistical information used throughout this offering memorandum are generally based on independent industry publications, government publications, reports by market research firms or other published independent sources, as well as our internal studies. Some data are also based on our estimates, which are derived from our review of internal surveys, as well as independent sources such as Gartner, Frost & Sullivan, Pyramid Research, Kable, IDC and 451 Research. Although we believe these sources are reliable, we have not independently verified the information and cannot guarantee its accuracy or completeness. Such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

In addition, in many cases, we have based certain statements contained in this offering memorandum regarding our industry and our position in the industry on certain assumptions concerning our customers and competitors. These assumptions are based on our experience in the industry and our own investigation of market conditions. We

cannot assure you as to the accuracy of any such assumptions, and such assumptions may not be indicative of our position in our industry.

SUMMARY

This summary highlights certain information contained in this offering memorandum and may not include all the information relevant to you. For a more complete understanding of our business, you should read the following summary together with the more detailed information appearing elsewhere in this offering memorandum, including that set forth under “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the financial statements and the notes thereto included elsewhere in this offering memorandum.

Our Company

We are a leading Mexican integrated information and communications technology services company that offers both Information and Communications Technology (ICT) solutions to the enterprise segment, which is comprised of corporate, mid to large-sized businesses, financial institutions and wholesale customers, and to government entities. In addition, we provide one of the fastest symmetric broadband services to micro and small businesses and high value residential customers.

Our portfolio of services to the enterprise and government segments includes advanced managed networks and Information Technology (IT) solutions such as hosting, data center and managed security, among others. For the mass market segment, we offer direct end-to-end symmetric fiber optic (FTTx) double and triple play services, which include high-speed internet, telephony and pay television services.

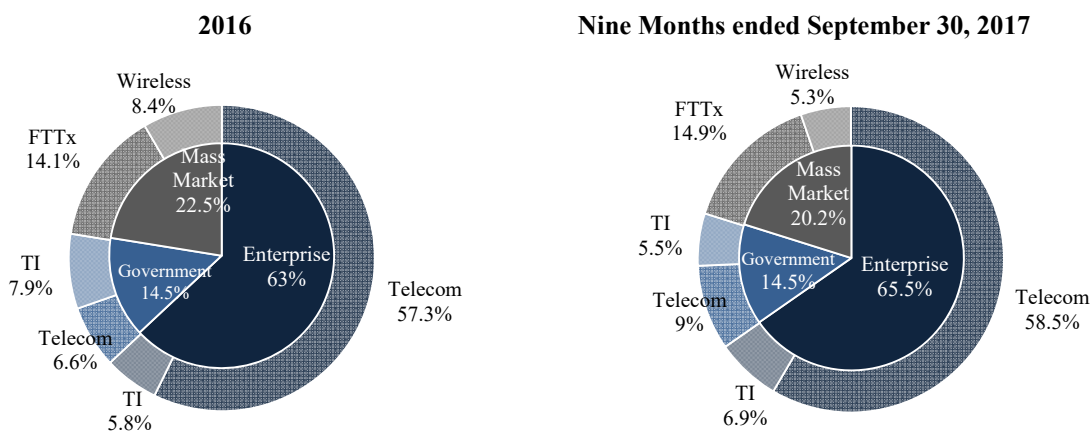
We believe that we have the second largest fiber network capacity in Mexico with an infrastructure of approximately 42,088 kilometers of fiber and approximately 7,210 square meters of Data Center space certified in accordance with the highest industry standards, which can provide coverage to over 90% of the Mexican market.

Our vision is to create value through innovation for our customers by becoming the best alternative in their digital experience. Our strategic goal is to become a leader in selected areas of IT and telecom solutions, with differentiated services tailored to corporate, government and medium-sized companies. Additionally, through GPON fiber technology, we serve micro and small businesses and high-value residential customers. Consistent with this goal, six business strategies are being implemented: (1) drive growth through differentiated IT service solutions for the enterprise segment; (2) leverage our existing expertise and network to expand our customer base to improve the profitability of the operation of our assets; (3) participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services; (4) compete based on quality of service and innovative product offerings; (5) re-orient the Company’s culture towards innovation and (6) focus on high speed broadband in the mass market segment, while increasing our presence in micro and small businesses.

Our future growth is expected to come from value-added IT and telecom services as customers’ needs continue to evolve into more sophisticated data communications systems and applications that require the convergence of telecommunications and information technology.

For the nine months ended September 30, 2017, we generated revenues of Ps. 11,227 million (U.S.\$593 million), operating income of Ps. 967 million (U.S.\$51 million), consolidated (loss) income of Ps. 985 million (U.S.\$52 million) and Adjusted EBITDA of Ps. 4,194 million (U.S.\$222 million). For the year ended December 31, 2016, we generated revenues of Ps. 13,937 million (U.S.\$ 747 million), an operating loss of Ps. 209 million (U.S.\$11 million), consolidated (loss) income of Ps. 3,599 million (U.S.\$193 million) and Adjusted EBITDA of Ps. 4,508 million (U.S.\$242 million). Our total assets as of September 30, 2017 were Ps. 30,277 million (U.S.\$1,664 million).

The following charts show our revenue distribution by segment and by service in 2016 and for the nine months ended September 30, 2017:



Competitive Strengths

- Leading independent provider of mission-critical solutions to the Mexican enterprise market.** We are a stronger company as a result of the Alestra Merger, which made us the only player on the Mexican ICT market, with a strong emphasis on the enterprise and government segments, which include corporations, mid to large-sized businesses, financial institutions, government entities and wholesale. Our more than 18,000 clients within this segment made up approximately 80% of our total revenues for the nine months ended September 30, 2017. The rapidly changing needs of customers for information, connectivity, security and cloud services, among others, position us as a provider of essential services for the operations of our customers, with reliability and technical support being of paramount importance for customer satisfaction. With a central focus on enterprise services, we have positioned ourselves as a brand with the experience, infrastructure and leading services to energize the ICT industry and contribute to a new generation of more innovative, efficient and competitive companies in Mexico. This is backed by strong partnerships with leading technology providers and a service philosophy based on excellence. We have experience and recognition in the market, and aim to provide the highest standards of service required by corporations and companies in the most important sectors of the Mexican economy. We believe that our focus on the enterprise segment distinguishes us from other telecommunications companies in Mexico, and that our experience providing value-added ICT services to this segment provides us with a strong and competitive advantage.
- Sustainable competitive advantage: Second largest fiber network in Mexico.** We have an extensive state-of-the-art network that consists of high-capacity fiber optic lines and wireless concessions. The structure of our fixed hybrid local network (wireless and wired), including 1,665 sites nationwide for fiber and microwave radio connectivity, allows us to penetrate new markets quickly and effectively, increasing our revenue base in a cost effective manner. We believe that we are able to provide coverage to over 90% of the Mexican market through our extensive network, comprised of approximately 42,088 km of fiber optics, including approximately 23,117 km of long distance network, approximately 12,771 km of metropolitan rings and 6,200 km of FTTx network. In addition, our new generation services are provided using world-class Data Centers built in accordance with international standards. We currently own six Data Centers with approximately 7,210 square meters of capacity nationwide, with Level 3 through Level 5 ICREA (International Computer Room Experts Association) certifications.
- Long-term contracts and high renewal rates that translate into cash flow visibility and sustainability.** A significant portion of our business (approximately 94% of our revenues for the nine months ended September 30, 2017) consists of contracts with monthly recurring revenue. More than 50% of those contracts have remaining terms of two years or more. In addition, given the nature of our services and the high quality of our

enterprise clients we have a loyal client relationship with stable recurring revenues. Our losses due to delinquent receivables have historically been very low, with a marginal delinquent receivables rate.

- ***Disciplined financial strategy committed to reinforcing Axtel's balance sheet position.*** Approximately 70% of our capital expenditures for both the nine months ended September 30, 2017 and for the year ended December 31, 2016 were directly related to specific customer sales and represent investments in customer access connections, customer premise equipment and network equipment that is directly related to specific customer requirements. As a result, these investments generally entail lower risk, with relatively more predictable returns. This gives us significant visibility with respect to the revenue stream derived from such portion of our capital expenditures.
- ***Unrivaled technical expertise combined with a disciplined investment management approach.*** Our senior management team has an average of 21 years of experience in the industry, providing expertise and continuity to the implementation of our business strategy. During their tenure, the management team has transformed our company from a long distance carrier into a sophisticated IT and telecommunications solutions provider with a broad portfolio of value-added services. Additionally, Alfa, which indirectly owns approximately 52.78% of our company, is a leading Latin American conglomerate with an established culture of operational excellence, development of human resources, prudent corporate governance and reliability as a partner. These values form the core of our businesses on which the management team intends to build. As of September 30, 2017, we had 7,136 employees, of whom 4,239 were employees in the enterprise segment. A third of the employees of this segment had been with Axtel for more than 10 years; 90% had a graduate degree and 55% were engineers.

Business Strategy

Through our business strategy, we aim to strengthen our position as a leader in select areas of integrated information technology services, with differentiated services oriented to enterprise customers with more sophisticated information and communication technology requirements, such as multinational entities, corporations, financial institutions and government entities. In the mass market segment, we intend to provide the best internet-based service experience to micro and small businesses and residential customers in the "A", "B" and "C+" socioeconomic segments located in ten of the largest metropolitan areas in Mexico. The key elements of our business strategy are the following:

Drive growth through convergent telecom and IT service solutions for the enterprise segment.

We intend to capitalize on continued growth in demand for information technology services from the Mexican enterprise segment. As a result of the Alestra Merger, we consolidated a robust service portfolio, which combines the enterprise telecommunications strengths and IT capabilities of both companies to offer integrated value-added information technology solutions, becoming an important market differentiator. We focus our efforts on strengthening our expertise in a number of services, including managed converged networks, cloud services, security, data centers, systems integration solutions and managed services, among others. These services are offered in an integrated manner along with traditional telecommunication services such as dedicated links, VPNs and Ethernet, among others. For small and medium enterprises, a series of standardized offers are commercialized, while the design of solutions for large corporate accounts is adapted to the needs of each customer.

We seek to increase IT revenues within our portfolio of services, focusing on serving enterprises with information technology solutions that make a notable difference for their businesses, whether in terms of productivity, efficiency, availability or security, as well as supporting their strategies in order to reduce costs and/or generate new revenues. In line with this strategy, in November 2014, Alestra acquired S&C, a Mexican company with a broad portfolio of information technology services. S&C, a key player in the creation of our IT Commercial area, provided resources and processes for the sale, design and delivery of IT services. In May 2015, Alestra acquired 51% of Estratel, and in July 2016, we acquired the remaining 49%, making it a wholly-owned subsidiary of our company. Estratel is a Mexican firm specializing in the integration of IT solutions for the enterprise and government sectors and collaborates closely with our company to enable both companies to take advantage of each company's technical capabilities and expertise in certain brands and technologies. In August 2013, Alestra also acquired GTel, a company that provides integrated services for voice, data and video solutions for medium and large companies, contributing technological capabilities, services, procedures and people. We will continue to seek

opportunities through acquisitions or partnerships to strengthen our portfolio of IT services. In addition, we intend to continue seeking and evaluating non-strategic asset divestment opportunities. To this end, we have engaged financial advisors to evaluate and, if necessary, execute such divestments, such as the telecommunication tower sale announced in July of 2017.

Create a unique customer experience providing value-added managed and IT Services from our advanced capabilities.

Our end-to-end infrastructure, Data Centers and a broad portfolio of services are commensurate with our customers' telecommunication needs, including data, connectivity, managed networks services, local and long distance voice services, IT services (including cloud services), security, Data Centers, systems integration, contact centers and managed services, among others, allow us to combine multiple solutions, meeting complex requirements that our customers value. We believe that we are well-positioned to take advantage of the growing demand for value-added managed and IT services as our customers' needs continue to evolve towards more sophisticated converged solutions, which require superior technical capabilities, cutting-edge technology and reliability supported by our end-to-end managed network. Our comprehensive portfolio of services enables us to build strong, long-term relationships with our customers, reducing the number of customer disconnections and increasing our return on investments in our network infrastructure. Our strategy includes extensively developed Data Centers, which we believe are designed to the highest standards, representing one of the best and most complete alternatives in the market and among the most advanced and reliable in Mexico and Latin America.

Leverage our existing expertise and network to expand our customer base to improve profitability in the operation of our assets.

Our fiber optic network allows us to have infrastructure through which we can offer a greater number of IT and telecommunication services, thus meeting the growing demand of the market. To increase the efficiency of the deployment of our network, we have developed customized service offerings to attract new customers and maintain existing customers. We also evaluate opportunities to expand our network in order to strengthen our ability to gain large customers with multi-regional needs resulting in higher revenues and margins as well as increasing the return on the investment in our network infrastructure. To achieve the selective expansion of services and network coverage, we may participate in strategic transactions with other value-added service providers.

Our commercial efforts and investments are focused on delivering a wide array of services to the enterprise segment, incorporating selected IT solutions, such as cloud services, security and system integration, among others, that leverage our existing network. These services are offered in an integrated manner with conventional or infrastructure-based telecommunication services by adapting the solutions to our customers' needs. With respect to the mass market segment, we are focused on being the leading provider of high-speed broadband and video services, thus differentiating ourselves from the competition by quality of service. According to the Netflix ISP Speed Index conducted from January 2016 to September 2017, we are the best high-speed broadband internet service provider for the mass market segment in Mexico. We believe that bundling services to provide comprehensive solutions for our customers allows us to generate higher revenues per customer and greater customer loyalty, resulting in greater profitability for each Peso invested in access infrastructure and increasing the productivity and profitability of our network.

Continue to selectively approach to micro and small businesses and high-value residential customers within the mass market segment.

We have reinforced our position in the mass market segment by establishing a direct end-to-end symmetric fiber optic service to the home or business (FTTx) in ten of the main cities of Mexico and achieving a 20% growth in FTTx broadband subscribers in 2016. We maintain a particular focus on providing solutions to help micro and small businesses become more productive. In 2017, we expanded our FTTx network in three key cities (Mexico City, Monterrey and Guadalajara), in the five cities we entered in 2013 (Puebla, Queretaro, San Luis Potosi, Aguascalientes and Leon), and in the two cities we entered in 2015 (Ciudad Juarez and Toluca), covering more than 1.4 million economic units passed and 253,000 customers installed with FTTx, complementing our capacity to deliver convergent services with speeds up to 200 Mbps.

Participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services.

Regarding the government segment, we concentrate our efforts on the renewal of existing contracts to reduce acquisition costs, offering new services to existing customers and targeting new projects with a select group of federal, state and local government entities. We believe that limiting the number of government entities that we service allows us to optimize the financial resources dedicated to this segment and maximize the efforts of our sales force to a group of clients that have a proven track record when it comes to our sales force's bidding and acquisition processes and subsequent after-sales requirements and collection efforts. We believe this strategy is beneficial in terms of creating stable and recurrent revenues, improved profitability and cash flow generation.

Compete based on quality of service and innovative product offerings.

We serve a sophisticated customer base which has demanding customer service requirements, values quality and reliability, and incurs significant costs and risks when switching IT and telecommunications providers. As such, we believe that our customer base provides for a stable source of revenue through long-term commercial relationships and contracts. We believe that end-to-end management of our owned core network, as well as certain leased circuits used for customer access, is essential to assuring the quality of our services. We intend to continue to make targeted investments to expand our network, primarily to extend "last mile" access facilities to additional customer locations. We believe this approach will incrementally enhance our ability to ensure network reliability while also reducing costs for leased infrastructure. We are widely recognized as the technological partner of the Mexican business sector because of our efforts in pioneering cloud services in Mexico with some of the most innovative Data Centers in Latin America, our innovation program with NAVE as the first business accelerator, and above all, our broad portfolio of services that we continue to strengthen each year with the incorporation of new products aligned to global technological trends. These innovations are offered to different market segments and industries, which fosters the adoption of these new services, seeking to close the digital gap in such a way that the enterprise segment comes to use technology as a key element in the development of its business. We aim to continue to grow our network with new and improved technologies and to adapt our existing network infrastructure to the market and customers' needs with the goal of actively participating in the technological convergence of voice, data, cloud, mobility and video.

Focus our culture towards innovation.

In an industry such as information and communications technology where the speed at which change occurs is constant, we believe that innovation is a way for the Company to maintain its leadership and differentiate itself in the market by capitalizing on emerging trends. Recognizing this, since 2007 we have implemented and developed an innovation program that focuses on generating value for our customers, our shareholders and our organization, creating a culture that challenges the status quo at the Company. Initiatives such as continuous improvement, which uses crowdsourcing and collaborative tools to involve everyone in the organization in the generation of new ideas, have resulted in more than U.S.\$85 million in savings on operational expenses and investments. Additionally, we have the NAVE project accelerator, through which we have observed and evaluated approximately 400 projects in Mexico and Latin America; of these projects, we have accelerated 6 companies associated with technologies relevant to Axtel such as Big Data, artificial intelligence, mobility, the internet of things and security, which has allowed us to develop new capabilities and explore disruptive technologies for the market. Another key element of the program is our Innovation Hub in Monterrey, a flexible and collaborative space which was developed with the objective of generating value initiatives for us and for our customers, using methodologies such as implementing design thinking, lean startup and foresight methodologies. The Innovation Hub helps us with the creative process and with the implementation of new projects and fosters collaboration with external parties, including business partners and universities.

Focus on high speed broadband in the mass market segment, increasing presence in micro and small businesses.

We have consolidated our "Axtel X-tremo" product offering, which includes high-speed internet, telephony and pay television services offered through our FTTx network. In line with the needs and expectations of our target customers, our objective is to provide triple-play services at quality and speeds that our competitors are not able to offer, satisfying the growing demand for this type of services. Our goal is to increase penetration in the micro and

small business segment where, in addition to triple-play product offering, we can provide value-added cloud-based solutions increasing the revenue obtained per customer.

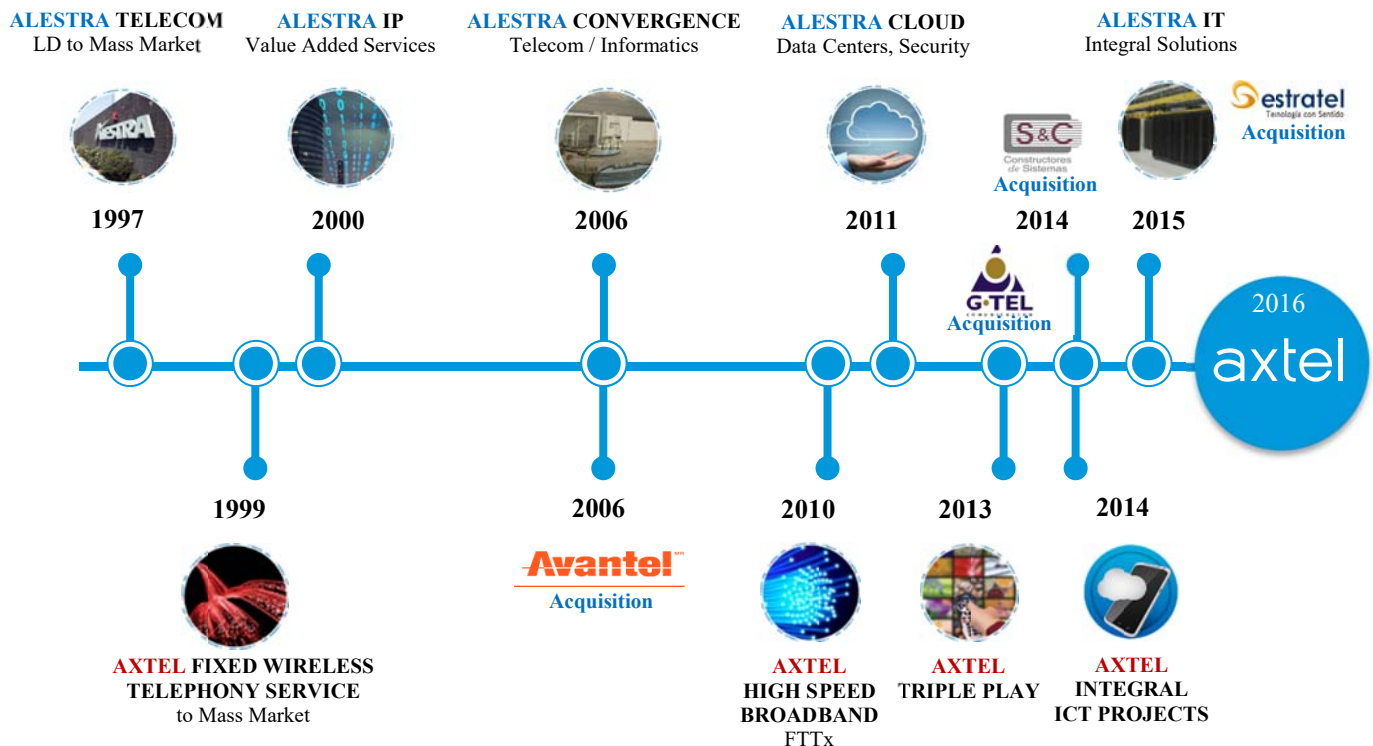
Our History

Our company was originally incorporated under the name of Telefonía Inalámbrica del Norte, S.A. de C.V. on July 22, 1994, in the city of Monterrey, Nuevo León, Mexico. In accordance with the terms of the concessions and guidelines established by the SCT, in 1997 Alestra began the gradual rollout and expansion of long distance telephone services in 60 Mexican cities. In 1999, our company launched local and long distance telephone services in the city of Monterrey, Nuevo León, Mexico.

With the intention to continue growing and enhancing our position in the telecommunications industry in Mexico, on October 25, 2006, we acquired Avantel from Citibanamex and Tel Holding. In August 2013, Alestra acquired GTel, a company that provides integrated services for voice, data and video solutions for medium and large companies. This acquisition allowed us to offer services in the northeast and southeast regions of Mexico. In November 2014, we acquired S&C, a Mexican company with a broad portfolio of IT services, and in May 2015, Alestra acquired 51% of Estratel, acquiring the remaining 49% in July 2016. Estratel is a Mexican firm specializing in the integration of IT solutions for the enterprise and government sectors.

In December 2015, our company, Alfa, Onexa and Alestra entered into definitive agreements to merge Onexa and our company. The Alestra Merger became effective on February 15, 2016, as of which date Alfa became the majority owner of our company and Alestra became a wholly-owned subsidiary of our company. The Alestra Merger created an entity with a stronger competitive position and improved capabilities to provide IT and telecommunication services to enterprise customers. As of the date of this offering memorandum, Alfa indirectly owns a 52.78% controlling interest in our company through Trust Agreement No. 2673. See “Principal Shareholders.”

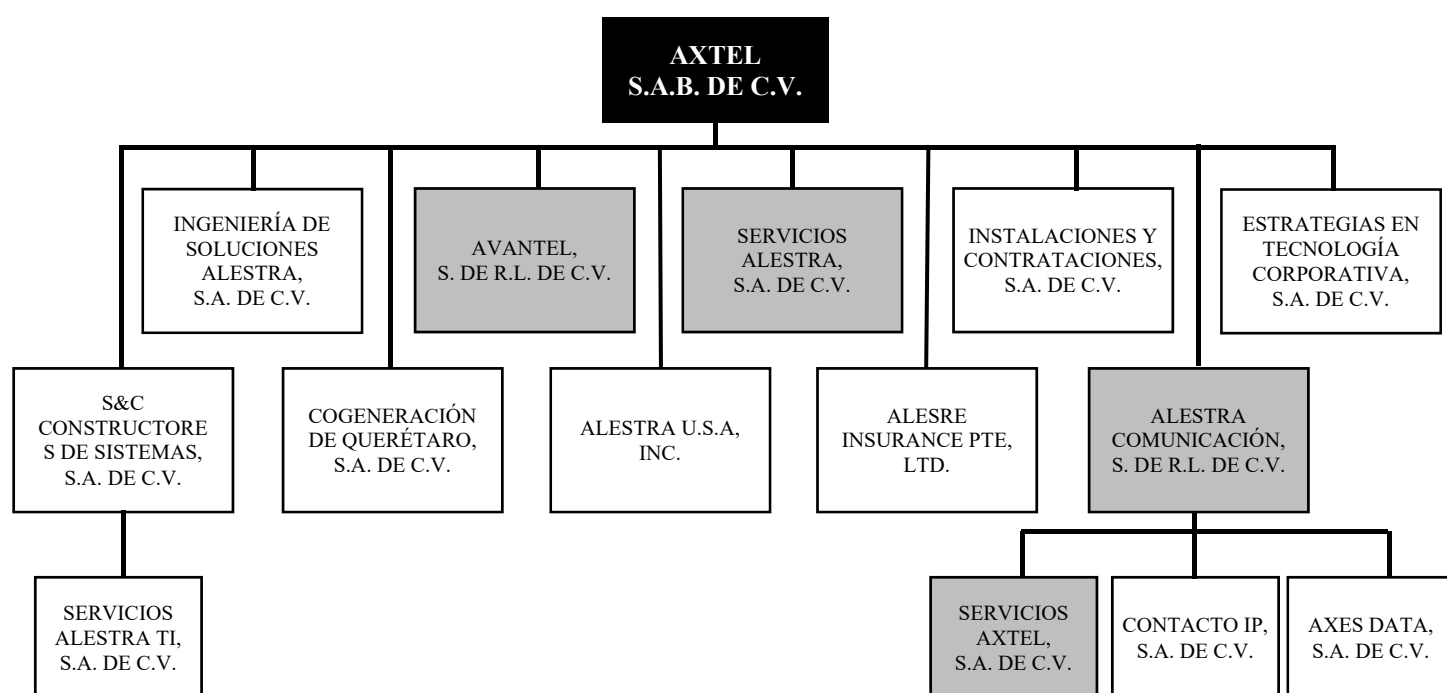
The following chart represents our strategic evolution:



We expect our future growth to come from business opportunities with existing customers and the acquisition of new customers for current and future services. Additionally, we may also explore other business opportunities through commercial agreements, strategic associations, acquisitions or divestitures, among others, with domestic or international companies.

Corporate Structure and Corporate Information

The following chart describes our corporate structure as of the date of this offering memorandum, including our main subsidiaries, which are all directly or indirectly wholly owned by us:



■ Guarantors

As of and for the nine months ended September 30, 2017, the subsidiary guarantors accounted for 9.3% of our total assets and (0.8)% of our Adjusted EBITDA on a consolidated basis, respectively.

We are organized under the laws of Mexico. Our corporate offices are located at Blvd. Diaz Ordaz Km 3.33 L-1, Unidad San Pedro, C.P. 66215, San Pedro Garza García, Nuevo León, Mexico. Our corporate website address is <http://axtelcorp.mx>. The information on our website is not a part of, and is not incorporated by reference into, this offering memorandum.

THE OFFERING

The following is a brief summary of certain terms of this offering and it is not intended to be complete. For a more complete description of the terms of the notes, see “Description of the Notes.”

Issuer	Axtel, S.A.B. de C.V.
Notes offered	U.S.\$500,000,000 aggregate principal amount of 6.375% Senior Notes due 2024.
Issue Price.....	100.000%, plus accrued interest, if any, from November 14, 2017.
Maturity	November 14, 2024.
Interest Rate and Payment Dates	Interest will accrue at an annual rate of 6.375% and will be payable semi-annually in arrears in cash on May 14 and November 14 of each year, beginning May 14, 2018.
Subsidiary Guarantors	The notes will be fully, unconditionally and irrevocably guaranteed on a senior unsecured basis by the following direct and indirect subsidiaries: (i) Avantel, S. de R.L. de C.V.; (ii) Alestra Comunicación, S. de R.L. de C.V.; (iii) Servicios Axtel, S.A. de C.V.; (iv) Servicios Alestra, S.A. de C.V. and (v) any restricted subsidiary that provides a subsidiary guarantee after the issue date (collectively, the “subsidiary guarantors”). As of and for the nine months ended September 30, 2017, the subsidiary guarantors accounted for 9.3% of our total assets and (0.8)% of our Adjusted EBITDA on a consolidated basis, respectively.
Ranking	<p>The notes and the subsidiary guarantees will be the Issuer’s and the subsidiary guarantors’ respective senior unsecured obligations and will rank:</p> <ul style="list-style-type: none"> • equal in right of payment to all other of the Issuer’s and the subsidiary guarantors’ respective existing and future senior unsecured indebtedness; and • junior to certain statutory preferences under Mexican law, such as tax, social security and labor obligations. <p>The notes and the subsidiary guarantees will effectively rank junior to all of the Issuer’s and the subsidiary guarantors’ respective existing and future secured indebtedness, to the extent of the value of the assets securing such indebtedness. The notes and the subsidiary guarantees will be structurally subordinated to all liabilities and guarantees of our non-guarantor subsidiaries.</p> <p>As of September 30, 2017, we had total consolidated indebtedness of Ps. 19,491 million (U.S.\$1,071 million). As of September 30, 2017, on an unconsolidated basis, the Issuer had Ps. 19,487 million (U.S.\$1,071 million) of outstanding indebtedness. As of September 30, 2017, neither the Issuer, nor any subsidiary guarantor or any non-guarantor subsidiary had any secured indebtedness.</p>
Optional Redemption.....	On or after November 14, 2020, we may redeem the notes, in whole or in part, at any time at the redemption prices set forth in “Description of the Notes—Optional Redemption—General Optional

Redemption;” and at any time prior to November 14, 2020, we may redeem the notes, in whole or in part, at a redemption price based on a “make-whole” premium, in each case plus any accrued interest and additional amounts thereon.

In addition, prior to or on November 14, 2020, we may redeem up to 35% of the original principal amount of the notes with the net proceeds from certain equity offerings by us, at a redemption price equal to 106.375% of the aggregate principal amount thereof, plus any accrued and unpaid interest and additional amounts thereon.

Tax Redemption

In the event of certain changes to applicable tax laws and regulations that would require us to pay Additional Amounts (as defined below) to non-residents of Mexico, in respect of payments of interest or amounts deemed interest on the notes, in excess of the Additional Amounts payable in respect of withholding taxes imposed at a 4.9% rate, the Issuer may, subject to certain conditions, redeem in whole, but not in part, the notes prior to maturity at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to, but excluding, the date of redemption, and any Additional Amounts payable with respect thereto. See “Description of the Notes—Optional Redemption—Optional Redemption upon Tax Event.”

Certain Covenants.....

The indenture governing the notes will contain covenants that limit future actions to be taken, or transactions to be entered into, by the Issuer and its restricted subsidiaries. The indenture will limit the Issuer’s and its restricted subsidiaries’ ability to, among other things:

- incur additional indebtedness;
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock or any subordinated indebtedness;
- make investments;
- create liens;
- create limitations on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us;
- engage in transactions with affiliates;
- create unrestricted subsidiaries;
- sell assets, including capital stock of our subsidiaries; and
- consolidate, merge or transfer assets.

However, these covenants will be subject to a number of important exceptions and qualifications. See “Description of the Notes—Covenants.”

During any period that the credit rating on the notes, as determined by two or more of Moody’s Investors Service, Inc., S&P Global Ratings and Fitch Ratings Ltd., equals or exceeds Baa3, BBB- and BBB-, respectively, and no default or event of default has occurred and is

continuing, we will not be subject to many of these covenants. Any restrictive covenants that cease to apply as a result of achieving these ratings will be restored if two or more of the credit ratings on the notes are withdrawn or fall below these thresholds. See “Description of the Notes—Covenants—Suspension of Covenants.”

Change of Control	Upon the occurrence of a Change of Control (as defined in the indenture), the Issuer will be required to make an offer to purchase the notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest to, but excluding the purchase date and additional amounts thereon. See “Description of the Notes—Change of Control Triggering Event.”
Additional Amounts	<p>Payments of interest on the notes (and amounts deemed interest, such as any discount on the principal amount of the notes) made by us to investors that are non-residents of Mexico for Mexican income tax purposes will generally be subject to Mexican withholding taxes at a rate of 4.9%, if certain requirements are satisfied. See “Taxation—Mexican Federal Tax Considerations—Payments of Interest.”</p> <p>If we are required to deduct or withhold taxes attributable to any payments of interest on the notes (and amounts deemed interest, such as any discount on the principal amount of the notes), we will, subject to certain exceptions described in this offering memorandum, pay additional amounts (“Additional Amounts”) to the holders of the notes, so that the net amount received by holders of the notes in respect of principal, interest or other payments on the notes, after any such withholding or deduction, will not be less than the amount each holder of notes would have received if such withholding or deduction had not applied. See “Description of the Notes—Additional Amounts.”</p>
Events of Default.....	The indenture sets forth the events of default applicable to the notes. See “Description of the Notes—Events of Default.”
Further Issuances	We may from time to time without notice to or consent of the holders of the notes create and issue an unlimited principal amount of additional notes of the same series as the notes initially issued in this offering. Any such additional notes shall be issued under a separate CUSIP or ISIN number unless the additional notes are issued pursuant to a "qualified reopening" of the original series, are otherwise treated as part of the same “issue” of debt instruments as the original series or are issued with no more than a de minimis amount of original discount, in each case for U.S. federal income tax purposes.
Use of Proceeds	We intend to use the net proceeds from this offering to repay debt, including ancillary costs and expenses. See “Use of Proceeds.”
Transfer Restrictions.....	We have not and will not register the notes under the Securities Act or the securities laws of any other jurisdiction. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Transfer Restrictions.”

As required under the LMV, and regulations thereunder, we will notify the CNBV of the terms and conditions of the offering of the notes outside of Mexico, to comply with a statutory requirement and

for statistical purposes.

The notes have not been and will not be registered with the RNV maintained by the CNBV and may not be offered or sold publicly in Mexico, except that the notes may be offered and sold, on a private placement basis, to institutional and qualified investors in Mexico, pursuant to the private placement exemption set forth in the LMV and regulations thereunder.

Securities Codes

The notes will be assigned the following securities codes:

Rule 144A:

CUSIP: 05462G AJ3

ISIN: US05462GAJ31

Regulation S:

CUSIP: P0606P AC9

ISIN: USP0606PAC97

Taxation.....

You should consult your tax advisor with respect to the Mexican tax and U.S. tax considerations relating to the purchasing, holding or disposing of the notes in light of your own particular situation and with respect to any tax consequences arising under the laws of any federal, state, municipal, local, foreign or other taxing jurisdiction and under double taxation treaties to which Mexico is a party and that are in effect. See "Taxation" for a summary of certain Mexican federal income tax considerations and U.S. federal income tax considerations of an investment in the notes.

Governing Law

The indenture, the subsidiary guaranties and the notes will be governed by the laws of the State of New York.

Listing.....

Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange. We cannot assure you that this application will be accepted.

Trustee, Paying Agent, Registrar and Transfer Agent.....

The Bank of New York Mellon.

Irish Listing Agent.....

The Bank of New York Mellon SA/NV, Dublin Branch.

Form and Denomination.....

The Issuer will issue the notes in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof and the notes will, once issued in book-entry form, be represented by one or more global notes.

Risk Factors.....

See "Risk Factors" in this offering memorandum for a discussion of certain relevant factors you should carefully consider before deciding to invest in the notes.

SUMMARY HISTORICAL FINANCIAL DATA AND OTHER INFORMATION

You should read the following summary historical financial data and other information in conjunction with our Annual Audited Financial Statements and our Interim Unaudited Financial Statements, and the information set forth in the sections “Presentation of Financial and Certain Other Information,” “Selected Historical Financial Data and Other Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this offering memorandum.

The consolidated financial information set forth below as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 has been derived from our Annual Audited Financial Statements prepared in accordance with the IFRS contained elsewhere in this offering memorandum. The financial information as of September 30, 2017 and for the nine months ended September 30, 2017 and 2016 has been derived from our Interim Unaudited Financial Statements prepared in accordance with IAS 34 contained elsewhere in this offering memorandum.

Due to the consolidation of Onexa into our financial statements as of February 15, 2016 in connection with the Alestra Merger, our financial information for the year ended December 31, 2016 and for the nine months ended September 30, 2017 and 2016 included in this offering memorandum is not comparable to our consolidated financial information for prior periods. For more information regarding the Alestra Merger, see “Business—Our History.”

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾ (U.S.\$)	2016 (Ps.)	2015 (Ps.)	2014 (Ps.)	2017 ⁽²⁾ (U.S.\$)	2017 (Ps.)	2016 (Ps.)
	(in millions)						
Income Statement Data:							
Net revenue	747	13,937	10,150	10,597	593	11,227	10,154
Cost of services	(319)	(5,944)	(4,143)	(6,208)	(279)	(5,289)	(4,317)
Administration and selling expenses ⁽⁶⁾	(395)	(7,365)	(4,980)	(4,932)	(281)	(5,314)	(5,319)
Other (expenses) income - Net	(45)	(838)	(437)	(88)	18	344	(463)
Operating (loss) profit ⁽⁶⁾	(11)	(209)	589	(630)	51	967	55
Financial income ⁽³⁾	13	235	697	584	102	1,924	38
Financial expenses ⁽⁴⁾	(273)	(5,091)	(3,392)	(2,538)	(61)	(1,164)	(3,626)
Financial (loss) gain - Net.....	(260)	(4,856)	(2,695)	1,954	40	760	(3,588)
Equity in the results of associated companies - Net	(0)	(5)	(0)	(3)	(0)	(0)	(5)
Pre-tax (loss) income ⁽⁶⁾	(272)	(5,071)	(2,105)	(2,588)	91	1,727	(3,538)
Taxes on income ⁽⁶⁾	79	1,472	373	577	(39)	(742)	994
Consolidated (loss) income - Net ⁽⁶⁾	(193)	(3,599)	(1,732)	(2,010)	52	985	(2,544)

	As of December 31,			As of September 30,	
	2016 ⁽¹⁾	2016	2015	2017 ⁽²⁾	2017
	(U.S.\$)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)
(in millions)					
Statement of Financial Position Data:					
Assets					
Current:					
Cash and cash equivalents.....	70	1,447	2,575	40	722
Trade receivables and other accounts receivable - Net ⁽⁶⁾	197	4,067	3,208	220	4,012
Inventories.....	5	109	53	12	216
Financial instruments.....	7	153	378	10	188
Prepayments.....	25	517	152	30	548
Total current assets ⁽⁶⁾	305	6,294	6,366	312	5,686
Non-current:					
Restricted cash.....	7	153	-	9	160
Non-current accounts receivable.....	0	9	129	-	-
Property, plant and equipment - Net.....	949	19,619	13,216	1,058	19,259
Goodwill and intangible assets - Net.....	89	1,839	125	84	1,532
Deferred income taxes ⁽⁶⁾	196	4,057	2,235	187	3,396
Other non-current assets.....	10	205	128	13	245
Total non-current assets ⁽⁶⁾	1,253	25,882	15,833	1,351	24,591
Total assets ⁽⁶⁾	1,557	32,176	22,199	1,664	30,277
Liabilities					
Current:					
Debt.....	50	1,029	1,051	48	874
Suppliers and other accounts payable ⁽⁶⁾	273	5,645	3,894	290	5,284
Provisions.....	6	130	190	1	24
Other liabilities.....	49	1,023	509	16	284
Derivative financial instruments.....	-	-	-	1	26
Total current liabilities ⁽⁶⁾	379	7,826	5,644	357	6,492
Non-current:					
Debt.....	991	20,486	12,476	1,023	18,617
Derivative financial instruments.....	-	-	65	-	-
Other non-current accounts payable.....	48	986	112	54	986
Employee benefits.....	23	467	28	30	541
Deferred income taxes.....	0	10	-	0	1
Total non-current liabilities.....	1,062	21,949	12,682	1,107	20,144
Total liabilities ⁽⁶⁾	1,441	29,775	18,326	1,464	26,636
Total stockholders' equity ⁽⁶⁾	116	2,400	3,873	200	3,640

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾	2016	2015	2014	2017 ⁽²⁾	2017	2016
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)
(in millions)							
Other Financial/Operating Data:							
Adjusted EBITDA ⁽⁵⁾	242	4,508	3,208	2,805	222	4,194	3,322
Cash Flows:							
Operating activities.....	209	3,898	3,120	3,109	132	2,504	2,398
Investing activities.....	(189)	(3,527)	(1,925)	(2,831)	(94)	(1,770)	(2,702)
Financing activities.....	(90)	(1,675)	(1,565)	970	(74)	(1,395)	(1,654)
Sales by Segment:							
Business.....	471	8,784	4,242	4,782	387	7,333	6,333
Government.....	108	2,024	2,592	2,243	86	1,631	1,466
Mass Market.....	168	3,129	3,316	3,572	120	2,263	2,354

(1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 20.6640 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2016, with respect to statement of financial position data and (ii) Ps. 18.6567 per U.S. Dollar, the daily average of the Official Exchange Rates on each day during the year ended December 31, 2016, with respect to financial information other than statement of financial position data. These convenience translations should not be

construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."

- (2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 18.1979 per U.S. Dollar, the Official Exchange Rate in effect on September 30, 2017, with respect to statement of financial position data and (ii) Ps. 18.9274 per U.S. Dollar, the average of the Official Exchange Rate on each day during the nine months ended September 30, 2017, with respect to financial information other than statement of financial position data.
- (3) Includes a foreign exchange gain in the amount of Ps. 210 million in 2016, Ps. 439 million in 2015, Ps. 549 million in 2014, Ps. 2,358 million in the nine months ended September 30, 2017 and Ps. 171 million in the nine months ended September 30, 2016.
- (4) Includes a foreign exchange loss in the amount of Ps. 2,989 million in 2016, Ps. 2,098 million in 2015, Ps. 1,622 million in 2014, Ps. 493 million in the nine months ended September 30, 2017 and Ps. 2,042 million in the nine months ended September 30, 2016.
- (5) We determine EBITDA as consolidated net loss or income plus or less, as applicable, financial gain (loss) net, income tax and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA less merger-related expenses, impairment of non-current assets, and equity in the results of associated companies, net. EBITDA and Adjusted EBITDA are measurements that are not defined under IFRS. A non-IFRS financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be adjusted in the most comparable IFRS measure. Our calculation of Adjusted EBITDA may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information – Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA for each of the periods presented.

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾	2016	2015	2014	2017 ⁽²⁾	2017	2016
	(U.S.\$)	(Ps.)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)	(Ps.)
	(in millions)						
Consolidated (loss) income - Net ⁽⁶⁾	(193)	(3,599)	(1,732)	(2,010)	52	985	(2,544)
Financial gain (loss) - Net	260	4,856	2,695	1,954	(40)	(760)	3,588
Taxes on income ⁽⁶⁾	(79)	(1,472)	(373)	(577)	39	742	(994)
Depreciation and amortization	205	3,830	2,619	3,435	160	3,024	2,759
EBITDA ⁽⁶⁾	194	3,615	3,208	2,801	211	3,991	2,810
Merger-related expenses	45	835	-	-	10	193	559
Impairment of non-current assets	3	53	-	-	1	10	(52)
Equity in the results of associated companies - Net	0	5	0	3	-	-	5
Adjusted EBITDA ⁽⁶⁾	242	4,508	3,208	2,805	222	4,194	3,322

- (6) As described in Note 3 to the Annual Audited Financial Statements, in connection with the preparation of the 2016 consolidated financial statements, we revised our previously issued audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014 due to an immaterial correction in the determination of the provision for impairment of trade receivables. The following table sets forth minor adjustments that were made to certain line items as a result of these revisions:

	For the Year Ended December 31,					
	2015			2014		
	(Ps. in millions)					
	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>
Income Statement Data:						
Administration and selling expenses	4,960	20	4,980	4,801	131	4,932
Operating profit (loss)	609	(20)	589	(499)	(131)	(630)
Pre-tax income (loss)	(2,085)	(20)	(2,105)	(2,457)	(131)	(2,588)
Taxes on income	367	6	373	538	39	577
Consolidated loss - Net	(1,718)	(14)	(1,732)	(1,918)	(92)	(2,010)

Other**Financial/Operating Data:**

Consolidated (loss) income - Net	(1,718)	(14)	(1,732)	(1,918)	(92)	(2,010)
Financial income	(697)	-	(697)	(584)	-	(584)
Financial expense	3,392	-	3,392	2,538	-	2,538
Taxes on income	(367)	(6)	(373)	(538)	(39)	(577)
Depreciation and amortization	2,619	-	2,619	3,435	-	3,435
EBITDA	3,229	(20)	3,208	2,933	(131)	2,801
Merger-related expenses	-	-	-	-	-	-
Impairment of non-current assets	-	-	-	-	-	-
Equity in the results of associated companies - Net	0	-	0	3	-	3
Adjusted EBITDA	3,229	(20)	3,208	2,936	(131)	2,805

As of December 31, 2015**(Ps. in millions)**

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>
Statement of Financial Position Data:			
Trade receivables and other accounts receivable - Net	3,646	(438)	3,208
Total current assets	6,804	(438)	6,366
Deferred income taxes	2,103	132	2,235
Total non-current assets	15,701	132	15,833
Total assets	22,505	(306)	22,199
Suppliers and other accounts payable	3,954	(60)	3,894
Total current liabilities	5,704	(60)	5,644
Total liabilities	18,386	(60)	18,326
Total stockholders' equity	4,119	(246)	3,873

RISK FACTORS

An investment in our notes is subject to risks and uncertainties. You should carefully consider the risks described below, in addition to the other information contained in this offering memorandum, before deciding whether to purchase the notes. Realization of any of these risks could have a material adverse effect on our business, financial condition, cash flows and results of operations and could materially affect the value or liquidity of the notes and result in the loss of all or part of your investment in, or failure to receive timely payments in respect of, the notes. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial, and that are not described below, may also materially adversely affect us, which could also result in the loss of all or part of your investment in our notes.

Risks Relating to Our Business

We operate in a highly competitive environment, compete with companies that have greater financial resources and experience significant rate pressure, all of which may negatively affect our operating margins and results of operations.

The telecommunications industry in Mexico is very competitive. With the convergence of services, competition has intensified and we compete with established telecom companies such as Telmex, Bestel and Maxcom, with cable companies such as Megacable, Totalplay and Televisa Cable Companies (Cablemás, Cablevisión, Cablecom and TVI), with mobile operators such as America Movil, AT&T Mexico and Telefónica Movistar and with other data center or IT providers such as KIO Networks, IBM and Softek, among others.

We have experienced and expect to continue experiencing pricing declines, primarily as a result of:

- focus of our competitors on increasing their market share;
- deployment of significant capital resources that result in rate subsidies;
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks, resulting in transport overcapacity;
- greater participation of traditional fixed-line service providers;
- further penetration of former cable television operators in consumer markets where we operate;
- increase in maturities of long term agreements with customers, in exchange for benefits;
- the continued convergence and bundling up of telecom and IT services; and
- market reconfiguration due to the entrance of AT&T in 2015 and possible entrance by other participants, such as investment funds and other international telecommunications companies.

If there are further declines in the price of telecommunication services in Mexico, we will be forced to competitively react to those price declines by lowering our prices or risk losing market share, which could adversely affect our operating results and financial condition.

Certain competitors, including Telmex, a subsidiary of America Movil and AT&T Mexico, have significantly greater financial resources and scale than we do. In particular, Telmex's nationwide network and concessions, as well as its established and long-standing customer base, give it a substantial competitive advantage.

Our ability to generate cash flow will depend on our ability to compete in the ICT industry in Mexico.

Competition in the ICT industry has increased significantly as our competitors have faced a reduction in their margins from voice and data services, particularly in the mass market segment and in services provided to government agencies. As a result, we have been shifting our focus and sales efforts to new services, including capturing future growth in providing ICT services in Mexico. This strategy is vulnerable to several risks and variables, including the following:

- continuous, rapid and significant changes in technology and new products in the field of information technology, data and internet services, and our possible inability to have access to or deploy alternative or new technologies;
- high levels of capital expenditures required to provide our information technology services, data and internet services and to implement significant related technological changes;

- the highly competitive nature of the ICT market, which may include new market entrance with significant capital or technology resources;
- the stronger competitive position of some of our competitors, including Telmex, which is the dominant provider of telecommunications services in Mexico and may be in a better position to serve enterprise customers, which are our main target;
- the limited flexibility in the Mexican regulatory framework applicable to telecommunications for obtaining approval of proposed technological changes;
- strict, unfavorable or delayed interpretations by regulators, in connection with the roll-out of our services, the offering of new services, or the integration of our services; and
- additional competition from companies providing telecom, IT and video services.

In the event that we are not successful in implementing our strategy of focusing on ICT services in Mexico and are unable to obtain the benefits of these high margin operations, our results of operations and financial condition could be adversely affected.

Technological advances may require us to make significant capital expenditures to maintain and improve the competitiveness of our service offerings.

The telecommunications industry is subject to continuous, rapid and significant changes in technology and introductions of new products and services. These include evolving industry standards, ongoing improvements in the capacity and quality of digital technology and other related technology, shorter development cycles for new products, enhancements and changes in end-user needs and preferences, and continuing development of alternative technologies in mobile and fixed-line telephony, high-speed data communications, satellite direct services and internet related services. We expect that new services and technologies applicable to our market will continue to emerge and we cannot predict the effect of technological changes on our business. Our competitors may implement superior new technologies, allowing them to provide lower priced or higher quality services than we do and resulting in rapid shifting of customers. Any such new service offerings may adversely affect our competitive position, render certain of our current businesses obsolete or require significant capital expenditures for which we may be unable to obtain additional financing.

The telecommunications industry is characterized by rapid technological change, which could render our products obsolete, limit our access to comparable technologies, and cause an asset impairment charge.

Most of the network and other system equipment used in the telecommunications industry has a limited life and must be replaced because of damage or obsolescence due to competition. Such upgrades or migrations require significant capital expenditures and our services could become obsolete due to unforeseen technological developments. Furthermore, in the event of obsolescence, we may not be able to have access to new technologies or to reasonable prices. To the extent equipment or systems become obsolete, we may be required to recognize an impairment charge to such assets, which may have a material adverse effect on our business and results of operations.

We depend on certain important customers for a significant portion of our revenues.

Citibanamex, our largest corporate customer, accounted for 5% and 7% of total revenues for the nine months ended September 30, 2017 and for the year ended December 31, 2016, respectively. Additionally, there are certain commercial agreements with AT&T Global Network Services de México S. de R.L. de C.V. (“AGNS México”) under which we provide AGNS Mexico certain telecommunication services enabling AT&T Global Services to serve its customers in Mexico. This agreement, together with other services provided to AT&T Mexico, represented 7% and 7% of our total revenues for the nine months ended September 30, 2017 and for the year ended December 31, 2016, respectively.

If a major customer, such as Citibanamex or AT&T Mexico, reduces or terminates its relationship with us under the terms contemplated in the respective agreements, our financial condition, revenues and operating results could be affected. No other customer accounted for more than 5% of our total revenues for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively.

Agreements with government agencies face a greater level of uncertainty.

Revenues resulting from contracts with government agencies represented 15% of total revenues for both the nine months ended September 30, 2017 and year ended December 31, 2016. The agreements are subject to a greater level of uncertainty as they may be terminated if certain conditions are not satisfied and may not be extended at will, as a public bidding process would need to be conducted for an extension. Furthermore, bidding processes for new contracts may be postponed or not held, depending on market conditions. The loss of market share or revenue from agreements with government agencies may have a negative impact on our financial condition and results from operations.

We may be subject to interruptions or failures in our information technology systems, as well as to cyber-attacks or other breaches of network or IT security.

We rely on sophisticated information technology systems and infrastructure to support our business, including process control technology. These systems may be susceptible to outages due to fire, floods, earthquakes, power loss, telecommunications failures and similar events. The failure of any of our information technology systems may cause disruptions in our operations, adversely affecting our sales and profitability. We cannot assure you that our business continuity plans will be completely effective in the event of interruptions or failure of our information technology systems.

Furthermore, our technologies, systems, networks, and those of our business partners, may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, misuse or loss of confidential information, or other disruption of our business operations. Our business is highly dependent on our technology infrastructure and that of our service providers, and we are not immune to attacks against our or their network or systems. Although we have not experienced any material loss related to cyber-attacks, there can be no assurance that we will not be the target of cyber-attacks in the future that could adversely affect our operations or financial condition. In addition, if we fail to prevent the theft of valuable information such as financial data and sensitive information about us, or if we fail to protect the privacy of customer and employee confidential data, our business could be adversely affected. As cyber threats continue to evolve, we may be required to incur additional expenses to enhance our protective measures or to remediate any information security vulnerability.

Our network growth strategy may fail to generate anticipated revenues.

In the nine months ended September 30, 2017 and in the years ended December 31, 2016, 2015 and 2014, we invested Ps. 2,186 million, Ps. 3,186 million, Ps. 2,011 million and Ps. 2,837 million, respectively, in network and infrastructure, and we expect to make additional significant annual investments to maintain and upgrade our network and increase our capacity and business in the future, including through acquisitions and non-strategic asset divestments. These investments and divestments, together with operating expenses, may affect cash flow and profitability, particularly if such investments and divestments do not lead to additional revenue or efficiencies or lengthen anticipated revenues. In addition to requiring us to carefully manage our administrative expenses, such continued growth will require us to attract, hire and retain qualified personnel to efficiently manage such growth. If we are unable to meet the challenges that such growth presents, our results of operations and financial condition could be adversely affected.

Delays in the implementation and availability of new technologies or service access networks could adversely affect our results of operations.

Telecommunications companies constantly migrate to new technologies or access networks depending on the demand for services in the market and the characteristics of the technological alternatives available and their cost and adaptability. We are continuously testing different services and fiber optic technologies, such as routers, switches, optical transmission and Fiber Optic Modem (“FOM”), to provide converged telecommunications services to our customers. Deployment of these technologies is susceptible to delays and such technologies may fail to meet expected capacities, which would result in slower growth and adversely affect our results of operations.

If our strategic suppliers fail to provide services, technologies and/or equipment, our results of operations could be adversely affected.

Our main suppliers include Huawei Technologies de Mexico, S.A. de C.V., Cisco Systems Inc., Dasan Zhong Solutions Inc., Ericsson Telecom S.A. de C.V., Oracle de Mexico, S.A. de C.V., Avaya Communication de Mexico, S.A. de C.V., Alcatel-Lucent Mexico, S.A. de C.V., Coriant Mexico S. de R.L. de C.V., among others. If any of our suppliers fail to provide services, technologies and/or equipment necessary for our operations, and no alternate supplier is available, our ability to make the necessary deployments in order to have the penetration and coverage we seek would be adversely affected, which could adversely affect our results of operations.

Any loss of key personnel could adversely affect our business.

Our success depends, in large measure, on the skills, experience, efforts and collaboration of our senior management team and other key personnel and the correct strategic decision making by the executive team. There is a lack of qualified personnel in the Mexican market, which has increased the demand for experienced executives. Our executive management team has extensive experience in the industry and it is of the utmost importance that they continue to be a part of our company or be replaced by equally qualified executives to maintain our most important customer relationships and the proper operation of our business. The loss of the technical knowledge, management and industry expertise of key employees could hinder the optimal execution of our business plan and could result in delays in launching new products, loss of customers and diversion of resources to the extent that such employees cannot be replaced. If we are not able to attract, hire or retain highly skilled, talented and committed senior managers or other key employees, our ability to fully implement our business objectives may be adversely affected.

Any deterioration of relations with our employees or increase in labor costs may have a negative impact on our business, financial condition, results of operations and prospects.

We employ over 7,100 employees throughout Mexico. Any significant increase in labor costs, deterioration of employee relations, slowdowns or work stoppages at any of our locations, whether due to union activities, employee turnover, changes in the Mexican Federal Labor Law (*Ley Federal del Trabajo*) or the interpretation thereof, could have a material adverse effect on our business, financial condition, results of operations and prospects. A strike, work or other labor unrest could, in some cases, impair our ability to provide our services to customers, which could result in reduced net sales. Approximately 13% of our workforce is unionized. Under our collective bargaining agreement, we are required to negotiate salaries on a yearly basis and other benefits on a semiannual basis. There are no other workers or employees of the Company assigned to other unions. If any significant conflicts arise, our business, financial condition, results of operations and prospects could be adversely affected.

If we do not successfully maintain, upgrade and efficiently operate our accounting, billing, customer service and management information systems, we may not be able to maintain and improve our operating efficiencies.

Having efficient information and processing systems is vital to our operations and growth, as well as having the ability to monitor costs, provide monthly invoices for services, process service orders, provide customer service and achieve operating goals. We believe that we have the systems necessary to provide these services efficiently. However, we can provide no assurance that in the future we will be able to continue the optimal operation and maintenance of such systems or that they will continue to perform as expected or that our systems will not be subject to hacking or interference. Any failure in these systems could affect our billing, collection and customer responsiveness and may affect our financial condition and results of operations.

A system failure could cause delays or interruptions of service, which could cause a loss of customers.

To be successful, we will need to continue providing our customers reliable service over our network. Some of the risks that our network and infrastructure are exposed to include:

- physical damage to access lines;
- power surges or outages;
- software defects; and
- disruptions beyond our control.

Disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause a loss of customers or the incurrence of additional expenses.

Our operations are dependent upon our ability to protect our infrastructure.

We depend on our ability to protect our infrastructure against damage from fire, earthquakes, hurricanes, floods, power loss, security breaches, software flaws and similar events, and on building networks that are vulnerable to the effects of such events. The occurrence of a natural disaster or other unanticipated problems at the facilities or sites of switches, data centers, or POPs could cause interruptions in the services that we provide. The failure of a switch, data center, or POP, would result in the interruption of service to the customers served by that equipment until necessary repairs are made or replaced. Repairing or replacing damaged equipment may be costly. Any damage or failure that causes interruptions in our operations could have a material adverse effect on our business, financial condition and results of operations.

Our operations are subject to the general risks of litigation.

We are involved in litigation on an ongoing basis arising in the ordinary course of business or otherwise. Litigation may include class actions involving consumers, shareholders, employees or injured persons, and claims related to commercial, labor, employment, antitrust, securities or environmental matters. Moreover, the process of litigating cases, even if we are successful, may be costly, and may approximate the cost of damages sought. These actions could also expose us to adverse publicity, which might adversely affect our brands and reputation and/or customer preference for our products. Recently, Mexico's Congress has approved legislation allowing consumers and other market participants to initiate class action lawsuits against us. There is very limited experience in Mexico with class action lawsuits and judicial precedent regarding these laws is extremely limited. Furthermore, there may be claims or expenses which are denied insurance coverage by our insurance carriers or not fully covered by our insurance, that is in excess of the amount of our insurance coverage or not insurable at all. Litigation trends and expenses and the outcomes of litigation cannot be predicted with certainty and adverse litigation trends, expenses and outcomes could have a material adverse effect on our business, financial condition and results of operations.

We depend on Telmex for interconnection and with the Mexican Supreme Court's resolution of August 2017, America Movil is allowed to charge interconnection fees starting in 2018. If such fees are significantly higher than those currently applicable, such development could have a material adverse effect on our business and results of operations.

We maintain a number of dedicated links and last-mile-access infrastructure under lease agreements with Telmex. If Telmex breaches the agreed contractual conditions, or if Telmex discontinues the provision of services before we are able to migrate these customers to our own network, there could be a material adverse effect on our business, financial condition and results of operations.

Since July 4, 2014, when the LFTR was enacted, the IFT determined that America Movil and its subsidiaries, Telmex and Telcel, are preponderant economic agents in the telecommunications sector, imposing asymmetric regulations, such as not charging interconnection fees for traffic terminating on their networks, sharing their wireless and fixed infrastructure and services and providing access to the local loop. However, on August 16, 2017, the Mexican Supreme Court of Justice issued a resolution that declared unconstitutional a series of provisions of the LFTR relating to the prohibition imposed on America Movil to charge other carriers for termination services on its network. As such, the IFT will now determine the interconnection rate that other carriers must pay to America Movil. The resolution states that this rate will be based on international best practices, cost oriented methodologies, transparency and reasonableness. The new interconnection rate will take effect on January 1, 2018. We and other operators that compete with America Movil will not be forced to repay interconnection charges to America Movil retroactively; however, America Movil's interconnection rate going forward may increase significantly, which could have a material adverse effect on our business, financial condition and results of operations.

In early 2017, the IFT concluded the process of reviewing the asymmetric measures imposed on America Movil as a holding company of Telmex and Telcel and issued a resolution on February 27, 2017 (published on March 14, 2017) that confirmed the existing measures and added new measures, such as the functional separation of certain assets used to provide local loop unbundling services. However, if any of the asymmetric regulations

imposed on Telmex and Telcel to be a preponderant economic agent are weakened or eliminated in the future, this could have a material adverse effect on our business, financial condition and results of operations.

Under Mexican law, our concessions could be expropriated or suspended.

Pursuant to the LFTR enacted in August 2014, public telecommunications networks are considered public domain and holders of concessions to install, operate and develop public telecommunications networks are subject to the provisions of the LFTR and any other provision contained in the concession title. The LFTR provides, among other things, for the following:

- the rights and obligations granted under the concessions to install, operate and develop public telecommunications networks may only be assigned with the prior authorization of the IFT;
- neither the concession nor the rights thereunder or the related assets may be assigned, pledged, mortgaged, placed in escrow or sold to any government or country;
- the Mexican government may request changes or seize the spectrum granted in the concession, in any of the following events: (i) public order, (ii) national security, (iii) introduction of new technologies, (iv) to solve interference problems, (v) to comply with international treaties, (vi) to reorder the frequency bands and (vii) for the continuity of a public service; and
- the Mexican government may expropriate or temporarily seize the assets related to the concessions in the event of natural disasters, war, significant public disturbance or threats to internal peace or for other reasons relating to economic or public order.

Reasons for expropriation are wide-ranging and may be claimed by the Mexican government at any time. Mexican law sets forth the process for indemnification for direct damages arising out of the expropriation or temporary seizure of the assets related to the concessions, except in the event of war. However, in the event the concessionaire does not agree with the amount of the indemnity determined by IFT they may apply to the Specialized Tribunals on telecommunication matters to solicit their intervention so that they may determine the definitive amount. If our concessions are expropriated, there may be significant delays in the receipt of payment of the applicable indemnification. In addition, the amount of the indemnification payment may be insufficient to compensate us for damages suffered. Furthermore, the expropriation of our concessions may limit or extinguish our ability to continue our business. The expropriation or suspension of our concessions would have a material adverse effect on our business and results of operations.

Mexican law does not prohibit the concessionaire to grant security interests to its creditors (except for those granted to a foreign government or country) related to the concessions or its assets, provided that respective legislation is complied with. In the event that any such security interest is executed, the assignee must comply with legal provisions related to concessionaires, including, among others, the requirement to receive the authorization by the regulatory authority to be a holder of the concession.

We could encounter unfavorable conditions with respect to our concessions.

Under our concession titles, we must meet certain obligations and commitments. Failure to fulfill these obligations and commitments set forth in the concessions could result in a fine or the termination of the concessions. Furthermore, our concessions of spectrum have expiration dates ranging between 2018 and 2046. As such, we intend to request renewals of these spectrum concessions from the IFT; however, we cannot assure that such renewals will be granted on the same terms or at all. The renewal fee for the concessions will be determined by IFT. The non-renewal of our spectrum concessions would have a material adverse effect on our business, financial condition and results of operations.

We have experienced losses in the past in relation to derivative financial instruments.

From time to time, we use derivative financial instruments to manage risks associated with interest rates and to hedge the total or a portion of dollar-denominated debt. The policy is not to enter into derivative transactions for speculative purposes; however, we may continue to enter into derivative financial instruments as an economic hedge against certain business risks, even if these instruments do not qualify for hedge accounting under IFRS. The mark-to-market accounting for derivative financial instruments is reflected in our income statement.

In addition, we face the risk that the creditworthiness of our counterparties in such derivative financial instruments may deteriorate substantially. This could prevent our counterparties from honoring their obligations to us, which would expose us to market risks and could have a material adverse effect on us.

We intend to continue using derivative financial instruments in the future. As a result, we may incur additional net losses from, and may be required to make cash payments or post cash as collateral in connection with, our derivative financial instruments in the future.

Any derivative financial instruments that we may enter into are likely to be subject to margin calls in the event that the threshold or credit line set by the parties is exceeded. If we were to enter into any such derivative financial instruments, the cash required to cover any such margin calls could be substantial and could reduce the funds available to us for our operations or other capital needs. In addition, the creditworthiness of counterparties to any such instruments may deteriorate substantially. This could prevent our counterparties from honoring their obligations to us, which would expose us to market risks and could have a material adverse effect on us.

If the churn rate increases, the mass market segment could be negatively impacted.

The cost of acquiring a new customer is much higher than the cost of maintaining an existing customer. Accordingly, customer deactivations, or churn, could have a material negative impact on our operating income, even if we are able to obtain one new customer for each lost customer. The average monthly mass market churn rate for FTTx connected customers during 2016 was 1.9%. We believe churn rate mainly results from customer deactivations due to nonpayment of bills and migrations to cities or areas where we have no service coverage. If we experience an increase in the mass market churn rate in the future, our ability to achieve revenue growth could be impaired. In addition, a decline in general economic conditions in Mexico could lead to an increase in churn due to nonpayment, particularly among our residential customers.

We may not have sufficient insurance to cover future liabilities, including any litigation claims, either due to coverage limits or as a result of insurance carriers' denial of coverage of such liabilities, which, in either case, could have a material adverse effect on our business, financial condition and results of operations.

Our third party insurance coverage may not be sufficient to cover damages that we may incur if the amount of such damages surpasses the amount of our insurance coverage or the damages are not covered by our insurance policies. Such losses could cause us to suffer significant unanticipated expenses resulting in an adverse effect on our business, financial condition and results of operations. In addition, our insurance carriers may seek to rescind or deny coverage with respect to future liabilities, including from lawsuits, investigations and other legal actions against us. If we do not have sufficient coverage under our policies, or if the insurance companies are successful in rescinding or denying coverage to us, this could have a material adverse effect on our business, financial condition and results of operations.

We have a majority shareholder, Alfa, whose interests may not be aligned with the interest of Axtel or creditors.

We are a majority owned subsidiary of Alfa, which indirectly owns 52.78% of our outstanding common shares. As such, Alfa has and will continue to have the power to control our affairs and operations and may exercise its control in a manner that differs from your interests. The interests of Alfa may be different from the interests of minority shareholders or creditors in material aspects, including with respect to, among others, the appointment of board members, the appointment of the CEO and the approval of mergers, acquisitions and other non-recurring transactions. In addition, Alfa and a group of shareholders that hold a portion of our capital stock have entered into a shareholders' agreement for the purposes of defining their relationship as our shareholders as well as placing certain restrictions on the transfer of shares between Alfa and such shareholders. Such shareholders' agreement contains, among other provisions, rules for the appointment of board members, provisions concerning matters that require a qualified majority at shareholders' meetings and preemptive rights provisions. Although each of Alfa's subsidiaries determines its own business plan according to the industry in which it operates, Alfa can exert significant influence in our business strategy, administration and operations. Consequently, any business decision or changes in our majority shareholder's global strategy could adversely affect our business, financial condition and results of operations.

We enter into transactions with related parties and affiliates, which could result in conflicts of interest.

We have entered into and will continue to enter into transactions with Alfa, our parent company, and several entities directly or indirectly owned or controlled by our parent company. Specifically, we have entered into certain service contracts with our affiliates in exchange for certain fees. Mexican law applicable to public companies and our by-laws provide for several procedures, including obtaining fairness opinions and favorable opinions from our internal committees, designed to ensure that the transactions entered into with or among our subsidiaries and our parent company do not deviate from prevailing market conditions for those types of transactions, including requiring the approval of our board of directors for some of these transactions. We are likely to continue engaging in transactions with our parent and any of its subsidiaries and affiliates, and our subsidiaries and affiliates are likely to continue engaging in transactions among themselves, and no assurance can be given that the terms that we consider to be “substantially on market conditions” will be considered as such by third parties. In addition, future conflicts of interest between us and our parent company or any of its subsidiaries or affiliates, and among our subsidiaries and affiliates, may arise, which conflicts are not required to be and may not be resolved in our favor. See “Related Party Transactions.”

Our current level of indebtedness may affect our flexibility in operating and developing our business and our ability to fulfill our obligations.

As of September 30, 2017, we had Ps. 19,491 million (U.S.\$1,071 million) of total consolidated debt including accrued interest payable and debt issuance costs. Our level of indebtedness may have significant implications for investors, including:

- limiting our ability to generate sufficient cash flow to satisfy our obligations with respect to our indebtedness, particularly in the event of a default under one of our other instruments;
- limiting the cash flow available to fund our working capital, capital expenditures (including maintenance) or other general corporate requirements;
- increasing our vulnerability to adverse economic and industry conditions, including increases in interest rates, foreign currency exchange rate fluctuations and market volatility;
- limiting our ability to obtain additional financing to refinance our debt or to fund our future working capital, capital expenditures, other general corporate requirements and acquisitions on favorable terms or at all;
- limiting our flexibility in planning for, or reacting to, changes in our business and industry; and
- limiting our ability to incur additional financings to make acquisitions, investments or take advantage of corporate opportunities in general.

To the extent that we incur additional indebtedness, the risks outlined above could increase. In addition, our cash requirements in the future may be greater than expected. Our cash flow from operations may not be sufficient to repay all of the outstanding debt as it becomes due, and we may not be able to borrow money, sell assets or otherwise raise funds on acceptable terms or at all, to refinance our debt.

We might not be able to obtain funding if a deterioration in the credit and capital markets or reductions in our credit ratings were to occur, which could hinder or prevent us from meeting our future capital needs and from refinancing our existing indebtedness when it comes due.

A deterioration of capital and credit markets could hinder our ability to access these markets. In addition, adverse changes in our credit ratings, which are based on various factors, including the level and volatility of our earnings, the quality of our management, the liquidity of our statement of financial position and our ability to access a broad array of funding sources, may increase our cost of funding. If this were to occur, we cannot be certain that additional funding for our capital needs from credit and capital markets would be available, if needed, on acceptable terms or at all. In addition, we might be unable to refinance our existing indebtedness when it comes due on terms that are acceptable to us or at all. If we were unable to meet our capital needs or refinance our existing indebtedness, it could have a material adverse effect on our business, financial condition and results of operations.

We may require additional financing, which could aggravate the risks associated with our debt.

We may, in the future, require additional financing to finance our operations which would increase our leverage. To the extent that we incur additional indebtedness, the above risks could be increased.

We operate in a capital intensive industry and expect to make investments in the years to come as new technologies are implemented and we expand the capacity and coverage of our existing infrastructure to exploit market opportunities and maintain our network, data centers, switches and POPs in accordance with the needs of the market. In addition, we operate in a highly regulated industry and face the risk of having the mandate of government agencies to increase capital investments or incur other expenses that are not currently contemplated. There can be no assurance that there will be sufficient resources available to make these investments or to cover potential expenditures requested by government agencies and that, if required, there would be funding available or with terms and conditions acceptable to us. In addition, the power to obtain additional financing will be limited to the terms and conditions of existing credit agreements or those entered into in the future.

Adverse and volatile conditions in the domestic or international credit markets, including higher interest rates, reduced liquidity or a decrease in the willingness of financial institutions to grant us credit, have increased the cost of funding or the possibility of refinancing the debt maturities in the past and could increase it in the future. This could have adverse consequences on our financial condition or results of operations. There can be no assurance that financial resources will be obtained to refinance the incurred debt or obtain proceeds from the sale of assets or the raising of capital to make payments for such debt.

Risks Relating to the Mexican Telecommunications Industry

We operate in a highly regulated industry.

As public service provider, we are subject to extensive regulation. The operation of telecommunications systems in Mexico is currently subject to laws and regulations administered by the IFT, intended to regulate and promote competition and the efficient development of the telecommunications and broadcasting industry in Mexico. Such laws and regulations have been amended in the past and may be amended from time to time in the future. Therefore, we may need to implement changes and/or adjustments to our operations to adapt them to the current regulatory framework and comply with all obligations to avoid affecting the business. Adverse interpretations by the IFT may impact our business and results of operations. See “Recent Reforms in Mexico’s Telecommunications Sector”.

If the Mexican government grants more concessions or amends existing concessions, the value of our concessions could be severely impaired.

The Mexican government regulates the telecommunications industry. Concessions granted to us are not exclusive and the Mexican government has granted and has discretion to grant additional concessions covering the same geographic regions. We can provide no assurance that additional concessions to provide services similar to those we provide will not be granted to competitors or that existing concessions will not be modified and, therefore, can provide no assurance that the value of our concessions or our competitive position will not be adversely affected as a result.

Decreases in market rates for telecommunication services could have a material adverse effect on our results of operations and financial condition.

It is expected that the Mexican telecommunications market continue experiencing rate pressure, primarily as a result of:

- increased competition and focus by competitors on increasing market share; and
- recent technological advances that permit substantial increases in the transmission capacity of both new and existing fiber optic networks resulting in long distance overcapacity.

Continued rate pressure could have a material adverse effect on our business, financial condition and operating results if we are unable to generate sufficient traffic and increased revenues of our IT business to offset the impact of the decreased rates on our operating margin.

As a result of technological advances, regulatory changes and lack of enforcement, we are facing additional competition from new entrants in the market, which may result in a reduction in prices for our services, margins of reduced income and / or the loss of some market share.

Due to technological advances and regulatory changes, cable network operators recently entered the Mexican telecommunications market with converged services, increasing the level of competition. Several of the cable network providers have modified their concessions in order to offer telephony services. In addition to the above, and because Mexican regulators have not always been able to successfully enforce regulations aimed at preventing the illegal provision of telecommunications services by entities that do not have the corresponding concessions, some companies providing telecommunications services at an international level are focusing on the Mexican market in order to offer and provide illegal telecommunications services.

The telecommunications market in Mexico is a highly concentrated market, characterized by the reduction of prices and margins. In the event that potential new entrants in the market actually enter the market, we could be subjected to a price battle as Telmex, the largest player in the market, tries to maintain its dominant position. In the event that there are additional reductions in the price of telecommunications services in Mexico, we would be required to react to such a reduction through similar actions or, in the absence thereof, would face the risk of losing part of our market share, all of which would adversely affect our business, financial condition and results of operations.

Fraudulent use of services could increase our operating costs.

The fraudulent use of telecommunications networks could impose significant costs upon service providers, who must bear the cost of services provided to fraudulent users. We may suffer a loss of revenue as a result of fraudulent use and incur an additional cost due to our obligation to reimburse other carriers for the cost of services provided to fraudulent users. Although technology has been developed to combat this fraudulent use and we have implemented it in our network, this technology does not eliminate the impact of fraudulent use entirely. In addition, as we rely on other long distance carriers to terminate our calls on their networks, some of which do not have anti-fraud technology, we may be particularly exposed to this risk in our long distance service.

Risks Relating to Mexico and Other Global Risks

Global and Mexican economic conditions may adversely affect business and financial performance.

Global and Mexican economic conditions may adversely affect our business, results of operations or financial condition. When economic conditions deteriorate, the financial stability of customers and suppliers may be affected, which could result in lower demand for services and products, delays or cancellations, increases in bad accounts or breaches by customers and suppliers. It could also be more expensive or difficult to obtain financing to fund operations, investment or acquisition opportunities, or to refinance debt. If we are not able to access debt markets at competitive rates or simply cannot access them, our ability to implement our business plan and strategies or to refinance debt could be adversely affected.

The global economic slowdown in general, the fall in the price of oil and the strong depreciation of the Peso against the dollar have caused extreme volatility in credit and in the capital and debt markets. If the global economic deterioration or deceleration continues, or if the exchange rate of the Mexican Peso against the U.S. dollar depreciates considerably, we could face a deterioration in our financial condition, a decrease in the demand for our services and an impact on our customers and suppliers. The effects of the current situation are very difficult to predict and mitigate.

Weakness in the Mexican economy could adversely affect our business, financial condition and results of operations.

Our operations, results and financial condition are dependent partly on the level of economic activity in Mexico. Income in Mexico has a considerable dependence on oil, U.S. exports, remittances and commodities, and these variables and factors are beyond our control. The renegotiation of NAFTA may negatively impact Mexico and economic activity in Mexico. External economic events could significantly affect Mexico's general economy and cause sudden economic shocks like those experienced in 2009 when Mexico's GDP declined 4.7%. Mexico's volatile economy could significantly affect our business and results of operations.

Political events in Mexico may affect our operations.

Failure and delay of political and economic reforms, caused by the differences between the legislative and federal powers, different policy objectives of each parliamentary group and differences in priorities between the agendas of parties, have been the norm in Mexico in the last few years. The aforementioned has resulted in the reluctance of these political actors to build the agreements that Mexico require on the economic, industrial and security sectors, among others. The upcoming federal elections, which will occur in 2018, may result in uncertainties and a slowdown in economic activity in Mexico. The lack of political agreement on the material reforms required by Mexico and a potential deterioration in relations between the various political parties and between federal legislative powers could have an adverse effect on Mexico's economy and therefore affect the revenue and profit of our business.

Social and political instability as well as insecurity in Mexico or other adverse social or political developments in or affecting Mexico could adversely affect our business, financial condition and result of operations. Furthermore, Mexico has recently experienced periods of violence and crime due to activities of organized crime. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, organized crime (especially drug-related crime) continues to exist in Mexico. These activities, their possible escalation and the violence associated with them may have a negative impact on the Mexican economy or on our operations in Mexico in the future. Also, an earthquake with national impact recently affected Mexico and is likely to require that significant government funds be redirected to reconstruction efforts, which may impact other segments of the Mexican economy. These and other future developments in the Mexican political or social environment may cause disruptions to our business operations and decreases in sales and net income.

Mexican federal governmental policies or regulations, as well as economic, political and social developments in Mexico, could adversely affect our business, financial condition, results of operations and prospects.

We are a Mexican *sociedad anónima bursátil de capital variable* and substantially all of our assets are located in Mexico. As a result, our business, financial condition, results of operations and prospects are subject to political, economic, legal and regulatory risks specific to Mexico. The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. The impact that political conditions will have on the Mexican economy cannot be predicted. Furthermore, our business, financial condition, results of operations and prospects may be affected by currency fluctuations, price instability, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico, over which we have no control. Political events in Mexico may significantly affect Mexican economic policy and, consequently, our business. It is possible that political uncertainty, especially in view of the upcoming presidential elections in 2018, could adversely affect Mexico's economic situation and our operations and financial condition.

We cannot assure investors that changes in the future political environment, over which we have no control, will not have an adverse impact on our financial condition or results of operations and prospects. We do not have political risk insurance.

Developments in other countries could adversely affect the Mexican economy and our results of operations.

As is the case with respect to securities of issuers from emerging markets, the market value of securities of Mexican companies is, to varying degrees, affected by economic and market conditions in other emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Mexico, investors' reactions to developments in any of these other countries may have an adverse effect on the market value of securities of Mexican issuers.

In addition, the direct correlation between economic conditions in Mexico and the U.S. has sharpened in recent years as a result of NAFTA and increased economic activity between the two countries. As a result of the slowing economy in the United States and the uncertain impact it could have on general economic conditions in Mexico and the United States, our financial condition and results of operations could be adversely affected. In addition, due to recent developments in the international credit markets, capital availability and cost could be significantly affected and could restrict our ability to obtain financing or refinance our existing indebtedness on favorable terms, if at all.

Furthermore, on June 23, 2016, the United Kingdom held an in-or-out referendum on the United Kingdom's membership within the European Union, the result of which favored the exit of the United Kingdom from the European Union ("Brexit"). On March 29, 2017, the country formally notified the European Union of its intention to withdraw pursuant to Article 50 of the Lisbon Treaty. A process of negotiation will determine the future terms of the United Kingdom's relationship with the European Union. The potential impact of Brexit on our results of operations is unclear. Depending on the terms of Brexit, economic conditions in the United Kingdom, the European Union and global markets may be adversely affected by reduced growth and increased volatility. The uncertainty before, during and after the period of negotiation could also have a negative economic impact and increased volatility in the markets, particularly in Europe. Such volatility and negative economic impact could, in turn, adversely affect the value and trading of the notes.

Changes in U.S. government policies.

The results of the 2016 U.S. presidential and congressional elections have generated volatility in the global capital markets and have created uncertainty about the relationship between the United States and Mexico. This volatility and uncertainty, as well as changes in policies implemented by the new administration, may affect the Mexican economy and may materially harm our business, financial condition and results of operations. The current U.S. presidential administration has suggested that it is not supportive of NAFTA, which is currently undergoing renegotiation, and has suggested that it may even seek to terminate U.S. participation in NAFTA, or apply tariffs to protect the U.S. manufacturing sector. It has also suggested that it may implement changes with respect to U.S. policy regarding immigration from Mexico. It remains unclear what specifically the new administration will seek to do with respect to these matters and how our business may be affected. Any material change to U.S. trade policy, particularly any modification with respect to Mexico and NAFTA, could have a material adverse effect on the Mexican economy and our business, results of operations and financial condition.

We face risks related to fluctuations in interest rates which could adversely affect our results of operations and our ability to service our debt and other obligations.

We are exposed to fluctuations in interest rates. As of September 30, 2017, 96% of our debt accrued interest at a floating rate. Changes in interest rates could adversely affect the cost to us of this debt. If interest rates increase, our debt service obligations on variable rate indebtedness would increase even though the amount borrowed would remain the same and our net profit and cash available for servicing our indebtedness would decrease. As a result, our financial condition, results of operations and liquidity could be materially adverse affected. Furthermore, our attempts to mitigate interest rate risk by financing long-term liabilities with fixed interest rates and using derivative financial instruments, such as floating-to-fixed interest rate swaps, in respect of our indebtedness, could result in our failure to realize savings if interest rates fall and could adversely affect our results of operations and our ability to service our debt and other obligations.

Changes in the relative value of the Mexican Peso against the U.S. dollar could have an adverse effect.

While our revenues are almost entirely denominated in Pesos, the substantial majority of our capital expenditures and 65% of our contracted debt as of September 30, 2017 are denominated in U.S. dollars. The value of the Mexican Peso has been subject to significant fluctuations with respect to the U.S. dollar in the past and may be subject to significant fluctuations in the future. In 2014, the Peso depreciated 11.2%, 14.5% in 2015 and 16.7% in 2016. Further decline in the value of the Peso may also result in disruption of currencies and adversely affect our ability to meet current and future U.S. dollar-denominated expenses and liabilities. Any change in the monetary policy, the exchange rate regime or the exchange rate itself, as a result of market conditions, could have a significant impact, whether positive or negative, on our business, financial condition, results of operations and perspectives.

Mexico could experience high levels of inflation in the future, which could adversely affect our business, financial condition, results of operations and prospects.

Mexico has a history of high levels of inflation and may experience high inflation in the future. Historically, inflation in Mexico has led to higher interest rates, Peso depreciation and the imposition of substantial government controls on exchange rates and prices, which has adversely affected income and operating margins of companies. The annual inflation rate for the last three years, as measured by changes in the National Consumer Price Index (*Índice Nacional de Precios al Consumidor*), as provided by INEGI, was 4.1% in 2014, 2.1% in 2015 and 3.4% in 2016. It cannot be asserted that Mexico will not experience high inflation in the future. A substantial increase in the Mexican inflation rate could adversely affect consumers' purchasing power and, consequently, the demand for our services, as well as increasing some of the costs, which could adversely affect our business, financial condition, results of operations and prospects.

Amendments approved to Mexican tax laws may adversely affect us.

On December 11, 2013, certain amendments to Mexico's tax laws were enacted, effective as of January 1, 2014. The tax reforms resulted in various modifications to corporate tax deductions, for example, certain deductions that were previously allowed in relation to third-party payments related to foreign entities and reducing tax deductions on wages paid to employees. Corporate income tax, which had been programmed to be reduced, remained at 30%, among others. If Mexico's tax laws are amended in the future, our business, financial condition and results of operations could be adversely affected.

We are subject to anti-corruption, anti-bribery, anti-money laundering and antitrust laws and regulations in Mexico and other countries in which we operate. Any violation of any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.

We are subject to anti-corruption, anti-bribery, anti-money laundering, antitrust and other international laws and regulations and are required to comply with the applicable laws and regulations of the countries in which we operate. In addition, we are subject to regulations on economic sanctions that restrict our dealings with certain sanctioned countries, individuals and entities. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our affiliates, employees, directors, officers, partners, agents and service providers or that any such persons will not take actions in violation of our policies and procedures. Any violations by us of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

Natural disasters, health epidemics, terrorist or organized crime activities, episodes of violence and other geopolitical events and their consequences could adversely affect our business, financial condition, results of operations and prospects.

Natural disasters, such as earthquakes, hurricanes, floods or tornadoes, have affected our business and our suppliers and customers in the past and could do so in the future. If similar events occur in the future, there may be business interruptions, which could adversely and materially affect our results of operations. In addition, the business could be affected by epidemics or health outbreaks, disrupting business operations. We have not taken any written preventive measures or contingency plans to combat any future outbreaks or any epidemics.

Terrorist attacks or the continuing threat of terrorism or organized crime in Mexico and in other countries, the potential for military action in this regard and the increase of security measures in response to such threats could lead to a significant world level. These activities, their possible escalation and the violence associated with them could have a negative impact on the Mexican economy or our operations in the future. Additionally, some political events could lead to prolonged periods of uncertainty that would adversely affect business, financial condition, results of operations and prospects.

Risks Relating to the Notes

Payments on the notes and the subsidiary guarantees will be effectively junior to any of the Issuer's and the subsidiary guarantors' secured indebtedness and structurally junior to the debt obligations of the Issuer's non-guarantor subsidiaries.

The notes and the guarantees will constitute the Issuer's and the subsidiary guarantors' senior unsecured obligations and will rank equal in right of payment with all of the Issuer's and the subsidiary guarantors' other existing and future senior unsecured indebtedness, other than obligations preferred by statute (such as tax, social security and labor claims). Although the holders of the notes will have a direct, but unsecured claim on our assets and property, payment on the notes and guarantees will be subordinated in right of payment to any existing or future secured debt of the Issuer and the subsidiary guarantors, respectively, to the extent of the value of the assets securing such debt. Although the indenture governing the notes will contain restrictions on the incurrence of additional liens, these restrictions are subject to important qualifications and exceptions, and the liens that we may incur in compliance with these restrictions or liens that arise from governmental or creditor action, could be substantial. Payment by us in respect of the notes will also be structurally subordinated to the payment of secured and unsecured debt and other creditors of our non-guarantor subsidiaries.

As of September 30, 2017, we had a total consolidated indebtedness of Ps. 19,491 million (U.S.\$1,071 million), all of which was unsecured indebtedness of the Issuer and the subsidiary guarantors.

If we become insolvent or are liquidated, or we become subject to bankruptcy proceedings, or if payment under any secured debt is accelerated, the relevant lenders would be entitled to exercise the remedies available to a secured lender. Accordingly, any proceeds upon a realization of the collateral granted for the benefit of secured creditors would be applied first to amounts due under the secured debt obligations, before any proceeds would be available to make payments on the notes. After such application of the proceeds from collateral and priorities, it is possible that there would be no assets remaining from which claims of the holders of the notes could be satisfied.

Further, if any assets remain after payment of these lenders, the remaining assets would be available to creditors preferred by statute, such as holders of tax, social security and labor claims, and might be insufficient to satisfy the claims of the holders of the notes and holders of other unsecured debt including trade creditors that rank equal to holders of the notes.

In addition, the Issuer's and the subsidiary guarantors' creditors may hold negotiable instruments or other instruments governed by local law that grant rights to attach the Issuer's or the subsidiary guarantors' assets at the inception of judicial proceedings in the relevant jurisdiction, which attachment is likely to result in priorities benefitting those creditors when compared to the rights of holders of the notes.

The guarantees may not be enforceable under applicable laws.

The notes will be fully and unconditionally guaranteed by certain of our Mexican subsidiaries. The guarantees provide a basis for a direct claim against the subsidiary guarantors; however, it is possible that the guarantees of these subsidiaries may not be enforceable under Mexican, U.S. or other applicable laws.

While Mexican law does not prohibit the giving of guarantees and, as a result, does not prevent the guarantees of the notes from being valid, binding and enforceable against a Mexican subsidiary guarantor, in the event that a Mexican subsidiary guarantor becomes subject to a judicial reorganization proceeding (*concurso mercantil*) or to bankruptcy (*quiebra*), the guarantee provided by any such Mexican subsidiary guarantor may be deemed to have been a fraudulent transfer and declared void based upon the Mexican subsidiary guarantor being deemed not to have received fair consideration in exchange for any such guarantee.

Among other things, a legal challenge of a subsidiary guarantor's obligations under a guarantee on fraudulent conveyance grounds could focus on the benefits, if any, realized by the subsidiary guarantors as a result of the issuance of the notes. To the extent a subsidiary guarantee is voided as a fraudulent conveyance or held unenforceable for any other reason, the holders of the notes would not have any claim against that subsidiary guarantor and would be creditors solely of the Issuer and the subsidiary guarantors, if any, whose obligations under the guarantees were not held unenforceable. If any such event were to occur, the creditworthiness of the notes, and the market value of the notes in the secondary market, may be materially adversely affected.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and may be forced to take other actions to satisfy our obligations under such indebtedness, which may not be successful.

Our ability to make scheduled payments on or refinance our debt obligations, including the notes, depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, legislative, regulatory and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to pay the principal, premium, if any, and interest on our indebtedness, including the notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to reduce or delay investments and capital expenditures or to dispose of material assets or operations, seek additional debt or equity capital or restructure or refinance our indebtedness, including the notes. We may not be able to effect any such alternative measures, if necessary, on commercially reasonable terms or at all and, even if successful, those alternatives may not allow us to meet our scheduled debt service obligations. The indenture governing the notes will restrict our ability to dispose of assets and use the proceeds from those dispositions and may also restrict our ability to raise debt or equity capital to be used to repay other indebtedness when it becomes due. We may not be able to consummate those dispositions or to obtain proceeds in an amount sufficient to meet any debt service obligations then due.

Our inability to generate sufficient cash flows to satisfy our debt obligations, or to refinance our indebtedness on commercially reasonable terms or at all, would materially and adversely affect our financial position and results of operations and our ability to satisfy our obligations under the notes.

If we cannot make scheduled payments on our debt, we will be in default and holders of the notes could declare all outstanding principal and interest to be due and payable, causing a cross-acceleration or cross-default under certain of our other debt agreements, and we could be forced into bankruptcy, liquidation or restructuring proceedings. All of these events could result in your losing your investment in the notes or your investment being impaired.

The Issuer may be unable to purchase the notes upon a change of control triggering event, which would result in a default under the indenture governing the notes.

The terms of the notes as described in the indenture governing the notes will require the Issuer to make an offer to repurchase the notes upon the occurrence of a change of control triggering event at a purchase price equal to 101% of the principal amount of the notes, plus accrued interest to the date of the purchase. Any financing arrangements the Issuer may enter may require repayment of amounts outstanding upon the occurrence of a change of control event and limit the Issuer's ability to fund the repurchase of the notes in certain circumstances. It is possible that the Issuer will not have sufficient funds at the time of the change of control to make the required repurchase of the notes or that restrictions in its other financing arrangements will not allow the repurchase. If the Issuer fails to repurchase the notes in such circumstance, the Issuer would default under the indenture which may, in turn, trigger cross-default provisions in any of our other debt instruments. See "Description of the Notes—Change of Control Triggering Event."

The change of control offer provisions of the indenture governing the notes would not be triggered by a change of control of our parent company, Alfa, and, as a result, may fail to provide any protection to holders of the notes in such circumstances.

The change of control offer provisions of the indenture require the Issuer to offer to repurchase the notes in the event of a specified change of control event. However, these provisions do not address a change of control of Alfa itself, which would indirectly affect control of our company. In the event of, for example, the sale by Alfa's shareholders of a substantial portion of the share capital of Alfa or a significant merger or other transaction affecting the ownership of Alfa, the change of control offer provisions of the indenture would likely not be triggered, even though such event may result in a change of control under our other indebtedness. Accordingly, the change of control offer provisions of the indenture may fail to protect holders of the notes in the case of certain transactions that indirectly affect control of our company.

The instruments governing our indebtedness, including the notes offered hereby, contain cross-default provisions that may cause all of the debt issued under such instruments to become immediately due and payable as a result of a default under an unrelated debt instrument.

The indenture governing the notes contains restrictive covenants. Instruments governing our other indebtedness also contain certain affirmative and negative covenants and require us and our subsidiaries to meet certain financial ratios and tests. Our failure to comply with the obligations contained in the indentures or other instruments governing our indebtedness could result in an event of default under the applicable instrument, which could then result in the related debt and the debt issued under other instruments becoming immediately due and payable. In such event, we would need to raise funds from alternative sources, which may not be available to us on favorable terms, on a timely basis or at all. Alternatively, such default could require us to sell our assets and otherwise curtail operations in order to pay our creditors.

The notes are subject to transfer restrictions, which could limit your ability to resell your notes.

The notes have not been registered under the Securities Act or any state securities laws, and we are not required to and currently do not plan on making any such registration in the immediate future. As a result, the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Prospective investors should be aware that investors may be required to bear the financial risks of this investment for an indefinite period of time. See “Transfer Restrictions” for a full explanation of such restrictions.

An active trading market for the notes may not develop.

Currently there is no market for the notes. Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange. Even if the notes become listed on this exchange, we may delist the notes. A trading market for the notes may not develop, even if the notes are listed as specified above, or if a market for the notes were to develop, the notes may trade at a discount from their initial offering price, depending upon many factors, including prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. The initial purchasers are not under any obligation to make a market with respect to the notes, and we cannot assure you that trading markets will develop or be maintained. Accordingly, we cannot assure you as to the development or liquidity of any trading market for the notes. If an active market for the notes does not develop or is interrupted, the market price and liquidity of the notes may be adversely affected.

Trading in the clearing systems is subject to minimum denomination requirements.

The terms of the notes provide that notes will be issued in minimum denominations of U.S.\$200,000 and multiples of U.S.\$1,000 in excess thereof. It is possible that the clearing systems may process trades which could result in amounts being held in denominations smaller than the minimum denomination. If definitive notes are required to be issued in relation to such notes in accordance with the provisions of the relevant Global Note, a holder who does not have the minimum denomination or any integral multiple of U.S.\$1,000 in excess thereof in its account with the relevant clearing system at the relevant time may not receive all of its entitlement in the form of definitive notes unless and until such time as its holding satisfies the minimum denomination requirement.

Payments claimed on the notes or the guarantees in the country of incorporation of the Issuer or any subsidiary guarantor, pursuant to a judgment or otherwise, would be required to be made in local currency.

In the event that proceedings are brought against the Issuer or any subsidiary guarantor in Mexico, either to enforce a judgment or as a result of an original action, or if payment is otherwise claimed from the Issuer or any such guarantor therein, the Issuer or such subsidiary guarantors would not be required to discharge those obligations in a currency other than Pesos and a claim for any deficiency after conversion would not be enforceable. If such a claim were brought in the country of incorporation of any other subsidiary guarantor, or if payment is otherwise claimed from such subsidiary guarantor therein, such subsidiary guarantor may similarly be required to discharge those obligations in a currency other than its local currency. As a result, you may suffer a U.S. dollar shortfall if you obtain a judgment or a payment in any currency other than U.S. dollars.

Our obligations under the notes would be affected in the event of the Issuer's bankruptcy or the bankruptcy of any Mexican subsidiary guarantors.

Under Mexico's Bankruptcy Law (*Ley de Concursos Mercantiles*), if the Issuer or any of our Mexican subsidiary guarantors are declared bankrupt (*en quiebra*) or if the Issuer or any of our Mexican subsidiary guarantors become subject to a reorganization proceeding (*concurso mercantil*), our and their obligations under the notes, (i) would be converted into Pesos and then from Pesos into UDIs, (ii) would be satisfied at the time claims of all our creditors are satisfied, (iii) would be subject to the outcome of, and priorities recognized in, the relevant proceedings (including priorities resulting from applicable law, such as tax, social security and labor claims, and claims of secured creditors (up to the value of the collateral provided to such creditors)), (iv) would cease to accrue interest from the date the *concurso mercantil* is declared, and (v) would not be adjusted to take into account any depreciation of the Peso against the U.S. dollar (or any other currency) occurring after such declaration. As a result, upon the occurrence of any such events, payments under the notes by the Issuer or any Mexican subsidiary guarantors may be affected.

We may not be able to make payments in U.S. Dollars.

In the past, the Mexican economy has experienced balance of payments deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert Pesos to foreign currencies, including U.S. Dollars, it has done so in the past and could do so again in the future. We cannot assure you that the Mexican government will not implement a restrictive exchange control policy in the future. Any such restrictive exchange control policy could prevent or restrict our access to U.S. Dollars to meet our U.S. Dollar obligations and could also have a material adverse effect on our business, financial condition and results of operations.

The Issuer and the subsidiary guarantors are incorporated or formed under the laws of Mexico and therefore it may be difficult to enforce civil liabilities against us or our directors, executive officers and controlling persons.

A significant number of our directors, executive officers and controlling persons are non-residents of the United States and substantially all of the assets of such non-resident persons and a significant portion of all of our assets are located in Mexico. As a result, it may not be possible for investors to effect service of process within the United States upon such persons or us or to enforce against them or us in courts of any jurisdiction outside of Mexico, judgments predicated upon the laws of any such jurisdiction, including any judgment predicated substantially upon the civil liability provisions of United States federal and state securities laws. We have been advised that there is doubt as to the enforceability in Mexican courts, in original actions or in actions for enforcement of judgments obtained in courts of jurisdictions outside of Mexico, of civil liabilities arising under the laws of any jurisdiction outside of Mexico, including any judgment predicated solely upon United States federal or state securities laws. No treaty is currently in effect between the United States and Mexico that covers the reciprocal enforcement of foreign judgments. In the past, Mexican courts have enforced judgments rendered in the United States by virtue of principles of reciprocity and comity as well as the provisions of Mexican law relating to the enforcement of foreign judgments in Mexico, consisting of the review by Mexican courts of the United States judgment in order to ascertain whether Mexican legal principles of due process and public policy (*orden público*), among other requirements, have been duly complied with, without reviewing the merits of the subject matter of the case, provided that U.S. courts would grant reciprocal treatment to Mexican judgments issued in analogous cases.

We cannot assure you that the credit ratings for the notes will not be lowered, suspended or withdrawn by the rating agencies.

The credit ratings of the notes may change after issuance. Such ratings are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the views of the rating agencies at the time the ratings are issued. An explanation of the significance of such ratings may be obtained from the rating agencies. We cannot assure you that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in the judgment of such rating agencies, circumstances so warrant. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price and marketability of the notes.

EXCHANGE RATES

This offering memorandum contains translations of certain Peso amounts into U.S. Dollars at specified rates solely for the convenience of the reader. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. Furthermore, the exchange rate for purposes of the convenience translation is not necessarily the same rate we used in preparing our financial statements, which means that U.S. Dollar-denominated items, including U.S. Dollar-denominated expenses and liabilities, may have been translated into Pesos using one exchange rate (or an average exchange rate) and have been re-translated into U.S. Dollars for the convenience of the reader using the convenience translation exchange rate.

Unless otherwise indicated, the exchange rate used for purposes of convenience translations is:

- with respect to statement of financial position data, the exchange rate published by the Mexican Central Bank in the Federal Official Gazette (*Diario Oficial de la Federación*) as the rate for the payment of obligations denominated in foreign currency (the “Official Exchange Rate”), on December 31, 2016 (Ps. 20.6640 to U.S.\$1.00) or on September 30, 2017 (Ps. 18.1979 to U.S.\$1.00); and
- with respect to financial information other than statement of financial position data, the average exchange rate for the year ended December 31, 2016, which consists of the daily average of the Official Exchange Rate on each day during the year ended December 31, 2016 (Ps. 18.6567 to U.S.\$1.00) or the daily average exchange rate for the nine months ended September 30, 2017, which consists of the average of the Official Exchange Rate on each day during the nine months ended September 30, 2017 (Ps. 18.9274 to U.S.\$1.00).

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the Official Exchange Rate, all expressed in nominal Pesos per U.S.\$1.00.

Year	High	Low	Average⁽¹⁾	Period End⁽²⁾
2012	14.39	12.63	13.17	13.01
2013	13.44	11.98	12.77	13.08
2014	14.79	12.85	13.30	14.72
2015	17.38	14.56	15.85	17.21
2016	21.05	17.18	18.66	20.66
Month				
March 2017	20.00	18.81	19.42	18.81
April 2017	19.11	18.49	18.78	19.07
May 2017	19.14	18.42	18.80	18.51
June 2017	18.69	17.88	18.21	17.90
July 2017	18.36	17.49	17.85	17.69
August 2017	17.97	17.62	17.81	17.88
September 2017	18.20	17.64	17.81	18.20
October 2017	19.20	18.16	18.71	19.15
November 2017 (through November 9)	19.22	19.08	19.14	19.13

(1) The average exchange rate means the average of the exchange rate on each day during the relevant period

(2) As published by the Mexican Central Bank as the rate for the payment of obligations denominated in foreign currency payable in Mexico in effect on the period end date.

Source: The Mexican Central Bank.

On November 9, 2017 the Official Exchange Rate in effect was Ps. 19.13 per U.S.\$1.00.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the notes will be approximately U.S.\$493 million, after deducting the initial purchasers' discounts and commissions and payment of the estimated offering expenses.

We intend to use the net proceeds from this offering to repay debt, including ancillary costs and expenses.

Affiliates of certain of the initial purchasers are lenders under the Axtel Syndicated Loan, which will be partially repaid with the proceeds of the notes. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Material Indebtedness—Axtel Syndicated Loan".

CAPITALIZATION

The following table sets forth our cash and cash equivalents and consolidated capitalization as of September 30, 2017 (i) on a historical basis and (ii) as adjusted to reflect our receipt of the net proceeds from the sale of the notes and the application of the net proceeds in the manner described under “Use of Proceeds.”

This table should be read in conjunction with, and is qualified in its entirety by reference to, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Selected Historical Financial Data and Other Information,” “Use of Proceeds” and our Financial Statements included elsewhere in this offering memorandum.

	As of September 30, 2017			
	Actual		As Adjusted	
	(Ps.)	(U.S.\$) ⁽¹⁾ (in millions)	(Ps.)	(U.S.\$) ⁽¹⁾
Cash and cash equivalents	722	40	722	40
Debt:				
Current debt	874	48	874	48
Non-current debt:				
Bank debt.....	18,391	1,011	9,411	517
Notes offered hereby ⁽²⁾	-	-	8,980	493
Finance leases	226	12	226	12
Total non-current debt	18,617	1,023	18,617	1,023
Total debt	19,491	1,071	19,491	1,071
Stockholders’ equity:				
Contributed capital	624	34	624	34
Retained earnings	3,014	166	3,014	166
Other reserves	3	0	3	0
Non-controlling interest.....	0	0	0	0
Total stockholders’ equity	3,640	200	3,640	200
Total capitalization ⁽³⁾	23,131	1,271	23,131	1,271

(1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of Ps. 18.1979 per U.S. Dollar, the Official Exchange Rate in effect on September 30, 2017.

(2) Reflects debt issuance costs of Ps. 119 million (U.S.\$7 million).

(3) Consists of the sum of total debt plus stockholders’ equity.

SELECTED HISTORICAL FINANCIAL DATA AND OTHER INFORMATION

You should read the following selected historical financial data and other information in conjunction with our Annual Audited Financial Statements and the information set forth in the sections “Presentation of Financial and Certain Other Information,” “Summary Historical Financial Data and Other Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this offering memorandum.

The consolidated financial information set forth below as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 has been derived from our Annual Audited Financial Statements prepared in accordance with the IFRS contained elsewhere in this offering memorandum. The financial information as of September 30, 2017 and for the nine months ended September 30, 2017 and 2016 has been derived from our Interim Unaudited Financial Statements prepared in accordance with IAS 34 contained elsewhere in this offering memorandum.

Due to the consolidation of Onexa into our financial statements as of February 15, 2016 in connection with the Alestra Merger, our financial information for the year ended December 31, 2016 and for the nine months ended September 30, 2016 and 2017 included in this offering memorandum is not comparable to our consolidated financial information for prior periods. For more information regarding the Alestra Merger, see “Business—Our History.”

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾	2016	2015	2014	2017 ⁽²⁾	2017	2016
	(U.S.\$)	(Ps.)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)	(Ps.)
	(in millions)						
Income Statement Data:							
Net revenue	747	13,937	10,150	10,597	593	11,227	10,154
Cost of services	(319)	(5,944)	(4,143)	(6,208)	(279)	(5,289)	(4,317)
Administration and selling expenses ⁽⁶⁾	(395)	(7,365)	(4,980)	(4,932)	(281)	(5,314)	(5,319)
Other (expenses) income - Net	(45)	(838)	(437)	(88)	18	344	(463)
Operating (loss) profit ⁽⁶⁾	(11)	(209)	589	(630)	51	967	55
Financial income ⁽³⁾	13	235	697	584	102	1,924	38
Financial expenses ⁽⁴⁾	(273)	(5,091)	(3,392)	(2,538)	(61)	(1,164)	(3,626)
Financial (loss) gain - Net.....	(260)	(4,856)	(2,695)	1,954	40	760	(3,588)
Equity in the results of associated companies - Net	(0)	(5)	(0)	(3)	(0)	(0)	(5)
Pre-tax (loss) income ⁽⁶⁾	(272)	(5,071)	(2,105)	(2,588)	91	1,727	(3,538)
Taxes on income ⁽⁶⁾	79	1,472	373	577	(39)	(742)	994
Consolidated (loss) income - Net ⁽⁶⁾	(193)	(3,599)	(1,732)	(2,010)	52	985	(2,544)

	As of December 31,			As of September 30,	
	2016 ⁽¹⁾	2016	2015	2017 ⁽²⁾	2017
	(U.S.\$)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)
	(in millions)				
Statement of Financial Position Data:					
Assets					
Current:					
Cash and cash equivalents.....	70	1,447	2,575	40	722
Trade receivables and other accounts receivable - Net ⁽⁶⁾	197	4,067	3,208	220	4,012
Inventories	5	109	53	12	216
Financial instruments	7	153	378	10	188
Prepayments	25	517	152	30	548
Total current assets ⁽⁶⁾	305	6,294	6,366	312	5,686
Non-current:					
Restricted cash.....	7	153	-	9	160
Non-current accounts receivable.....	0	9	129	-	-
Property, plant and equipment - Net	949	19,619	13,216	1,058	19,259
Goodwill and intangible assets - Net	89	1,839	125	84	1,532
Deferred income taxes ⁽⁶⁾	196	4,057	2,235	187	3,396
Other non-current assets.....	10	205	128	13	245
Total non-current assets ⁽⁶⁾	1,253	25,882	15,833	1,351	24,591
Total assets ⁽⁶⁾	1,557	32,176	22,199	1,664	30,277

	As of December 31,			As of September 30,	
	2016 ⁽¹⁾	2016	2015	2017 ⁽²⁾	2017
	(U.S.\$)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)
Liabilities					
Current:					
Debt	50	1,029	1,051	48	874
Suppliers and other accounts payable ⁽⁶⁾	273	5,645	3,894	290	5,284
Provisions	6	130	190	1	24
Other liabilities	49	1,023	509	16	284
Derivative financial instruments				1	26
Total current liabilities ⁽⁶⁾	379	7,826	5,644	357	6,492
Non-current:					
Debt	991	20,486	12,476	1,023	18,617
Derivative financial instruments	-	-	65	-	-
Other non-current accounts payable	48	986	112	54	986
Employee benefits	23	467	28	30	541
Deferred income taxes	0	10	-	0	1
Total non-current liabilities	1,062	21,949	12,682	1,107	20,144
Total liabilities ⁽⁶⁾	1,441	29,775	18,326	1,464	26,636
Total stockholders' equity ⁽⁶⁾	116	2,400	3,873	200	3,640

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾	2016	2015	2014	2017 ⁽²⁾	2017	2016
	(US\$)	(Ps.)	(Ps.)	(Ps.)	(US\$)	(Ps.)	(Ps.)
(in millions)							
Other Financial/Operating Data:							
Adjusted EBITDA ⁽⁵⁾	242	4,508	3,208	2,805	222	4,194	3,322
Cash Flows:							
Operating activities	209	3,898	3,120	3,109	132	2,504	2,398
Investing activities	(189)	(3,527)	(1,925)	(2,831)	(94)	(1,770)	(2,702)
Financing activities	(90)	(1,675)	(1,565)	970	(74)	(1,395)	(1,654)
Sales by Segment:							
Business	471	8,784	4,242	4,782	387	7,333	6,333
Government	108	2,024	2,592	2,243	86	1,631	1,466
Mass Market	168	3,129	3,316	3,572	120	2,263	2,354

- (1) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 20.6640 per U.S. Dollar, the Official Exchange Rate in effect on December 31, 2016, with respect to statement of financial position data and (ii) Ps. 18.6567 per U.S. Dollar, the daily average of the Official Exchange Rates on each day during the year ended December 31, 2016, with respect to financial information other than statement of financial position data. These convenience translations should not be construed as representations that the Peso amounts actually represent such U.S. Dollar amounts or could be converted into U.S. Dollars at the specified rate or at all. See "Exchange Rates."
- (2) Translated into U.S. Dollars, solely for the convenience of the reader, using an exchange rate of (i) Ps. 18.1979 per U.S. Dollar, the Official Exchange Rate in effect on September 30, 2017, with respect to statement of financial position data and (ii) Ps. 18.9274 per U.S. Dollar, the average of the Official Exchange Rate on each day during the nine months ended September 30, 2017, with respect to financial information other than statement of financial position data.
- (3) Includes a foreign exchange gain in the amount of Ps. 210 million in 2016, Ps. 439 million in 2015, Ps. 549 million in 2014, Ps. 2,358 million in the nine months ended September 30, 2017 and Ps. 171 million in the nine months ended September 30, 2016.
- (4) Includes a foreign exchange loss in the amount of Ps. 2,989 million in 2016, Ps. 2,098 million in 2015, Ps. 1,622 million in 2014, Ps. 493 million in the nine months ended September 30, 2017 and Ps. 2,042 million in the nine months ended September 30, 2016.
- (5) We determine EBITDA as consolidated net loss or income plus or less, as applicable, financial gain (loss) net, income tax and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA less merger-related expenses, impairment of non-current assets, and equity in the results of associated companies, net. EBITDA and Adjusted EBITDA are measurements that are not defined under IFRS. A non-IFRS financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be adjusted in the most comparable IFRS measure. Our calculation of Adjusted EBITDA may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information – Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA for each of the periods presented.

	For the Year Ended December 31,				For the Nine Months Ended September 30,		
	2016 ⁽¹⁾	2016	2015	2014	2017 ⁽²⁾	2017	2016
	(U.S.\$)	(Ps.)	(Ps.)	(Ps.)	(U.S.\$)	(Ps.)	(Ps.)
	(in millions)						
Consolidated (loss) income - Net ⁽⁶⁾	(193)	(3,599)	(1,732)	(2,010)	52	985	(2,544)
Financial gain (loss) - Net.....	260	4,856	2,695	1,954	(40)	(760)	3,588
Taxes on income ⁽⁶⁾	(79)	(1,472)	(373)	(577)	39	742	(994)
Depreciation and amortization.....	205	3,830	2,619	3,435	160	3,024	2,759
EBITDA ⁽⁶⁾	194	3,615	3,208	2,801	211	3,991	2,810
Merger-related expenses	45	835	-	-	10	193	559
Impairment of non-current assets	3	53	-	-	1	10	(52)
Equity in the results of associated companies - Net	0	5	0	3	-	-	5
Adjusted EBITDA ⁽⁶⁾	242	4,508	3,208	2,805	222	4,194	3,322

- (6) As described in Note 3 to the Annual Audited Financial Statements, in connection with the preparation of the 2016 consolidated financial statements, we revised our previously issued audited consolidated financial statements as of and for the years ended December 31, 2015 and 2014 due to an immaterial correction in the determination of the provision for impairment of trade receivables. The following table sets forth minor adjustments that were made to certain line items as a result of these revisions:

	For the Year Ended December 31,					
	2015			2014		
	(Ps. in millions)					
	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>
Income Statement Data:						
Administration and selling expenses	4,960	20	4,980	4,801	131	4,932
Operating profit (loss)	609	(20)	589	(499)	(131)	(630)
Pre-tax income (loss)	(2,085)	(20)	(2,105)	(2,457)	(131)	(2,588)
Taxes on income	367	6	373	538	39	577
Consolidated loss - Net	(1,718)	(14)	(1,732)	(1,918)	(92)	(2,010)
Other Financial/Operating Data:						
Consolidated (loss) income - Net	(1,718)	(14)	(1,732)	(1,918)	(92)	(2,010)
Financial income	(697)	-	(697)	(584)	-	(584)
Financial expense	3,392	-	3,392	2,538	-	2,538
Taxes on income	(367)	(6)	(373)	(538)	(39)	(577)
Depreciation and amortization	2,619	-	2,619	3,435	-	3,435
EBITDA	3,229	(20)	3,208	2,933	(131)	2,801
Merger-related expenses	-	-	-	-	-	-
Impairment of non-current assets	-	-	-	-	-	-
Equity in the results of associated companies - Net	0	-	0	3	-	3
Adjusted EBITDA	3,229	(20)	3,208	2,936	(131)	2,805

As of December 31, 2015

(Ps. in millions)

	<u>As Previously Reported</u>	<u>Adjustment</u>	<u>Restated Amount</u>
Statement of Financial Position Data:			
Trade receivables and other accounts receivable - Net	3,646	(438)	3,208
Total current assets	6,804	(438)	6,366
Deferred income taxes	2,103	132	2,235
Total non-current assets	15,701	132	15,833
Total assets	22,505	(306)	22,199
Suppliers and other accounts payable	3,954	(60)	3,894
Total current liabilities	5,704	(60)	5,644
Total liabilities	18,386	(60)	18,326
Total stockholders' equity	4,119	(246)	3,873

Selected Financial Data for the Three Months Ended March 31, June 30, and September 30, 2017 and 2016

For the convenience of the reader, we are including selected quarterly financial data which has been derived from our interim financial statements prepared in accordance with IFRS that have not been included in this offering memorandum. The following table presents financial data for the three months ended March 31, June 30, and September 30, 2017 and 2016:

	For the Three Months Ended					
	<u>September 30, 2017</u>	<u>June 30, 2017</u>	<u>March 31, 2017</u>	<u>September 30, 2016</u>	<u>June 30, 2016</u>	<u>March 31, 2016</u>
	(Unaudited) (Ps. in millions)					
Other Financial/Operating Data:						
Revenue.....	3,764	3,780	3,683	3,836	3,478	2,840
Operating (loss) profit.....	305	496	166	339	155	(439)
Adjusted EBITDA ⁽¹⁾	1,422	1,557	1,215	1,324	1,167	831

- (1) We determine EBITDA as consolidated net loss or income plus or less, as applicable, financial gain (loss) net, income tax and depreciation and amortization. Adjusted EBITDA is calculated as EBITDA less merger-related expenses, impairment of non-current assets, and equity in the results of associated companies, net. EBITDA and Adjusted EBITDA are measurements that are not defined under IFRS. A non-IFRS financial measure is generally defined as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be adjusted in the most comparable IFRS measure. Our calculation of Adjusted EBITDA may not be comparable to other companies' calculations of similarly titled measures. See "Presentation of Financial and Certain Other Information – Non-GAAP Financial Measures." The following table sets forth a reconciliation of Adjusted EBITDA for each of the periods presented.

	For the Three Months Ended					
	<u>September 30, 2017</u>	<u>June 30, 2017</u>	<u>March 31, 2017</u>	<u>September 30, 2016</u>	<u>June 30, 2016</u>	<u>March 31, 2016</u>
	(Unaudited) (Ps. in millions)					
Consolidated (loss) income - Net.....	(632)	598	1,020	(451)	(952)	(1,141)
Financial gain (loss) - Net	614	(307)	(1,067)	829	1,563	1,196
Taxes on income.....	323	205	213	(44)	(456)	(494)
Depreciation and amortization	1,005	1,007	1,012	980	981	798
EBITDA	1,310	1,504	1,178	1,314	1,136	359
Merger-related expenses.....	105	50	38	59	28	472
Impairment of non-current assets.....	8	3	(1)	(55)	3	0
Equity in the results of associated companies - Net.....	0	(0)	0	5	0	(0)
Adjusted EBITDA.....	1,422	1,557	1,215	1,324	1,167	831

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read this discussion in conjunction with our Financial Statements and the other financial information included elsewhere in this offering memorandum. This section contains forward-looking statements that involve risks and uncertainties. Our actual results may vary materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth in "Risk Factors" and other matters set forth in this offering memorandum. See "Forward-Looking Statements."

Overview

We are a leading Mexican integrated information and communications technology services company that offers both Information and Communications Technology (ICT) solutions to the enterprise segment, which is comprised of corporate, mid to large-sized businesses, financial institutions and wholesale customers, and to government entities. In addition, we provide one of the fastest symmetric broadband services to micro and small businesses and high value residential customers.

Our portfolio of services to the enterprise and government segments includes advanced managed networks and Information Technology (IT) solutions such as hosting, data center and managed security, among others. For the mass market segment, we offer direct end-to-end symmetric fiber optic (FTTx) double and triple play services, which include high-speed internet, telephony and pay television services.

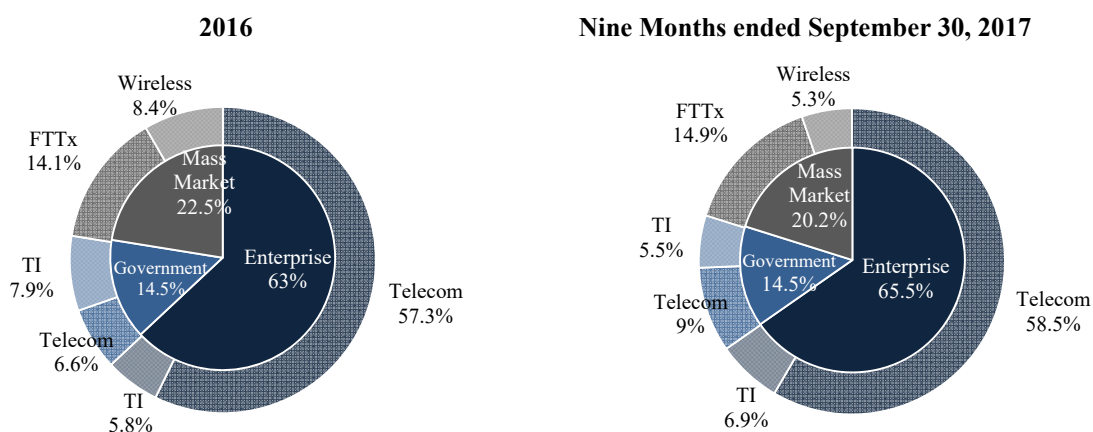
We believe that we have the second largest fiber network capacity in Mexico with an infrastructure of approximately 42,088 kilometers of fiber and approximately 7,210 square meters of Data Center space certified in accordance with the highest industry standards, which can provide coverage to over 90% of the Mexican market.

Our vision is to create value through innovation for our customers by becoming the best alternative in their digital experience. Our strategic goal is to become a leader in selected areas of IT and telecom solutions, with differentiated services tailored to corporate, government and medium-sized companies. Additionally, through GPON fiber technology, we serve micro and small businesses and high-value residential customers. Consistent with this goal, six business strategies are being implemented: (1) drive growth through differentiated IT service solutions for the enterprise segment; (2) leverage our existing expertise and network to expand our customer base to improve the profitability of the operation of our assets; (3) participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services; (4) compete based on quality of service and innovative product offerings; (5) re-orient the Company's culture towards innovation and (6) focus on high speed broadband in the mass market segment, while increasing our presence in micro and small businesses.

Our future growth is expected to come from value-added IT and telecom services as customers' needs continue to evolve into more sophisticated data communications systems and applications that require the convergence of telecommunications and information technology.

For the nine months ended September 30, 2017, we generated revenues of Ps. 11,227 million (U.S.\$593 million), operating income of Ps. 967 million (U.S.\$51 million), consolidated (loss) income of Ps. 985 million (U.S.\$52 million) and Adjusted EBITDA of Ps. 4,194 million (U.S.\$222 million). For the year ended December 31, 2016, we generated revenues of Ps. 13,937 million (U.S.\$ 747 million), an operating loss of Ps. 209 million (U.S.\$11 million), consolidated (loss) income of Ps. 3,599 million (U.S.\$193 million) and Adjusted EBITDA of Ps. 4,508 million (U.S.\$242 million). Our total assets as of September 30, 2017 were Ps. 30,277 million (U.S.\$1,664 million).

The following charts show our revenue distribution by segment and by service in 2016 and for the nine months ended September 30, 2017:



Key Factors Affecting Our Results of Operations

Revenue

Our revenues are derived from three business segments: enterprise, government and mass market segments.

- (i) **Enterprise Segment:** The Company provides telecom and IT services to the enterprise segment, which includes medium and large companies, corporations, financial institutions and carriers.
 - a. **Telecom:** The Company generates revenues providing telecommunications services to the enterprise segment. The main services offered are:
 - **Voice:** Includes local and international long distance calls to fixed and mobile telephones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP.
 - **Data and Internet:** Includes private lines, dedicated links and dedicated internet.
 - **Managed Networks:** Includes managed services, VPN, Ethernet and collaboration.
 - b. **Information Technologies (“IT”):** The Company generates revenues by providing IT services to the enterprise segment, such as system integration, hosting, managed applications, security and cloud services.
- (ii) **Government Segment:** The Company generates revenues by providing the same telecom and IT services described above to federal, state and municipal government entities in Mexico.
- (iii) **Mass Market:** The Company generates revenues by providing connectivity to residential and small business customers through its infrastructure, either fiber network or wireless network, through which voice, data and video services can be offered. The services are offered in commercial packages or, in some cases, as independent or complementary services.
 - a. **Fiber to the home or business (“FTTx”):** Voice, data and video services offered through the fiber network, with symmetrical speeds from 20 Mbps to 200 Mbps.
 - b. **Wireless:** Voice and data services offered through the wireless network, primarily WiMax, with speeds from 0.5Mbps to 2Mbps. Given the low competitiveness of this technology, clients connected with WiMax and similar technologies have been decreasing and it is expected that these clients will voluntarily or involuntarily disconnect within the next few years.

Cost of Services

Our cost of services consists primarily of: (i) costs related to the implementation of IT solutions, including charges related to leased lines, which are normally paid on a per-circuit basis per month to Telmex and to other suppliers of last-mile access; (ii) costs of interconnection, including charges for local access and resale, paid on a per-minute basis mainly to Telmex; and (iii) international payments to foreign operators on a per-minute basis to complete international calls originating in Mexico. As a percentage of revenue, for the years ended December 31, 2016, 2015 and 2014, our cost of services represented 42.6%, 40.8% and 58.6% of revenue, respectively; excluding depreciation costs, our cost of services represented 19.7%, 17.4% and 29.2% of revenue, respectively.

Administration and Selling Expenses

Our operating expenses consist primarily of administration and selling expenses, such as employee benefit expenses, travel expenses, operating leases (including telecommunication tower leases), marketing, maintenance, transportation costs, technical assistance and professional fees.

Other (Expenses) Income - Net

Other (expenses) income, net, consist of expenses associated with the Alestra Merger; disposal of properties, plants and equipment due to obsolescence, and other corporate income or expenses.

Financial (loss) gain, Net

The components of financial (loss) gain, net are:

- financial expenses, including interest expense. Interest expense is primarily a function of the principal amount of debt outstanding and the interest rates in effect;
- financial income, which includes interest income earned on short-term bank deposits;
- exchange gain or loss, net, which includes net gains or losses relating to foreign currency exchange rate movements; and
- valuation of derivative financial instruments, which reflects changes in the fair market value of derivative financial instruments into which we have entered for hedging purposes. These derivative financial instruments are nevertheless designated as held for trading because they do not satisfy the accounting requirements for hedge accounting and include, in some cases, the ineffective portion of instruments qualified as hedge accounting.

Effects of the Alestra Merger

On December 3, 2015, the Company, Alfa, Onexa, and a group of the main shareholders of Axtel signed a cooperation agreement and an agreement among shareholders to merge Onexa into Axtel. Onexa held the capital stock of Alestra.

On January 15, 2016, Axtel and Onexa held extraordinary shareholders' meetings to approve the merger, designating the members of the board of directors, the CEO and the audit and corporate practices committees. After completing the process pertaining to the legal, operating and financial review, and obtaining authorizations from the authorities, the transaction became effective on February 15, 2016, when Alfa became Axtel's majority shareholder, with the merged company disappearing and surviving company subsisting under its current business name Axtel, S. A. B. de C. V. As a result of the Alestra Merger, Alfa held 50.19% of Axtel's outstanding shares. According to the assessment of control conducted by management, it was determined that the acquiring party was Alfa, due to which goodwill arising from the merger and any other related effects were recorded at Alfa.

As of the date of the Alestra Merger, Alestra is a subsidiary of Axtel. Its inclusion in the consolidated financial statements was not recognized as a business combination due to the fact that Alestra was and is controlled by Alfa both before and after the merger. Alestra's net book value was recognized using the predecessor method and no profit or loss was recognized in the statement of income as a result of the transaction.

The difference between the book value of Alestra's net assets of Ps. 3,368 million and the fair value of the issuance of shares in the amount of Ps. 6,850 million in connection with the Alestra Merger was recognized as an effect of the merger in the merger reserve of Ps. 3,482 million. On the date the transaction took effect, in a separate transaction related to the Alestra Merger, Alestra paid Ps. 809.8 million as compensation for the assumption of certain affirmative and negative covenants, which has been recognized as an intangible asset.

The Alestra Merger agreements included certain indemnity payments related to the breach of covenants or the inaccuracy of the representations and warranties thereunder by any of the parties. On the basis of the foregoing and in accordance with the obligations assumed under the Alestra Merger agreements, an agreement was reached for Alfa to receive compensation from Axtel for the negative economic effects that resulted in the uncollectibility of certain accounts receivable in the amount of Ps. 984 million. This amount was recorded with a charge to capital, as it pertained to operations between the holding company Alfa and its subsidiary Axtel, and a liability was recorded as a related party transaction in the suppliers and other accounts payable line item.

On July 18, 2017, Axtel delivered 1,019,287,950 Class "I", Series "B" shares to Alfa, representing an additional 2.50% ownership interest in Axtel that is held by Alfa, as part of the agreed consideration in the merger agreement. Such shares were considered as subscribed and paid for as of such date.

As a result of the Alestra Merger, the Company incurred expenses totaling Ps. 835 million in 2016 and Ps. 193 million in the nine months ended September 30, 2017, which it classified as Alestra Merger expenses in the other (expenses) income, net line item. From the effective acquisition date, income and net profit for the year ended December 31, 2016 attributable to the consolidation of Alestra amounted to Ps. 5,889 million and Ps. 229 million, respectively. Had the acquisition taken place on January 1, 2016, income would have increased by an additional Ps. 781 million and net profit would have decreased by approximately Ps. 91 million. For more information regarding the Alestra Merger, see "Business—Our History."

Effects of Derivative Financial Instruments on Financial Result

Our financial result includes mark-to-market gains or losses in connection with derivative financial instruments.

Exchange Rate Risk

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

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

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

Interest Rate Risk

The Company's interest rate risk is associated with its long-term debt. Variable rate debt exposes the Company to interest rate risks on cash flows, which are partially offset by the cash held at variable rates. Additionally, fixed rate debt exposes the Company to interest rate risks related to changes in fair value.

On September 30, 2017, 96% of Axtel's total debt accrued interest at variable rates, whereas the remaining 4% accrued interest at fixed rates.

The Company analyzes its exposure to interest rate risk dynamically. A number of scenarios are simulated, taking into account refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on the annual result of a change in the interest rate determined by

each simulation, using the same change in the interest rate for all currencies. The scenarios are produced only for liabilities that represent the main positions that generate the highest interest.

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

Critical Accounting Estimates and Significant Judgments

Estimates and judgments are reviewed on a regular basis and are based on historical experience and other factors, including expectation of future events considered reasonable under the circumstances.

Estimates and assumptions indicating a significant risk of giving rise to a material adjustment to the book values of assets and liabilities within the following financial year are as follows:

a. Useful lives of property, systems and equipment

We review the estimated useful lives of property, systems and equipment at the end of every annual period. The level of uncertainty in connection with the estimated useful life is related to market changes and the use of assets in relation to service volumes and technological development.

b. Allowance for the impairment of goodwill

Identification and measurement of the impairment of goodwill involves an estimate of fair values. These estimates and assumptions could have a significant impact on the decision to recognize or not recognize an impairment charge as well as the magnitude of such charge. We conduct a valuation analysis with third-party assistance and considers relevant internal information, as well as other public market information.

Estimates of fair value are mainly determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected cash flows (including terms), discount rates that reflect the risk inherent to future cash flows, perpetual growth rates, determination of proper market comparables and the determination of whether or not a premium or discount should be applied to the comparables. There is a certain level of risk inherent to the estimates and assumptions that we believe to have considered in our valuations. However, if the current/future results differ from those estimated, a possible impairment charge can be recognized in future periods in connection with the decrease in the book value of goodwill, aside from the amounts previously recognized. For more information, see Note 12 to the Annual Audited Financial Statements included elsewhere in this offering memorandum.

c. Income tax

The charge corresponding to income taxes is the total sum of the currently-payable and deferred tax charges and credits. An important judgment is required in the determination of the global provision for income taxes. There are many transactions and calculations due to which the final tax determination is uncertain. We recognize liabilities related to the early tax audit, based on estimates as to whether or not additional taxes will be paid. Because the final tax result for these purposes differs from the amounts initially recognized, said differences will impact both currently-payable and deferred income tax assets and liabilities in the period in which the determination was carried out.

As part of the processes for preparation of the Annual Audited Financial Statements, we are required to calculate our income taxes. This process involves estimating the current exposure to currently-payable taxes, aside from evaluating the temporary differences resulting from treating the items differently, such as impairment of accounts receivable from customers, deferred assets, inventories, property, plant and equipment, accumulated expenses and unamortized tax losses, for tax and book effects.

These differences result in deferred tax assets and liabilities included in the statement of financial position. We then evaluate the probability of our deferred tax assets being recovered. We recognize deferred tax assets for all deductible temporary differences, to the extent the entity is likely to dispose of future tax benefits against which to apply these deductible temporary differences. The most recent projections of available earnings are used to determine future tax benefits.

d. Commitments and contingencies

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

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

Summary of Significant Accounting Policies

We have identified certain key accounting policies on which our consolidated financial condition and results of operations are dependent. The following is a summary of the most significant accounting policies followed by us. For more information see Note 4 to the Annual Audited Financial Statements.

Impairment of Financial Instruments

At the end of every reporting year, we evaluate whether or not there is objective evidence of impairment of each financial assets or group of financial assets. An impairment loss is recognized only if there is objective evidence of impairment resulting from one or more events occurring after initial recognition of the asset (a “loss event”) and provided the loss event or events have an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

The aspects that we evaluate to determine whether or not there is objective evidence of impairment are:

- Significant financial difficulties of the issuer or debtor.
- Noncompliance with the contract, such as late payment of interest or principal.
- Our granting of a concession to the issuer or debtor as a result of the issuer's or debtor's financial difficulties not considered under other circumstances.
- The issuer or debtor is likely to declare bankruptcy or some other type of financial reorganization.
- The disappearance of an active market for the financial asset is due to financial difficulties.
- Verifiable information indicating that there is a quantifiable decrease in future estimated cash flows relative to a group of financial assets subsequent to initial recognition, although the decrease cannot yet be identified with individual financial assets, such as:
 - i. Adverse changes in the status of debtor payments on the group of assets.
 - ii. Domestic or local conditions related to noncompliance on the part of issuers of the group of assets.

Based on the aforementioned aspects, we evaluate the objective evidence of impairment, if any, the book value of the asset is decreased by said amount, and is recognized in the statement of income.

If the interest rate of a loan or investment held to maturity is variable, the discount rate to measure any impairment loss is the current effective interest rate determined according to the terms of the contract. Alternatively, we could determine the impairment of the asset considering its fair value determined on the basis of its current observable market price.

If the impairment loss is reduced in subsequent years due to objective verification of an event occurred subsequent to the date on which said impairment was recorded (such as an improvement in the debtor's credit rating), the reversal of the impairment loss is recorded in the statement of income.

Impairment of Non-Financial Assets

Assets with an indefinite useful life, such as goodwill, are not subject to depreciation or amortization, as well as to annual impairment testing. Assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the book value might not be recoverable. An impairment loss corresponds to the amount by which the carrying value of the non-financial asset exceeds its recovery value. Recovery value is the greater of the fair value of an asset less costs incurred for its sale and its value in use. For the purpose of evaluating impairment, assets are grouped in the minimum levels where there are identifiable cash flows separately (cash generating units). Non-financial long-lasting assets other than goodwill that have been impaired are reviewed for possible reversal of impairment on each reporting date.

Income Taxes

The income taxes caption in the statement of income represents the sum of currently-payable and deferred taxes on income.

The amount shown for income taxes reflected in the statement of income represents the tax incurred in the year, as well as the effects of deferred income taxes determined by the assets and liabilities method, applying the rate enacted or substantially enacted in effect at the date of the balance sheet where we operate and generate taxable income to total temporary differences resulting from comparing the book and tax values of assets and liabilities expected to apply when the deferred tax asset is realized or the deferred tax liability is settled, taking into account unamortized tax losses, if any, following an analysis of their recovery. The effect of changes in tax rates in effect is applied to income for the period in which said rate change is determined.

Our management periodically evaluates the positions exercised in tax refunds with respect to the situations in which the applicable legislation is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

The deferred tax asset is recognized only when a future taxable profit is likely to exist against which temporary difference deductions can be used.

Deferred income taxes on temporary differences arising from investments in subsidiaries and associated companies are recognized, except when the reversal period of the temporary differences is controlled by Axtel and the temporary differences are unlikely to be reversed in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legal right and when the taxes are collected by the same tax authority.

Pension Benefits

Defined Contribution Plans:

A defined contribution plan is a pension plan through which we pay fixed contributions to an entity on a separate basis. We have no legal or assumed obligation to pay additional contributions if the fund has insufficient assets to pay the benefits related to the services to all of our employees in the current or past periods. Contributions are recognized as expenses arising from employee benefits at the date of the obligation to make the contribution.

Defined Benefit Plans:

A benefit plan is defined as the pension-related benefit amount to be received by an employee at retirement, usually reliant on one or more factors such as age, the number of years of service and compensation.

The liability recognized in the statement of financial position with respect to defined benefit plans is the present value of the defined benefit obligation at the date of the statement of financial position, along with the adjustments for unrecognized past services. The defined benefit obligation is calculated annually by independent

actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using the discount rates, in accordance with IAS 19, denominated in the currency in which the benefits will be paid, and that have maturity terms approximating the terms of the related pension liability. The discount rate reflects the value of money over time but not the actuarial or investment risk. Additionally, the discount rate reflects no credit risk pertaining to the entity, or the risk that future experience could differ from the actuarial assumptions. We use the government CETES rate as the discount rate.

Re-measurements of employee obligations are recorded directly in stockholders' equity under other components of comprehensive income in the year in which they occur.

The costs of past services are immediately recognized in the statement of income.

The current cost of services under the defined benefit plan, applied to income as an employee-benefit expense, unless it is included in the cost of an asset, reflects the increase in the defined benefit obligation stemming from the employee's service during the year. The benefit modifies layoffs and severance payments.

The net interest cost is calculated applying the discount rate for the net balance of defined benefit obligations. This cost is included in the employee benefits account in the statement of income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial hypotheses are charged or credited to stockholders' equity in "Other components of comprehensive income for the year" in the period in which they arise.

Provisions

Liability provisions represent a present legal obligation or a constructive obligation arising from past events, likely to require the use of resources to settle the obligation and the amount thereof has been reliably estimated. No provisions are recognized for future operating losses.

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

In the event of similar obligations, the probability of requiring the use of economic resources to settle said obligations is determined considering them as a whole. In such cases, the provision so estimated is recognized even though the probability of using cash flows with respect to a specific item considered in the whole is remote.

Provisions for legal claims are recognized when we have a present obligation (legal or assumed) resulting from past events, likely to require the use of economic resources to settle the obligation and the amount thereof can be reliably estimated.

A reserve for restructuring is recognized when we have developed a formal detailed plan to conduct a restructuring, and a valid expectation is created among the affected parties, that the restructuring will take place, either for having started implementation of the plan or for having announced its main features to the affected parties.

Revenue Recognition

Revenue is comprised of the fair value of the compensation received or to be received on the sale of goods and services during the normal course of operations. Revenue is shown net of the estimated amount of returns from customers, value added tax, discounts and after eliminating intercompany sales.

Revenue from both domestic and international outgoing and incoming long-distance service is recognized based on the number of minutes processed by us and is recognized at the month end close once the service has been provided and the risks and benefits have been transferred to the customer.

Revenue arising from the provision of pay television, interconnection, data transmission, internet and local services is recognized as the services are rendered.

Installation income and corresponding costs are deferred and recognized as income during the period of the contract established with the customer.

Interest income is recognized when the economic benefits are likely to flow to us and the amount corresponding to income can be valued reliably, applying the effective interest rate.

We recognize income provisions at the end of each month on the basis of the use and enjoyment of services provided by us, taking into account the type of customer, the type of transaction and the specifications set out in each agreement.

Income from the sale of goods and the provision of services is recognized when each of the following conditions are met:

- the risks and benefits of ownership are transferred;
- the amount of the revenue can be measured reasonably;
- future economic benefits are likely to flow to the Company;
- the Company retains no implication related to the property or effective control of the goods sold; and
- costs incurred or to be incurred in connection with the transaction can be measured reliably.

Costs for the acquisition of subscribers are applied to income as they are incurred.

Customer prepayments for pay television, interconnection, data transmission, internet and local services are billed monthly and applied to income as income for the period as the services are provided. Our deferred charges are recorded on the basis of the commitment to provide a service to the customers. Such service is applied to income as it is provided.

New and Revised International Financial Reporting Standards

A number of new accounting standards, amendments and interpretations have been published, some of which are effective for the reporting period ended September 30, 2017.

We have adopted the following new and revised IFRS that were issued and became effective on January 1, 2017:

Amendments to IAS 12, Income Taxes

Amendments to IAS 12 Income Taxes, clarify that unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. Additionally, they specify that the carrying amount of an asset does not limit the estimation of probable future taxable profits and when comparing deductible temporary differences with future taxable profits, these exclude tax deductions resulting from the reversal of those deductible temporary differences. We did not have an impact from the adoption of these amendments because we do not hold debt instruments that are measured at fair value.

Amendments to IAS 7, Disclosure Initiative

The amendments to IAS 7 Statement of Cash Flows, require that the following changes in liabilities arising from financing activities are disclosed separately from changes in other assets and liabilities: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes. One way to fulfill the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. The new disclosure requirements also relate to changes in financial assets if they meet the same definition. We have determined that no significant

impacts from the adoption of these amendments have arisen in the disclosures to the consolidated financial statements. The amendments are considered to be adopted prospectively in our consolidated financial statements and any disclosure effects will be reflected in the consolidated financial statements for the annual period ending on December 31, 2017 attending to the materiality disclosure initiative as well.

Additionally, we have not applied the following new and revised IFRS, amendments, clarifications and interpretations to IFRS that were issued but are not yet effective as of September 30, 2017:

IFRS 9, Financial Instruments

IFRS 9, “Financial Instruments” issued in July 2014, is the replacement of IAS 39 “Financial Instruments: Recognition and Measurement”. This standard includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This version supersedes all previous versions and is mandatorily effective for periods beginning on or after January 1, 2018. IFRS 9 (2014) does not replace the requirements for portfolio fair value hedge accounting for interest rate risk since this face of the project was separated from the IFRS 9 project.

IFRS 9 (2014) is a complete standard that includes the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or Fair Value Through Other Comprehensive Income (“FVTOCI”), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. Regarding the new measurement category of FVTOCI, it will apply for debt instruments held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets.

Management does not expect a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment, however potential impacts could arise should it change its investment strategy in the future. Regarding the new expected loss impairment model, management is in the process of determining the impacts that the new expected loss impairment model will have on its financial assets, including impacts to its internal controls. We will adopt the provisions of IFRS 9 prospectively as of January 1, 2018, with any transition impacts recognized directly in equity.

IFRS 15, Revenue from Contracts with Customers

IFRS 15, “Revenue from Contracts with Customers”, was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, earlier application is permitted. Revenue is recognized as control is passed, either over time or at a point in time.

The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. Also, an entity needs to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Additionally, the IASB issued a clarification to the IFRS to address (1) identifying performance obligations, (2) principal-versus-agent considerations, and (3) licensing. The amendments also provide some transition relief for modified contracts and completed contracts. Specific provisions of the amendments include the following: (i) Identifying performance obligations - Clarification that the objective of the assessment of a promise to transfer goods or services to a customer is to determine whether the nature of the promise, within the context of the contract, is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs; (ii) Principal-versus-agent considerations - Extension of the application guidance; (iii) Licensing - Clarification of whether an entity’s promise to grant a license of its IP should be recognized as revenue at a point in time or over time on the basis of whether the licensor’s ongoing activities significantly affect the IP; (iv) Transition relief - Two additional (optional) practical expedients.

Management has determined that the new revenue standard could impact the following transactions: (i) contracts with multiple performance obligations, and (ii) costs associated with acquiring new contracts, however it is in the process of performing a detailed review of the contracts with its clients. We will adopt the provisions of IFRS 15 utilizing the modified prospective approach as of January 1, 2018, with any transition impacts recognized directly in equity.

IFRS 16, Leases

IFRS 16 “Leases” was issued in January 2016 and supersedes IAS 17 “Leases” and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 ‘Revenue from Contracts with Customers’ has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

Management has determined that the new lease standard could impact its accounting for its existing operating leases. As of December 31, 2016, we had non-cancellable operating lease contracts of Ps. 8,324 million. However, the impacts of such contracts has not yet been determined on the recognition of a right of use asset or financial lease liability for the future lease payments and how this could potentially impact the results of operations and classification of our cash flows. We will adopt the provisions of IFRS 16 utilizing the modified prospective approach as of January 1, 2019, with any transition impacts recognized directly in equity.

IFRIC 22 Interpretation on Foreign Currency Transactions and Advance Consideration

This new Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted. Management does not expect a significant impact from the adoption of this standard as it does not have material advances in foreign currencies.

IFRIC 23 Uncertainty over Income Tax Treatments

This new Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income taxes when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation. An entity shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted and the fact must be disclosed. On initial application, the Interpretation must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the Interpretation as an adjustment to the opening balance of retained earnings. We are evaluating and determining the potential impacts of the adoption of IFRIC 23 in its consolidated financial statements.

Results of Operations

Results of Operations for the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

The following financial information has been derived from our Interim Unaudited Financial Statements appearing elsewhere in this offering memorandum.

	For the Nine Months Ended September 30,				Percent Change 2016 to 2017
	2017	Percent of Revenue	2016	Percent of Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
Net revenue.....	11,227	100.0	10,154	100.0	10.6
Cost of services	(5,289)	(47.1)	(4,317)	(42.5)	22.5
Administration and selling expenses ⁽¹⁾	(5,314)	(47.3)	(5,319)	(52.4)	(0.1)
Other income (expenses) - Net.....	344	3.1	(463)	(4.6)	(174.3)
Operating profit ⁽¹⁾	967	8.6	55	0.5	1,655.4
Financial income.....	1,924	17.1	38	0.4	5,006.8
Financial expenses	(1,164)	(10.4)	(3,626)	(35.7)	(67.9)
Financial gain (loss) - Net.....	760	6.8	(3,588)	(35.3)	(121.2)
Equity in the results of associated companies - Net.....	(0)	0.0	(5)	0.0	(100.0)
Pre-tax income (loss) ⁽¹⁾	1,727	15.4	(3,538)	(34.8)	(148.8)
Taxes on income ⁽¹⁾	(742)	(6.6)	994	9.8	(174.6)
Consolidated profit (loss) ⁽¹⁾	985	8.8	(2,544)	(25.1)	(138.7)

(1) For a description of certain minor adjustments that were made to this line item for the year ended December 31, 2015, see footnote 6 to the tables set forth in the sections “Summary Historical Financial Data and Other Information” and “Selected Financial Data and Other Information”.

Net Revenue

The following table provides a breakdown of net revenue by segment for the nine month periods ended September 30, 2017 and 2016:

	For the Nine Months Ended September 30,				Percentage Change 2016 vs. 2017
	2017	Percent of Net Revenue	2016	Percent of Net Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
<u>Segments:</u>					
Enterprise.....	7,333	65.3	6,333	62.4	15.8
Government	1,631	14.5	1,466	14.4	11.2
Mass Market.....	2,263	20.2	2,354	23.2	(3.9)
Total	11,227	100.0	10,154	100.0	10.6

Total revenues for the nine months ended September 30, 2017 were Ps. 11,227 million, an increase of 10.6% from the Ps. 10,154 million reported for the same period in 2016. This increase was primarily due to 15.8% and 11.2% increases in revenue for the enterprise and government segments, respectively, partially offset by a 3.9% decrease in revenue in the mass market segment.

Revenue by Segment

Enterprise Segment. Revenues for the nine months ended September 30, 2017 were Ps. 7,333 million, an increase of 15.8% from the Ps. 6,333 million reported for the same period in 2016 due to growth in both telecom and IT services, which were partially related to the Alestra Merger which became effective on February 15, 2016.

Telecom services increased primarily due to growth in internet, data and managed networks revenues, which were partially offset by declines in fix-to-mobile and international long distance revenues. IT services increased mainly due to an increase in revenues from hosting, cloud, systems integration and security services.

Government Segment. Revenues for the nine months ended September 30, 2017 were Ps. 1,631 million, an increase of 11.2% from the Ps. 1,466 million reported for the same period in 2016, primarily due to an increase in telecom services, partially offset by a decline in IT services. Telecom services revenues increased due to higher revenues from managed services and VPNs. IT services revenues decreased primarily due to a decline in systems integration revenues.

Mass Market Segment. Revenues for the nine months ended September 30, 2017 were Ps. 2,263 million, a 3.9% decrease from the Ps. 2,354 million reported for the same period in 2016. This decrease was primarily due to a decline in revenues from the wireless business as a result of a 44% decrease in wireless customers who migrated to other providers due to competition in this market, partially offset by an increase in revenues from the FTTx business in line with a 12% increase in customers as a result of the performance and quality of our services, offering up to 200 Mbps of broadband speed.

Cost of Services

Cost of services for the nine months ended September 30, 2017 was Ps. 5,289 million, an increase of 22.5% from the Ps. 4,317 million reported for the same period in 2016. This increase was primarily due to a 64% increase in telecom service costs and a 10% increase in depreciation costs, partially offset by a 6% decline in IT service costs. Cost of service as a percentage of total revenues reached 47.1% in the nine months ended September 30, 2017, compared to 42.5% in the nine months ended September 30, 2016. This increase is mainly due to an extraordinary voice-related benefit recorded in the 2016 period.

Administration and Selling Expenses

Administration and selling expenses for the nine months ended September 30, 2017 were Ps. 5,314 million, similar to the Ps. 5,319 million reported for the same period in 2016. Higher personnel expenses and tower and other leasing expenses for the period and a 6% increase in depreciation and amortization expenses were offset by a decline in outsourcing and maintenance expenses.

Other Income (Expenses) - Net

For the nine months ended September 30, 2017, other income represented Ps. 344 million, primarily due to a gain from the sale of towers in the amount of Ps. 475 million recorded during this period, compared to other expenses of Ps. 463 million for the same period in 2016. These amounts also include non-recurring expenses related to the Alestra Merger of Ps. 193 million for the 2017 period and Ps. 559 million for the 2016 period.

Operating Profit

Operating profit for the nine months ended September 30, 2017 was Ps. 967 million, an increase of Ps. 912 million from the Ps. 55 million reported for the same period in 2016. This increase was primarily due to the factors described above.

Financial Gain (loss) - Net

Financial gain (loss), net for the nine months ended September 30, 2017 was a gain of Ps. 760 million, compared to a loss of Ps. 3,588 million reported for the same period in 2016. This financial income was primarily due to a foreign exchange gain of Ps. 1,865 million, mostly generated by the impact of the appreciation of the Peso against the U.S. dollar on debt held in U.S. dollars, compared to a foreign exchange loss of Ps. 1,871 million, mainly generated by the impact of the depreciation of the Peso against the U.S. dollar on debt held in U.S. dollars in the same period in 2016.

Taxes on Income

Income tax expense for the nine months ended September 30, 2017 were Ps. 742 million, compared to a tax benefit of Ps. 994 million reported for the same period in 2016. This increase in taxes was primarily due to an

increase in non-deductible expenses and a higher cumulative income for tax purposes because of inflation in 2017. Our effective tax rate was 43% for the nine months ended September 30, 2017 and a tax benefit rate of 28% for the nine months ended September 30, 2016.

Consolidated Profit (Loss) - Net

Profit for the period for the nine months ended September 30, 2017 was Ps. 985 million, compared to a net loss of Ps. 2,544 million reported for the same period in 2016. This increase was primarily due to an increase in operating profit, a decrease in interest expenses and a foreign exchange gain, partially offset by an increase in income tax.

Results of Operations for the Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

The following financial information has been derived from the Annual Audited Financial Statements appearing elsewhere in this offering memorandum:

	Year Ended December 31,				Percent Change 2015 to 2016
	2016	Percent of Revenue	2015	Percent of Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
Net revenue.....	13,937	100.0	10,150	100.0	37.3
Cost of services	(5,944)	(42.6)	(4,143)	(40.8)	43.5
Administration and selling expenses ⁽¹⁾	(7,365)	(52.8)	(4,980)	(49.1)	47.9
Other (expenses) income - Net.....	(838)	(6.0)	(437)	(4.3)	91.6
Operating (loss) profit ⁽¹⁾	<u>(209)</u>	(1.5)	<u>589</u>	5.8	n.a.
Financial income.....	235	1.7	697	6.9	(66.3)
Financial expenses.....	<u>(5,091)</u>	(36.5)	<u>(3,392)</u>	(33.4)	50.1
Financial gain (loss) - Net.....	(4,856)	(34.8)	(2,695)	(26.5)	80.2
Equity in the results of associated companies - Net.....	(5)	(0.0)	(0)	(0.0)	103,680
Pre-tax income (loss) ⁽¹⁾	(5,071)	(36.4)	(2,105)	(20.7)	140.8
Taxes on income ⁽¹⁾	1,472	10.6	373	3.7	294.4
Consolidated loss - Net ⁽¹⁾	<u>(3,599)</u>	(25.8)	<u>(1,732)</u>	(17.1)	107.8

(1) For a description of certain minor adjustments that were made to this line item for the years ended December 31, 2014 and 2015, see footnote 6 to the tables set forth in the sections "Summary Historical Financial Data and Other Information" and "Selected Financial Data and Other Information".

Net Revenue

The following table provides a breakdown of net revenue by segment for the years ended December 31, 2016 and 2015:

	For the Year Ended December 31,				Percentage Change 2015 vs. 2016
	2016	Percent of Net Revenue	2015	Percent of Net Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
<u>Segments:</u>					
Enterprise.....	8,784	63.0	4,242	41.8	107.1
Government	2,024	14.5	2,592	25.5	(21.9)
Mass Market.....	3,130	22.5	3,316	32.7	(5.6)
Total	13,937	100.0	10,150	100.0	37.3

Revenue was Ps. 13,937 million in 2016, an increase of 37.3% compared to Ps. 10,150 million in 2015. This increase was primarily due to the Alestra Merger.

Revenue by Segment

Enterprise Segment. Revenues were Ps. 8,784 million in 2016, an increase of 107.1% from Ps. 4,242 million in 2015 due to increases in both Telecom and IT services. Telecom services revenues increased primarily due to the effect of the Alestra Merger, partially offset by declines in fix-to-mobile and national long distance voice revenues. IT services revenues increased primarily due to the effect of the Alestra Merger and the performance of our hosting, cloud and system integration services.

Government Segment. Revenues were Ps. 2,024 million in 2016, a decrease of 21.9% from Ps. 2,592 million in 2015, resulting from a decrease in Telecom services revenues, partially offset by an increase in IT services revenues. Telecom services decreased mainly due to reductions in revenues from managed networks due to the sale of non-recurrent equipment to provide managed services in 2015 that were not replicated in 2016 and partially offset by an increase in revenues derived from the effect of the Alestra Merger. IT services revenues increased primarily derived from the effect of the Alestra Merger, partially offset by a decline in managed applications.

Mass Market Segment. Revenues were Ps. 3,130 million in 2016, a decrease of 5.6% from Ps. 3,316 million in 2015. This decrease was primarily due to a decline in revenues from the wireless business primarily due to a decrease of 35% in wireless customers who migrated to other providers due to competition in this market, partially offset by an increase in revenues from the FTTx business in line with the 19% increase in FTTx customers as a result of the performance and quality of our services, offering up to 200 Mbps of broadband speed.

Cost of Services

Cost of services totaled Ps. 5,944 million in 2016, a 43.5% increase compared to Ps. 4,143 million in 2015, primarily due to a 56% increase in cost of services excluding depreciation and a 34% increase in depreciation cost. This increase was primarily due to the Alestra Merger. Cost of services as a percentage of revenues reached 42.6% in 2016, compared to 40.8% in 2015. The 2015 amount also includes a net benefit of Ps. 534 million from the agreements with America Movil, Iusacell and Telefónica to terminate several interconnection disputes. See “Business—Legal Proceedings”.

Administration and Selling Expenses

Administration and selling expenses were Ps. 7,365 million in 2016, an increase of 47.9% compared to Ps. 4,980 million in 2015, primarily due to a 42% increase in administration and selling expenses excluding depreciation and a 163% increase in depreciation expense. This increase was primarily due to the Alestra Merger.

Other (Expenses) Income - Net

For the year ended December 31, 2016, other expenses were Ps. 838 million, a 91.6% increase compared to other expenses of Ps. 437 million in 2015. These figures include non-recurrent expenses related to the Alestra Merger in 2016 of Ps. 835 million for 2016 and also related to the agreement entered into 2015 between Axtel and Telefonica Mexico to terminate disputes related to interconnection tariffs for the period beginning in 2005 and ending in 2011, see “Business—Legal Proceedings”.

Operating (Loss) Profit

Operating loss was Ps. 209 million in 2016, compared to an operating profit of Ps. 589 million in 2015. This decrease was primarily due to higher expenses related to the Alestra Merger and higher depreciation and amortization levels in 2016.

Financial (Loss) Gain - Net

Financial loss was Ps. 4,856 million in 2016, an increase of 80.2% compared to a financial loss of Ps. 2,695 million in 2015. This increase in loss was primarily due to (i) higher interest expense due to the premium paid for the prepayment of senior notes during the first quarter of 2016 and (ii) the greater exchange loss during 2016 due to the higher level of U.S. dollar denominated debt resulting from the Alestra Merger and the 16.7% depreciation

of the Peso against the U.S. dollar from an exchange rate of Ps. 17.21 per U.S. dollar at year-end 2015 to Ps. 20.66 per U.S. dollar at year-end 2016 (compared to a 14.5% depreciation in 2015 from an exchange rate of Ps. 14.72 at year-end 2014 to Ps. 17.21 per U.S. dollar at year-end 2015).

Taxes on Income

Income tax consisted of a tax benefit of Ps. 1,472 million in 2016, an increase of 294.4% compared to a tax benefit of Ps. 373 million in 2015. This variation is mainly due to an increase in the deferred tax benefit in 2016, due to the tax loss generated in the year, mainly due to the factors described above. Our effective tax benefit rate was 29% for the year ended December 31, 2016 and 17.7% for the year ended December 31, 2015.

Consolidated Loss - Net

Net loss for the period was Ps. 3,599 million in 2016, an increase in loss of 107.8% compared to Ps. 1,732 million in 2015. This increase in loss was primarily due to a decrease in operating profit and an increase in net financial loss, partially offset by an increase in income tax benefit.

Results of Operations for the Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

The following financial information has been derived from the Annual Audited Financial Statements appearing elsewhere in this offering memorandum:

	Year Ended December 31,				Percent Change 2014 to 2015
	2015	Percent of Revenue	2014	Percent of Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
Net revenue.....	10,150	100.0	10,597	100.0	(4.2)
Cost of services	(4,143)	(40.8)	(6,208)	(58.6)	(33.3)
Administration and selling expenses.....	(4,980)	(49.1)	(4,932)	(46.5)	1.0
Other (expenses) income - Net.....	(437)	(4.3)	(88)	(0.8)	398.8
Operating profit (loss).....	<u>589</u>	5.8	<u>(630)</u>	(5.9)	(193.5)
Financial income.....	697	6.9	584	5.5	19.2
Financial expenses.....	<u>(3,392)</u>	(33.4)	<u>(2,538)</u>	(24.0)	33.6
Financial (loss) gain - Net.....	<u>(2,695)</u>	(26.5)	<u>(1,954)</u>	(18.4)	37.9
Equity in the results of associated companies - Net.....	(0)	(0.0)	(3)	0.0	(99.9)
Pretax loss.....	(2,105)	(20.7)	(2,588)	(24.4)	(18.6)
Taxes on income.....	373	3.7	577	5.4	(35.4)
Consolidated loss - Net.....	<u>(1,732)</u>	(17.1)	<u>(2,010)</u>	(19.0)	(13.8)

Net Revenue

The following table provides a breakdown of net revenue by segment for the years ended December 31, 2015 and 2014:

	For the Year Ended December 31,				Percentage Change 2014 vs. 2015
	2015	Percent of Net Revenue	2014	Percent of Net Revenue	
	<i>(in millions of Pesos, except percentages)</i>				
Segments:					
Enterprise.....	4,242	41.8	4,782	45.1	(11.3)
Government	2,592	25.5	2,243	21.2	15.6
Mass Market.....	3,316	32.7	3,572	33.7	(7.2)
Total	<u>10,150</u>	100.0	<u>10,597</u>	100.0	(4.2)

Revenue was Ps. 10,150 million in 2015, a decrease of 4.2% compared to Ps. 10,597 million in 2014. This decrease was primarily due to the decline in the enterprise and mass market segments, partially offset by the increase in the government segment.

Revenue by Segment

Enterprise Segment. Revenues were Ps. 4,242 million in 2015, an 11.3% decrease from Ps. 4,782 million in 2014. This decrease was primarily due to declines in voice revenues due to the elimination of national long distance charges, price declines in fix-to-mobile services due to the elimination of termination rates paid to America Movil and the decline in international traffic and traffic that is generated outside of Mexico.

Government Segment. Revenues were Ps. 2,592 million in 2015, an increase of 15.6% from Ps. 2,243 million in 2014. This increase was primarily due to higher revenues from integrated services and equipment sales during 2015.

Mass Market Segment. Revenues were Ps. 3,316 million in 2015, a 7.2% decline from Ps. 3,572 million in 2014. This decrease was primarily due to the continued disconnection of wireless-connected customers, partially offset by an increase in FTTx-based customers, and to a decline in voice revenues related to price declines in fix-to-mobile calls and the elimination of national long distance charges previously described.

Cost of Services

Cost of services was Ps. 4,143 million in 2015, a 33.3% decrease compared to Ps. 6,208 million in 2014. This decline was primarily due to (i) a decrease in costs related to the international traffic service due to the elimination of transit traffic, or traffic that does not end in Mexico, which has a higher price and higher corresponding cost, and (ii) a decrease in interconnection rates as America Movil could no longer charge interconnection rates during the period and (iii) a 24% decrease in depreciation costs. Additionally, a net benefit of Ps. 534 million was recorded in 2015 related to the agreements with America Movil, Iusacell and Telefónica to terminate several interconnection disputes, see “Business—Legal Proceedings”.

Administration and Selling Expenses

Administration and selling expenses were Ps. 4,980 million in 2015, an increase of 1.0% compared to Ps. 4,932 million in 2014. This increase was primarily due to higher personnel expenses as a result of salary increases due to inflation and partially offset by a 26% decline in depreciation expenses.

Other (Expenses) Income - Net

For the year 2015, other expenses were Ps. 437 million, a 398.8% increase compared to other expenses of Ps. 88 million in 2014. The increase was mainly due to non-recurrent expenses incurred in preparation for the Alestra Merger in 2015.

Operating Profit (Loss)

Operating profit was Ps. 589 million in 2015, compared to an operating loss of Ps. 630 million in 2014. This increase was primarily due to the factors described above.

Financial Gain (Loss) - Net

Financial loss reached Ps. 2,695 million in 2015, an increase of 37.9% compared to a loss of Ps. 1,954 million in 2014. This increase in loss was primarily due to an increase in the interest rate applicable to our senior secured notes due 2020 and a greater exchange loss due to the 14% depreciation of the peso against the dollar in 2015 (from an exchange rate of Ps. 14.72 at year-end 2014 to Ps. 17.21 per U.S. dollar at year-end 2015), compared to an 11% depreciation in 2014 (from Ps. 13.08 per U.S. dollar at year-end 2013 to Ps. 14.72 per U.S. dollar at year-end 2014).

Taxes on Income

Income tax consisted of a tax benefit of Ps. 373 million in 2015, a decrease of 35.4% compared to a tax benefit of Ps. 577 million in 2014. This decrease was mainly due to a decrease in deferred tax benefits in 2015. Our effective tax benefit rate was 17.7% for the year ended December 31, 2015 and 22.3% for the year ended December 31, 2014.

Consolidated Loss - Net

Net loss for the period was Ps. 1,732 million in 2015, a decrease in loss of 13.84% compared to a loss of Ps. 2,010 million in 2014. This decrease in loss was primarily due to an increase in operating profit, which was partially offset by an increase in net financial loss and a lower income tax benefit.

Liquidity and Capital Resources

Liquidity

Our capital requirements are primarily for capital expenditures, to meet our debt service obligations and to meet our working capital needs.

We continue to focus our capital expenditures on businesses that we believe may offer more attractive margins and a short- to medium-term return. All capital expenditures are included in a budget which is pre-authorized by our board of directors. We believe that we will generate positive capital resources from our operations to fund working capital, currently anticipated capital expenditures and most of our debt service needs in the short term. We cannot assure you, however, that capital expenditures will be made in the amounts currently expected or be funded with cash generated from our future operations.

Our ability to continue generating sufficient cash flow could be affected by the following factors, among others:

- general economic conditions in Mexico;
- access to the capital markets;
- the continuing decrease in international settlements from foreign carriers;
- lower domestic rates resulting from competition; and
- higher capital expenditure needs to build and maintain our network.

The following table summarizes the cash flows from operating, investing and financing activities for the years ended December 31, 2016, 2015 and 2014 and for the nine months ended September 30, 2017 and 2016:

	Year Ended December 31,			Nine Months Ended	
	2016	2015	2014	September 30,	2016
	<i>(in millions of Pesos)</i>				
Operating activities.....	3,898	3,120	3,109	2,504	2,398
Investing activities.....	(3,527)	(1,925)	(2,831)	(1,770)	(2,702)
Financing activities.....	(1,675)	(1,565)	970	(1,395)	(1,654)
Cash and cash equivalents at the end of the period	1,447	2,575	2,698	722	754

Operating Activities

In the nine months ended September 30, 2017, net cash provided by operating activities were Ps. 2,504 million, primarily attributable to the net consolidated profit for the period and partially offset by investment in working capital.

In 2016, net cash generated from operating activities was Ps. 3,898 million, primarily attributable to the operating results of the period and positive effect in net working capital, partially offset by income tax paid.

In 2015, net cash generated from operating activities was Ps. 3,120 million, primarily attributable to the operating results of the period, offset by investments in net working capital and income tax paid.

In 2014, net cash generated from operating activities was Ps. 3,109 million, primarily attributable to the operating results of the period and a positive effect in net working capital, partially mitigated by income tax paid.

Investing Activities

In the nine months ended September 30, 2017, net cash used in investing activities were Ps. 1,770 million, primarily attributable to Ps. 2,186 million in acquisition of property, plant and equipment, offset by cash received of Ps. 487 million related to the sale of towers and other equipment recorded during this period.

In 2016, net cash used in investing activities was Ps. 3,527 million and primarily consisted of Ps. 3,186 million in acquisitions of property, plant and equipment and Ps. 960 million in intangible assets in each case in connection with the Alestra Merger.

In 2015, net cash used in investing activities was Ps. 1,925 million and primarily consisted of Ps. 2,011 million in acquisitions of property, plant and equipment.

In 2014, net cash used in investing activities was Ps. 2,831 million and primarily consisted of Ps. 2,837 million in acquisitions of property, plant and equipment.

Financing Activities

In the nine months ended September 30, 2017, net cash used in financing activities were Ps. 1,395 million, primarily attributable to capital and interest payments on loans, partially offset by an increase in cash provided by loans.

In 2016, net cash used in financing activities was Ps. 1,675 million and primarily consisted of interest payments during the period, partially offset by an increase in debt.

In 2015, net cash used in financing activities was Ps. 1,565 million and primarily consisted of interest payments during the period and payments of debt.

In 2014, net cash provided by financing activities was Ps. 970 million and primarily consisted of an increase in debt related to the bonds issued during the year resulting in a positive cash flow of Ps. 1,888 million, partially offset by interest payments.

Capital Expenditures

For the nine months ended September 30, 2017 and 2016, we made capital expenditures of Ps. 2,186 million (U.S.\$116 million) and Ps. 2,353 million (U.S.\$ 129 million), respectively. Approximately 85% of our capital expenditures in the nine months ended September 30, 2017 was invested in the enterprise and government segments, including network and IT, whereas the remaining 15% was invested in the mass market segment.

For the years ended December 31, 2016, 2015 and 2014 we made capital expenditures of Ps. 3,186 million (U.S.\$171 million), Ps. 2,011 million (U.S.\$127 million) and Ps. 2,837 million (U.S.\$213 million), respectively. We estimate that our capital expenditures for 2017 will be approximately U.S.\$172 million.

Existing Indebtedness

As of September 30, 2017, we had gross indebtedness of Ps. 19,466 million (U.S.\$1,070 million), not including accrued interest payable and debt issuance costs, with an average maturity of 2.4 years. As of September 30, 2017, we had total indebtedness of Ps. 19,491 million (U.S.\$1,071 million), including accrued interest payable and debt issuance costs, of which Ps. 12,564 million (U.S.\$690 million) was denominated in U.S. dollars and Ps. 6,927 million (U.S.\$381 million) was denominated in pesos. Approximately 96% of our debt accrues interest at floating rates. The primary use of our debt has been to fund capital expenditures and other corporate needs.

As of September 30, 2017, Ps. 874 million (U.S.\$48 million) of our total indebtedness constituted short-term debt, including interest payable of Ps. 139 million (U.S.\$8 million), and Ps. 18,617 million (U.S.\$1,023 million) constituted long-term debt, including debt issuance costs of Ps. 114 million (U.S.\$6 million).

The following table sets forth our debt maturity payments as of September 30, 2017:

	2017	2018	2019	2020	2021	2022	2023	2024+	Total
Debt payments ⁽¹⁾	6	40	544	277	89	41	57	15	1,070

(1) Does not include accrued interest payable of U.S.\$8 million.

As of September 30, 2017, we were not in default with respect to any principal and interest payments and we were in compliance with the covenants under all our indebtedness.

Material Indebtedness

The following description summarizes material terms of certain of our credit arrangements, including a description of certain covenants contained in such credit arrangements. We are currently in compliance with these covenants. The following description is only a summary and does not purport to describe all of the terms of the credit arrangements that may be relevant.

Axtel Syndicated Loan

On January 15, 2016, Axtel entered into a syndicated unsecured loan agreement with certain financial institutions, and Banco Nacional de México, S.A., as administrative agent, as amended and restated from time to time, in the amount of U.S.\$835 million (the “Axtel Syndicated Loan”). This loan is composed of three tranches: (i) Tranche “A” in pesos equivalent to U.S.\$250 million; (ii) Tranche “B” in dollars U.S.\$500 million; and (iii) Tranche “B” in pesos equivalent to U.S.\$85 million.

Tranche “A” of the Axtel Syndicated Loan has a final maturity date of January 15, 2019; and both Tranche “B” in dollars and pesos have a five-year quarterly amortization schedule beginning in January 15, 2019 with a final maturity date of January 15, 2021. The applicable margin for all tranches increases by 0.25% each year for the first three years: (i) Tranche “A” a variable interest rate with a margin on the TIIE rate between 2.00% and 2.50%; (ii) Tranche “B” in dollars a variable interest rate with a margin on the LIBOR rate between 2.50% and 3.00%; and (iii) Tranche “B” in pesos a variable interest rate with a margin on the TIIE rate between 2.25% and 2.75%. The outstanding principal amount of the Axtel Syndicated Loan was U.S.\$844 million as of September 30, 2017.

This facility contains maintenance covenants that require us to comply with certain financial ratios. Failure to comply with such covenants, if not cured within a specified time period, can lead to the loan then outstanding becoming immediately due and payable. These maintenance covenants include: (i) a leverage ratio that requires that the ratio at any date of (a) consolidated net debt to (b) consolidated EBITDA (as defined therein) for the four consecutive fiscal quarters most recently ended on or prior to such date not exceed 3.5 to 1.0; and (ii) an interest coverage ratio which requires that the ratio of (a) consolidated EBITDA for the four consecutive fiscal quarters most recently ended on or prior to such date to (b) consolidated net interest expense for such period not be less than 3.0 to 1.0, as of the last day of each fiscal quarter.

The leverage ratio requires for the four consecutive fiscal quarters most recently at December 31, 2016 and up until December 31, 2017, not to exceed 4.25 to 1.00; from March 31, 2018 to June 30, 2018 not to exceed 3.75 to 1.00; and from September 30, 2018 to the final maturity date not to exceed 3.50 to 1.00. The applicable margin will include an incremental margin subject to the leverage ratio level.

The Axtel Syndicated Loan also contains certain customary events of default. The Axtel Syndicated Loan is guaranteed, in the form of a corporate guarantee, by the following subsidiaries: (i) Avantel, S. de R.L. de C.V.; (ii) Alestra Comunicación, S. de R.L. de C.V.; (iii) Servicios Axtel, S.A. de C.V.; and (v) Servicios Alestra S.A. de C.V.

Axtel-Bancomext Credit Agreement

On December 19, 2013, Alestra, now Axtel, entered into a credit agreement with Banco Nacional de Comercio Exterior, S.N.C., as lender (the “Axtel-Bancomext Credit Agreement”), in an aggregate principal amount of U.S.\$190 million. The credit facility has a maturity date of December 17, 2024. The applicable interest rate is three-month LIBOR plus 3.00%. We have the option to prepay the loan at any time without penalty by giving a 30 business days, prior notice to the lender. The outstanding principal amount under this bilateral loan as of September 30, 2017 was U.S.\$182 million.

Tabular Disclosure of Contractual Obligations

The following table is a summary of our contractual obligations as of September 30, 2017:

	Less than 1 year	1 -3 years	3- 5 years	More than 5 years	Total
		<i>(in millions of Pesos)</i>			
Short-term debt obligations	300	-	-	-	-
Long-term debt obligations	173	13,556	3,428	1,521	18,678
Finance lease obligations.....	261	226	0	-	-
Total ⁽¹⁾	<u>734</u>	<u>13,782</u>	<u>3,428</u>	<u>1,521</u>	<u>19,466</u>

(1) Does not include accrued interest payable of Ps. 139 million.

In the ordinary course of business, we also enter into long-term supply arrangements for raw materials and energy, which are not reflected in the above table. In addition, our obligations under derivative financial instruments are described below.

Off Balance Sheet Arrangements

As of September 30, 2017, we did not have any off balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risks, which are adverse changes in the value of financial instruments caused by interest rate changes, foreign currency fluctuations and inflation rate changes. In addition to the following descriptions of certain of these risks, see Note 5 to the Annual Audited Financial Statements and Note 10 to the Unaudited Condensed Consolidated Interim Financial Statements.

Derivative Financial Instruments

Derivative financial instruments are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedging criteria, they are classified as Fair Value Through Profit or Loss (“FVTPL”) for accounting purposes.

In March 2017, we entered into a derivative financial instrument recognized at FVTPL with ING Financial Markets to hedge debt denominated in U.S. dollars. The original term of these contracts is one year and can be extended by mutual agreement between the parties.

<i>(in millions of Pesos)</i>			
<u>Counterparty</u>	<u>Notional amount</u>	<u>Contract start year</u>	<u>Fair value as of September 30, 2017</u>
ING Financial Markets	\$714.4	2017	\$26.1

Exchange Rate Risk

We are exposed to the exchange risk arising from exposure of our currency, mainly with respect to the U.S. dollar. Our indebtedness and part of our accounts payable are entered into in U.S. dollars, which means that we are exposed to the risk of variation in the exchange rate of the peso to the dollar.

The interest expense on our dollar denominated debt, stated in pesos in our consolidated financial statements, varies with fluctuations in the exchange rate.

Based on exposure to the exchange rate at September 30, 2017, a hypothetical 10% increase/decrease in the Peso/U.S. Dollar exchange rate and maintaining all of the other variables constant, would result in an effect on the statement of income of \$(1,387.9) million and \$1,261.8 million, respectively.

The following is an analysis of our exposure to the exchange risk at September 30, 2017. The accompanying table reflects the book value of our financial assets and liabilities denominated in a foreign currency:

<i>(in millions of USD)</i>	As of September 30, 2017
Financial assets	44.9
Financial liabilities	<u>(807.6)</u>
Net liability position	<u><u>(762.7)</u></u>

Equity Price Risk

During July, August and September 2009, we 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, we 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. During the months of October, November and December of 2014, we acquired additional Zero Strike Calls for 5,639,336 CPOs of Axtel, with the same conditions. During 2015 additional Zero Strike Calls for 7,435,646 CPOs were acquired. 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 Ps.0.000001 per option. This instrument is redeemable only in cash and can be redeemed by us 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:

Counterparty	Notional amount	Terms	Fair value Asset (in millions of Pesos)		
			September 30, 2017	2016	2015
Bank of America Merrill Lynch	30,384,700 CPOs	Receives in cash the market value of the notional amount	131	107	264
Corporativo GBM, S.A.B. de C.V.	13,074,982 CPOs	Receives in cash the market value of the notional amount	56	46	114
			<u>188</u>	<u>153</u>	<u>378</u>

For the nine months ended September 30, 2017 and the years ended December 31, 2016 and 2015 the changes in fair value of the Zero Strike Calls resulted in an unrealized (loss) gain of Ps. (35) million, Ps. (225) million and Ps. 221 million, respectively, recognized in comprehensive financing income, in the Changes in fair value of financial instruments line item, net.

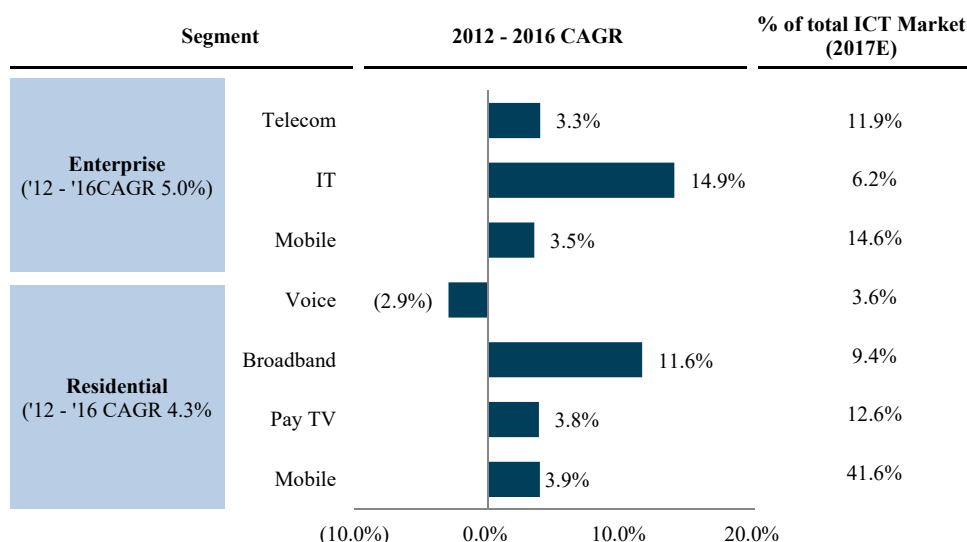
INDUSTRY

Industry Overview

The Telecom, IT and Entertainment Market has been in a process of redefinition of the market and competition due to the megatrends, such as IoT, Big Data, Artificial Intelligence, Cloud, Mobility and Social Networks. These trends provoke in the business market a greater convergence of telecom and IT services, collaboration, security, unification of fixed and mobile networks, and unification of data centers. For the residential market, the evolution of the market tends to increase the bandwidth mainly by video services, OTT, social networks and mobility.

Trends Across Key Business Segments

According to industry analysts, including Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research, the Mexican telecommunications market is expected to generate Ps. 476 billion (U.S.\$ 25.2 billion) in 2017. Historic growth for Mobile, pay TV, broadband, Telecom and IT services are shown in the following chart:



Source: Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research

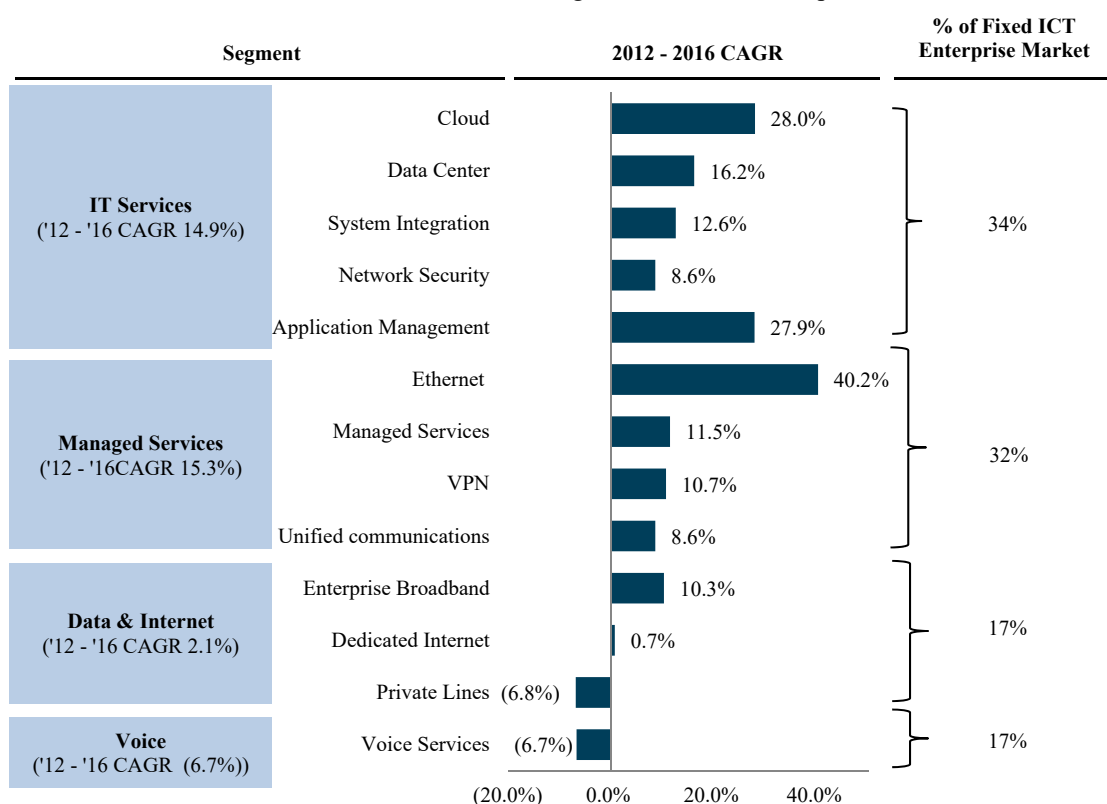
In 2015 and 2016, we saw positive performance in the enterprise segment (a critical segment for the Company). This market is expected to generate Ps. 86.4 billion (U.S.\$ 4.6 billion) in 2017 and grow at a 6.7% annual growth rate over the next 5 years.

In the telecom enterprise market, a subset of services including long distance, private lines and frame relay are in their exit stage, and declined around 5% in 2016, which had a negative impact on the total market. However, value-added services such as dedicated internet, Ethernet, managed services and collaboration are relevant to today's market and have an accelerated growth rate of around 6.8%. The telecom enterprise market reached a total of Ps. 56 billion in 2016.

According to industry analysts, the enterprise information technology market reached a total of Ps. 26.4 billion in 2016, which represents a 13.1% growth as compared to 2015. The services with the highest growth in this market are cloud services with 26.1% growth, Data Center services with 15.2%, Security with 14.1%, as well as Application Management with 12.2% and Systems Integration with 10.1% growth. The annual expected growth rate for the next 5 years is 13.5%.

In the fixed market, positive performance is expected due to the stabilization of prices of fixed telephony and the increase of fixed broadband (BAF) lines. The market is expected to grow 4.9% in revenue. Analysts estimate a slower growth rate for mobile services of 3.4% due to the continued reduction in prices as a result of the increase in users and traffic.

In general, analysts predict a favorable outlook based on the introduction of greater infrastructure resources, the benefits of a downward price trend for Mexican telecoms focused on the mass market, the reconfiguration of the mobile competitive ecosystem, as well as increased consumption and supply of services. The following chart shows the historic CAGR from 2012 to 2016 of the ICT segments where Axtel is present:



Source: Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research

In the mass market segment, FTTx, CATV and satellite television are presenting a higher rate of growth, reaching a 8.3% increase in revenues as compared to the previous year, thus becoming an engine of revenue growth in this sector. This dynamic is attributable to the reduction in services prices and the introduction of new packages, accelerating the adoption of double-play and triple-play packages. Analysis predict a growth rate of 2.8% in 2017 alone, due to continued price reduction and stake growth in the customer base.

Our Market Orientation

We are a company focused on the Mexican ICT market with an emphasis on the enterprise and government segment. Approximately 80% of our revenues come from these sectors. With a high focus on convergent managed services of Telecom and Data Center, we have positioned ourselves as a brand that has the experience, infrastructure and leading services to energize the ICT industry, and contribute to the development of a new generation of more innovative, efficient and competitive companies. This is backed by our resilient partnerships with leading technology partners and service that strives for excellence.

We have the necessary experience and reputation of providing highest standards of service required by corporations and companies in the most significant sectors of the Mexican economy. We currently have ongoing contracts with most of the international and domestic financial groups in the country, which emphasizes our

important positioning within the financial sector, as in many others. A majority of our revenues comes from the high-end enterprise segment (multinational, corporate, financial, and government sectors).

We have a comprehensive Data Center strategy, designed to the highest standards, that represents one of the best and most complete alternative in the market, by positioning ourselves among the most advanced and reliable service providers in Mexico and Latin America. We offer solutions that include six world-class Data Centers, with a capacity of approximately 7,210 square meters, which provide Mexican companies with one of the best technologies and market accessibility. The Data Centers are supported by the best practices in security, power, communication and cooling systems, which give customers the certainty that their operations will not be interrupted.

As part of our strategy for residential market, we have triple-play offers that include high speed internet, telephony and television. The offers are aligned to the entertainment and security needs of the customers. In addition, our strategy has a distinct focus in helping small businesses professionalize their communication platforms and help information technologies systems become more productive.

The following table provides a breakdown of the market penetration of telecom and IT services in the Mexican enterprise and government segments as of September 30, 2017. In addition, our market share for telecom services in the Mexican mass market is 3%.

Enterprise market penetration by service

Service	Market Penetration (%)
Telecom	18%
Managed Networks	13%
Data and Internet	25%
Voice	18%
Information Technologies	7%
Data Centers and Cloud Services	11%
Security	11%
System Integration	3%
Application Management	9%

** Company estimates with information from third parties including industry analysts, such as Gartner, Frost&Sullivan, Pyramid Research, Kable, IDC and 451 Research.*

The following table summarizes estimated market size for each segment, and Axtel's estimated market share penetration and dedicated sales force for each subsegment:

	Corporate and Wholesale Customers	Government Customers	SME Customers
# of Potential Customers	1,750	+500	60,000
Market Value (Ps in millions)	41	11	30
Market Share	20%	18%	10%
Axtel's Penetration	8/10	NA	3/10
Axtel's Sales Force (Number of employees):			
Directors	4	1	1
Managers	16	6	9
Coordinators	13	1	30
Executives	130	23	242

** Company estimates with information from INEGI.*

Competition

We are a leading provider of value-added managed and IT Services to enterprise and government customers. In the residential segment, we provide broadband internet, voice and pay-TV services. Our main competitors in the enterprise and government segments are: Telmex (Triara), Grupo Televisa (Bestel), Grupo Salinas (Enlace TP), and KIO Networks as well as other international players such as Amazon Web Services, Rackspace, Inc. and IBM. In the residential segment we find Telmex, Grupo Televisa (Cablevisión, TVI, Cablemás, Telecable and Cablecom), Grupo Salinas (TotalPlay), Megacable and Maxcom.

The following table summarizes our positioning within the Mexican ICT market:

	Market Share Enterprise (%)	Enterprise			Mass Market		Infrastructure
		Telecom	IT	Mobile	Telecom	Pay-TV	
Telecom							
Telmex	63%	●	●	●	●	●	• National network of 197,000 km
Televisa / Bestel	10%	◐	○	○	◐	●	• 5,500 km • Additional 19,500 km from GTAC
Megacable	5%	◐	○	○	◐	●	• 21,000 km Long Haul
Axtel	18%	●	●	○	◐	◐	• Enterprise oriented • Focused on managed networks & IT10
IT Services							
KIO	N/A	◐	●	○	○	○	• Data Center space 21,400 sqm
IBM	N/A	○	●	○	○	○	• Space N.A.
Telmex / Triara	7%	○	●	○	○	○	• 18,400 sqm of Data Center
Axtel	7%	●	●	○	○	○	• 7,210 sqm of space • Queretaro 2 will add 3,000 sqm

*Harvey balls depict the presence within the each segment from weak (◐) to strong (●).

Telmex. Telmex, our main competitor, was formerly the state-owned telecommunications monopoly; today Telmex is a subsidiary of America Movil. It has the largest nationwide infrastructure covering the full spectrum of the market (enterprise, government, residential, telecom, IT, OTT), additionally America Movil participates in the mobile market business through Telcel. Its revenues come mainly from the residential market. In 2015, Telmex was declared a preponderant economic agent under the new telecommunications reform, because of its market power and focus on providing local telephony and internet services.

Televisa Telecom. Televisa, the largest Spanish-speaking media company in the world, is the majority owner of Cablevisión, TVI, Cablemás, Telecable and Cablecom. By leveraging its position in the media sector, as well as its strong capitalization, Televisa has entered the telecommunications industry and has quickly become the second most relevant operator in the consumer market. Televisa is also the majority owner of SKY (58.7%), DTH (Direct

to Home) operator and leader in pay television services in the country. Televisa offers CATV services, broadband internet and telephony services through double-play and triple-play packages. In November 2014, Televisa rebranded its cable service as: “Izzi Telecom”. Televisa also currently offers its “Blim” service, an OTT platform that competes with Claro Video and Netflix, and provides mostly domestic content. In January 2017, the Federal Communications Commission (FCC) of the United States authorized Televisa to acquire 40% of Univisión.

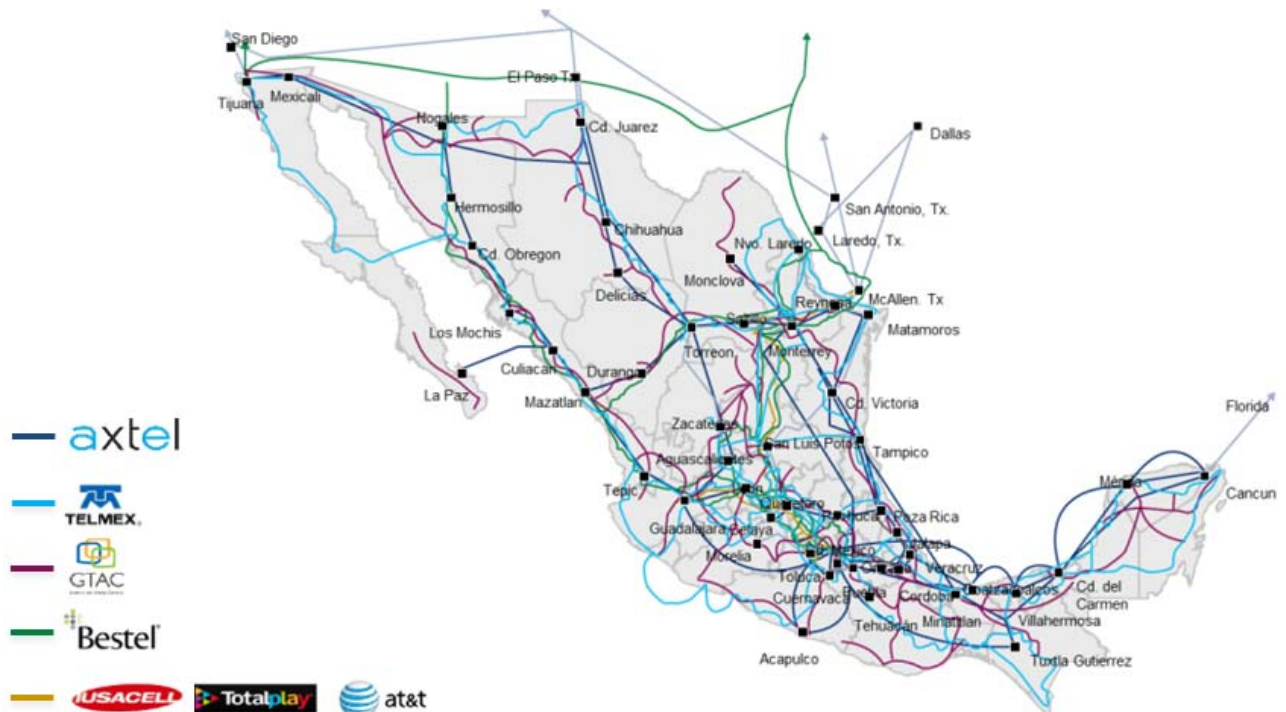
Bestel. Bestel has more than 15 years of experience and is part of Grupo Televisa since 2007. The company provides voice, network, internet, information technology, managed services for the business and government segments.

Megacable. Megacable provides internet services, pay television and fixed telephony to the residential and business segments. In addition, it owns Metrocarrier, MCM, Ho1a and PCTV, providing value-added services that include managed services, equipment and content. In 2016, Megacable entered into agreement with Maxcom to acquire its voice, data and video business for mass market customers in Querétaro, Tehuacán and Puebla.

Maxcom. Maxcom began operations in 1999 and is focused on residential and small business customers in the cities of Puebla, Mexico, Querétaro, San Luis Potosí and Tehuacán. Maxcom provides local and long distance voice services, data, public telephony, IP-based television. It also provides mobile services through its MVNE/O business leasing infrastructure from Telcel.

Grupo Salinas. In January 2015, AT&T completed the acquisition of Iusacell, the third mobile operator in Mexico, from Grupo Salinas for U.S. \$2.5 billion. As a result of the divestiture, Grupo Salinas will continue to offer fixed telephony, pay TV and broadband internet services using FTTx technology under the Totalplay brand for the residential segment and Enlace TP for the enterprise segment.

The following graph depicts our fiber network and that of our main competitors:



Applicable Law in the Telecommunications Industry

In June 2013, substantial reforms were enacted in the Mexican Constitution to overhaul the telecommunications industry's regulatory framework. The telecommunications industry in Mexico is primarily regulated by the LFTR and the 2013 Constitutional Reform endowed the IFT with far-reaching authority over the telecommunications and broadcast industries.

Under the LFTR, the IFT is responsible for regulating the Mexican telecommunications industry on policy, anti-trust, administrative and operating matters. The IFT is an autonomous and independent public entity tasked with regulating and promoting competition and overseeing the efficient development of the telecommunications and broadcast industries in Mexico. The IFT is responsible for, among other things, the creation of policy and supervision of the use, development and exploitation of the radio spectrum, orbital resources, satellite services, public telecommunications networks, as well as the provision of broadcasting and telecommunication services, and regulating access to active and passive infrastructure and other essential resources.

The IFT is the highest authority in telecommunications and has the authority to grant and revoke concessions and permits, including the allocation of spectrum frequencies, granting, transferring, renewing or revoking concessions, setting interconnection rates and applying penalties for infringements. The IFT makes the final decision regarding the governance of these issues, and once a final decision is made, its resolutions can only be revoked through injunctive action (*amparo indirecto*), without the possibility of a provisional suspension while the injunction is resolved.

Broadly and by virtue of changes in the legal framework, the authority previously granted to the Cofetel is now granted (and expanded) to the IFT.

Concessions. As part of the 2013 Constitutional Reform, the requirement of a Public Telecommunication Network concession (an "RPT"), as a general framework for providing any telecommunications services was removed. In its stead, a "single concession" modality was implemented. The LFTR oversees the single concession recipient entity, which has advantages such as:

- conferring the right to provide all kinds of public telecommunications or broadcast services, provided that the concessionaire is in compliance with the obligations and fee payments established by the IFT. In essence, if the use of the radio spectrum or orbital resources is required, it shall be obtained in accordance with the LFTR and granted by the IFT under the relevant concession;
- allowing the consolidation of all concession titles under the RPT, thereby simplifying administrative procedures for the satisfaction of obligations;
- requiring the registration of, among others, the concession titles granted, the authorizations granted and the associated services permitted. Before starting operations on any public telecommunication services, the relevant company must request the registration of the corresponding concession title in the Public Registry of Concessions;
- an extended term of 30 years of validity per concession title, with the option to be extended by equal terms. Concessions for the use of the radio spectrum or orbital resources are granted for a term of 20 years, with the option to be extended for equal terms;

Under applicable law, there is a possibility to encumber assets that form part of a public telecommunications network that has been installed and is operated, but the ability to foreclose on the relevant security interest is limited, as an approval from the IFT is required for a third party to acquire rights with respect to the relevant public telecommunications network. See "Risk Factors—Under Mexican law, our concessions could be expropriated or suspended".

In addition to concessions, pursuant to Article 170 of the LFTR, the IFT may also grant permits and authorizations for, among others:

- establishing and operating a telecommunication services marketer;
- installing, operating or exploiting ground stations for the transmission of satellite signals; and

- installing and operating cross-border telecommunications and satellite systems.

Furthermore, the authorized marketers have the authority to:

- access wholesale services offered by concessionaries; and
- commercialize their own services or provide telecommunications services as reseller.

Legally, there is no statutory maximum term mandated for these authorizations unless specifically stated in the relevant authorization.

Transfer. Concessions are transferable three years after the concession is granted. The IFT must approve the transfer of the concession title if the assignee agrees to comply with the terms of the concession and such a transfer does not violate the foreign ownership requirements of the LFTR and the Mexican Foreign Investment Law.

Termination. A concession may be terminated pursuant to the LFTR upon the following events:

- Expiration of its term;
- Resignation by the concessionaire;
- Dissolution or bankruptcy of the concessionaire; or
- Revocation by any of the following events:
 - I. Failure to exercise the rights of the concession within the established time period;
 - II. Perform actions in contravention of applicable law or that affect the rights of other concessionaires;
 - III. Failure to comply with the obligations or conditions established in the concession title;
 - IV. Refusal to interconnect other concessionaires, partially or totally disrupting or hindering interconnection traffic, without justifiable cause;
 - V. Failure to comply with the obligation to retransmit television signals of restricted networks, free of charge and on a non-discriminatory basis;
 - VI. Refusing to retransmit broadcast content;
 - VII. Change in the nationality of the concessionaire or initiating action to request of protection from a foreign government;
 - VIII. Assignment, lease, or transfer of the concession or authorization, the rights conferred by them, or the assets used for the exploitation of the concession or authorization in contravention of applicable law;
 - IX. Failure to pay the Federal Treasury any amounts due as fees owed to the Federal Government;
 - X. Failure to comply with the basic obligations that were offered for the granting of the concession;
 - XI. Not providing the guarantees or assurances established by the IFT;
 - XII. Change the location of the broadcast station without prior authorization from IFT;
 - XIII. Change the assigned bandwidth frequencies without authorization from IFT;
 - XIV. Suspension, in whole or part, of telecommunication services in more than fifty percent of the covered area, without justification and without authorization from the IFT for more than 24 hours or up to three calendar days in the case of broadcasting;
 - XV. Failure to comply with resolutions issued by the IFT in cases of behaviors related to monopolistic practices;
 - XVI. Any case of dominant or preponderant economic agencies that benefits directly or indirectly from the free retransmission rule of television signals through other operators;
 - XVII. Failure to comply with resolutions or determinations of IFT regarding the accounting, functional or structural separation;

- XVIII. Failure to comply with the resolutions or determinations of IFT regarding the local network unbundling, divestiture of assets, rights or necessary equipment, or asymmetric regulation;
- XIX. Use of the concession granted by IFT, for purposes other than those requested, or profit from actions prohibited for the relevant type of concession; or
- XX. Any other provision set forth under applicable law.

The IFT shall immediately revoke the concessions and authorization for violations of sections I, III, IV, VII, VIII, X, XII, XIII, XVI, and XX above. In other cases, IFT may revoke the concession or authorization if it had previously sanctioned the respective holder at least twice arising from any of the grounds provided in these sections, except in the case provided in section IX.

Rescue. In addition to the foregoing, concessions may also be terminated by rescue (*rescate*). The Mexican government has the statutory right to permanently terminate any telecommunications concession and claim any related assets for reasons of public interest. Under Mexican law, the Mexican government is obligated to compensate the owner of such assets. The amount of the compensation is to be determined by appraisers. If the party affected by the rescue disagrees with the appraisal amount, such party may initiate judicial action against the government. In such a case, the relevant judicial authority will determine the appropriate amount of compensation to be paid. We are not aware of any instance in which the Mexican Government has exercised its rescue rights in connection with a telecommunications company. See “Risk Factors—Under Mexican law, our concessions could be expropriated or suspended”. There are uncertainties with respect to the timing and amount paid in compensation.

Temporary seizure. The Mexican Government, may also temporarily seize all assets related to a telecommunications concession or permit in the event of a natural disaster, war, significant public disturbance, threats to internal peace or for economic reasons or for other reasons related to national security. If the Mexican Government temporarily seizes such assets, except in the event of war, it must indemnify the concession holder for all losses and damages, including lost accrued revenues. We are not aware of any instance in which the Mexican Government has exercised its temporary seizure attributions in connection with a fixed or mobile telecommunications services company. See “Risk Factors—Under Mexican law, our concessions could be expropriated or suspended”.

Rates for telecommunications services. Under the LFTR, rates for telecommunications services (including fixed, local and mobile services) are now freely determined by the providers of such services, in terms that allow the provision of services in satisfactory conditions of quality, competitiveness, security, retention and non-discrimination.

In accordance with the LFTR, a company must register through the IFT’s Registration of Electronic Systems and Tariffs, prior to providing services.

In case of disagreement over interconnection tariffs or conditions, the IFT has the authority to determine rates, quality and service requirements. Additionally, asymmetric measures can be applied to those companies declared as preponderant economic agents (*agentes económicos preponderantes*) or which have substantial market power in accordance with the LFTR and other applicable regulations. All rates for telecommunications services (other than value-added services) must be registered before the IFT prior to becoming effective.

In March 2014, the IFT declared that America Movil (Telcel) is a preponderant economic agent, imposing an asymmetric regulation upon them, including measures such as zero mobile termination rates for traffic terminating on their networks, requiring Telcel to allow other service providers to use its infrastructure.

Tax Laws. Congress approved an addition to the special tax on production and services, which came into force on January 1, 2010, which increased the tax rate applicable to telecommunications services to 3%, with the exception of interconnection services of public telecommunications networks, internet services, public telephone services, and reformed rural telephony services.

As of the date of this offering memorandum, we have substantially complied with our obligations under the legislation applicable to the telecommunications industry.

Reforms in Mexico's Telecommunications Sector

Besides the reforms referred to in the prior section the reforms to the Mexican Constitution introduced in 2013 had as purpose (i) to guarantee the right to access information by establishing that telecommunications and broadcasting services are to be considered as a public service; and (ii) to promote a legal framework capable of stimulating competition in both sectors.

The LFTR empowers the IFT to undertake any and all duties and responsibilities set forth in the Federal Law of Economic Competition (*Ley Federal de Competencia Económica*) in respect to the telecommunications and broadcasting sectors, including, among others, (i) analysis of concentrations; (ii) opinions in bidding processes; (iii) investigation of anticompetitive or monopolistic practices; and (iv) application of sanctions.

Determination of the Existence of Preponderant Economic Agents. The IFT may declare, at any time, the existence of a “preponderant economic agent” in the telecommunications and broadcasting sectors. The LFTR considers a preponderant economic agent to be any person who, in accordance with the information available for the IFT, directly or indirectly, owns more than fifty percent of the subscribers, users, audience, traffic on their networks, or capacity used on such networks, measured on a national basis, in the provision of broadcasting or telecommunications services.

Asymmetric Regulation. The IFT may impose “asymmetric regulation.” Any economic agents that are declared by the IFT to be preponderant economic agents shall be subject to asymmetrical regulation as determined by the IFT, which could be applied in respect to rates, information, quality of services, exclusivity, divestiture of assets, among others. The IFT must verify, on a quarterly basis, compliance with any asymmetric regulation that was issued, and apply any appropriate sanctions. In such process, the IFT may be aided by an external auditor. If the IFT determines that the conditions of effective competition have been restored in a market where an entity was declared as a preponderant economic agent, then the provisions of the asymmetric regulation cease to apply. Similarly, if the IFT determines that an entity no longer accounts for more than fifty percent of the subscribers, users, audience, and traffic on their networks, or capacity used on such networks, considering the national participation of such entity, such entity shall be deemed to no longer be a preponderant economic agent. The LFTR also provides that any entity declared a preponderant economic agent may submit to the IFT a plan with actions it proposes to take in order to cease to be considered a preponderant economic agent.

The LFTR sets forth, among others, the following asymmetric regulations, some of which are applicable to Telmex and Telcel, the current preponderant economic agents in the telecommunications sector:

- to provide annually, and for the approval of the IFT, a public offer in connection with interconnection matters, including a proposed form of agreement to be entered with other operators, disaggregation of its network and share of infrastructure matters, roaming and resale of wholesale services;
- to submit for approval of the IFT, the rates offered regarding services to the public and intermediary services to other concessionaries;
- to provide annual information regarding its wired, wireless and broadcast network, including its development and modernization plans, as well as its infrastructure;
- to allow other operators, disaggregated access to its network and infrastructure on a basis of non-discriminatory rates, and which do not exceed those rated authorized by the IFT;
- to allow other operators to resell its services;
- to not discriminate between the interconnection traffic of its own network and the interconnection traffic of other concessionaries;
- provide its services observing the minimal quality standards set forth by the IFT;
- to not establish obligations, penalty fees or restrictions of any kind that may result in the inhibition of the consumers;
- provide to the IFT detailed accounting information, separated by each service offered;
- offer and provide services to the other concessionaries, in the same terms, conditions and quality as offered to itself; and
- abstain from establishing technical or any kind of barriers that may block the development of infrastructure of other concessionaries.

Determination of the Existence of Dominant Agents. The IFT may declare, at any time, the existence of a “agents with substantial economic power” in the telecommunications and broadcasting sectors and, similarly to the asymmetric regulations which may be imposed on preponderant economic agents in order to avoid any distortion to the process of free competition, the IFT has the authority to impose specific obligations in order to limit agents with substantial economic power, with respect to information, quality of services, rates, commercial offers and billing.

Consolidation without Notice. Consolidation between economic agents which are holders of concessions may occur without the need to notify the IFT provided that, among other requirements, there is a preponderant economic agent in the market where such transaction takes place and such preponderant economic agent is not one of the parties to the consolidation.

Interconnection Rates. In August 16, 2017, the Second Chamber of the Mexican Supreme Court of Justice, resolved that the prohibition imposed on Telcel to charge other carriers for termination services on its network, commonly referred to as the “zero rate”, established in LFTR in August, 2014, is unconstitutional. The Mexican Supreme Court resolved that, pursuant to the Mexican Constitution, the IFT, and not the Mexican Congress, is the competent authority to determine the interconnection rate that other carriers shall pay Telcel, as a preponderant carrier, for the termination of traffic on its network in 2018. However, the Mexican Supreme Court resolved that other carriers shall not have to pay fees retroactively to August 2014. The other service providers (excluding the preponderant economic agent) shall freely negotiate among themselves the applicable rates and, if no agreement is reached, the tariffs shall be determined by the IFT in accordance with the costing methodology determined by the IFT. When there is no longer a service provider considered as a preponderant economic agent, the service providers shall maintain mandatory reciprocal compensation agreements, by means of which payments for termination of traffic shall be avoided. See “Risk Factors—We depend on Telmex for interconnection and with the Mexican Supreme Court’s resolution of August 2017, America Movil is allowed to charge interconnection fees starting in 2018. If such fees are significantly higher than those currently applicable, such development could have a material adverse effect on our business and results of operations”.

Must Carry and Must Offer. The LFTR recognizes the “must carry” and “must offer” rules under which the television broadcasters must offer their signals free of any charge, to the pay television service providers, and, the pay television service providers must transmit such signal, in each case with the limitation that pay television service providers shall not charge their subscribers for these benefits. These obligations also apply to DTH service providers.

Competitive Neutrality. Public entities are permitted to obtain titles or concessions for commercial purposes. Therefore, and in order to protect the dynamics of competition, the LFTR determines that the state owned service providers shall act as private enterprises and shall not create distortions to the market because of the fact that they are public entities.

Sanctions. The IFT is authorized to impose sanctions on the entities or individuals involved in practices that violate the LFCE in the telecommunications and broadcasting sectors. In this regard, the IFT may apply, among others, the following sanctions: (i) fines on the sanctioned operators of up to 10% of their accrued income and, in case such violation is repeated, for up to twice of the amount set forth by the original corresponding sanction; (ii) fines on individuals who participated in monopolistic practices; and (iii) prohibitions on individuals who participated in monopolistic practices, restraining them from serving as directors or business managers.

Other. In addition to the above, the LFTR effects the following important changes:

- elimination of charges for national long distance calls, effective as of January 1, 2015;
- opening of the mobile telephony market to new service providers, through the Mobile Virtual Network Operator figure;
- opening of the industry to foreign investment of up to 100% in telecommunications and 49% in broadcasting activities;
- access to advertising in an equitable and non-discriminatory basis;
- introduction of certain rights to the users through the participation of the Federal Consumers Agency (*Procuraduria Federal del Consumidor*) as authority;
- confers rights to disabled users to access telecommunications services;
- confers rights to audiences;

- introduction of rules to cooperate with the authorities in the field of justice; and the
- introduction of the National Single Emergency Number 9-1-1

As a means to address the telecommunications reform's objectives of providing near-universal access to telecommunication services, the Mexican government conceived two infrastructure projects:

Red Compartida Project. This project is intended to enable access to the most advanced 4G-LTE technologies to at least 92.2% of the country, ensuring these services in areas where traditional operators either presently do not reach, or where providing to these areas, is not profitable. Through a Public-Private Partnership ("PPP"), the Mexican government provides the radio spectrum and the use of the developed backbone network by the Federal Electricity Commission (the "CFE") and a private entity will be responsible for the design, installation, operation and upkeep of this network to facilitate the provision of current and future telecommunication services

Red Troncal Project. On July 17, 2017, the SCT issued preliminary general guidelines for the *Red Troncal Project*. The general guidelines state that the *Red Troncal Project* will be a wholesale network, allowed to render services only to concessionaires and resellers. A PPP will be signed with a winning bidder, which will receive rights to use a pair of fiber optic strands owned by CFE and rights-of-way. This private entity will expand the network and be bound to, among others: (i) pay a fee to the Mexican government; (ii) provide all studies, analysis, properties, rights, infrastructure, equipment and other material and manpower that may be required for the project; (iii) pay maintenance fees for the rights of use of the illuminated optic strands; and (iv) obtain any permit or authorization to use the passive infrastructure and additional rights-of-way required to install, deploy and operate the project.

BUSINESS

Overview

We are a leading Mexican integrated information and communications technology services company that offers both Information and Communications Technology (ICT) solutions to the enterprise segment, which is comprised of corporate, mid to large-sized businesses, financial institutions and wholesale customers, and to government entities. In addition, we provide one of the fastest symmetric broadband services to micro and small businesses and high value residential customers.

Our portfolio of services to the enterprise and government segments includes advanced managed networks and Information Technology (IT) solutions such as hosting, data center and managed security, among others. For the mass market segment, we offer direct end-to-end symmetric fiber optic (FTTx) double and triple play services, which include high-speed internet, telephony and pay television services.

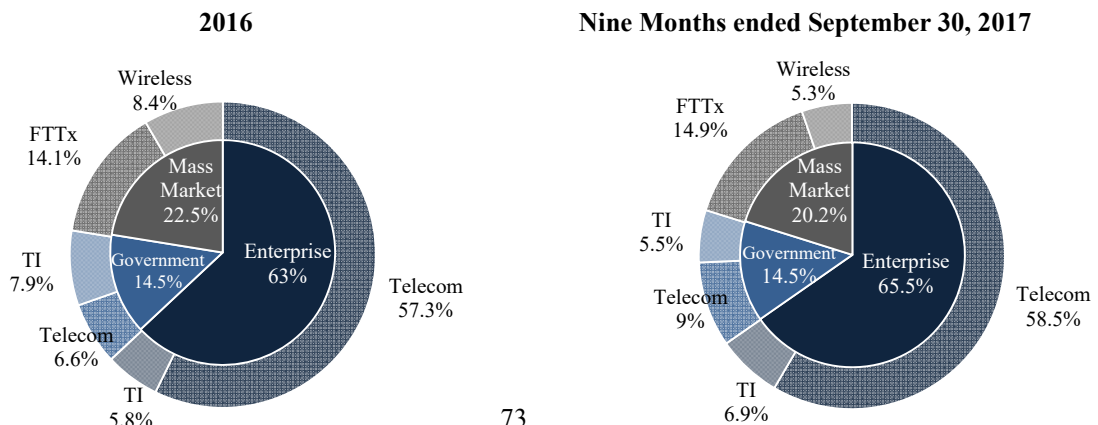
We believe that we have the second largest fiber network capacity in Mexico with an infrastructure of approximately 42,088 kilometers of fiber and approximately 7,210 square meters of Data Center space certified in accordance with the highest industry standards, which can provide coverage to over 90% of the Mexican market.

Our vision is to create value through innovation for our customers by becoming the best alternative in their digital experience. Our strategic goal is to become a leader in selected areas of IT and telecom solutions, with differentiated services tailored to corporate, government and medium-sized companies. Additionally, through GPON fiber technology, we serve micro and small businesses and high-value residential customers. Consistent with this goal, six business strategies are being implemented: (1) drive growth through differentiated IT service solutions for the enterprise segment; (2) leverage our existing expertise and network to expand our customer base to improve the profitability of the operation of our assets; (3) participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services; (4) compete based on quality of service and innovative product offerings; (5) re-orient the Company's culture towards innovation and (6) focus on high speed broadband in the mass market segment, while increasing our presence in micro and small businesses.

Our future growth is expected to come from value-added IT and telecom services as customers' needs continue to evolve into more sophisticated data communications systems and applications that require the convergence of telecommunications and information technology.

For the nine months ended September 30, 2017, we generated revenues of Ps. 11,227 million (U.S.\$593 million), operating income of Ps. 967 million (U.S.\$51 million), consolidated (loss) income of Ps. 985 million (U.S.\$52 million) and Adjusted EBITDA of Ps. 4,194 million (U.S.\$222 million). For the year ended December 31, 2016, we generated revenues of Ps. 13,937 million (U.S.\$ 747 million), an operating loss of Ps. 209 million (U.S.\$11 million), consolidated (loss) income of Ps. 3,599 million (U.S.\$193 million) and Adjusted EBITDA of Ps. 4,508 million (U.S.\$242 million). Our total assets as of September 30, 2017 were Ps. 30,277 million (U.S.\$1,664 million).

The following charts show our revenue distribution by segment and by service in 2016 and for the nine months ended September 30, 2017:



Competitive Strengths

- ***Leading independent provider of mission-critical solutions to the Mexican enterprise market.*** We are a stronger company as a result of the Alestra Merger, which made us the only player on the Mexican ICT market, with a strong emphasis on the enterprise and government segments, which include corporations, mid to large-sized businesses, financial institutions, government entities and wholesale. Our more than 18,000 clients within this segment made up approximately 80% of our total revenues for the nine months ended September 30, 2017. The rapidly changing needs of customers for information, connectivity, security and cloud services, among others, position us as a provider of essential services for the operations of our customers, with reliability and technical support being of paramount importance for customer satisfaction. With a central focus on enterprise services, we have positioned ourselves as a brand with the experience, infrastructure and leading services to energize the ICT industry and contribute to a new generation of more innovative, efficient and competitive companies in Mexico. This is backed by strong partnerships with leading technology providers and a service philosophy based on excellence. We have experience and recognition in the market, and aim to provide the highest standards of service required by corporations and companies in the most important sectors of the Mexican economy. We believe that our focus on the enterprise segment distinguishes us from other telecommunications companies in Mexico, and that our experience providing value-added ICT services to this segment provides us with a strong and competitive advantage.
- ***Sustainable competitive advantage: Second largest fiber network in Mexico.*** We have an extensive state-of-the-art network that consists of high-capacity fiber optic lines and wireless concessions. The structure of our fixed hybrid local network (wireless and wired), including 1,540 sites nationwide for fiber and microwave radio connectivity, allows us to penetrate new markets quickly and effectively, increasing our revenue base in a cost effective manner. We believe that we are able to provide coverage to over 90% of the Mexican market through our extensive network, comprised of approximately 42,088 km of fiber optics, including approximately 23,117 km of long distance network, approximately 12,771 km of metropolitan rings and 6,200 km of FTTx network. In addition, our new generation services are provided using world-class Data Centers built in accordance with international standards. We currently own six Data Centers with approximately 7,210 square meters of capacity nationwide, with Level 3 through Level 5 ICREA (International Computer Room Experts Association) certifications.
- ***Long-term contracts and high renewal rates that translate into cash flow visibility and sustainability.*** A significant portion of our business (approximately 94% of our revenues for the nine months ended September 30, 2017) consists of contracts with monthly recurring revenue. More than 50% of those contracts have remaining terms of two years or more. In addition, given the nature of our services and the high quality of our enterprise clients we have a loyal client relationship with stable recurring revenues. Our losses due to delinquent receivables have historically been very low, with a marginal delinquent receivables rate.
- ***Disciplined financial strategy committed to reinforcing Axtel's balance sheet position.*** Approximately 70% of our capital expenditures for both the nine months ended September 30, 2017 and for the year ended December 31, 2016 were directly related to specific customer sales and represent investments in customer access connections, customer premise equipment and network equipment that is directly related to specific customer requirements. As a result, these investments generally entail lower risk, with relatively more predictable returns. This gives us significant visibility with respect to the revenue stream derived from such portion of our capital expenditures.
- ***Unrivaled technical expertise combined with a disciplined investment management approach.*** Our senior management team has an average of 21 years of experience in the industry, providing expertise and continuity to the implementation of our business strategy. During their tenure, the management team has transformed our company from a long distance carrier into a sophisticated IT and telecommunications solutions provider with a broad portfolio of value-added services. Additionally, Alfa, which indirectly owns approximately 52.78% of our company, is a leading Latin American conglomerate with an established culture of operational excellence, development of human resources, prudent corporate governance and reliability as a partner. These values form the core of our businesses on which the management team intends to build. As of September 30, 2017, we had 7,136 employees, of whom 4,239 were employees in the

enterprise segment. A third of the employees of this segment had been with Axtel for more than 10 years; 90% had a graduate degree and 55% of which were engineers.

Business Strategy

Through our business strategy, we aim to strengthen our position as a leader in select areas of integrated information technology services, with differentiated services oriented to enterprise customers with more sophisticated information and communication technology requirements, such as multinational entities, corporations, financial institutions and government entities. In the mass market segment, we intend to provide the best internet-based service experience to micro and small businesses and residential customers in the “A”, “B” and “C+” socioeconomic segments located in ten of the largest metropolitan areas in Mexico. The key elements of our business strategy are the following:

Drive growth through convergent telecom and IT service solutions for the enterprise segment.

We intend to capitalize on continued growth in demand for information technology services from the Mexican enterprise segment. As a result of the Alestra Merger, we consolidated a robust service portfolio, which combines the enterprise telecommunications strengths and IT capabilities of both companies to offer integrated value-added information technology solutions, becoming an important market differentiator. We focus our efforts on strengthening our expertise in a number of services, including managed converged networks, cloud services, security, data centers, systems integration solutions and managed services, among others. These services are offered in an integrated manner along with traditional telecommunication services such as dedicated links, VPNs and Ethernet, among others. For small and medium enterprises, a series of standardized offers are commercialized, while the design of solutions for large corporate accounts is adapted to the needs of each customer.

We seek to increase IT revenues within our portfolio of services, focusing on serving enterprises with information technology solutions that make a notable difference for their businesses, whether in terms of productivity, efficiency, availability or security, as well as supporting their strategies in order to reduce costs and/or generate new revenues. In line with this strategy, in November 2014, Alestra acquired S&C, a Mexican company with a broad portfolio of information technology services. S&C, a key player in the creation of our IT Commercial area, provided resources and processes for the sale, design and delivery of IT services. In May 2015, Alestra acquired 51% of Estratel, and in July 2016, we acquired the remaining 49%, making it a wholly-owned subsidiary of our company. Estratel is a Mexican firm specializing in the integration of IT solutions for the enterprise and government sectors and collaborates closely with our company to enable both companies to take advantage of each company’s technical capabilities and expertise in certain brands and technologies. In August 2013, Alestra also acquired GTel, a company that provides integrated services for voice, data and video solutions for medium and large companies, contributing technological capabilities, services, procedures and people. We will continue to seek opportunities through acquisitions or partnerships to strengthen our portfolio of IT services. In addition, we intend to continue seeking and evaluating non-strategic asset divestment opportunities. To this end, we have engaged financial advisors to evaluate and, if necessary, execute such divestments, such as the telecommunication tower sale announced in July of 2017.

Create a unique customer experience providing value-added managed and IT Services from our advanced capabilities.

Our end-to-end infrastructure, Data Centers and a broad portfolio of services are commensurate with our customers’ telecommunication needs, including data, connectivity, managed networks services, local and long distance voice services, IT services (including cloud services), security, Data Centers, systems integration, contact centers and managed services, among others, allow us to combine multiple solutions, meeting complex requirements that our customers value. We believe that we are in well-positioned to take advantage of the growing demand for value-added managed and IT services as our customers’ needs continue to evolve towards more sophisticated converged solutions, which require superior technical capabilities, cutting-edge technology and reliability supported by our end-to-end managed network. Our comprehensive portfolio of services enables us to build strong, long-term relationships with our customers, reducing the number of customer disconnections and increasing our return on investments in our network infrastructure. Our strategy includes extensively developed Data Centers, which we believe are designed to the highest standards, representing one of the best and most complete alternatives in the market and among the most advanced and reliable in Mexico and Latin America.

Leverage our existing expertise and network to expand our customer base to improve profitability in the operation of our assets.

Our fiber optic network allows us to have infrastructure through which we can offer a greater number of IT and telecommunication services, thus meeting the growing demand of the market. To increase the efficiency of the deployment of our network, we have developed customized service offerings to attract new customers and maintain existing customers. We also evaluate opportunities to expand our network in order to strengthen our ability to gain large customers with multi-regional needs resulting in higher revenues and margins as well as increasing the return on the investment in our network infrastructure. To achieve the selective expansion of services and network coverage, we may participate in strategic transactions with other value-added service providers.

Our commercial efforts and investments are focused on delivering a wide array of services to the enterprise segment, incorporating selected IT solutions, such as cloud services, security and system integration, among others, that leverage our existing network. These services are offered in an integrated manner with conventional or infrastructure-based telecommunication services by adapting the solutions to our customers' needs. With respect to the mass market segment, we are focused on being the leading provider of high-speed broadband and video services, thus differentiating ourselves from the competition by quality of service. According to the Netflix ISP Speed Index conducted from January 2016 to September 2017, we are the best high-speed broadband internet service provider for the mass market segment in Mexico. We believe that bundling services to provide comprehensive solutions for our customers allows us to generate higher revenues per customer and greater customer loyalty, resulting in greater profitability for each Peso invested in access infrastructure and increasing the productivity and profitability of our network.

Continue to selectively approach to micro and small businesses and high-value residential customers within the mass market segment.

We have reinforced our position in the mass market segment by establishing a direct end-to-end symmetric fiber optic service to the home or business (FTTx) in ten of the main cities of Mexico and achieving a 20% growth in FTTx broadband subscribers in 2016. We maintain a particular focus on providing solutions to help micro and small businesses become more productive. In 2017, we expanded our FTTx network in three key cities (Mexico City, Monterrey and Guadalajara), in the five cities we entered in 2013 (Puebla, Queretaro, San Luis Potosi, Aguascalientes and Leon), and in the two cities we entered in 2015 (Ciudad Juarez and Toluca), covering more than 1.4 million economic units passed and 253,000 customers installed with FTTx, complementing our capacity to deliver convergent services with speeds up to 200 Mbps.

Participate in public sector opportunities with select government entities and a particular emphasis on continuing existing services.

Regarding the government segment, we concentrate our efforts on the renewal of existing contracts to reduce acquisition costs, offering new services to existing customers and targeting new projects with a select group of federal, state and local government entities. We believe that limiting the number of government entities that we service allows us to optimize the financial resources dedicated to this segment and maximize the efforts of our sales force to a group of clients that have a proven track record when it comes to our sales force's bidding and acquisition processes and subsequent after-sales requirements and collection efforts. We believe this strategy is beneficial in terms of creating stable and recurrent revenues, improved profitability and cash flow generation.

Compete based on quality of service and innovative product offerings.

We serve a sophisticated customer base which has demanding customer service requirements, values quality and reliability, and incurs significant costs and risks when switching IT and telecommunications providers. As such, we believe that our customer base provides for a stable source of revenue through long-term commercial relationships and contracts. We believe that end-to-end management of our owned core network, as well as certain leased circuits used for customer access, is essential to assuring the quality of our services. We intend to continue to make targeted investments to expand our network, primarily to extend "last mile" access facilities to additional customer locations. We believe this approach will incrementally enhance our ability to ensure network reliability while also reducing costs for leased infrastructure. We are widely recognized as the technological partner of the Mexican business sector because of our efforts in pioneering cloud services in Mexico with some of the most innovative Data Centers in Latin America, our innovation program with NAVE as the first business accelerator,

and above all, our broad portfolio of services that we continue to strengthen each year with the incorporation of new products aligned to global technological trends. These innovations are offered to different market segments and industries, which fosters the adoption of these new services, seeking to close the digital gap in such a way that the enterprise segment comes to use technology as a key element in the development of its business. We aim to continue to grow our network with new and improved technologies and to adapt our existing network infrastructure to the market and customers' needs with the goal of actively participating in the technological convergence of voice, data, cloud, mobility and video.

Focus our culture towards innovation.

In an industry such as information and communications technology where the speed at which change occurs is constant, we believe that innovation is a way for the Company to maintain its leadership and differentiate itself in the market by capitalizing on emerging trends. Recognizing this, since 2007 we have implemented and developed an innovation program that focuses on generating value for our customers, our shareholders and our organization, creating a culture that challenges the status quo at the Company. Initiatives such as continuous improvement, which uses crowdsourcing and collaborative tools to involve everyone in the organization in the generation of new ideas, have resulted in more than U.S.\$85 million in savings on operational expenses and investments. Additionally, we have the NAVE project accelerator, through which we have observed and evaluated approximately 400 projects in Mexico and Latin America; of these projects, we have accelerated 6 companies associated with technologies relevant to Axtel such as Big Data, artificial intelligence, mobility, the internet of things and security, which has allowed us to develop new capabilities and explore disruptive technologies for the market. Another key element of the program is our Innovation Hub in Monterrey, a flexible and collaborative space which was developed with the objective of generating value initiatives for us and for our customers, using methodologies such as implementing design thinking, lean startup and foresight methodologies. The Innovation Hub helps us with the creative process and with the implementation of new projects and fosters collaboration with external parties, including business partners and universities.

Focus on high speed broadband in the mass market segment, increasing presence in micro and small businesses.

We have consolidated our “Axtel X-tremo” product offering, which includes high-speed internet, telephony and pay television services offered through our FTTx network. In line with the needs and expectations of our target customers, our objective is to provide triple-play services at quality and speeds that our competitors are not able to offer, satisfying the growing demand for this type of services. Our goal is to increase penetration in the micro and small business segment where, in addition to triple-play product offering, we can provide value-added cloud-based solutions increasing the revenue obtained per customer.

Our History

We were incorporated under the name of Telefonía Inalámbrica del Norte, S.A. de C.V. on July 22, 1994, in the city of Monterrey, Nuevo León, Mexico. In June 1996, the Mexican government granted us a permit to install and operate a public telecommunications network to offer local and long distance telephone services in Mexico. In 1999, we launched commercial operations in the city of Monterrey and changed our name to Axtel S.A. de C.V. Due to the implementation of changes incorporated by the LMV in 2006, we became a *Sociedad Anónima Bursátil*, and our current corporate name is Axtel, Sociedad Anónima Bursátil de Capital Variable or Axtel, S.A.B. de C.V.

Alfa formalized its incursion into the telecommunications industry by integrating Alestra in December 1995, in association with AT&T and then with BBVA Bancomer. In accordance with the terms of our long distance concession and guidelines established by the SCT, in January 1997, we, through Alestra, began the gradual rollout and expansion of our long distance services, which became available to customers in 60 Mexican cities by June 1997. By this time, we provided basic data services to our customers and in July 1998 we started providing internet services.

With the intention to continue growing and enhancing our position in the telecommunications industry in Mexico, on October 25, 2006, we entered into a contract with Citibanamex and Tel Holding, former controlling shareholders of Avantel, to purchase substantially all of the assets of Avantel Infraestructura and the equity

interests of Avantel Concesionaria and Avantel Infraestructura for an estimate of U.S.\$516 million (including the acquisition of net debt of U.S.\$205 million). Following receipt of all required approvals from Axtel's shareholders and government regulators, the acquisition was completed on December 4, 2006. Avantel was incorporated as a 55.5%-44.5% joint-venture between Citibanamex (through Promotora de Sistemas) and MCI Telecommunications Corp. The acquisition of Avantel provided us with valuable spectrum in various frequencies, approximately 300 kilometers of metropolitan fiber optic rings, 7,700 kilometers of long distance fiber optic network, a robust IP backbone and connectivity in 203 cities in Mexico, among others.

On July 31, 2006, Alfa acquired BBVA Bancomer's 49% equity interest in Onexa. This acquisition increased Alfa's stake in Onexa to 100%. From this date, Alfa, through Onexa, and AT&T owned 51% and 49% of Alestra, respectively. On July 12, 2011, Alfa completed the acquisition of AT&T's 49% equity interest in Alestra. This resulted in us no longer offering AT&T Global Services as well as a shift in management's strategic focus, which included expanding and growing value-added services. In October 2011, we executed commercial agreements with AT&T and AGNS México pursuant to which we provided AGNS México hosting and connection services for our nodes and wholesale telecommunication services so that we could provide AT&T Global Services directly to our customers in Mexico.

In August 2013, we acquired 100% of the equity interest in GTel, a company that provides integrated services for voice, data and video solutions for medium and large companies. This acquisition allowed us to operate a public telecommunications network offering services using our own network with point-to-multipoint technology in the 10.5 GHz frequency band in the northeast and southeast regions of Mexico. In November 2014, we acquired S&C, a Mexican company with a broad portfolio of information technology services.

We announced on March 18, 2015 that we entered into a transaction agreement with America Movil and its affiliate Telcel, in which both parties agreed to terminate various disputes related to interconnection services. As part of the agreement, we executed interconnection agreements with Telcel for the years 2005-2015, inclusive. At the same time, we reciprocally agreed to relinquish several interconnection-related claims with Telcel and Telmex. Under the agreement and after settlement of all amounts which had been in dispute or pending payment, either in favor or against us, we received a net payment of Ps. 950 million. Concurrently, we entered into agreements for the commercialization or resale of telecommunication services and for the access and sharing of passive infrastructure with Telcel and Telmex, respectively. In a separate transaction on March 18, 2015, we entered into an agreement with Iusacell under which both parties terminated interconnection-related disputes for the period 2005-2010. We also entered into several commercial agreements with Iusacell related to telecommunications infrastructure for our mutual benefit. On May 27, 2015, we announced that we had entered into an agreement with Telefónica México in which both parties agreed to terminate various disputes related to interconnection services for the period beginning in 2005 and ending in 2011. Concurrently, we entered into a commercial agreement with Telefónica México related to telecommunications infrastructure.

In May 2015, Alestra acquired 51% of Estratel and in July 2016, and we acquired the remaining 49% of Estratel. Estratel is a Mexican firm specializing in the integration of IT solutions for the enterprise and government sectors.

In December 2015, we entered into definitive agreements with Alfa, Onexa and Alestra to merge with Onexa. The Alestra Merger became effective on February 15, 2016, as of which date Alfa indirectly became our majority owner as well as the majority owner of Alestra, which became our wholly-owned subsidiary. Alestra generated revenues of Ps. 6,163 million and Ps. 5,519 million in 2015 and 2014, respectively, and Adjusted EBITDA of Ps. 2,629 million and Ps. 2,260 million in 2015 and 2014, respectively. Additionally, Alestra made capital expenditures of Ps. 1,612 million and Ps. 1,310 million in 2015 and 2014, respectively. The Alestra Merger created an entity with a stronger competitive position and improved capabilities to provide IT and telecommunication services to enterprise customers. As of the date of this offering memorandum, Alfa indirectly owns a 52.78% controlling interest in our company. Alfa, one of the largest public companies in Mexico based on its 2016 revenue, is publicly listed and traded on the Mexican Stock Exchange and Latibex, the market for Latin American shares of the Madrid Stock Exchange. Alfa conducts its operations in 28 countries through five business units: (i) Alpek, S.A.B. de C.V. (one of the world's largest producers of polyester (purified terephthalic acid (PTA)), polyethylene terephthalate (PET) and polyester fibers), which also leads the Mexican market in polypropylene, expandable polystyrene (EPS) and caprolactam; (ii) Sigma Alimentos, S.A. de C.V. (a leading producer, marketer and distributor of foods through recognized brands in Mexico, the United States, Europe and Latin America); (iii) Nemark, S.A.B. de C.V. (a leading provider of innovative lightweight solutions for the

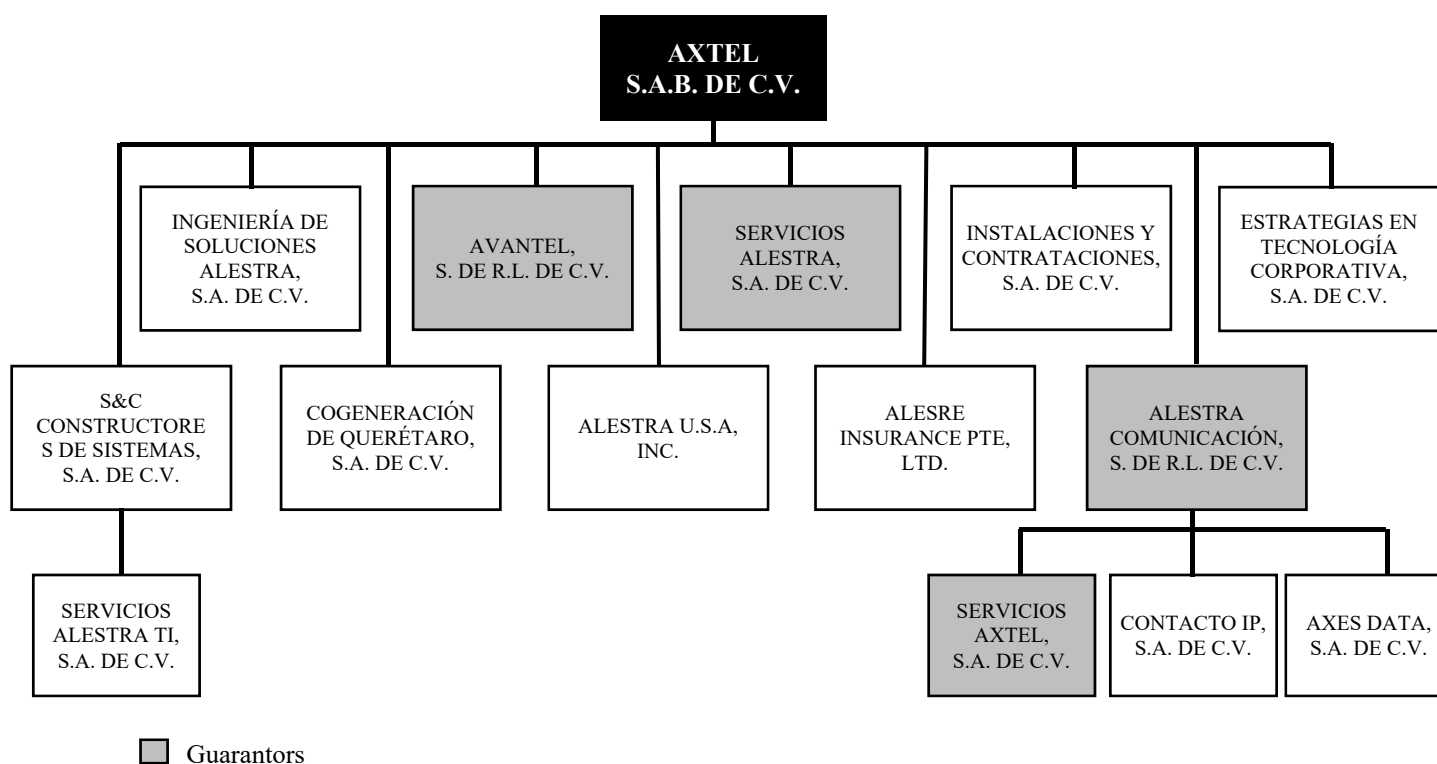
automotive industry, specializing in the development and manufacturing of aluminum components for powertrain and body structure); (iv) our company and (v) Newpek, S.A. de C.V. (a company in the hydrocarbons industry in Mexico and the United States).

On November 17, 2016, the SCT granted to a consortium denominated “ALTÁN Redes”, the exclusive right to exploit the 90 MHz spectrum in the 700 MHz band for the creation of a national 4G wholesale network in Mexico. This project, known as the *Red Compartida*, will allow us to complement our existing services portfolio and strengthen our competitive position by offering our business customers mobility in their IT and telecommunications services and our residential customers a high quality quadruple-play offer. Axtel participates in Altán Redes, S.A.P.I. de C.V., a Mexican company created by ALTÁN Redes in order to develop the project, with an approximately 2% stake in non-voting shares, which represents an opportunity to maximize the use of our existing assets and take advantage of our operating experience. ALTÁN Redes is a multinational consortium that has among its investors infrastructure funds and Mexican private, institutional and industrial partners, which provides committed and available resources to develop the *Red Compartida*. ALTÁN Redes is led by Grupo Multitel and among its main investors are Morgan Stanley Infrastructure Fund and the IFC/China Mexico Fund; collectively, these investors have an approximately 60% participation in ALTÁN Redes.

On June 30, 2017, Axtel entered into definitive agreements with MATC Digital, S. de R.L. de C.V., a subsidiary of American Tower Corporation, for the sale of 142 telecommunication towers for approximately U.S.\$56 million dollars. We also agreed to lease back space on these sites for 15 years. The transaction was structured in four stages based on the completion of certain documentation and obtaining regulatory approvals. The first part of the transaction was executed on June 30, 2017 and the second part of the transaction was executed on August 3, 2017. The IFT approved the transaction on October 18, 2017, and we were notified of such resolution on October 24, 2017. The transaction is expected to be completed by the end of 2017.

Corporate Structure and Corporate Information

The following chart describes our corporate structure as of the date of this offering memorandum, including our main subsidiaries, which are all directly or indirectly wholly owned by us:



Our corporate offices are located at Blvd. Diaz Ordaz Km 3.33 L-1, Unidad San Pedro, C.P. 66215, San Pedro Garza García, Nuevo León, Mexico. Our corporate website address is <http://axtelcorp.mx>. The information on our website is not a part of, and is not incorporated by reference into, this offering memorandum.

Business Segments and Product Offerings

Our business is comprised of the following three segments:

- (i) *Enterprise Segment.* We provide telecom and IT services to the enterprise segment, including medium and large companies, corporations, financial institutions and carriers.
 - a. *Telecom.* The main services offered are:
 - *Voice:* Local and international long distance calls to fixed and mobile telephones, international traffic (transportation or termination of calls originated outside of Mexico), 800 number services and voice over IP, among others.
 - *Data and Internet:* Private lines, dedicated links and dedicated internet.
 - *Managed Networks:* Includes managed services, VPN, Ethernet and collaboration, among others.
 - b. *Information Technologies.* We provide IT services to the enterprise segment, such as system integration, hosting, managed applications, security and cloud services, among others.
- (ii) *Government Segment.* We provide the same telecom and IT services described above to federal, state and municipal government entities.
- (iii) *Mass Market Segment.* We provide connectivity to residential and small business customers through our infrastructure, either fiber network or wireless network, through which voice, data and video services can be offered. The services are offered in commercial packages or, in some cases, as independent or complementary services.
 - a. *Fiber to the Home or Business:* Voice, data and video services offered through the fiber network, with symmetrical speeds from 20 Mbps up to 200 Mbps.
 - b. *Wireless:* Voice and data services offered through the wireless network, primarily WiMax, with speeds from 0.5Mbps to 2Mbps. Given the low competitiveness of this technology, customers connected with WiMax and similar technologies have been decreasing and it is expected that these customers will voluntarily or involuntarily disconnect within the next few years.

The products and services we offer through our three business segments include the following:

Mass Market Segment (Residential and Small Business)	Enterprise and Government Segments	
TRADITIONAL TELEPHONY <i>Telephone lines</i> <i>Telephony Service (national and international)</i> <i>800 Service (national)</i>	TELECOM	IT
IP TELEPHONY <i>AXTEL Connigo</i>	VOICE <i>800 Service</i> <i>Digital Links</i> <i>IP Links</i> <i>Telephone lines</i> <i>Smart Lines</i> <i>VoIP</i>	HOSTING
VOICE, INTERNET AND TELEVISION PACKAGES <i>Voice plans</i> <i>Axtel X-tremo</i> <i>Acceso Universal</i> <i>Axtel TV</i> <i>Axtel Mi Negocio</i>	DATA AND INTERNET <i>Direct Access</i> <i>Frame Relay</i> <i>Domestic and International</i> <i>Private Lines</i> <i>Dedicated Internet</i> <i>Broadband</i>	SYSTEM INTEGRATION
VALUE-ADDED SERVICES <i>X-tremo Support (Soporte X-tremo)</i> <i>Axtel Expert</i> <i>Family Membership Axtel</i> <i>SME Assistance</i> <i>Antivirus</i> <i>Smart Home and Business</i> <i>Lifesaver</i> <i>Public WiFi</i>	MANAGED NETWORKS <i>VPN</i> <i>Ethernet</i> <i>Managed Services</i> <i>- MS Routers</i> <i>- Managed LAN</i> <i>- Equipment Sales</i> <i>- Structured Cabling</i> <i>Collaboration</i> <i>- Unified Communications</i> <i>- Integrated Videoconferencing</i> <i>- Global Conference</i> <i>- Meeting room</i> <i>- Contact Center</i> <i>- Equipment Sales</i>	CLOUD SERVICES <i>Infrastructure Services</i> <i>Software Services</i>
OTT SERVICES <i>Axtelplay</i>		SECURITY <i>IT Managed Security</i> <i>Network Managed Security</i>
		MANAGED APPLICATIONS <i>Service Desk</i> <i>Managed Applications</i>
		ADAPTIVE NETWORKS
		FUNCTIONAL CONSULTING

Enterprise and Government Segments

We are widely recognized as a technological partner of the Mexican business sector, supporting customers with IT and telecommunication services to achieve more productive and efficient operations and promoting the use of technology as an element of value in the transformation of their businesses. Part of our strategy is to increase revenues from our IT services within the revenue mix. For this reason, the IT Commercial area was created to focus on serving the Mexican business market through IT solutions that provide a differentiator to our customers' businesses, whether in terms of productivity, efficiency, availability or security. These solutions are aimed at corporations and multinational corporations, as well as small and medium sized companies with a strong presence in the manufacturing, financial, retail, logistics, health and education industries. The IT Commercial area, which is further subdivided into Strategy, Sales, Architecture, Delivery, and Operation of Services divisions, offers these market segments solutions based on data centers, cloud services, systems integration, and application management, as well as a wide range of security services that protect a company's applications and internet portals.

In 2016, the International Computer Room Experts Association (ICREA) recognized the Data Center in Queretaro as "Best Data Center" due to its electrical installation, air conditioning, communications environment and security specifications. In addition, Data Center Dynamics awarded the Queretaro Data Center the CEEDA (Certified Energy Efficiency in Data Centers Award) certification, the only independent and certified evaluation for data centers that provides an action plan in all areas (operational, mechanical and electrical management and IT infrastructure) and deployment in energy efficiency. In addition, ICREA awarded the Queretaro Data Center with the Green Seal and the Governance Compliance ALPHA Level, making it the first Data Center to earn this honor worldwide. We launched a second Data Center in Queretaro, which will have 3,600 square meters in its initial phase, of which 600 square meters were rolled out in early 2017.

Additionally, in 2016 the integration of GTEL and S&C was completed, allowing us to take full advantage of the capabilities they contributed to the business in terms of technology, services, processes and human capital. S&C, a key player in the creation of the IT Commercial area, provided resources and processes for the sale, design and delivery of IT services. In May 2015, Alestra acquired 51% of Estratel, and in July 2016, we acquired the remaining 49% of Estratel, making it a wholly-owned subsidiary of our company. Estratel is a Mexican firm specializing in the integration of IT solutions for the enterprise and government sectors and maintains its operation as an independent company; however, Estratel collaborates closely with our company to enable both companies to take advantage of each company's technical capabilities and expertise in certain brands and technologies.

The following are the key solutions available to our customers in these segments:

Telecom

Voice/Telephony

These solutions include services such as local calls, international long distance, Smart lines (which allows customers to assign authorization and call filtering codes), 800 service with national or international coverage and prepaid and postpaid phone cards. Additional services include digital phone lines and telephone lines over IP protocol.

Data and Internet

- Data: Direct Access or last mile access and digital private lines with national or international reach.
- Internet: We have a broad portfolio of internet solutions, from 1 Mbps links to high capacity connections of up to 10 Gbps. In addition, we offer protection for the internet link against cyber threats through mechanisms called Clean Pipes. We also offer internet on demand, which offers high capacity links with rates that vary depending on the requested use. Broadband internet is available to medium sized companies in "best-effort" mode through the FTTx infrastructure.

Managed Networks

- Networks: We have a wide portfolio of network connectivity solutions that allow customers to connect their offices point-to-point or point-multipoint either nationally or internationally. In the family of network connectivity services are VPN and Ethernet services. All these options allow the secure transmission of voice, data or video information simultaneously.
- Managed Services: We have a portfolio of managed networks services, such as Managed Reuters, LAN switches and managed WLAN. With these solutions, our customers receive the following benefits for a monthly fee: design, implementation, support, maintenance, operation, and management of equipment.
- Collaboration: With these types of products we seek the integration of various communication tools that allow people to interact and collaborate more effectively and efficiently, facilitating the management and integration of various channels of voice, data, video, networks, systems and business applications. Some of the services that make up the collaboration solutions are:
 - videoconference and telepresence services that facilitate collaboration between geographically distant rooms, providing flexibility and connectivity coverage;
 - unified communication solutions that allow the use of instant messaging, voice, mobility and applications for call centers, which are accessed through the cloud so the customer does not have to invest in the purchase of equipment;
 - conference solutions which allow customers to have voice communication between a group of people which can share content and interact with the information safely; and
 - cloud solutions that allow collaboration through new workspaces that help people work from anywhere and on any device.

IT

System Integration

This service consists of customized solutions for special products that integrate infrastructure, applications, connectivity, security and management of several different technologies and manufacturers in a holistic model where we become the only point of contact for our customers. This service includes critical solutions such as DRP (Disaster Recovery Plan), high availability platforms, private and hybrid clouds and environment migration.

Cloud Solutions and Data Centers

We offers state of the art technology through cloud access, which includes applications, technical support and solutions, which offer unlimited capacity, universal accessibility, flexibility and savings by circumventing the need to invest in equipment. This is backed by the security and availability of Data Centers, whose mission is to ensure that information and applications are available anywhere and under any circumstances. These solutions include, but are not limited to:

- Services that offer virtual or physical servers through a public cloud.
- Services that offer the customer the option to acquire on-demand computing resources, flexible server configurations, RAM and storage, which can be provisioned by the customer via the web.
- Access to the ERP (Enterprise Resource Planning) “All in One” version of SAP across a cloud service scheme that allows the customer to obtain savings by not having to purchase the system.
- Comprehensive infrastructure management services that include the design, implementation and operation of complex computing solutions in high availability environments prepared to handle natural disasters.
- Corporate e-mail, a platform that offers customers personalized and accessible e-mail addresses from fixed and mobile devices.
- Open platform for streaming (without interruption) digital audio and video for mass distribution of media (audio, video and images) through the web.
- Learning management service based on the Learning Management System platform in the cloud, which enables companies and educational institutions to improve, optimize and automate their processes, ensuring alignment with their business strategies.
- The swift generation of server backups that allows the assurance of information through a platform available under an “as a service” scheme.
- Storage as a service for hosting and the execution of applications under an “on demand” scheme.
- Cloud BackUp for safe, periodic, and automated backups.
- Virtual desktops to remotely access your desktop and applications from any device.
- The Help Desk Service, which is a single point of contact for users that manages incidents, problems, or issues that are related to IT services.

Hosting

Dedicated, co-located and virtual hosting services allow the customer to host their servers in a secure space, with energy redundancies and links to the internet and VPN networks, as well as capabilities for rapid growth, system monitoring, administration and management.

Security Solutions

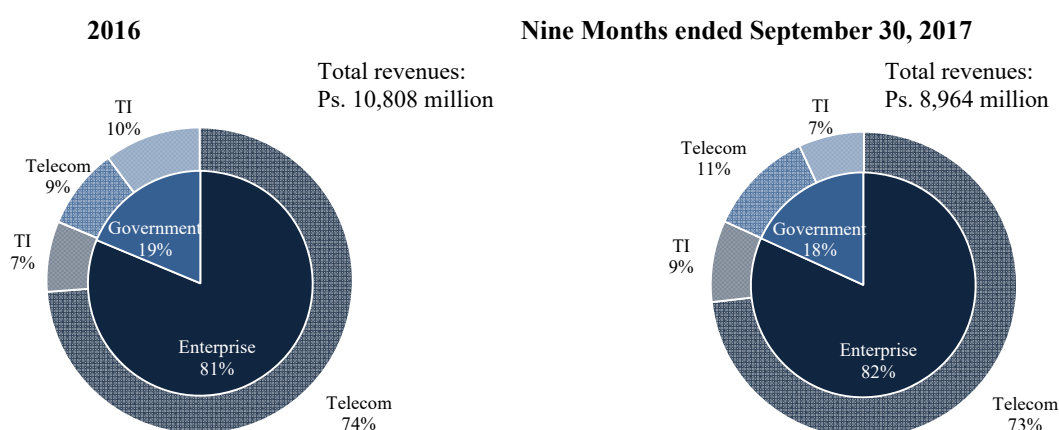
The security portfolio provides solutions that allow for the protection of computer equipment, networks and systems from threats and computer attacks by providing, operating, managing, and monitoring the entire information security infrastructure the customer requires. Some associated services include vulnerability analysis that offers a diagnosis of the level of exposure the critical infrastructure of a network has in the event of an attack that would affect our operation. Other services include Security Consulting, Intruder Detection and Intruder Prevention Services, Web Filtering and Managed Firewall Services, which are designed for businesses requiring

controlled Web access, comprehensive and multi-layer protection and all in one security that provides, controls, detects, mitigates and monitors secure perimeter access.

Management of Applications

We provide solutions for the specialized management of IT services accompanied by a complete operational model of monitoring and management based on the best practices of the industry. With this solution, our customers delegate the operation of their critical applications in such a way as to provide an outsourcing service for operations, monitoring, incident management, problems and changes to business applications such as ERP, CRM and databases, among others.

The following charts provide a revenue breakdown by service type for the enterprise and government segments:



In addition, we have a mobile services strategy based on active participation in “ALTÁN Redes”, which is the consortium formed to build a wholesale network in Mexico, known as the Red Compartida. We currently work with “ALTÁN Redes” in order to meet their coverage commitments. Additionally, we are planning to become a customer of “ALTÁN Redes” to launch our own mobile service that will complement our network portfolio for enterprises, strengthening our competitive position by offering customers access to the full range of their business applications in a mobile environment that is highly reliable and secure.

Mass Market Segment

Our portfolio of services to the mass market segment, made up of residential and micro and small business customers, includes voice, data and video services. Double or triple-play offers of Axtel X-tremo include voice services, broadband from 20 to 200 symmetrical Mbps and video or Axtel TV provided through the FTTx. The Acceso Universal offerings are voice and broadband services with a speed of 0.5 to 2 Mbps that are offered through the wireless network. Our strategy within the mass market segment is to grow FTTx business and profitability by offering the best quality in service and customer experience and increasing penetration in the small business market. In addition, we offer various value-added services such as:

- Axtel Smart Home & Business, an alarm, video and home and business automation service;
- Axtel Lifesaver, a cloud computer back-up service;
- Axtel Experto, an online advice and technical assistance service for computers, smartphones and other devices;
- Soporte Especializado, which provides technical advisory in the field; and
- Axtel Conmigo, an application that allows customers to receive calls to their landlines on their mobile devices.

We remain at the forefront of internet services due in part to Axtel X-tremo, a service that has been recognized for its speed and performance. During the second quarter of 2016, we strengthened our offers by

increasing the internet speeds available so that the most basic package now includes 20 Mbps, the intermediate package includes 50 Mbps and unlimited calls to mobile phones, and the advanced package includes up to 200 Mbps. There has been significant growth in the fiber optic business, which experienced a 17.2% growth in revenues and grew to 234,000 internet accounts and 124,000 television or video accounts by the end of 2016. We continued aggressive cost cutting efforts in the wireless business and implemented sales strategies to market low-cost broadband services in order to maximize the revenue stream generated by these technologies.

As a result of the Alestra Merger and a new commercial strategy, we have increased our efforts in the mass market segment to increase micro and small business customers, launching product offerings under the Axtel Mi Negocio line of internet solutions with speeds of 200 Mbps plus telephone lines, SIP trunks or cloud IP-PBX, as well as value-added services (cloud backup, virtual assistance, security, among others) that provide customers with a customized solution at an attractive cost. Likewise, differentiated channels have been created to offer a more specialized customer service.

In addition, we are continuing efforts to improve the customer experience and optimize costs, have implemented cloud tools for 360 degree management of traditional and digital service channels through Oracle Service Cloud – Rightnow service and have implemented the operation of in field crews of installation and repairs through the Oracle Field Service Cloud – TOA service. We have also worked with suppliers to optimize the cost of products such as television content and value-added services.

In order to obtain new subscribers, we actively promote attractive packages and offers which generate recurring monthly payments such as voice plans, Acceso Universal, Axtel X-tremo or Axtel TV, which may include unlimited local calls, long distance calls to the U.S. and Canada, broadband internet and pay TV. Once a customer decides to subscribe to our services, we focus on satisfying his or her needs and offer benefits, rather than low prices, in order to maximize the customer retention rate. An example of this is the promotion of free trials of value-added services to Axtel X-tremo and Acceso Universal customers, created with the goal of gaining their eventual subscription to these services. Likewise, we give the customer a greater bandwidth than the one they signed up for free for the first 30 days in order for them to experience the difference in speeds and reconsider their package. In the micro and small business segment, our prices are among the most competitive in the market since, unlike the competition, we have the same price for these services and residential offers.

Advertising and Sales

Enterprise and Government Segments

For business customers and government entities, we offer solutions through the “Alestra” brand that help customers optimize their businesses, increase their productivity, and reduce their technological investment in ICT services, thus enabling them to concentrate on their core business. We implement a consultative sales method where we provide added value and bring access to cutting-edge technological trends to our customers. The services offered are grouped into two lines of business: telecommunications and IT.

To promote the products in the enterprise and government segments, we use a variety of communication and commercial tools, among which are the launching of events for new products, publications in specialized magazines, experience centers or “Centro Sperto”, participation in forums, online communication and direct promotion with the support of presentation tools.

Mass Market Segment

We use various means of advertising to the mass market segment through our brand, such as advertisements sent through the mail (both special delivery and contained in account statements), online advertising, and telemarketing which serves to both create awareness about our brand and to sell new services to existing customers. Likewise, we create brand awareness through outdoor media, whether it be with billboards or print media, including newspapers and magazines. We also use radio and television advertisements to promote our products, as well as sponsorships in local news programs. Our brand promotion strategy is to combine an attractive and modern image that reflects a human profile.

This marketing strategy is complemented with sales efforts targeting specific customer segments using a variety of channels. The main selling methods are direct sales, online sales, home sales, telemarketing, location sales (in strategic locations such as malls and department stores), Attention and Payment Modules (MAP’s), which

are our company’s sales and services offices located strategically in the cities, and sales distributors who are certified to conduct sales activities on our behalf.

Sales Channels and Strategies

Advertising campaigns are complemented by sales objectives aimed at specific market segments using various sales channels.

Enterprise and Government Segments

Our model in the enterprise and government segments is based on sales teams that include a Sales Consultant, a Customer Service Representative, a Solution Design Engineer and a Service Delivery Representative. Accounts are grouped into categories depending on the revenues and business potential of the customer. Resources are allocated according to the block prioritization scheme described in the below diagram. Sales Consultants can be either Axtel employees or ICT Integrator Indirect Channel representatives.

Category	Segment	Channel
Premier Experience	Medium-sized Enterprise Customers	Sales Consultants Indirect Channels
Premier Plus Experience	Large Enterprise Customers with Managed Services	Sales Consultants
Select Experience	Primarily Corporates with Managed Services	
Elite Experience	TOP Customers from the Financial, Corporate and Wholesale Segments	

Promotion efforts through Centro Sperto and focused events, such as the annual Business Technology Summit, are key to the market’s understanding of our differentiators. We have three experience centers, each called Centro Sperto, located in Monterrey, Mexico City, and Queretaro, with international recognition by the Association of Briefing Program Managers. These centers are world class spaces designed to foster the experience of the services that are on the cutting-edge of technological innovation. The aim is to offer Axtel customers a forum to converge their communication challenges with Axtel’s high-tech experience and services with the goal of promoting the design of precise information technology solutions required by the companies. In the nine months ended September 30, 2017, there were more than 940 assisted sales opportunities recorded amounting to approximately U.S.\$2.4 million.

In addition, since 2010, Alestra SummIT has been recognized as one of the most important technological forums across the nation. It is carried out in five of the most important cities of Mexico and is attended by various decision makers, leaders, businessmen and entrepreneurs in the field of IT. During 2017, Querétaro, Guadalajara, Mexico City, Monterrey and Tijuana were part of this experience, with the participation of global technology leaders such as Avaya, Broadsoft, Cisco, Microsoft, Fortinet, Hewlett Packard, Huawei, NetApp, Oracle, Aspect, Audiocodes and CA. Alestra SummIT 2017 brought approximately 3,300 attendees.

Mass Market Segment

The main sales methods that we use in the mass market segment are:

- ***Personal Business Sales.*** Sales executives focused on small business potential customers, who are responsible for prospecting and meeting customer requirements. They carry out consultative work to offer products, services and packaged solutions focused on customers in this segment.
- ***Online Sales.*** Through advertising efforts generated on the internet, demand is generated and customers from the residential and micro and small business customers are acquired by sales efforts performed by the Telemarketing executives. Additionally, through Axtel's webpage, customers can purchase additional services.
- ***Door to Door.*** Sales agents are dedicated to finding potential customers in residential areas and areas with micro and small businesses. They carry out prospecting and sales activities.
- ***Telemarketing.*** We have two distinct telemarketing methods. Under one method, the sales team responds to calls from potential customers that have received advertising through promotional campaigns or seeks potential customers by calling customers listed on a database created by us. Under the other method, executives from the service center for enterprise customers offer products and services to customers with basic needs through targeted phone calls.
- ***Points of Sale.*** Sales agents are strategically located at sales points where potential customers go shopping.
- ***MAPs (Service and Payment Modules).*** These are sales through our service offices, which are strategically located in cities where we provide our services.
- ***Indirect Channels (Sales Distributors).*** Certain companies are authorized to engage in activities on our behalf. These companies focus on sectors in which they have a certain influence. For the enterprise segment, we work with companies specializing in IT services that integrate products with a global solution; this method allows us to identify new enterprise customers.

We continuously measure our sales efficiency by reviewing the cost of acquiring subscribers. During the past three years, there has been a reconfiguration of sales channels, where the online sales channel has increased in importance in line with the tendencies observed in our customers' behavior, who use digital means to investigate and evaluate offers.

Telemarketing handles all incoming calls generated by our advertising in magazines, newspaper, television, billboards and flyers.

For the small business segment, we use specialized telemarketing, through which the agents call customers and prospects to give advice and timely follow-up according to the specific needs of each customer and offer tailor made solutions.

Customer Service

A key element of our competitive strategy is to consistently provide reliable, responsive customer service. In order to achieve this goal, we have established a 24/7 customer service center staffed by highly trained personnel. We have implemented a comprehensive training, testing and certification program for all staff that directly interacts with customers.

We provide post-sales service on a nationwide basis through the following teams:

- Customer Service, which provides post-sales customer support ranging from general information to additions and changes resulting from billing inquiries and technical support.
- Operator Service 24 hours a day, which includes wake-up calls, time of day, emergency calls and assistance for placing domestic and international long distance calls.

- Advanced Services Center, which is for customers with advanced services that require high availability. This is a monitoring center that proactively seeks to maintain optimal service for these customers.
- Repair Calls, consisting of service executives that address and manage customers' reports and provide on-line technical support and analysis.
- Local Testing, which analyzes and tests all reports that are not resolved on-line by repair calls. This team is accountable for routing these reports to our repair dispatch.

Both the Repair Calls and Local Testing areas work together with the network maintenance center in order to monitor and repair network failures.

The Holistic Operation Center is the center that brings together best practices, processes, tools and experts from our Network Operation Center (NOC), Security Operation Center (SOC), Managed Service Operation Center (MS NOC), IT Service Management Center (CASTI), Help Desk and Systems Support (HD) and Business Service Center (CAE).

Billing and Collection

We believe that our billing and collection processes are an important aspect of our competitive advantage. Our billing team receives and validates the detailed log of consumption, recurring and non-recurring charges. The customer typically receives the printed invoice at home, within 14 days following the end of the billing period. If requested, the customer also receives its electronic invoice (CFDI) via email within the following five days after the end of its billing period. A payment reminder is sent 7 days before the payment due date if payment has not yet been submitted.

To ensure the quality of the bills and as a last validation filter, a statistical process of Quality Control Post-Billing and Pre-delivery is performed on a representative sample, verifying the following: amount charged, tax information, complete shipping information, proper allocation of messages or advertising (messages or inserts), valid emails and changes in different sections of the bill due to new offers and products.

An ongoing revenue assurance process, which consists of reviewing the billing stream, payments and adjustments, as well as fraud detection and control, has become part of our regular billing operation. This process has contributed to minimizing fraudulent activity and risks.

In regard to the enterprise segment, we have proactive billing care processes, which ensures that customers receive an accurate invoice on time. Every enterprise customer has an assigned Customer Care Agent who is responsible for providing a high quality personalized service. The Customer Care Agent is responsible for reviewing billing requirements and ensuring that the customer receives the correct invoice in a timely manner, and to meet any other particular need the customer requires (for example, elaboration of customized service and billing reports).

For high-end enterprise customers, such as multinational, financial and governmental entities as well as large corporations, our Customer Care Agents carry out proactive invoice validations and have regular face-to-face meetings with their customers to efficiently address any requests or provide clarifications with regard to billing. The collection process for these customers is also personalized; these collection cases are validated internally and then discussed personally with the customer. We have policies in place to avoid blocking services to such customers before all negotiation efforts have been exhausted.

The most common payment method for enterprise customers is bank transfers, which streamlines the collection of payments. In addition, we have developed a number of payment reception channels to facilitate the reception of payments and make the payment process convenient for customers. These channels include convenience stores, banks (cashiers, web page, automatic cash dispensers and cell phones), Axtel MAPs (Axtel's Sales and Payment Points), our internet webpage, ATMs, automatic charges to credit cards (upon customer approval), automatic debits from checking accounts, and by telephone with customer service or self-service charged directly to the customer's credit card. These channels provide easy and fast options for customers to select the most suitable and convenient alternative for a prompt payment.

We have implemented preventive collection procedures to encourage customers from the mass market segment to pay on time, such as payment reminders and payment delay notifications. We also have an automated system that makes calls to delinquent customers requesting payment of overdue invoices

Once a customer goes past the grace period for payment, then we execute corrective collection procedures, including partial or total suspension of services and visits to customers. In parallel, accounts are turned over to external collection agencies 180 days after their due date, to exhaust all possible resources to negotiate payment. With the goal of keeping the customer whenever possible, throughout the collection process our collections team provides customers with guidance and proposes alternative solutions and payment programs, which may include reconnecting a customer's service under a prepayment scheme or agreeing with the customer to a payment schedule for the outstanding balance or both.

Patents, Licenses, Trademarks, other Contracts and Certifications

Concessions

We hold certain concession licenses granted by the Federal Government, which have a duration of 20 to 30 years and which are generally renewable for the same period originally granted. All requests for extensions of concessions have been requested in time to the authority. Such concession licenses allow us to provide the following telecommunications services nationwide:

- basic local telephony service and national and international long distance telephony;
- the sale or lease of network capacity for the generation, transmission or reception of signs, signals, writings, images, voice, sounds or other information of any nature;
- the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
- operator services;
- data, video, audio and videoconference services;
- message delivery service (SMS);
- point to point and point to multipoint links;
- delivery of data through satellite;
- restricted television, continuous music services or digital audio services; and
- public telephone services.

We have the *Concesión Única* or Single Concession, which we believe has the following advantages: it confers the right to converge all types of public telecommunications services or broadcasting; it is not necessary to have a Public Telecommunications Network Concession (RPT); the consolidation of all RPT titles, which simplifies administrative procedures and compliance with any concession obligations; prior to commencing operations of any public telecommunication service that is technically feasible, a request must be submitted to the IFT for registration in the Public Concessions Registry; the concession is valid for 30 years and may be extended for additional 30-year terms; and economic savings (e.g., payments of rights and payments for bonds).

On May 1, 2017, the Alestra Merger became effective. Alestra's concessions of the public telecommunications network were consolidated into the *Concesión Única* or Single Concession and the concessions of frequency bands were assigned in our favor.

The following is a summary of our concessions as of the date of this offering memorandum:

TYPE OF CONCESSION	COVERAGE	TERM	GRANT	EXPIRATION	RENEWAL REQUEST DATE
Concesión Única or Single Concession for Commercial Use	National	30 years	Jan 29, 2016	Jan 29, 2046	-
Provision of capacity for the establishment of point-to-multipoint microwave links.	Region 1-9	20 years	Apr 1, 1998 Sep 28, 1998	Apr 1, 2018 Sep 28, 2018	Jan 11, 2013 Jun 4, 2013 and May 2, 2014
Fixed and mobile wireless access through the RPT	Region 1-9	20 years	Oct 7, 1998	Oct 7, 2018	Jan 11, 2013
Provision of capacity for the establishment of point-to-point microwave links	National	20 years	Jun 4, 1998 Aug 1, 2000	Jun 4, 2018 Aug 1, 2020	Jan 11, 2013 and May 2, 2013 July 14, 2015
Concession to install, operate and exploit a public telecommunications network for the provision of basic national and international long distance telephone service	National	30 years	Sep 15, 1995 Nov 8, 2000	Sep 15, 2025 Nov 8, 2030	Jan 9, 2013 -
Concession to install, operate and exploit a public telecommunications network for the provision of basic local telephone service	National	30 years	Apr 12, 1999	Apr 12, 2029	Jan 9, 2013
Concession to install, operate and exploit a public telecommunications network for the provision of point-to-multipoint links	National	20 years	Apr 1, 1998	Apr 1, 2018	July 11, 2012, Jan 9, 2013 and May 2, 2014
Provision of capacity for the establishment of point-to-point microwave links	Reg. 1, 3, 4, 6, 9	20 years	Jan 25, 2000	Jan 25, 2020	Jan 9, 2013

Material Trademarks

We are the owner of several registered trademarks that are used to market our products and services. Among others, we hold the following material trademarks as of the date of this offering memorandum:

TRADEMARK	REGISTRY NUMBER	EXPIRATION	HOLDER
AXTEL (Red design)	1,662,027 1,668,825 1,661,624	Apr 7, 2026	Axtel, S.A.B. de C.V.
AXTEL (Blue design)	1,662,025 1,668,824 1,662,026	Apr 7, 2026	Axtel, S.A.B. de C.V.
Alestra	511,656	Nov 1, 2025	Axtel, S.A.B. de C.V.
Alestra SmartIP	1,113,027	June 18, 2019	Axtel, S.A.B. de C.V.
Alestra SmartIPComm	1,113,029	June 18, 2019	Axtel, S.A.B. de C.V.
Alestra Smart Email	1,113,026	June 18, 2019	Axtel, S.A.B. de C.V.
Alestra SmartBusiness	1,112,259	June 18, 2019	Axtel, S.A.B. de C.V.
Axtel*	584,421	July 13, 2018	Axtel, S.A.B. de C.V.
Axtel. Su Acceso a las Telecomunicaciones	17,076	March 4, 2019	Axtel, S.A.B. de C.V.
Soluciones Axtel	625,940	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL	871,511	July 2, 2019	Axtel, S.A.B. de C.V.
AXTEL.NET	638,715	Nov 30, 2019	Axtel, S.A.B. de C.V.
AXTEL PUNTO NET	638,713	Nov 30, 2019	Axtel, S.A.B. de C.V.
Axtel TV	1,361,372	Jan 23, 2023	Axtel, S.A.B. de C.V.
Axtel Unico	1,147,431	Dec 2, 2019	Axtel, S.A.B. de C.V.
Axtel Conmigo	1,130,301	Oct 29, 2019	Axtel, S.A.B. de C.V.
Axtel Comunícate Mejor	55,994	Dec 2, 2019	Axtel, S.A.B. de C.V.
Acceso Universal	1,188,054	Oct 29, 2019	Axtel, S.A.B. de C.V.
AXTEL X-TREMO	1,195,317	Oct 15, 2020	Axtel, S.A.B. de C.V.
Axtel Acceso Universal Axtel X-tremo	1,195,315	Oct 15, 2020	Axtel, S.A.B. de C.V.
Axtel Único Oficina Virtual	1,204,031	Nov 3, 2020	Axtel, S.A.B. de C.V.
Mejor Comunicación, Mejores Negocios	62,437	Nov 17, 2020	Axtel, S.A.B. de C.V.
AXTEL SOPHTPHONE	1,245,261	May 27, 2021	Axtel, S.A.B. de C.V.
ZONA AXTEL	1,250,250	July 13, 2021	Axtel, S.A.B. de C.V.
EXPERIMENTA EL FUTURO	87,685	Feb 17, 2025	Axtel, S.A.B. de C.V.
CONTACTO IP	1,642,058 1,642,057	Jan 18, 2026	Axtel, S.A.B. de C.V.

* Note: To be renewed. Pursuant to article 133 of the industrial property law, any trademark may be renewed 6 months prior its expiration or within 6 months after expiration.

Interconnection

We have established interconnection agreements necessary for the exchange of different types of traffic, which are:

- a. Fix-to-fix local traffic;
- b. Fix-to-mobile local traffic;
- c. Mobile-to-fix local traffic;
- d. Long distance traffic which includes different models such as the 800 collect calls.

Applicable Rates

Rates and conditions for interconnection, according to current regulations, are determined as follows:

- a. Agreement between the parties;
- b. Determined by IFT as a result of a process of Disagreement; or
- c. Through the application of Non-Discriminatory Treatment, foreseen in the *Ley Federal de Telecomunicaciones y Radiodifusión* (LFTR)

For 2017, IFT has established the following interconnection rates for non-dominant operators:

- a. Traffic termination:
 - i. In fixed networks: Ps. 0.003094
 - ii. In mobile networks: Ps. 0.1906
- b. Origination: Ps. 0.004386
- c. Transit: Ps. 0.004550

As of the date of this offering memorandum, most interconnection agreements that have been entered into are in force and they are updated periodically based on the resolutions passed by the IFT or based on direct negotiations between operators.

Preponderance

Derived from the telecommunications reform, since 2015, the preponderant economic operators (Telmex, Telnor and Telcel) are obliged to make available to the other dealers the following:

- a. Sharing fix and mobile passive infrastructure (e.g. poles, ducts, rights of way and towers);
- b. Leasing of dedicated links;
- c. Resale and unbundling of all the services provided through Telmex's local network;
- d. Resale of mobile services, voice, data and SMS, as a Mobile Virtual Network Operator (MVNO); and
- e. The agreements of national and international visiting user (roaming) that Telcel has entered into with other operators.

In 2017, we had agreements with Telcel for the provision of telecommunications services (MVNO) and the following agreements with Telmex:

- a. Agreement for sharing passive infrastructure of Telmex's network;
- b. Agreement for the unbundling of the local loop of Telmex's network; and
- c. Agreement for leasing dedicated links from Telmex.

The prices and conditions for these services are the ones established by Telmex and Telcel, respectively, but may be modified by IFT by filing disagreements under the Preponderant Guidelines and the LFTR, citing cost methodology such as "avoided costs" or "long-term incremental costs", depending on the type of service. For more information, see "Risk Factors—We depend on Telmex for interconnection and with the Mexican Supreme Court's resolution of August 2017, America Movil is allowed to charge interconnection fees starting in 2018. If such fees are significantly higher than those currently applicable, such development could have a material adverse effect on our business and results of operations".

Technological Certifications

Below is a list of our technological certifications as of the date of this offering memorandum.

- ISO 9001:2008
- ISO/IEC 27001:2013
- ISO 20000-1:2011
- ICREA Level 3,4 and 5
- Tier III of Design Documents - Uptime Institute
- CEEDA Silver and Bronze Level
- PCI Data Security Standard
- SSAE-16
- Avaya Diamond Partner
- Checkpoint Partner Level 3 Stars
- CISCO, Gold Certified Partner
- CISCO, Advanced Collaboration Architecture Specialization
- CISCO, Advanced Enterprise Networks Architecture Specialization
- CISCO, Advanced Security Architecture Specialization
- CISCO, Advanced Data Center Architecture Specialization
- CISCO, Cloud and Managed Services Master
- CISCO, Cloud Services Reseller
- CISCO, Telepresence Video Master Authorized Technology Provider (ATP)
- CISCO, Identity Services Engine Authorized Technology Provider (ATP)
- EMC Gold Partner
- Fortinet Platinum Partner in Mexico with Fortinet Managed Services.
- HPE Specialized Partner in HP solutions
- Microsoft Cloud Reseller
- SAP MCaaS Partner with SAP
- Symantec Gold Partner

In the nine months ending September 30, 2017, 145 of our collaborators obtained 166 certifications in several tools by institutions such as Blue Coat, ISACA, Check Point, CISCO, Amazon, Huawei, Axelos, Oracle, PMI, Red Hat System, ISACA, The Open Group, Avaya and Hewlett Packard Enterprise.

Customers

We serve a loyal base of private and public sector clients, which include many of Mexico's largest companies such as Citibanamex, AT&T, Santander México, BBVA Bancomer, FEMSA, Walmart, Nissan, Huawei, Ternium, General Electric, Cemex, Gas Natural Fenosa, Banorte and Vitro among others, and government entities such as the Secretaría de Gobernación, Secretaría del Medio Ambiente y Recursos Naturales (SEMARNAT), Instituto para la Protección al Ahorro Bancario (IPAB), Secretaría de la Defensa Nacional (SEDENA), Pemex, Servicios Educativos Integrados al Estado de México (SEIEM) and Caminos y Puentes Federales.

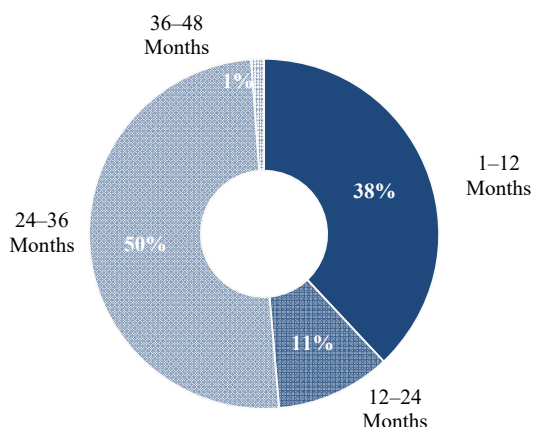
Citibanamex and affiliated companies in Mexico represented 5% and 7% of our total revenues for the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. AGNS Mexico and AT&T Mexico, combined, represented 7% and 7% of total revenues during the nine months ended September 30, 2017 and the year ended December 31, 2016, respectively. Our top five customers in the nine months ended September 30, 2017 and for the year ended December 31, 2016 represented 17.8% and 18.8% of total revenues, respectively.

In May 2013, we entered into a new five-year agreement with Citibanamex to provide managed cloud-based voice services and collaboration applications to its branches and offices in Mexico. Previously AT&T Telecom Mexico, Inc., a subsidiary of AT&T, was a shareholder of Alestra and currently AGNS Mexico leases links to provide its multinational customers services in Mexico. AT&T Mexico also acquired several Mexican companies from what was previously Grupo Iusacell and NII Digital (formerly Nextel), which have concessions that allow AT&T to provide both fixed (via AGNS Mexico) and mobile (via AT&T Mexico) services.

No other customer represented more than 5% of our revenues for 2016 and for the nine month period ended September 30, 2017.

A significant portion of our business, approximately 94% of our enterprise and government segment revenues for the nine month period ended September 30, 2017, consists of contracts with monthly recurring revenue.

The following table shows a breakdown of our current contracts' maturity:



The following table sets forth our top 40 enterprise and government clients' tenure with us as of the date of this offering memorandum:

Customer Rank	Tenure (years)	Customer Rank	Tenure (years)
1	17.8	21	10.5
2	17.2	22	17.8
3	10.9	23	5.3
4	9.0	24	19.8
5	13.3	25	12.1
6	16.9	26	13.5
7	3.1	27	13.7
8	20.2	28	9.0
9	20.8	29	16.9
10	19.0	30	3.9
11	15.8	31	16.3
12	15.8	32	9.0
13	14.4	33	16.4
14	15.3	34	12.8
15	16.7	35	17.4
16	17.8	36	3.6
17	14.5	37	16.9
18	9.0	38	17.8
19	11.2	39	16.0
20	9.0	40	7.2

Our Network Infrastructure

We have a network infrastructure of approximately 42,088 kilometers of fiber (including 11,995 km from IRU capacity) and more than 7,210 square meters of Data Center space. We provide network transport using a national fiber optic network combined with local hybrid access designed to optimize capital investment through the deployment of equipment to access the network, based on the specific needs of each customer. Access options for our company include fixed wireless, fiber optic last mile access point-to-point, point-to-multipoint, and copper, all connected through 12,771 kilometers of fiber optic metro rings.

Our wireless network uses microwave radios, TDM switches and new generation switches (Softswitch) and other types of infrastructure provided by recognized providers including Motorola, Nokia, Ericsson, Genband, among others. Our internet platform of is based on Cisco routers with Hewlett Packard servers and software applications developed by Microsoft Corporation. Our local fiber networks or metropolitan fiber optic rings use OFS Optical Fibers of Mexico, Samsung, Huawei and AFL and optical transmission equipment from Ciena, Alcatel-Lucent, Nokia and Huawei. The combination of these components allows us to offer network reliability, which is superior to the network used by other providers. With the network of last mile fiber optic (FTTx), we provide converged data, voice and video at speeds up to 200 megabits per second in symmetric mode.

Our new generation services are provided using world-class Data Centers built in accordance with international standards. We currently own six Data Centers.

In general, the ability to access advanced technologies directly increases the cost of the solutions. The capacity of our local hybrid access allows us to:

- Provide a variety of IT and telecom services;
- Meet demand quickly;
- Penetrate specific markets, and
- Size the deployed infrastructure to meet the market demand and the individual needs of customers.

This network infrastructure enables us to meet the needs of various market segments while pursuing investment efficiencies.

Access Connectivity

The last-mile connectivity portion of our network is comprised of a mix of fiber optics technologies as well as wireless for customers within our metropolitan fiber optic rings.

Our access technology to be used is determined based on a cost-benefit analysis, depending on customer needs and service availability.

With the GPON technology used in the last mile fiber optic network (FTTx), we provide converging services of data, voice and TV with speeds of up to 200 megabits per second in symmetric mode to residential customers and to small and medium sized businesses. Using the FOM technology with last mile fiber optic services, we also provide advanced data and voice services with high security standards to large companies and financial institutions.

Our point-to-point access is used for customers requiring digital trunks or dedicated private lines. We also use hybrid solutions or combines multiple technologies to reach more customers by expanding service using digital fiber solutions and specific technologies for buildings.

We have contracts with Telefonica Data de Mexico, a subsidiary of Telefonica, pursuant to which we acquired the right to use capacity in Telefonica's long haul fiber infrastructure which is located between the northern border of Mexico and Mexico City. Pursuant to such contracts, Telefónica Data de Mexico has the right to use a pair of dark fibers in a portion of our metropolitan fiber rings. We also maintain a similar agreement with Telereunión to use approximately 600 kilometers of long distance fiber optic network in the Gulf of Mexico region.

Local Network

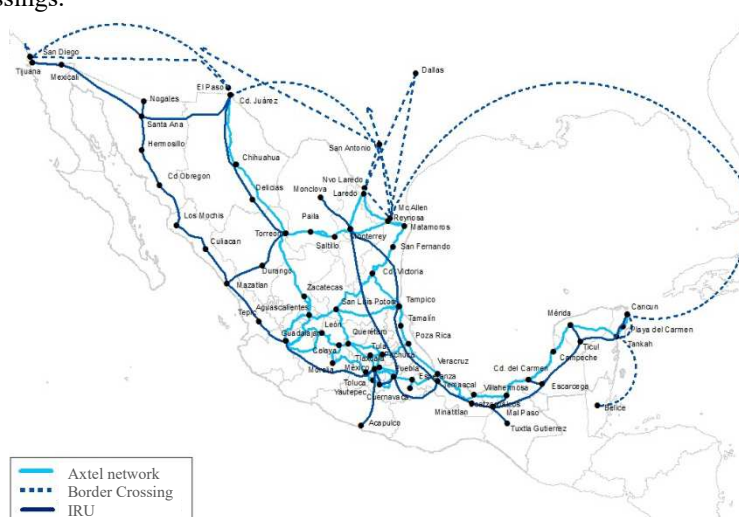
As of September 30, 2017, the transportation infrastructure of the network was 12,771 kilometers of metropolitan fiber optic rings in the cities where it operates. The network is made up of a variety of technologies, including fixed wireless access, WiMAX, point-to-point, point-to-multipoint and fiber optic technologies to connect residential and business customers.

The following table summarizes our local infrastructure as of September 30, 2017:

City	FWA Sites	Symmetry	WiMAX	PMP Sites	PTP Links	Switches	FTTx (km)
Monterrey	48	8	90	41	2,317	9	1,602
Guadalajara	33	6	52	28	1,423	7	901
México	83	11	169	83	4,419	11	2,184
Puebla	21	4	41	10	569	2	283
Toluca	7	2	25	9	582	1	167
León	13	3	27	8	392	1	196
Querétaro	3	3	18	7	536	-	285
San Luis Potosí	4	4	32	6	476	-	237
Saltillo	7	2	20	7	382	-	0
Aguascalientes	8	4	26	5	312	-	180
Ciudad Juarez	8	2	24	7	249	-	165
Tijuana	0	0	25	10	337	1	0
Torreón	7	3	31	6	267	1	0
Others	20	29	445	87	3,876	1	0
TOTAL	262	81	1,025	314	16,137	34	6,200

Long Distance Network

Our long distance transport network is approximately 23,117 kilometers in length, comprising 11,122 kilometers of our own infrastructure and the rest consisting of access through irrevocable rights-of-use contracts that support digital hierarchical synchronization ("SDH") and shipping technology through simultaneous channels across different wavelengths ("DWDM - dense wavelength division multiplexing"). SDH allows us to implement bi-directional ring architecture, a system that allows instantaneous redirection of traffic in case of equipment failure or a fiber cut. DWDM technology allows a large transmission capacity in the same physical infrastructure by the installation of additional electronic equipment. Our transport network connects 76 cities through our own infrastructure and 148 additional cities through leased infrastructure. Our network covers strategic cities in Mexico and the United States in order to provide customers with critical cross-border connectivity services through 10 international border crossings.



Voice Switching

We use 14 Genband digital switching centers called DMS-100. Ten of these centers route traffic in 18 cities. Four of these centers specialize in receiving and sending long distance traffic from the country's 397 service areas and international traffic from the United States and the rest of the world. We also use six Genband Call Server 2000 Next Generation (Softswitches) switches to route traffic from the rest of the cities (53 cities). We also have four Ericsson AXE TL4 Digital Switching Centers for local service, two located in Mexico, one in Monterrey and one in Guadalajara covering 22 cities. Finally, we have two new generation digital switches (Softswitches), SoftX3000 Huawei Softswitches, that provide local services to 11 cities and commute all international voice over IP traffic. Additionally, we have 4 5ESS stations that provide local service to 7 cities, as well as 4 Sonus SoftSwitch that route traffic from 47 cities. We also have the Broadsoft platform that gives local service to the 32 cities for the average market SIP Lines.

DMS switches have the capacity to handle approximately up to 110,000 lines and the CS 2000 handles up to 180,000 lines. Both models work on modular bases and provide analog lines, E1 digital lines, high-speed digital data services, centrex services and operator assistance services. In addition, the CS 2000 model can provide multimedia capabilities by supporting multiple Next Generation Protocols. Both switch models can provide clear-channel digital private lines, data transmission and value-added services such as four-digit dialing, tripartite conferences, caller ID, call waiting, automatic dialing and smart lines, among others. Sonus SoftSwitch provides voice over IP services.

Data Centers

Our new generation services are provided using the world-class Data Centers built in accordance with international standards. We currently own six Data Centers with approximately 7,210 square meters of capacity nationwide with ICREA (International Computer Room Experts Association) level 3 through 5 certifications; 2,860 square meters in Monterrey, 100 square meters in Guadalajara, 400 square meters in Mexico City and 3,850 square meters in Queretaro, including 600 square meters which were added in 2017. The Data Center in Querétaro is the first in Latin America with an energy cogeneration system, and has obtained the ICREA 5 certification.

The following table details the main features of our data centers as of September 30, 2017:

Specs / Data Center	Total Area (m²)	Available Area (m²)	Total Power (Kw)	ICREA Certification
Monterrey	2,860	735	3,500	3 & 4
Guadalajara	100	30	130	No
Mexico	400	90	400	4
Queretaro 1	3,250	530	6,250	3 & 5
Queretaro 2	600	580	1,000	3
Total	7,210	1,965	11,280	---

Network Administration

We have six centers of monitoring and administration of national network, five located in Monterrey and another one in Guadalajara. Our centers supervise the correct operation of connections and equipment. The monitoring occurs 24 hours a day, seven days a week. When there is an inappropriate performance of the network, the centers initiate the process to correct any fault and notify the affected areas of such fault.

Information Technology Systems

We have an information technology architecture that is based upon Siebel, a customer relationship management system, SAP software for enterprise resource planning, Comverse Technology Inc. software for billing and Net Boss for network management and monitoring. These systems enable us to perform on-line sales and service provisioning, manage customer requests, generate accurate bills and produce timely financial

statements. These systems allow us to respond to customer requests with speed, quality and accuracy.

Insurance

We are insured against three categories of risks: (i) assets; (ii) transportation and (iii) civil liability. Our all-risk policy insures assets from hurricanes and other weather conditions, earthquakes, equipment failures and other disasters. Our transportation policies provide coverage for all import and export equipment, whether shipped by air, land or sea. We also have liability policies, which provide coverage for damages to third parties and insure assets, products and people, including advisors and managers. In addition, as required, insurance policies are contracted to comply with local regulations or specific needs, such as commercial automobiles, workers' compensation and employee practices.

We believe that our insurance coverage is reasonable in amount and consistent with industry standards, and do not anticipate having any difficulties in renewing any of our insurance policies.

Employees

As of September 30, 2017, we had 7,136 employees, of whom 417 were temporary employees. For the years ended December 31, 2016 and 2015, we had 7,584 and 7,001 employees, respectively.

As of September 30, 2017, we had 4,239 employees in the enterprise segment and administrative personnel. Of these employees, 300 employees had specialized certifications: 140 ITIL, 35 Cisco, 14 Business Partners, 81 Technical Sales Support Engineers, 15 Cybersecurity Specialists and 14 IT Architects.

The following table summarizes the experience and education level of our workforce within the enterprise segment:

	#	Years with Axtel	Graduate	Engineer Graduate	Post-Graduate
Managerial Positions	213	16 65% >15 Years	92%	42%	23%
Non-Managerial Positions	4,026	7 31% >10 Years	90%	56%	-

As of September 30, 2017, certain employees, excluding executives and managers, were members of the *Sindicato Nacional de Trabajadores de la Industria de Telecomunicaciones de la República Mexicana* (the Workers' National Union for the Telecommunications Industry in Mexico), representing 13% of total employees. Under our collective bargaining agreement, we are required to negotiate salaries on a yearly basis and other benefits every two years. There are no other workers or employees of our company that are members of other unions. We believe that we have a good relationship with our employees and the aforementioned union.

Legal Proceedings

In the ordinary course of business, we are involved in various legal proceedings. While the results of any such proceedings cannot be predicted with certainty, we do not believe that there are any pending or threatened actions, suits or proceedings against or affecting us which, if determined adversely to us, would in our view, individually or in the aggregate, materially harm our business, financial condition or results of operations.

As of September 30, 2017, we were party to the below legal proceedings concerning interconnection disagreements with other mobile operators.

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

We (Axtel and Avantel) entered into transaction agreements with Telcel in 2015 that covered the period from January 1, 2005 to April 4, 2014, under which the parties agreed to terminate their disputes related to mobile interconnection rates generated during that period. As a result, no dispute remains open for that period with respect to interconnection rates.

Rates corresponding to mobile interconnection services provided by Telcel to our company from April 5, 2014 to date were paid by us following the terms of the asymmetric regulation issued by the Federal Telecommunications Institute (IFT), which classified Telcel as a preponderant economic agent. After Telcel challenged the aforementioned rates, the Mexican Supreme Court confirmed the validity of the rates and its judgment is definitive and may not be challenged.

No other legal proceedings between us and Telcel remain pending.

Grupo Telefónica

We (Axtel and Avantel) entered into transaction agreements with Grupo Telefónica covering the period from 2005 to 2011, under which the parties agreed to terminate their disputes related to the mobile interconnection rates generated during that period.

For the years 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements between Grupo Telefónica and us, reducing interconnection rates for termination services involving mobile service users.

We entered into settlement agreements with Grupo Telefónica with respect to interconnection rates for the period from January 1, 2007 to July 31, 2016, and the rates for the period from August 1 to December 31, 2016 were resolved by the courts confirming those rates.

Grupo Iusacell (today AT&T Mexico)

For the years 2012, 2013, 2014 and 2015, the IFT resolved interconnection disagreements between Grupo Iusacell and us, reducing interconnection rates for termination services involving mobile service users.

In 2015, we entered into transaction agreements for 2014 because the IFT's resolution that set the rates for 2012 and 2013 is under litigation in the Specialized Courts. For 2012 and 2013, we obtained a favorable resolution in July 2016, as a result of which the Second Specialized Collegiate Court confirmed the rates set by the IFT.

Grupo Iusacell contested the IFT's resolution for 2015, but in July 2016 we obtained a favorable ruling confirming the rates. As of the date of this offering memorandum, no ruling has yet been issued by the Specialized Collegiate Court with respect to the new motion for review filed by Grupo Iusacell.

We obtained favorable resolutions in July through September 2017 for 2012, 2013 and 2014, and as a result, the Specialized Collegiate Courts confirmed the rates set by the IFT. In connection with interconnection rates for 2016, there is ongoing litigation between us and Grupo Iusacell that has not been resolved as of the date of this offering memorandum.

As of the date of this offering memorandum, we believe that the rates determined by the IFT resolutions for the years 2012, 2013, 2015 and 2016 will be upheld and, as a result of which, we have recognized the cost based on such rates and there are no reserves related to this potential contingency.

Telmex and Telnor

For the period from 2009 to 2014, we obtained favorable and definitive rulings confirming that rates for termination of long-distance calls from our company to Telmex set by the IFT and its predecessor, the *Comisión Federal de Telecomunicaciones* ("Cofetel"). For 2009, 2012, 2013 and 2014, Telmex filed legal actions contesting the rates set by the Cofetel. Such legal actions have not been settled or resolved and litigation is ongoing.

Additionally, there is a disagreement between Telmex and us regarding the rates for terminating long-distance calls that the Cofetel resolved in favor of Avantel for 2009, approving a rate reduction. Telmex contested this resolution and a resolution is expected to be issued in the near future.

In April 2015, the IFT set the rates for termination of long-distance calls in the Telmex network to be applied by Alestra from 2013 to 2015. Telmex contested these rates. Alestra obtained a favorable ruling for 2015 and a final resolution is pending.

We are a party to litigation against Telmex regarding interconnection rates applicable from 2008 to 2013, except 2009, as Telmex challenged the reduction of rates set by the Cofetel. There is a trust established with BBVA Bancomer (as trustee) to secure payment of interconnection rates in the dispute applicable to 2008. This trust was amended to include the amounts in dispute from 2009 to 2010. In April 2013, Alestra obtained a favorable ruling for 2009, and was awarded a refund of the amount deposited in the trust for that year, plus interest. As of the date of this offering memorandum, we have ongoing litigation against Telmex at the specialized court level for interconnection rates applicable for the years 2008, 2010, 2011, 2012 and 2013. No assurances may be given as to when resolutions may be issued or whether those resolutions will be favorable to us.

In connection with interconnection rates for the year 2015, we maintain a dispute with Telmex with respect to the applicable rates; the dispute relates to whether the rates set by Telmex or the rates set by the IFT pursuant to asymmetric regulation prevail. The Supreme Court is considering the matter and we expect that a resolution will be issued in the near future.

Since July 4, 2014, when the LFTR was enacted, Telmex and Telcel were prohibited from charging interconnection fees for terminating calls on their network. However, on August 16, 2017, the Mexican Supreme Court issued a resolution that declared unconstitutional a series of provisions of the LFTR relating to the prohibition imposed on Telmex and Telcel to charge other carriers for termination services on its network. As such, the IFT will now determine the interconnection rate that other carriers must pay to Telmex and Telcel. The resolution states that this rate will be based on international best practices, cost oriented methodologies, transparency and reasonableness. The new interconnection rate will take effect on January 1, 2018. We and other operators that are competitors of Telcel will not be forced to repay interconnection charges to Telcel retroactively; however, Telcel's interconnection rate may be increased going forward, which could have a material adverse effect on our business, financial condition and results of operations.

As of the date of this offering memorandum, we and our advisors consider that the rates of the resolutions of the IFT and the Cofetel will prevail based on the resolutions obtained in favor of our company with respect to similar matters, for which we have recognized the cost based on such rates and as a result there are no accounting provisions associated with this potential contingency. If such rates were not confirmed and we were required to pay higher or additional rates, these increases would have a material adverse effect on our business and results of operations.

Solution Ware Integración, S. A. de C. V. ("Solution Ware")

Axtel and Solution Ware participated in seven projects with the Department of Labor and Social Welfare, Department of Social Development, National Population Registry and the National Forest Commission of the State of Nuevo León, with Seguros Monterrey and with the government of the State of Tamaulipas. To date, Solution Ware has filed a number of commercial lawsuits against our company, for payment of a number of purchase orders for administrative services, as well as interest, damages, lost profits, and legal costs. As of the date of this offering memorandum, Solution Ware has claimed the payment of Ps. 92 million and U.S.\$13 million.

At the date of this offering memorandum, we and our advisors believe that there is a low probability of these lawsuits being successful and, therefore, no reserves have been recorded in our financial statements.

While the results of any such proceedings cannot be predicted, we do not believe that there are any pending or threatened actions, suits or proceedings against or affecting us which, if determined adversely to us, would, individually or in the aggregate, materially harm our business, financial condition or results of operations.

MANAGEMENT

Board of Directors

Our board of directors is responsible for the management of our business. Set forth below are the name, age, position and biographical description of each of our current directors. Our directors were appointed or such appointments were ratified in an ordinary shareholders' meeting held on March 10, 2017. The business address of our directors is that of our principal office.

Name	Age	Title
Álvaro Fernández Garza	49	Co-Chairman and Board Member
Tomás Milmo Santos	53	Co-Chairman and Board Member
Salvador Alva Gómez	66	Independent Board member
Alejandro Miguel Elizondo Barragán	64	Board member
Francisco Garza Egloff	63	Independent Board member
Juan Ignacio Garza Herrera*	66	Board member
Armando Garza Sada	60	Board member
Fernando Ángel González Olivieri	63	Board member
Bernardo Guerra Treviño*	52	Independent Board member
Ramón Alberto Leal Chapa	48	Board member
Enrique Meyer Guzmán*	57	Independent Board member
Thomas Lorenzo Milmo Zambrano	82	Board member
Paulino José Rodríguez Mendivil	66	Board member
Ricardo E. Saldívar Escajadillo	64	Independent Board member
Alberto Santos Boesch	46	Board member
José Antonio González Flores	47	Alternate Director
Patricio Jiménez Barrera	52	Alternate Director
Mauricio Morales Sada	56	Independent Alternate Director
Mario Humberto Páez González	67	Alternate Director

*Member of the Audit and Corporate Practices Committee.

Álvaro Fernández Garza. Co-Chairman of the board of directors of Axtel since February 2016. Mr. Fernández Garza is the President of Alfa since 2010. He joined Alfa in 1991. Prior to his current position, he was CEO of Sigma Alimentos, S.A. de C.V. where he previously held various executive positions. He is a member of the board of Universidad de Monterrey, and was President of the Manufacturing Industry Chamber of Nuevo León (Cámara de la Industria de la Transformación en Nuevo León, "CAINTRA"). He is also a member of the Board of Alfa since 2005 and member of the boards of Alpek, Nemark, Vitro, Cydsa, Grupo Aeroportuario del Pacífico, and the Contemporary Art Museum of Monterrey (Museo de Arte Contemporáneo de Monterrey), and participates in the Latin American Board of Georgetown University. He holds a degree in Economics from the University of Notre Dame, and MBA degrees from Instituto Tecnológico y de Estudios Superiores de Monterrey ("ITESM") and from Georgetown University.

Tomás Milmo Santos. Co-Chairman of the board of directors of Axtel since February 2016. Mr. Milmo Santos was Axtel's CEO from 1994 to February 2016, was member of the Board since 1994 and Chairman from 2003 to February 2016. He is a member of the boards of CEMEX, ITESM and Promotora Ambiental, S.A.B. de C.V. He is also Chairman of the board of Tec Salud and Alianza Educativa Ciudadana por Nuevo León, Mexico. He holds a Bachelor's degree in Business Economics from Stanford University.

Salvador Alva Gómez. Axtel board member since February 2016. President of the ITESM since 2011. Mr. Alva worked at PepsiCo for 24 years, where he was President of PepsiCo Latin America. He now serves as member of the boards of Endeavor, Proeza and the Contemporary Art Museum of Monterrey. He holds a degree in Chemical Engineering from Universidad Nacional Autónoma de México and an MBA from UDLA in Puebla.

Alejandro Miguel Elizondo Barragán. Axtel board member since February 2016. Mr. Elizondo is the Senior Vice President of Business Development of Alfa. He joined Alfa in 1976. Prior to his current position, he was President of Alpek. He also served as Chief Financial Officer of Alfa and President of Hylsamex. Currently, he is a

Board member of Embotelladoras Arca and Banco Regional de Monterrey. He studied Mechanical and Electrical Engineering at ITESM, and holds an MBA from Harvard Business School.

Francisco Garza Egloff. Axtel board member since February 2016. He has also been the Chief Executive Officer of Arca Continental since 2003. Board member for Grupo Industrial Saltillo, Grupo AlEn, Banco Regional de Mexico, Banco Holandés Rabobank, Ovniver, Ragasa and Proeza. Mr. Garza worked at Alfa for 26 years, where he held several positions including Chief Executive Officer of Sigma Alimentos, Akra, PetrocelTemex and Polioles. He holds a degree in Chemical Engineering from ITESM and completed an Executive Program at Instituto Panamericano de Alta Dirección de Empresas (“IPADE”).

Juan Ignacio Garza Herrera. Axtel board member since February 2016. Mr. Garza is CEO of Xignux since 2012, which he originally joined in 1989. Board member for Xignux, BBVA Bancomer (Northeast region), Consejo Mexicano de Hombres de Negocios (“CMHN”), Universidad de Monterrey, ICONN, Cleber and Instituto Nuevo Amanecer and Chairman of CAINTRA. He holds a degree in Mechanical Engineering at ITESM and an MBA from the University of San Francisco.

Armando Garza Sada. Axtel board member since February 2016. Mr. Garza Sada is the Chairman of the board of directors of Alfa. He joined Alfa in 1978. Mr. Garza Sada is a member of the boards of FEMSA, CEMEX, Frisa, Lamosa, Liverpool, Proeza and the ITESM. He is a member of the Mexican Business Council and held the positions of Chairman of the Manufacturing Industry Chamber (CAINTRA) of the State of Nuevo León and of the Private Sector Industrial and Economic Council (CEESP). He holds a degree from the Massachusetts Institute of Technology and an MBA from the Stanford Graduate School of Business.

Fernando Ángel González Olivieri. Axtel board member since February 2016. Mr. González was appointed Chief Executive Officer of CEMEX in 2014 and joined the company in 1989. During the first nine years, he held several positions in Strategic Planning, Business Development and Human Resources. Afterwards, he led the operations of CEMEX in South America and the Caribbean, Europe, Middle East, Africa, Asia and Australia; as well as corporate areas including Finance, Strategic Planning and Administration. Mr. González earned his BS in Business Administration and his MBA from ITESM.

Bernardo Guerra Treviño. Axtel board member since February 2016. Founding member of Morales y Guerra Capital Asesores (MG Capital). He is also a board member for Promotora Ambiental, Fibra Monterrey and Grupo Famsa. He holds a degree in Industrial and Systems Engineering from ITESM.

Ramón Alberto Leal Chapa. Axtel board member since February 2016. Mr. Leal is the Chief Financial Officer of Alfa. He joined Alfa in 2009. Prior to his current position, he served as Alfa’s Vice President of Treasury. He served in various executive positions in finance and strategic planning at Vitro. He previously held various executive positions at Pulsar, Vector Casa de Bolsa and Violy & Partners in New York. Mr. Leal is also a member of the Universidad de Monterrey and of other companies and institutions. He holds degrees in Accounting from Universidad de Monterrey, a Master’s degree in Operations Management from ITESM, and an MBA from Harvard Business School.

Enrique Meyer Guzmán. Axtel board member since February 2016. Founder, CEO and Chairman of the Board of Grupo Cemix. He is also a board member for Universidad de Monterrey, BBVA Bancomer, Citibanamex, and of other private companies. Mr. Meyer holds a degree in Industrial and Systems Engineering from ITESM, and an MBA from Stanford University.

Thomas Lorenzo Milmo Zambrano. Axtel board member since February 2016. Mr. Milmo held the position of Chairman of Axtel from 1997 until 2003. He is the Co-Founder and former Chairman of Javer and Incasa Group; former Chairman and CEO of Carbonifera San Patricio and Carbón Industrial.

Paulino José Rodríguez Mendivil. Axtel board member since February 2016. Mr. Rodríguez is the Senior Vice President of Human Capital and Services of Alfa. He joined Alfa in 2004. Prior to his current position, he served in various positions at Sigma, including Vice President of Human Resources, Vice President of Key Sales Accounts and Vice President of Institutional Sale. Mr. Rodríguez is also a member of the Boards of Campofrío, Indelpro, Confederación Patronal de la República Mexicana (“COPARMEX”) and Consejo Coordinador Empresarial. He studied Industrial Systems Engineering and obtained a Master’s in Energy Technology from the University of the Basque Country, Spain.

Ricardo E. Saldívar Escajadillo. Axtel board member since February 2016. Mr. Saldívar served as Chairman and CEO of The Home Depot México for 16 years until June 2017 when he retired. Prior to The Home Depot, he served at Alfa where he spent 21 years having responsibility in multiple senior leadership positions including strategic business development, finance, commercial, operations, human resources, IT in several of its subsidiaries including steel technology, auto parts, cardboard, telecommunications and retail, as well as in the corporate headquarters. He is member of the boards of FEMSA, and ITESM. Mr. Saldívar holds a degree in Mechanical and Industrial Engineering from ITESM and a Master of Science degree in Systems Engineering from Georgia Tech.

Alberto Santos Boesch. Axtel board member since February 2016. Chairman and CEO of Ingenios Santos, S.A. de C.V. He is also a board member of Grupo Maseca, Interpuerto de Monterrey, Comité de Desarrollo de ITESM, Instituto Nuevo Amanecer, Renace, Red de Filantropía de Egresados y Amigos del Tec, Museo Nacional de Energía y Tecnología, A.C., Comité del Consejo Consultivo de la Facultad de Ciencias Políticas y Administración Pública of the UANL and Unidos por el Arte contra el Cáncer Infantil. Mr. Santos holds a degree in International Studies from Universidad de Monterrey as well as a degree in International Studies from Cushing Academy.

José Antonio González Flores. Alternate Director of Axtel since February 2016. Mr. González was appointed Chief Financial Officer for CEMEX in 2014 and joined the company in 1998, where he occupied the positions of Vice President of Corporate Finance; Vice President of Corporate Communications and Public Affairs, Vice President of Planning and Finance for CEMEX Australia and other positions in the Finance and Strategic Planning functions of CEMEX. He obtained an undergraduate degree in Industrial Engineering from ITESM and an MBA from Stanford University.

Patricio Jiménez Barrera. Alternate Director of Axtel since February 2016. Mr. Jiménez is the CEO of Abstrix, S.A. de C.V. Prior to his current position, he served as Axtel's Chief Financial Officer from 1998 to 2009. Prior to joining Axtel, Mr. Jiménez held a variety of finance-related positions, including investment banker while at Invermexico Casa de Bolsa, corporate treasurer while at Grupo Cydsa and an investment banker while at Banca Serfín, S.A. where he was a member of the Department of International Banking and Treasury. Mr. Jiménez is member of the boards of Sociedad Financiera de Crédito Popular Nacional and Operadora de Servicios Mega. Mr. Jiménez is a CPA and holds a degree from ITESM.

Mauricio Morales Sada. Alternate Director of Axtel since February 2016. Founder and President since 1995 of MG Capital, an Investment Advisory firm. From 1984 to 1995 he held different positions in financial institutions in Monterrey. Mr. Morales holds a Mechanical Engineering degree from ITESM.

Mario Humberto Páez González. Alternate Director of Axtel since February 2016. Mr. Páez joined Alfa in 1974 and has served as Sigma's Chief Executive Officer since 2002 and served as Alfa's Chief Financial Officer for a period of ten months. Mr. Páez has also served as CEO of Total Home, S.A. de C.V. and Empaques de Cartón Titán. Mr. Páez holds a Bachelor's Degree in Public Accounting from ITESM and an MBA from ITESM and Tulane University.

Board Practices

Pursuant to the Company's bylaws and Mexican law, the board of directors is composed of 15 regular directors and 4 alternate directors. Six board members and one alternate director are independent pursuant to the LMV. The Audit and Corporate Practices Committee is currently comprised of three regular independent members and one alternate independent director, all of which are independent pursuant to the LMV. Pursuant to the Company's bylaws and Mexican law, the members of the Board of Directors remain in office for thirty days after their resignation or conclusion of the term to which they were appointed unless replaced.

The board of directors is responsible for the legal representation of the Company, is responsible for Company's policy and is authorized to perform any act which is not expressly reserved to the shareholders' meetings. Under the LMV, some of the main matters that must be approved by the board of directors include:

- transactions with related persons that arise from the regular course of operations of the Company, subject to the previous favorable opinion of the Audit and Corporate Practices Committee;

- acquisitions of assets, including other companies, or transfers of a substantial part of the assets of the Company;
- the guidelines in respect of internal control and internal audit;
- approve the Company's financial statements;
- the granting of guarantees with respect to third party obligations; and
- other relevant transactions.

The meetings of the board of directors are deemed legally convened when the majority of its members are present and its resolutions are valid when adopted by vote of a majority of directors present whose personal interests with respect to a particular case are not contrary to the Company. The chairman of the board of directors has the casting vote in case of a tie.

Under the LMV, the board of directors is responsible for passing resolutions on the following matters, among others:

- establish the overall strategy of the Company;
- approve, subject to prior review of the audit committee, (i) the policies and guidelines for the use of the assets of the Company by related persons, and (ii) each individual transaction with related persons the Company might intend to carry out, subject to certain restrictions, and any transaction or series of unusual or nonrecurring transactions, involving the acquisition or disposition of assets, the granting of guarantees or assumption of liabilities totaling not less than 5% in the consolidated assets of the Company;
- the appointment and dismissal of the CEO of the Company, and policies for the appointment of other key officers;
- the financial statements, accounting policies and guidelines on internal control of the Company (other than yearly financial statements, that are approved by shareholders);
- the hiring of external auditors; and
- approve the disclosure policies of relevant events.

The LMV requires the board members to observe duties of care and loyalty.

The duty of care means that the directors of the Company must act in good faith and in the best interest of the Company. The directors of the Company are required to request the CEO, managers and external auditors for any relevant information reasonably required for decision-making. Board members meet their duty of care primarily through attendance at meetings of the Board and its committees, obtaining any information necessary to pass a decision and the disclosure during such sessions, of any important information obtained by them. The directors who fail in their duty of care may be jointly liable for the damages caused to the Company or its subsidiaries.

The duty of loyalty means that directors of the Company must maintain confidentiality regarding information which they acquire by reason of their positions and should not participate in the deliberation and vote on any matter in which they have a conflict of interest. Directors will incur disloyalty against the Company when they obtain economic benefits for themselves, when knowingly promote a particular shareholder or group of shareholders, or take advantage of business opportunities without a waiver from the board. The duty of loyalty also means that directors must (i) act free of any conflict of interest, (ii) refrain from taking advantage of corporate opportunities, (iii) inform the audit committee and external auditors all the irregularities that they have knowledge of during the performance of their duties, and (iv) to refrain from disclosing false information and order or cause it not to register transactions by the Company, affecting its financial statements. The directors who fail in their duty of loyalty may be subject to liability for damages caused to the Company or its subsidiaries.

Board members can be subject to criminal penalties consisting of up to 12 years imprisonment for committing acts of bad faith involving the Company, including the alteration of its financial statements and reports.

Responsibility for damages resulting from the violation of the duties of care and loyalty of directors may be exercised by the Company or by shareholders who, individually or collectively, hold shares representing 5% or more of its capital stock, in both cases solely for the benefit of the Company (as a shareholders' derivative suit).

Board members will not be held liable as described above (including criminal liability) if, acting in good faith, they: (i) observe the requirements established by applicable laws for the approval of matters concerning the board of directors or its committees, (ii) make decisions based on information provided by relevant officers or others whose capacity and credibility are not subject to reasonable doubt, and (iii) select the most suitable alternative to the best of their knowledge and belief, or the negative economic effects of the alternative selected were not foreseeable.

Audit and Corporate Governance Committee

The LMV requires us to have one or more committees. The committees of audit and corporate governance must be composed only by independent board members and at least three independent members under the LMV. We believe that all of the members of the audit and corporate governance committee qualify as independent under the LMV.

As of the date of this offering memorandum, the audit and corporate governance committee is composed of the following three members:

<u>Name</u>	<u>Title</u>
Bernardo Guerra Treviño	Chairman
Juan Ignacio Garza Herrera	Board member
Enrique Meyer Guzmán	Board member

Executive Officers

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Years in the Industry</u>
Sergio Rolando Zubirán Shetler	65	Chief Executive Officer	30
Carlos G. Buchanan Ortega	58	Executive Director Human Resources	15
Andrés E. Cordovez Ferretto	49	Executive Director Infrastructure and Operations	21
Adrián Cuadros Gutiérrez	46	Executive Director IT Solutions	24
Adrián Gerardo de los Santos Escobedo	48	Acting Chief Financial Officer	11
Antonio De Nigris Sada	52	Executive Director Mass Market Segment	17
Bernardo García Reynoso	59	Executive Director Planning and Development	21
Ricardo J. Hinojosa González	51	Executive Director Enterprise Segment	20
Raúl de Jesús Ortega Ibarra	60	Executive Director Legal and Regulatory	24
Arturo Vázquez Silveyra	47	Executive Director Government Segment	25

Sergio Rolando Zubirán Shetler. Chief Executive Officer. CEO of Alestra from 1999 through February 2016. With more than 30 years of experience in the Latin American telecommunications market, he has held various executive positions in Mexico, Brazil and Argentina. He is an Industrial Engineer from the Universidad Nacional Autónoma de México, he holds a Master's of Science in Operations Research from the University of Southern California and a PhD in Philosophy, specialized in Management, by the Universidad Autónoma de Nuevo León.

Carlos Guillermo Buchanan Ortega. Executive Director Human Capital. Previously acted as Co-Founder Director of B&S Consultores from 2015 to 2017 and as Director of Human Resources at Alestra from 2001 to 2016. He is Chairman of ERIAC Capital Humano and is counselor of the Universidad de Monterrey and Tec Milenio. He holds a Bachelor's degree in Psychology, a Master's in Organizational Development and Management from the Universidad de Monterrey, and completed a Senior Business Administration Program at IPADE and Strategic Leadership Program at Kellogg University.

Andrés Eduardo Cordovez Ferretto. Executive Director Infrastructure and Operations. Acted as Executive Director of Technology and Operations at Axtel from 2013 through January 2016. Before, he was Director of Information Technology and Processes. During his 25 years of professional experience, he has held various executive positions in diverse national and multinational telecommunications, financial, and service companies. Mr. Cordovez holds a degree in Computer Systems Engineering from ITESM, and completed an Executive Program at IPADE.

Adrián Cuadros Gutiérrez. Executive Director IT Solutions. Before joining Axtel, he worked for Alestra since 1996, where he was Director of IT Sales and Director of Sales for Institutional Accounts. Mr. Cuadros holds a degree in Electronics and Communications Engineering from ITESM, and holds an MBA from ITESM, as well as having completed an Executive Program at IPADE.

Adrián Gerardo de los Santos Escobedo. Acting Chief Financial Officer. He served as Director of Corporate Finance and Investor Relations for Axtel until February 15, 2017 when he was appointed Acting Chief Financial Officer. Prior to joining Axtel in April 2006, he worked for Operadora de Bolsa and Banca Serfin (now Santander México) and Standard Chartered Bank, where he held positions in Institutional and Corporate Banking in the cities of Monterrey, London and New York. Graduated in Business Administration from ITESM, with a Master's in Finance from the Carroll School of Management at Boston College.

Antonio De Nigris Sada. Executive Director Mass Market Segment. He has held various positions within Axtel since 1999, such as Executive Director of Mass Market Segment, Director of Operations and Director of Mass Market Service Delivery at a national level. Before joining Axtel, he acted as Director of Business Banking at BITAL (now HSBC) and in Prime Internacional, a financial leasing institution. He holds a degree in Industrial Engineering from Anáhuac University and an Executive Program at IPADE.

Bernardo García Reynoso. Executive Director Planning and Development. Mr. García joined Alfa in 1985 and Alestra since its start in 1996 holding several positions, including Director of Sales, Director of Residential Business Unit, Director of Sales to Large Businesses and Affiliates, Director of Sales Management and Commercial Strategy, Director of Strategic Alliances, Sub-Director of Human Resource Planning, and Director of Management and Human Resources. Before joining Alestra, he also served in several positions in Alfa, including one on the team that negotiated the Amended and Restated Joint Venture Agreement with AT&T to form Alestra. Mr. García holds a Bachelor's Degree in Industrial and Systems Engineering from ITESM, a Master's Degree in International Trade from Universidad de Monterrey and an MBA from IMD Business School in Lausanne, Switzerland.

Ricardo J. Hinojosa González. Executive Director Enterprise Segment. Mr. Hinojosa joined Alfa in 1988 and Alestra in 1997 where he acted as Commercial and Marketing Director and held several executive positions in the areas of Marketing, Corporate Sales and Planning. Before joining Alestra, he held several strategic positions in Planning and human resources. Mr. Hinojosa holds a Bachelor's Degree from ITESM in Computer Science and a MBA from the John E. Anderson School of Business from the University of California in Los Angeles.

Raúl de Jesús Ortega Ibarra. Executive Director Legal and Regulatory. From 1993 to 1996, Mr. Ortega was a Public Affairs Director with AT&T in Mexico and joined Alestra since its start in 1996, where he had responsibility in various areas such as the International Business Unit and Communications. He has substantial experience as an advisor in international telecommunications, as well as in trade politics, policy and regulation in the U.S. and Mexico. Before joining AT&T, Mr. Ortega served as Managing Director of an alliance of Mexican private sector organizations formed to promote expanded trade between the U.S., Mexico and Canada, particularly in the context of the North American Free Trade Agreement. He holds an accounting degree from the Universidad Iberoamericana and a graduate degree in Political Economics from Stanford University.

Arturo Vázquez Silveyra. Executive Director Government Segment. In Axtel he acted as Director of Sales and Service of Monterrey, Business and Government Sales and Service for the North region, and Federal, State, and Municipal Government Sales and Service. He was a Board Member for COPARMEX, Cámara Americana de Comercio de N.L., CANIETI, CIAPEM and CUDI. Mr. Vázquez holds a degree in Computer Systems Engineering from the Universidad Regiomontana, and holds an MBA from ITESM, as well as having completed an Executive Program at IPADE.

Compensation of Senior Officers

Compensation and benefits received by our main officers for the years ended December 31, 2016, 2015 and 2014 were Ps. 246 million, Ps. 259 million and Ps. 72 million, respectively. For the nine months ended September 30, 2017 and 2016, compensation and benefits paid to our main officers totaled Ps. 68 million and Ps. 224 million, respectively. These amounts are comprised of base salary and benefits required by law, complemented by a variable compensation program generally based on our results and on the average price of Axtel's and Alfa's shares.

Internal Controls

We have internal control policies and procedures designed to promote (i) the efficiency and effectiveness of our operations, (ii) the reliability of our financial information and (iii) compliance with all applicable legislation, regulations, statutory rules and guidelines. We also undertake quarterly internal auditing procedures with respect to our various operating processes based on the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") monitoring system, which results in an internal control effectiveness report. The following is a description of some of our key internal control policies:

- **Expenses and Procurement Policy.** The objective of this policy is to ensure that all costs or expenses incurred are consistent with the Company's interest and strategies and are authorized at the executive level. All steps in the procurement process, from the allocation of budget through the delivery of the good or service to be acquired, are subject to a series of filters, including the selection of a determined supplier, the terms of payment, the form of payment and its execution. The expense and investment budgets are authorized in the corporate offices of the Company. The expense budget policy addresses the type of expenditure, the authorization form and the level of executive personnel required to authorize the budget. In the case of capital investments or the purchase of fixed assets, regardless of the amount, purchases must first be authorized through a capital investment authorization request. Any project that is not within the original budget must be authorized at the top executive level.
- **Accounting Policy.** This policy includes the classification and description of the accounting catalogue of accounts, which includes classification by account number and describes the use that is given to each account that is part of the statement of financial position, in accordance with the IFRS.
- **Uncollectable Reserve Accounts Policy.** The objective of this policy is to supervise the collection of the accounts receivable portfolio and to make the necessary provisions. This policy sets forth the necessary requirements for determining the estimate of uncollectable accounts, reporting the provisions to be made for given estimates and the tax treatment to be applied at the time of the write-off of the uncollectable accounts.
- **Treasury Policy.** This policy is intended to provide guidelines and a framework for actions to be taken by the Company's treasury department, including policies with regard to cash, investments, financings and derivative transactions, among others.

PRINCIPAL SHAREHOLDERS

We are a subsidiary of Alfa, which beneficially owns 52.78% of our outstanding common shares, which are held in trust by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, in its capacity as trustee of the Trust Agreement No. 2673. The table below sets forth certain information regarding the ownership of our capital structure as of the date of this offering memorandum.

<u>Shareholder</u>	<u>Number of shares</u>	<u>%</u>
Banco Invex S.A., Institución de Banca Múltiple, Invex Grupo Financiero, in its capacity as trustee of the Trust Agreement No. 2673	14,621,964,130	72.2%
Public float	627,263,351	27.8%
Total	<u>20,249,227,481</u>	<u>100.0%</u>

Alfa and a group of shareholders that hold a portion of our capital stock have entered into a shareholders' agreement for the purposes of defining their relationship as our shareholders as well as placing certain restrictions on the transfer of shares between Alfa and such shareholders. For additional information, see "Risk Factors—Risks Relating to Our Business—We have a majority shareholder, Alfa, whose interests may not be aligned with the interest of Axtel or creditors."

RELATED PARTY TRANSACTIONS

Related Party Transactions

We may enter into transactions with Alfa and other parties that are related to Alfa, and with our officers, our directors or entities in which we have an ownership interest.

Transactions with related parties during the year ended December 31, 2016 were as follows:

<i>(in millions of Pesos)</i>	Loans Received From Related Parties						
	Year ended December 31, 2016						
	Accounts receivable	Accounts Payable	Amount	Interest	Currency	Date of expiration	Interest rate
Holding company		246.4			Peso	07/14/17	N/A
Holding company			413.2	12.6	U.S. Dollar	07/15/17	3%
Holding company		287.3			Peso	02/28/18	TIIE + 2.25%
Holding company		287.3			Peso	02/28/19	TIIE + 2.25%
Holding company		204.6			U.S. Dollar	02/28/18	TIIE + 2.25%
Holding company		204.6			U.S. Dollar	02/28/19	TIIE + 2.25%
Affiliates	20.9	8.0	2.2	0.2	U.S. Dollar		Libor 3M + 2.75%
Total	<u>20.9</u>	<u>1,238.2</u>	<u>415.5</u>	<u>12.8</u>			

Income from sales and other to related parties:

<i>(in millions of Pesos)</i>	Year ended December 31, 2016			
	Services	Interest	Dividends	Other
Holding company				
Affiliated companies	<u>131.1</u>			
Total	<u>131.1</u>			

Cost of services and other expenses with related parties:

<i>(in millions of Pesos)</i>	Year ended December 31, 2016			
	Interest	Administrative services	Other costs and expenses	Dividends paid
Holding company	10.1	2.3		
Affiliated companies	1.5		31.3	
Total	<u>11.6</u>	<u>2.3</u>	<u>31.3</u>	

Additionally, during 2016, Alestra paid Ps. 809.8 million as compensation for the assumption of certain affirmative and negative covenants, which has been recognized as an intangible asset. For more information regarding the Alestra Merger, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Effects of the Alestra Merger.”

Our principal transactions with related parties for the years ended December 31, 2015 and 2014 were as follows:

<i>(in millions of Pesos)</i>	Year ended December 31,	
	2015	2014
Rent expense	34.9	29.7
Installation service expenses	18.0	30.2
Other	2.7	5.4

Salaries payable to related parties at December 31, 2015 and 2014 included in the Accounts payable line item were as follows:

<i>(in millions of Pesos)</i>	Year ended December 31,	
	2015	2014
Short-term accounts payable		
GEN Industrial, S. A. de C. V. *	0.1	0.1
Neoris de México, S. A. de C. V. *	0.6	0.5
Total	0.7	0.6

*Mainly administrative services.

Our transactions with related parties for the nine months ended September 30, 2017 and 2016, which were entered into on an arm's length basis, were as follows:

<i>(in millions of Pesos)</i>	Nine months ended	
	September 30,	
	2017	2016
<i>Income from sales and other to related parties</i>		
Services	112.0	86.4
<i>Cost of services and other expenses with related parties</i>		
Interest	77.0	7.1
Other	20.7	23.4

As of September 30, 2017, the balances with related parties were as follows:

<i>(in millions of Pesos)</i>	Nature of the transaction	September 30, 2017
Receivable:		
Affiliates	Services	\$25.7
Payable:		
Holding company	Indemnification payment	\$983.7
Holding company	Loan	454.4
Holding company	Merger-related financial liability	-
Affiliates	Loan	2.2
Affiliates	Services	17.4

DESCRIPTION OF THE NOTES

The notes will be issued under the indenture (the “Indenture”) dated November 14, 2017, among us, the Subsidiary Guarantors (as defined below), The Bank of New York Mellon (the “Trustee”), as trustee, paying agent, registrar and transfer agent.

We summarize below certain provisions of the Indenture, but do not restate that agreement in its entirety. We urge you to read the Indenture because it, and not this description, defines your rights.

You will find the definitions of capitalized terms used in this section under “—Certain definitions.” For purposes of this section of this offering memorandum, when we refer to:

- “we,” “us,” “our,” “the Company” or “Axtel,” we mean Axtel, S.A.B. de C.V. (parent company only) and not its Subsidiaries;
- the “Subsidiary Guarantors,” we mean the existing and future Subsidiaries of the Company that will issue guarantees of the notes, which initially are those Subsidiaries identified under “—General”; and
- the “notes,” we mean the notes offered pursuant to this offering memorandum and, unless the context otherwise requires, any additional notes, as described below in “—General.”

General

The notes will:

- be senior unsecured obligations of the Company;
- rank equal in right of payment with all other existing and future senior unsecured indebtedness of the Company (subject to certain labor, tax and social security obligations for which preferential treatment is given under Mexican law);
- rank senior in right of payment to all existing and future subordinated indebtedness of the Company, if any;
- be structurally subordinated to all existing and future secured indebtedness of the Company to the extent of the value of the assets securing such indebtedness;
- be unconditionally and irrevocably guaranteed by the following direct and indirect Subsidiaries of the Company: (i) Avantel, S. de R.L. de C.V.; (ii) Alestra Comunicación, S. de R.L. de C.V.; (iii) Servicios Axtel, S.A. de C.V.; (iv) Servicios Alestra, S.A. de C.V. and (v) any Restricted Subsidiary that provides a Subsidiary Guarantee after the Issue Date (collectively, the “Subsidiary Guarantors”). As of and for the year ended December 31, 2016 and the nine months ended September 30, 2017, the Subsidiary Guarantors accounted for 9.0% and 9.3% of our total assets and (6.3)% and (0.8)% of our Adjusted EBITDA on a consolidated basis, respectively; and
- be effectively subordinated to claims of creditors (including trade creditors and preferred stockholders, if any) of each of the Company’s Subsidiaries that is not a Subsidiary Guarantor.

The Company may, subject to the limitations set forth under “—Covenants—Limitation on Incurrence of Additional Indebtedness,” issue an unlimited principal amount of securities under the Indenture. The Company may, without your consent, issue additional notes (“Additional Notes”) in one or more transactions, which have substantially identical terms (other than issue price, issue date and initial interest payment date) as notes issued on the Issue Date. Such Additional Notes may be issued in one or more series and with the same or different CUSIP or ISIN number; *provided, however*, that unless such Additional Notes are issued under a separate CUSIP or ISIN number, such Additional Notes are issued either (i) as part of the same “issue” for U.S. federal income tax purposes, (ii) with no more than a *de minimis* amount of original issue discount, or (iii) pursuant to a “qualified reopening” for U.S. federal income tax purposes. Any Additional Notes will be consolidated and form a single class with the notes issued on the Issue Date, so that, among other things, Holders of any Additional Notes will have the right to vote together with Holders of notes issued on the Issue Date as one class.

The notes will be issued in the form of global notes without coupons, registered in the name of a nominee of DTC, as depository. The notes will be issued in minimum denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof. See “— Book-Entry; Delivery and Form” below.

Ranking of Notes and Guarantees

The notes will constitute our direct senior unsecured obligations. The notes rank *pari passu* in priority of payment with each other, and if we were to issue any debt other than the notes, the notes would rank at least *pari passu* in priority of payment with all our other existing and future senior unsecured indebtedness.

In the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or other similar proceeding by or against us, our obligations under the notes will rank equal in right of payment to all other of our existing and future senior unsecured indebtedness, and junior to certain obligations given preference under applicable law, including labor, tax and social security claims.

The Subsidiary Guarantors will fully, jointly and severally, unconditionally and irrevocably guarantee the full and punctual payment of principal, premium, if any, interest, including any Additional Amounts, and any other amounts that may become due and payable by us in respect of the Indenture and the notes. The Subsidiary Guarantors will waive any defenses provided under applicable law.

The Subsidiary Guarantors’ guarantees of the notes will not be secured by any of their assets or properties. As a result, if the Subsidiary Guarantors are required to pay under the guarantees, Holders of the notes would be unsecured creditors of the Subsidiary Guarantors. The guarantees will not be subordinated to any of the Subsidiary Guarantors’ other unsecured debt obligations. In the event of a bankruptcy, *concurso mercantil*, *quiebra*, liquidation or other similar proceeding against any of the Subsidiary Guarantors, the guarantees would rank equally in right of payment with all of such Subsidiary Guarantors’ other unsecured and unsubordinated debt.

None of our Subsidiaries other than the existing Subsidiary Guarantors will have any obligations with respect to the notes unless other entities become guarantors. As a result, the notes and guarantees will be effectively subordinated to claims of creditors (including trade creditors and preferred stockholders, if any) of each of our Subsidiaries other than the existing Subsidiary Guarantors.

A Subsidiary Guarantor’s guarantee of the notes will terminate: (i) upon a sale or other disposition (including by way of consolidation or merger) of the Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (other than to us or another Subsidiary), as provided below under “— Limitation on Merger, Consolidation and Sale of Assets”; (ii) if the guarantee is no longer required pursuant to the terms of the Indenture; or (iii) defeasance or discharge of the notes, as provided below under the caption “— Defeasance.” As of September 30, 2017, we and our Subsidiaries had total consolidated indebtedness of Ps. 19,491 million (U.S.\$1,071 million), all of which was unsecured indebtedness of the Issuer and the Subsidiary Guarantors. As of September 30, 2017, none of the Company, any Subsidiary Guarantor or any non-guarantor Subsidiary had any secured indebtedness.

Principal, Maturity and Interest

The notes will mature on November 14, 2024, unless earlier redeemed in accordance with the terms of the notes.

The notes will not be entitled to the benefit of any mandatory sinking fund.

Interest on the notes will begin to accrue from November 14, 2017. Interest on the notes will accrue at the rate of 6.375% per year and will be payable semi-annually in arrears on May 14 and November 14 of each year, commencing on May 14, 2018. Payments of interest will be made to the persons in whose name the notes are registered at the close of business on the April 30 and October 31 (whether or not a Business Day) immediately preceding the applicable interest payment date.

Interest will be computed on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months).

Payments

We will make payments of principal and interest on the notes to the Trustee, which will distribute such funds to the paying agents or to the holders. Initially, the Trustee will act as registrar, transfer agent and paying agent for the notes. The Company may change the registrar, transfer agent and paying agent, without notice to Holders.

We will make payments of principal upon surrender of the relevant notes at the specified office of the Trustee or any of the paying agents. We will pay interest on the notes to the Persons in whose name the notes are registered at the close of business on the fifteenth day immediately preceding the due date for payment. Payments of principal and interest in respect of each global note will be paid by wire transfer of immediately available funds to DTC. Payments of principal and interest in respect of any certificated notes will be made by U.S. dollar check drawn on a bank in the City of New York and mailed to the holder of such note at its registered address. Upon application by the holder of at least US\$1.0 million in aggregate principal amount of certificated notes to the specified office of the Trustee or any paying agent not less than 15 days before the due date for any payment in respect of a certificated note, such payment may be made by wire transfer to a U.S. dollar account maintained by the payee with a bank in The City of New York.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to any applicable abandoned property law, the paying agent will pay to us upon our written request any monies held by it for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to us for payment as our general creditors. After the return of such monies by the paying agent to us, the paying agent shall not be liable to the holders in respect of such monies.

Additional Amounts

We are required by Mexican law to deduct Mexican withholding taxes at a rate of 4.9% (subject to certain exceptions) from payments of interest to investors who are not residents of Mexico for tax purposes, and we will pay additional amounts on those payments and certain other payments to the extent described below (“Additional Amounts”).

The Company and the Subsidiary Guarantors will pay to Holders of the notes such Additional Amounts as may be necessary so that every net payment of interest (including any premium paid upon redemption of the notes and any discount deemed interest under Mexican law) or principal to the Holders will not be less than the amount provided for in the notes, it being understood that for tax purposes, the payment of such Additional Amounts will be deemed and construed as additional interest. By net payment, we mean the amount that we, any Subsidiary Guarantor or our paying agent pay any Holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by Mexico or any political subdivision or taxing authority thereof or therein.

Our obligation to pay Additional Amounts is subject to several important exceptions. The Company and any Subsidiary Guarantor will not be required to pay Additional Amounts to any Holder for or on account of, any of the following:

- any taxes, duties, assessments or other governmental charges imposed solely because at any time there is or was a connection between the Holder or beneficial owner of the note (or between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of a power over, such Holder or beneficial owner, if such Holder or beneficial owner is an estate, trust, corporation or partnership) and Mexico (other than the mere receipt of a payment or the ownership or holding of a note);
- any estate, inheritance, gift, sales, transfer, excise, personal property or similar tax, duty, assessment or other governmental charge imposed with respect to the notes;
- any taxes, duties, assessments or other governmental charges imposed solely because the Holder or any beneficial owner of the note fails to comply with any certification, identification, information, documentation or other reporting requirement concerning the nationality, residence, identity or connection with Mexico, for tax purposes, of the Holder or any beneficial owner of the note if

compliance is required by law, regulation, published administrative guidance or by an applicable income tax treaty to which Mexico is a party and which is in effect, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and we have given the Holders at least 30 days' notice that Holders will be required to provide such information and identification;

- any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on the notes;
- any taxes, duties, assessments or other governmental charges with respect to a note presented for payment more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for and notice thereof given to Holders, whichever occurs later, except to the extent that the Holder of such note would have been entitled to such Additional Amounts on presenting such note for payment on any date during such 30-day period;
- any withholding or deduction that is imposed on a note presented for payment by or on behalf of a beneficial owner who would have been able to avoid the withholding or deduction by presenting the note to another paying agent in a Member State of the European Union;
- any payment on the note to a Holder that is a fiduciary or partnership or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the Holder of the note;
- any taxes, duties, assessments or other governmental charges imposed under Section 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended as of the issue date (or any amended or successor version that is substantively comparable) and any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b)(1) of the Code, any intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any law, regulation or practice adopted pursuant to any such intergovernmental agreement; or
- any combination of any of the above.

The limitations on our obligations to pay Additional Amounts stated in the third bullet point above will not apply if the provision of information, documentation or other evidence described in the applicable bullet point would be materially more onerous, in form, in procedure or in the substance of information disclosed, to a Holder or beneficial owner of a note, taking into account any relevant differences between U.S. and Mexican law, rules, regulations or administrative practices, than comparable information or other reporting requirements imposed under U.S. tax law (including the United States-Mexico Income Tax Treaty), regulations (including proposed regulations) and administrative practice.

The limitations on our obligations to pay Additional Amounts stated in the third bullet point above also will not apply if, with respect to taxes imposed by Mexico or any political subdivision or taxing authority thereof or therein, Article 166, Section II, subsection a), of the Mexican income tax law (or a substitute or equivalent provision) is in effect, unless (a) the provision of the information, documentation or other evidence described in the third bullet point is expressly required by the applicable Mexican laws and regulations in order to apply such Article 166, Section II, subsection a) (or substitute or equivalent provision), (b) we cannot obtain the information, documentation or other evidence necessary to comply with the applicable Mexican laws and regulations on our own through reasonable diligence and (c) we otherwise would meet the requirements for application of the applicable Mexican laws and regulations.

In addition, the third bullet point above does not and shall not be construed to require that any Person, including any non-Mexican pension fund, retirement fund or financial institution, register with the Mexican Tax Management Service (*Servicio de Administración Tributaria*) or the Mexican Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*) to establish eligibility for an exemption from, or a reduction of, Mexican withholding tax.

We will also pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies, and any penalties, additions to tax or interest due with respect thereto, which arise in any jurisdiction from the execution, delivery, registration or the making of payments in respect of the notes, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Mexico, other than those resulting from, or required to be paid in connection with, the enforcement of the notes following the occurrence of any Default or Event of Default.

Upon request, the Company will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of taxes in respect of which we have paid any Additional Amount. We will make copies of such documentation available to the Holders of the notes or the relevant paying agent upon request.

Any reference in this offering memorandum, the Indenture or the notes to principal, premium, interest or any other amount payable in respect of the notes by us will be deemed also to refer to any Additional Amount that may be payable with respect to that amount under the obligations referred to in this section.

Following any merger or other transaction described and permitted under “—Limitation on Merger, Consolidation and Sale of Assets” below, in which the Company or the Surviving Entity is organized under the laws of a Permitted Jurisdiction other than Mexico, all references to Mexico, Mexican law or regulations, and Mexican political subdivisions or taxing authorities under this “Additional Amounts” section will be deemed to also include such Permitted Jurisdiction and any political subdivision therein or thereof, such Permitted Jurisdiction’s law or regulations, and any taxing authority of such Permitted Jurisdiction or any political subdivision therein or thereof, respectively.

Optional Redemption

General Optional Redemption

Except as stated below, the Company may not redeem the notes prior to November 14, 2020. The Company may redeem the notes, at its option, in whole at any time or in part from time to time, on and after November 14, 2020, at the following redemption prices, expressed as percentages of the principal amount thereof outstanding at the time of redemption, if redeemed during the 12-month period commencing on November 14 of any year set forth below, plus any accrued and unpaid interest on the principal amount of the notes to the date of redemption:

<u>Year</u>	<u>Percentage</u>
2020	104.781%
2021	103.188%
2022	101.594%
2023 and thereafter	100.000%

Prior to November 14, 2020, the Company will have the right, at its option, to redeem any of the notes, in whole or in part, at any time or from time to time at a redemption price equal to the greater of (1) 100% of the principal amount of such notes and (2) the sum of the present value at such redemption date of (a) the redemption price of the notes at November 14, 2020 (the “First Redemption Date”) (such redemption price being set forth in the table above) plus (b) all required interest payments on the notes through the First Redemption Date (excluding accrued but unpaid interest to the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 50 basis points (the “Make-Whole Amount”), plus in each case any accrued but unpaid interest on the principal amount of the notes to, but excluding, the date of redemption and any Additional Amounts payable with respect thereto.

“*Comparable Treasury Issue*” means, with respect to any redemption date, the United States Treasury security or securities selected by an Independent Investment Banker (as defined below) as having an actual or interpolated maturity comparable to the term from such redemption date to the First Redemption Date, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a maturity most nearly equal to the First Redemption Date.

“*Comparable Treasury Price*” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations (as defined below) for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Independent Investment Banker or the Company obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“*Independent Investment Banker*” means one of the Reference Treasury Dealers (as defined below) appointed by the Company.

“*Reference Treasury Dealer*” means each of Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, or their respective affiliates which are primary United States government securities dealers, and not less than two other leading primary United States government securities dealers in New York City reasonably designated by the Company; *provided*, however, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefore another Primary Treasury Dealer.

“*Reference Treasury Dealer Quotation*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker or the Company, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker or the Company by such Reference Treasury Dealer at 3:30 p.m. New York time on the third Business Day preceding such redemption date.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Optional Redemption Upon Eligible Equity Offerings

At any time, or from time to time, on or prior to November 14, 2020, the Company may, at its option, use an amount not to exceed the net cash proceeds of one or more Eligible Equity Offerings to redeem up to 35% of the aggregate principal amount of the outstanding notes (including any Additional Notes) at a redemption price equal to 106.375% of the principal amount on the redemption date, plus any accrued and unpaid interest to, but excluding, the redemption date; *provided* that:

- after giving effect to any such redemption, at least 65% of the aggregate principal amount of the notes (including any Additional Notes) issued under the Indenture remains outstanding; and
- the Company will make such redemption not more than 60 days after the consummation of such Eligible Equity Offering.

“*Eligible Equity Offering*” means the issuance and sale for cash of Qualified Capital Stock of the Company to any Person other than an Affiliate of the Company pursuant to (i) a public offering in accordance with U.S. or Mexican laws, rules and regulations, or (ii) a private offering in accordance with Rule 144A and Regulation S under the Securities Act.

Optional Redemption upon Tax Event

If, as a result of any amendment to, or change in, the laws (or any rules or regulations thereunder) of Mexico or any political subdivision or taxing authority thereof or therein affecting taxation, or any amendment to or change in an official interpretation or application of such laws, rules or regulations, which amendment to or change of such laws, rules or regulations becomes effective on or after the date of this offering memorandum, we or a Subsidiary Guarantor would be obligated, after taking all reasonable measures to avoid this requirement, to pay any Additional Amounts in excess of those attributable to a Mexican withholding tax rate of 4.9% with respect to the notes (see “—Additional Amounts” and “Taxation — Mexican Federal Taxation”), then, at our option, all, but not less than all, of the notes may be redeemed at any time at a redemption price equal to 100% of the outstanding principal amount, plus any accrued and unpaid interest and any Additional Amounts to the redemption date due thereon up to but not including the date of redemption; *provided* that (1) no notice of redemption for tax reasons may be given earlier than 60 days prior to the earliest date on which we or, as the case may be, a Subsidiary Guarantor would be obligated to pay these Additional Amounts if a payment on the notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such Additional Amounts remains in effect.

Prior to giving any notice of redemption to the Holders pursuant to this provision, we will deliver to the Trustee:

- an Officers' Certificate stating that we are entitled to effect the redemption in accordance with the terms of the Indenture and setting forth in reasonable detail a statement of facts showing that the conditions precedent to our right to redeem have occurred; and
- an Opinion of Counsel from Mexican legal counsel (which may be our counsel) of recognized standing and experienced in tax and other related matters to the effect that (1) we or a Subsidiary Guarantor have or will become obligated to pay such Additional Amounts as a result of such change or amendment and (2) all governmental approvals necessary for us to effect the redemption have been obtained and are in full force and effect or specifying any such necessary approvals that as of the date of such opinion have not been obtained.

We will give notice of any redemption at least 30 days (but not more than 60 days) before the redemption date to Holders as described in “—Notices” below. We will give notice of any redemption to the Trustee no later than 15 days (unless a shorter period is acceptable to the Trustee) prior to the date such notice is to be given to the Holders of the notes. This notice, once delivered by us to the Trustee, will be irrevocable.

Following any merger or other transaction described and permitted under “—Limitation on Merger, Consolidation and Sale of Assets” below, in which the Company or the Surviving Entity is organized under the laws of a Permitted Jurisdiction other than Mexico, all references to Mexico, Mexican law or regulations, and Mexican political subdivisions or taxing authorities under this “—Optional Redemption upon Tax Event” section will be deemed also to include such other Permitted Jurisdiction, such other Permitted Jurisdiction's law or regulations, and any taxing authority of such other Permitted Jurisdiction or any political subdivision therein or thereof, respectively; *provided*, that for this purpose, the above reference to an amendment to or change of laws, rules or regulations occurring “on or after the date of this offering memorandum” shall instead be deemed to refer only to such amendments or changes occurring after the effective date of such merger or other transaction, and the above reference to “a Mexican withholding tax rate of 4.9%” shall instead refer to the applicable withholding rate of such other Permitted Jurisdiction as of the effective date of such merger or other transaction.

Optional Redemption Procedures

In the event that less than all of the notes are to be redeemed at any time, selection of notes for redemption will be made by the Trustee in compliance with the requirements governing redemptions of the principal securities exchange, if any, on which the notes are listed or if such securities exchange has no requirement governing redemption or the notes are not then listed on a securities exchange, on a *pro rata* basis, by lot or by any other method as the Trustee shall deem fair and appropriate or as may be required by DTC in accordance with its applicable procedures. No notes of a principal amount of U.S.\$200,000 or less may be redeemed in part, and notes of a principal amount in excess of U.S.\$200,000 may be redeemed in part in multiples of U.S.\$1,000 only.

We will give notice of any redemption at least 30 days (but not more than 60 days) before the redemption date to Holders as described below in “—Notices” below. If notes are to be redeemed in part only, the notice of redemption will state the portion of the principal amount thereof to be redeemed. For so long as the notes are listed on the Official List of the Irish Stock Exchange and trading on the Global Exchange Market and the rules of the exchange require, the Company will cause notices of redemption to also be published as described in “—Notices” below. We will give notice of any redemption to the Trustee no later than 15 days (unless a shorter period is acceptable to the Trustee) prior to the date such notice is to be given to the Holders of the notes. This notice, once delivered by us to the Trustee, will be irrevocable. A new note in a principal amount equal to the unredeemed portion thereof, if any, will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate).

Notes called for redemption will become due on the date fixed for redemption. The Company will pay the redemption price for any note together with accrued and unpaid interest thereon to, but excluding, the date of redemption. On and after the redemption date, interest will cease to accrue on notes or portions thereof called for redemption as long as the Company has deposited with the paying agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any notes by the Company, such redeemed notes will be cancelled.

Change of Control Triggering Event

Upon the occurrence of a Change of Control Triggering Event, each Holder will have the right to require that the Company purchase all or a portion (in integral multiples of U.S.\$1,000, *provided* that the principal amount of such Holder's note after such purchase may not be less than U.S.\$200,000) of the Holder's notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon to, but excluding, the purchase date (the "Change of Control Payment").

Within 30 days following the date upon which the Change of Control Triggering Event occurs, the Company must deliver, in accordance with "— Notices" below, a notice to each Holder, with a copy to the Trustee, offering to purchase the notes as described above (a "Change of Control Offer") and, for so long as the notes are listed on the Official List of the Irish Stock Exchange and trading on the Global Exchange Market and the rules of the exchange so require, publish such notice as described in "— Notices" below. The Change of Control Offer will state, among other things, the purchase date, which must be at least 30 days but not more than 60 days from the date the notice is given, other than as may be required by law (the "Change of Control Payment Date").

By 11:00 a.m. New York Time on the Business Day prior to the Change of Control Payment Date, the Company shall, to the extent lawful, deposit with the Trustee or a paying agent funds in an amount equal to the Change of Control Payment in respect of all notes or portions thereof so tendered.

On the Change of Control Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer; and
- (2) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

If only a portion of a note is purchased pursuant to a Change of Control Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to a Change of Control Offer will be cancelled and cannot be reissued.

The Company will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Company and purchases all notes validly tendered and not withdrawn under such Change of Control Offer.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations in connection with the purchase of notes in connection with a Change of Control Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the Change of Control Triggering Event provisions of the Indenture, the Company will comply with such securities laws and regulations and will not be deemed to have breached its obligations under the Indenture by doing so.

Other existing and future indebtedness of the Company may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that Indebtedness be purchased upon a Change of Control. Moreover, the exercise by the Holders of their right to require the Company to repurchase the notes upon a Change of Control Triggering Event may cause a default under such Indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, the Company may not have sufficient available funds to make the Change of Control Payment for all the notes that might be delivered by Holders seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations and any other obligations in respect of Senior Indebtedness. However, we cannot assure you that the Company would be able to obtain necessary financing, and the terms of the Indenture may restrict the ability of the Company to obtain such financing.

Holders will not be entitled to require the Company to purchase their notes in the event of a takeover, recapitalization, leveraged buyout or similar transaction which is not a Change of Control Triggering Event.

Covenants in the Indenture restricting the ability of the Company and its Restricted Subsidiaries to incur additional Indebtedness, to grant Liens on property, to make Restricted Payments and to make Asset Sales may also discourage a takeover of the Company or make a takeover more difficult, whether favored or opposed by the management or its Board of Directors. Consummation of any Asset Sale may, in certain circumstances, require redemption or repurchase of the notes, and the Company or the acquiring party may not have sufficient financial resources to effect such a redemption or repurchase. In addition, restrictions on transactions with Affiliates may, in certain circumstances, discourage any leveraged buyout of the Company or any of its Subsidiaries or make a leveraged buyout more difficult. While these restrictions cover a wide variety of arrangements that have traditionally been used to effect highly leveraged transactions, the Indenture may not afford the Holders protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger, recapitalization or similar transaction.

One of the events that constitutes a Change of Control under the Indenture is the disposition of “all or substantially all” of the Company’s assets under certain circumstances. This term varies based upon the facts and circumstances of the subject transaction and has not been interpreted under New York State law (which is the governing law of the Indenture) to represent a specific quantitative test. As a consequence, in certain circumstances there may be uncertainty in ascertaining whether a particular transaction involved a disposition of “all or substantially all” of the assets of a Person. In the event that Holders elect to require the Company to purchase the notes and the Company contests such election, there can be no assurance as to how a court interpreting New York State law would interpret the phrase under certain circumstances.

Covenants

Suspension of Covenants

During any period of time that (i) the notes have Investment Grade Ratings from at least two of the three Rating Agencies and (ii) no Default or Event of Default has occurred and is continuing (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a “Covenant Suspension Event”), the Company and its Restricted Subsidiaries will not be subject to the provisions of the Indenture described under:

- “—Covenants—Limitation on Incurrence of Additional Indebtedness”;
- “—Covenants—Limitation on Restricted Payments”;
- “—Covenants—Limitation on Asset Sales”;
- “—Covenants—Limitation on Transactions with Affiliates”;
- “—Covenants—Designation of Unrestricted Subsidiaries”;
- “—Covenants—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”; and
- clause (b) of “—Covenants—Limitation on Merger, Consolidation and Sale of Assets”; (collectively, the “Suspended Covenants”).

In the event that the Company and its Restricted Subsidiaries are not subject to the Suspended Covenants for any period of time as a result of the foregoing, and on any subsequent date (the “Reversion Date”) one of the two Rating Agencies withdraws its Investment Grade Rating or downgrades its rating assigned to the notes below an Investment Grade Rating, then the Company and its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. The period of time between the Suspension Date and the Reversion Date is referred to as the “Suspension Period.” Notwithstanding that the Suspended Covenants may be reinstated, no Default or Event of Default will be deemed to have occurred as a result of a failure to comply with the Suspended Covenants during the Suspension Period (or upon termination of the Suspension Period or after that time based solely on events that occurred during the Suspension Period).

On the Reversion Date, all Indebtedness incurred during the Suspension Period will be classified as having been incurred pursuant to section (1) of “—Certain Covenants— Limitation on Incurrence of Additional Indebtedness” below or one of the clauses set forth in section (2) of “—Certain Covenants— Limitation on Incurrence of Additional Indebtedness” below (to the extent such Indebtedness would be permitted to be incurred thereunder as of the Reversion Date and after giving effect to Indebtedness incurred prior to the Suspension Period and outstanding on the Reversion Date). To the extent such Indebtedness would not be so permitted to be incurred pursuant to sections (1) or (2) of “—Certain Covenants— Limitation on Incurrence of Additional Indebtedness,” such Indebtedness will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (c) of section (2) of “—Certain Covenants— Limitation on Incurrence of Additional Indebtedness.” Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under “— Certain Covenants—Limitation on Restricted Payments” will be made as though the covenant described under “— Certain Covenants—Limitation on Restricted Payments” had been in effect since the Issue Date and throughout the Suspension Period.

The Company shall give the Trustee prompt written notice of any Covenant Suspension Event. In the absence of such notice, the Trustee shall assume the Suspended Covenants apply and are in full force and effect. The Company shall give the Trustee prompt written notice of any occurrence of a Reversion Date and in any event, not later than 15 days after such Reversion Date. Upon receipt of such notice, the Trustee shall assume the Suspended Covenants apply and are in full force and effect. In the absence of such notice, the Trustee shall assume the Suspended Covenants continue to be suspended.

There can be no assurance that the notes will ever achieve or maintain Investment Grade Ratings.

Limitation on Incurrence of Additional Indebtedness

- (1) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness (including Acquired Indebtedness) except that the Company and any Subsidiary Guarantor may Incur Indebtedness if, at the time of and immediately after giving *pro forma* effect to the Incurrence thereof and the application of the net proceeds therefrom, the Company’s Net Debt to EBITDA Ratio would be less than 4.25 to 1.0.
- (2) Notwithstanding clause (1) above, the Company and its Restricted Subsidiaries, as applicable, may, at any time, Incur the following Indebtedness (“Permitted Indebtedness”):
 - (a) Indebtedness in respect of the notes (excluding Additional Notes);
 - (b) Guarantees by any Restricted Subsidiary of Indebtedness of the Company or any other Restricted Subsidiary, in each case permitted under the Indenture;
 - (c) other Indebtedness of the Company and its Restricted Subsidiaries outstanding on the Issue Date;
 - (d) Hedging Obligations entered into by the Company and its Restricted Subsidiaries in the ordinary course of business and for bona fide hedging purposes and not for speculative purposes;
 - (e) intercompany Indebtedness between the Company and any Restricted Subsidiary or between any Restricted Subsidiaries (in each case, other than a Receivables Subsidiary); *provided that*:
 - (1) such Indebtedness must be expressly subordinated to the prior payment in full of all obligations under the notes and the Indenture; and
 - (2) in the event that at any time any such Indebtedness ceases to be held by the Company or a Restricted Subsidiary, such Indebtedness will be deemed to be Incurred by the Company or the relevant Restricted Subsidiary, as the case may be, and not permitted by this clause (e) at the time such event occurs;
 - (f) Indebtedness of the Company or any of its Restricted Subsidiaries arising from the honoring by a bank or other financial institution of a check, draft or similar instrument (including daylight overdrafts paid in full by the close of business on the day such overdraft was Incurred) drawn

against insufficient funds in the ordinary course of business; *provided* that such Indebtedness is extinguished within five Business Days of Incurrence;

- (g) Indebtedness of the Company or any of its Restricted Subsidiaries represented by letters of credit for the account of the Company or any Restricted Subsidiary, as the case may be, in order to provide security for workers' compensation claims, payment obligations in connection with self-insurance or similar requirements in the ordinary course of business;
- (h) Indebtedness consisting of performance and other similar bonds and reimbursement obligations Incurred by the Company or any Restricted Subsidiary in the ordinary course of business securing the performance of contractual, franchise or license obligations of the Company or any Restricted Subsidiary (in each case, other than for an obligation for borrowed money);
- (i) Indebtedness of the Company or any of its Restricted Subsidiaries to the extent the net proceeds thereof are promptly used to redeem the notes in part or in full or deposited to defease or discharge the notes, in each case in accordance with the Indenture;
- (j) Refinancing Indebtedness in respect of:
 - (1) Indebtedness (other than Indebtedness owed to the Company or any Subsidiary of the Company) Incurred pursuant to clause (1) above (it being understood that no Indebtedness outstanding on the Issue Date is Incurred pursuant to such clause (1)); or
 - (2) Indebtedness Incurred pursuant to clause (a), (c), (j) or (m) (in each case, excluding Indebtedness owed to the Company or a Subsidiary of the Company);
- (k) Indebtedness arising from agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred in connection with the disposition of any business, assets or Subsidiary, other than Guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition; *provided* that the maximum aggregate liability in respect of all such Indebtedness will at no time exceed the gross proceeds actually received by the Company and the Restricted Subsidiary in connection with such disposition;
- (l) Strategic Subordinated Indebtedness;
- (m) Indebtedness of Persons that are acquired by the Company or any of its Restricted Subsidiaries or merged into the Company or a Restricted Subsidiary in accordance with the terms of the Indenture; *provided* that such Indebtedness is not Incurred in contemplation of such acquisition or merger or to provide all or a portion of the funds or credit support required to consummate such acquisition or merger; and *provided, further*, that after giving effect to such acquisition and the Incurrence of such Indebtedness either:
 - (1) the Company will be able to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to clause (1) above; or
 - (2) the Company's Net Debt to EBITDA Ratio is not more than the Company's Net Debt to EBITDA Ratio immediately prior to such acquisition;
- (n) Indebtedness of the Company or any of its Restricted Subsidiaries Incurred to fund the working capital and other operating needs of the Company or any Restricted Subsidiary in an aggregate principal amount at any one time outstanding not to exceed the greater of (1) U.S.\$150 million (or the equivalent in other currencies); (2) 75% of the net book value of the Receivables as of the end of the most recently ended month for which a consolidated balance sheet of the Company is available; or (3) 75% of the capital investments ("Capex") for the four most recent full fiscal quarters for which consolidated financial statements of the Company are available ending prior to the date of determination, (2) and (3) being calculated in accordance with IFRS with respect to the Company and its Restricted Subsidiaries;

- (o) (1) Indebtedness of the Company in connection with any Qualified Receivables Transaction or (2) obligations pursuant to receivables or factoring arrangements or facilities in the ordinary course of business, in each case in a true sale transaction without recourse to the Issuer or its Restricted Subsidiaries that would not be required to be classified and accounted for as debt under IFRS, in an aggregate principal amount not to exceed U.S.\$50 million at any one time outstanding;
 - (p) Capitalized Lease Obligations and Purchase Money Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed the greater of (1) U.S.\$50 million (or the equivalent in other currencies) and (2) 5% of Consolidated Total Assets, at any one time outstanding;
 - (q) Indebtedness of the Company and/or any of its Restricted Subsidiaries represented by committed lines of credit from financial institutions in an aggregate principal amount not to exceed US\$50.0 million (or the equivalent in other currencies) at any one time outstanding; and
 - (r) in addition to Indebtedness referred to in clauses (a) through (q) above, Indebtedness of the Company or any Restricted Subsidiary in an aggregate principal amount not to exceed the greater of (1) U.S.\$100 million (or the equivalent in other currencies) and (2) 7.5% of Consolidated Total Assets, at any one time outstanding.
- (3) For purposes of determining compliance with, and the outstanding principal amount of, any particular Indebtedness Incurred pursuant to and in compliance with this covenant:
- (a) the outstanding principal amount of any item of Indebtedness will be counted only once;
 - (b) in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (2)(a) through (q) above or is entitled to be Incurred pursuant to clause (1) above, the Company may, in its sole discretion, divide and classify (or at any time reclassify) such item of Indebtedness in any manner that complies with this covenant;
 - (c) Indebtedness permitted by this covenant need not be permitted solely by reference to one provision permitting such Indebtedness, but may be permitted in part by such provision and in part by one or more other provisions of this covenant permitting such Indebtedness;
 - (d) the amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in accordance with IFRS;
 - (e) Guarantees of, or obligations in respect of letters of credit or similar instruments relating to, Indebtedness which is otherwise included in the determination of a particular amount of Indebtedness will not be included; and
 - (f) the accrual of interest, the accretion or amortization of original issue discount, the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Disqualified Capital Stock in the form of additional Disqualified Capital Stock with the same terms will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant; *provided* that any such outstanding additional Indebtedness or Disqualified Capital Stock paid in respect of Indebtedness Incurred pursuant to any provision of clause (2) above will be counted as Indebtedness outstanding thereunder for purposes of any future Incurrence under such provision.
- (4) For purposes of determining compliance with any U.S. Dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. Dollar-equivalent principal amount of Indebtedness denominated in a non-U.S. currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred or, in the case of revolving credit Indebtedness, first committed; *provided* that if such Indebtedness is Incurred to refinance other Indebtedness denominated in a non-U.S. currency, and such refinancing would cause the applicable U.S. Dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. Dollar-denominated restriction will be deemed not

to have been exceeded so long as the principal amount of such Refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced. The principal amount of any Indebtedness Incurred to refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being refinanced, will be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

Limitation on Restricted Payments

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, take any of the following actions (each, a “Restricted Payment”):

- (a) declare or pay any dividend or return of capital or make any distribution on or in respect of shares of Capital Stock of the Company or any Restricted Subsidiary to holders of such Capital Stock, other than:
 - dividends or distributions payable in Qualified Capital Stock of the Company;
 - dividends or distributions payable to the Company and/or a Restricted Subsidiary; or
 - dividends, distributions or returns of capital made on a *pro rata* basis to the Company and its Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand (or on a less than *pro rata* basis to any minority holder);
- (b) purchase, redeem or otherwise acquire or retire for value:
 - any Capital Stock of the Company; or
 - any Capital Stock of any Restricted Subsidiary held by an Affiliate of the Company or any Preferred Stock of a Restricted Subsidiary, except for Capital Stock held by the Company or a Restricted Subsidiary or purchases, redemptions, acquisitions or retirements for value of Capital Stock on a *pro rata* basis from the Company and/or any Restricted Subsidiaries, on the one hand, and minority holders of Capital Stock of a Restricted Subsidiary, on the other hand;
- (c) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, as the case may be, any Subordinated Indebtedness; or
- (d) make any Investment (other than Permitted Investments),

if at the time of the Restricted Payment and immediately after giving *pro forma* effect thereto:

- (1) a Default or an Event of Default has occurred and is continuing;
- (2) the Company is not able to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to paragraph (1) of “— Limitation on Incurrence of Additional Indebtedness”; or
- (3) the aggregate amount (the amount expended for these purposes, if other than in cash, being the Fair Market Value of the relevant property) of the proposed Restricted Payment and all other Restricted Payments made subsequent to the Issue Date up to the date thereof will exceed the sum of:
 - (A) an amount equal to (x) aggregate Consolidated Adjusted EBITDA on a cumulative basis during the period, treated as one accounting period, from the beginning of the second fiscal quarter before the fiscal quarter in which the Issue Date occurs to the end of the most recent fiscal quarter for which consolidated financial information of the Company is available less (y) the product of (A) 1.50 and (B) aggregate Consolidated Interest Expense during such period; *plus*
 - (B) 100% of the aggregate net cash proceeds received by the Company from any Person:

- from any contribution to the Capital Stock of the Company not representing an interest in Disqualified Capital Stock or issuance and sale of Qualified Capital Stock of the Company, in each case subsequent to the Issue Date; or
- from any Indebtedness of the Company or its Restricted Subsidiaries issued subsequent to the Issue Date that is reduced on the Company's balance sheet upon the conversion or exchange of any Indebtedness for borrowed money of the Company or any Restricted Subsidiary for Qualified Capital Stock of the Company (less the amount of any cash, or the Fair Market Value of any other property, distributed by the Company upon such conversion or exchange); or
- upon the sale, liquidation or repayment of any Investment or, in the case of a Guarantee, the amount of the Guarantee upon the unconditional release of the Company and its Restricted Subsidiaries in full, less any payments previously made by the Company or any Restricted Subsidiary in respect of such Guarantee,

excluding, in each case, any net cash proceeds:

- (x) received from a Subsidiary of the Company;
- (y) used to acquire Capital Stock or other assets from an Affiliate of the Company; or
- (z) applied in accordance with clause (2) or (3) of the second paragraph of this covenant below; *plus*

(C) in the case of a Revocation of the Designation of an Unrestricted Subsidiary, an amount equal to the lesser of:

- (i) the portion of the Fair Market Value of the net assets of such Unrestricted Subsidiary that is proportionate to the Company's equity interest in such Unrestricted Subsidiary, in each case at the time of such Revocation; and
- (ii) the Designation Amount with respect to such Unrestricted Subsidiary upon its Designation which was treated as a Restricted Payment.

Notwithstanding the preceding paragraph, this covenant does not prohibit:

- (1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration pursuant to the preceding paragraph;
- (2) the acquisition of any shares of Capital Stock of the Company,
 - (x) in exchange for Qualified Capital Stock of the Company; or
 - (y) through the application of the net cash proceeds received by the Company from a substantially concurrent sale of Qualified Capital Stock of the Company or a contribution to the equity capital of the Company not representing an interest in Disqualified Capital Stock, in each case not received from a Subsidiary of the Company,

provided, that the value of any such Qualified Capital Stock issued in exchange for such acquired Capital Stock and any such net cash proceeds will be excluded from clause (d)(3)(B) of the first paragraph of this covenant (and will not be included therein at any time);

- (3) the voluntary prepayment, purchase, defeasance, redemption or other acquisition or retirement for value of any Subordinated Indebtedness solely in exchange for, or through the application of net cash proceeds of a substantially concurrent sale, other than to a Subsidiary of the Company, of:
 - (x) Qualified Capital Stock of the Company; or

(y) Refinancing Indebtedness for such Subordinated Indebtedness;

provided, that the value of any Qualified Capital Stock issued in exchange for Subordinated Indebtedness and any net cash proceeds referred to above shall be excluded from clause (d)(3)(B) of the first paragraph of this covenant (and will not be included therein at any time);

- (4) if no Default or Event of Default (other than solely pursuant to clause (3) of the definition of “Event of Default”) has occurred and is continuing, the declaration and payment of dividends or distributions to holders of any class or series of Disqualified Capital Stock of the Company issued or Incurred in accordance with the covenant described under “— Limitation on Incurrence of Additional Indebtedness”;
- (5) if no Default or Event of Default has occurred and is continuing, repurchases by the Company of Capital Stock of the Company or options, warrants or other securities exercisable or convertible into Capital Stock of the Company from employees or directors of the Company or any of its Subsidiaries or their authorized representatives upon the death, disability or termination of employment or directorship of the employees or directors, in an amount not to exceed U.S.\$1.0 million (or the equivalent in other currencies) in any calendar year and U.S.\$2.5 million (or the equivalent in other currencies) in the aggregate;
- (6) if no Default or Event of Default has occurred and is continuing or would exist after giving *pro forma* effect thereto, Restricted Payments in an amount of up to US\$20.0 million in any calendar year (or the equivalent in other currencies, with unused amounts in any calendar year not being permitted to be carried over into succeeding calendar years), to the extent that such amount is not otherwise available to make Restricted Payments under clause (d)(3)(A) of the first paragraph of this covenant; and
- (7) any Restricted Payment as long as if, at the date of and immediately after giving *pro forma* effect to the payment thereof and to any related financing transactions, the Net Debt to EBITDA Ratio shall not exceed 3.0 to 1.0.

In determining the aggregate amount of Restricted Payments made subsequent to the Issue Date, amounts expended pursuant to clauses (1) (without duplication for the declaration of the relevant dividend), (4), (5) and (6), above will be included in such calculation and amounts expended pursuant to clauses (2), (3) and (7) above will not be included in such calculation.

The amount of any Restricted Payments not in cash will be the Fair Market Value on the date of such Restricted Payment of the property, assets or securities proposed to be paid, transferred or issued by the Company or the relevant Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

Limitation on Asset Sales

The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

- (a) the Company or such Restricted Subsidiary, as the case may be, receives consideration at the time of the Asset Sale at least equal to the Fair Market Value of the assets sold or otherwise disposed of; and
- (b) at least 75% of the consideration received for the assets sold by the Company or the Restricted Subsidiary, as the case may be, in the Asset Sale is in the form of (1) cash or Cash Equivalents; (2) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business; (3) Capital Stock in a Person principally engaged in a Permitted Business that will become a Restricted Subsidiary as a result of such Asset Sale or (4) a combination of cash, Cash Equivalents and such assets.

Solely for purposes of this covenant, the following are deemed to be cash or Cash Equivalents: (x) the assumption of Indebtedness of the Company or any Restricted Subsidiary by any Person and the release of the Company or such Restricted Subsidiary from any liability in connection with the Asset Sale; and (y) any securities

received by the Company or any Restricted Subsidiary that are promptly converted by the Company or any Restricted Subsidiary into cash or Cash Equivalents.

The Company or such Restricted Subsidiary, as the case may be, may apply the Net Cash Proceeds of any such Asset Sale within 365 days thereof to:

- (1) repay, prepay or purchase any Senior Indebtedness of the Company or any Restricted Subsidiaries, in each case for borrowed money or constituting a Capitalized Lease Obligation and permanently reduce the commitments with respect thereto without Refinancing; or
- (2) purchase (or enter into a binding agreement to purchase; *provided* that such purchase is consummated within 90 days after the date that is 365 days after such Asset Sale):
 - (A) assets (other than current assets as determined in accordance with IFRS or Capital Stock) to be used by the Company or any Restricted Subsidiary in a Permitted Business; or
 - (B) Capital Stock of a Person principally engaged in a Permitted Business that will become, upon purchase, a Restricted Subsidiary, from a Person other than the Company and its Restricted Subsidiaries; or
- (3) make capital expenditures (including refurbishments) to be used by the Company or any Restricted Subsidiary in a Permitted Business.

To the extent all or a portion of the Net Cash Proceeds of any Asset Sale are not applied within 365 days of the Asset Sale as described in clause (1), (2) or (3) of the immediately preceding paragraph (or, if a binding agreement has been entered into as set forth in clause (2) of such paragraph, the date of the expiration of the 90-day period set forth in such clause (2)), the Company will make an offer to purchase notes (the "Asset Sale Offer"), at a purchase price equal to 100% of the principal amount of the notes to be purchased, plus any accrued and unpaid interest thereon, to the purchase date (the "Asset Sale Offer Amount"). The Company will purchase pursuant to an Asset Sale Offer from all tendering Holders on a *pro rata* basis, and, at the Company's option, on a *pro rata* basis with the holders of any other Senior Indebtedness with similar provisions requiring the Company to offer to purchase the other Senior Indebtedness with the proceeds of Asset Sales, that principal amount (or accreted value in the case of Indebtedness issued with original issue discount) of notes and the other Senior Indebtedness to be purchased equal to such unapplied Net Cash Proceeds. The Company may satisfy its obligations under this covenant with respect to the Net Cash Proceeds of an Asset Sale by making an Asset Sale Offer prior to the expiration of the relevant 365-day period.

The purchase of notes pursuant to an Asset Sale Offer will occur not less than 20 Business Days following the date of the related Asset Sale, or any longer period as may be required by applicable law or regulation, nor more than 60 days following the 365th day following the Asset Sale (or, if a binding agreement has been entered into as set forth in clause (2) of the third paragraph of this covenant, not more than 60 days following the date of the expiration of the 90-day period set forth in such clause (2)). The Company may, however, defer an Asset Sale Offer until there is an aggregate amount of unapplied Net Cash Proceeds from one or more Asset Sales equal to or in excess of U.S.\$ 50.0 million (or the equivalent in other currencies). At that time, the entire amount of unapplied Net Cash Proceeds, and not just the amount in excess of U.S.\$ 50.0 million (or the equivalent in other currencies), will be applied as required pursuant to this covenant.

Pending application in accordance with this covenant, Net Cash Proceeds will be applied to temporarily reduce revolving credit borrowings, if any, that can be reborrowed or Invested in Cash Equivalents.

Each notice of an Asset Sale Offer will be given to the record Holders as shown on the register of Holders no later than 20 days following such 365th day (or, if a binding agreement has been entered into as set forth in clause (2) of the third paragraph of this covenant, within 20 days following the date of the expiration of the 90-day period set forth in such clause (2)), with a copy to the Trustee offering to purchase the notes as described above. Each notice of an Asset Sale Offer will state, among other things, the purchase date, which must be at least 30 days and not more than 60 days from the date the notice is given, other than as may be required by law (the "Asset Sale Offer Payment Date"). Upon receiving notice of an Asset Sale Offer, Holders may elect to tender their notes in whole or in part in integral multiples of U.S.\$1,000 in exchange for cash; *provided* that the principal amount of such tendering Holder's note after such tender may not be less than U.S.\$200,000.

By 11:00 a.m. New York Time on the Business Day prior to the Asset Sale Offer Payment Date, the Company shall, to the extent lawful, deposit with the Trustee or a paying agent funds in an amount equal to the Asset Sale Offer Amount in respect of all notes or portions thereof so tendered.

On the Asset Sale Offer Payment Date, the Company will, to the extent lawful:

- (1) accept for payment all notes or portions thereof properly tendered pursuant to the Asset Sale Offer; and
- (2) deliver or cause to be delivered to the Trustee the notes so accepted together with an Officers' Certificate stating the aggregate principal amount of notes or portions thereof being purchased by the Company.

To the extent that Holders of notes and holders of other Senior Indebtedness, if any, which are the subject of an Asset Sale Offer properly tender and do not withdraw notes or the other Senior Indebtedness in an aggregate amount exceeding the amount of unapplied Net Cash Proceeds, the Company will purchase the notes and the other Senior Indebtedness on a *pro rata* basis (based on amounts tendered). If only a portion of a note is purchased pursuant to an Asset Sale Offer, a new note in a principal amount equal to the portion thereof not purchased will be issued in the name of the Holder thereof upon cancellation of the original note (or appropriate adjustments to the amount and beneficial interests in a Global Note will be made, as appropriate). Notes (or portions thereof) purchased pursuant to an Asset Sale Offer will be cancelled and cannot be reissued.

Upon completion of an Asset Sale Offer, the amount of Net Cash Proceeds will be reset to zero. Accordingly, to the extent that the aggregate amount of notes and other Senior Indebtedness tendered pursuant to an Asset Sale Offer is less than the aggregate amount of unapplied Net Cash Proceeds, the Company may use any remaining Net Cash Proceeds for general corporate purposes of the Company and its Restricted Subsidiaries.

In the event of the transfer of substantially all (but not all) of the property and assets of the Company and its Restricted Subsidiaries as an entirety to a Person in a transaction permitted under “— Limitation on Merger, Consolidation and Sale of Assets,” the Surviving Entity will be deemed to have sold the properties and assets of the Company and its Restricted Subsidiaries not so transferred for purposes of this covenant, and will comply with the provisions of this covenant with respect to the deemed sale as if it were an Asset Sale. In addition, the Fair Market Value of properties and assets of the Company or its Restricted Subsidiaries so deemed to be sold will be deemed to be Net Cash Proceeds for purposes of this covenant.

If at any time any non-cash consideration received by the Company or any Restricted Subsidiary, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any non-cash consideration), the conversion or disposition will be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof will be applied in accordance with this covenant within 365 days of conversion or disposition.

The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws in connection with the purchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with the “Asset Sale” provisions of the Indenture, the Company will comply with these laws and regulations and will not be deemed to have breached its obligations under the “Asset Sale” provisions of the Indenture by doing so.

Limitation on Designation of Unrestricted Subsidiaries

The Company may designate after the Issue Date any Subsidiary of the Company as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default or Event of Default has occurred and is continuing at the time of or after giving effect to such Designation and any transactions between the Company or any of its Restricted Subsidiaries and such Unrestricted Subsidiary are in compliance with “— Limitation on Transactions with Affiliates”;

- (2) at the time of and after giving effect to such Designation, the Company could Incur U.S.\$1.00 of additional Indebtedness pursuant to clause (1) of “— Limitation on Incurrence of Additional Indebtedness”; and
- (3) the Company would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation and treating such Designation as an Investment at the time of Designation) as a Restricted Payment pursuant to “— Limitation on Restricted Payments” in an amount (the “Designation Amount”) equal to the amount of the Company’s Investment in such Subsidiary on such date.

Neither the Company nor any Restricted Subsidiary will at any time, except as permitted by “—Limitation on Incurrence of Additional Indebtedness” and “—Limitation on Restricted Payments”:

- (1) provide credit support for, subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, or Guarantee, any Indebtedness of any Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness);
- (2) be directly or indirectly liable for any Indebtedness of any Unrestricted Subsidiary; or
- (3) be directly or indirectly liable for any Indebtedness which provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity upon the occurrence of a default with respect to any Indebtedness of any Unrestricted Subsidiary, except for any non-recourse Guarantee given solely to support the pledge by the Company or any Restricted Subsidiary of the Capital Stock of any Unrestricted Subsidiary.

The Company may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a “Revocation”) only if:

- (1) no Default or Event of Default has occurred and is continuing at the time of and after giving effect to such Revocation; and
- (2) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if Incurred at such time, have been permitted to be Incurred for all purposes of the Indenture.

The Designation of a Subsidiary of the Company as an Unrestricted Subsidiary will be deemed to include the Designation of all of the Subsidiaries of such Subsidiary. All Designations and Revocations must be evidenced by Board Resolutions of the Company’s Board of Directors and an Officers’ Certificate delivered to the Trustee certifying compliance with the preceding provisions.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

- (a) Except as provided in paragraph (b) below, the Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any encumbrance or restriction on the ability of any Restricted Subsidiary to:
 - (1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any other Restricted Subsidiary or pay any Indebtedness owed to the Company or any other Restricted Subsidiary;
 - (2) make loans or advances to, or Guarantee any Indebtedness or other obligations of, or make any Investment in, the Company or any other Restricted Subsidiary; or
 - (3) transfer any of its property or assets to the Company or any other Restricted Subsidiary.
- (b) Paragraph (a) above of this covenant will not apply to encumbrances or restrictions existing under or by reason of:
 - (1) applicable law, rule, regulation or order;

- (2) the Indenture or the notes;
- (3) any agreement governing Acquired Indebtedness, not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired;
- (4) restrictions on the transfer of assets subject to any Permitted Lien;
- (5) customary provisions restricting the ability of any Restricted Subsidiary to undertake any action described in clauses (a)(1) through (a)(3) above in joint venture agreements and other similar agreements entered into in the ordinary course of business and with the approval of the Company's Board of Directors;
- (6) restrictions in other Indebtedness incurred by a Restricted Subsidiary of the Company in compliance with the covenant described under “— Limitation on Incurrence of Additional Indebtedness”; *provided* that such restrictions are not materially more restrictive with respect to such encumbrances and restrictions than those applicable to Restricted Subsidiaries in agreements related to Indebtedness referenced in clause (2) above;
- (7) customary restrictions on cash or other deposits imposed by customers under contracts or other arrangements entered into or agreed to in the ordinary course of business;
- (8) customary non-assignment provisions of any license agreement or other contract and customary provisions restricting the assignment or subletting of any lease governing a leasehold interest of any Restricted Subsidiary, or any customary restriction on the ability of a Restricted Subsidiary to dividend, distribute or otherwise transfer any asset that is subject to a Lien that secures Indebtedness, in each case permitted to be Incurred under the Indenture;
- (9) restrictions with respect to a Restricted Subsidiary of the Company imposed pursuant to a binding agreement which has been entered into for the sale or disposition of Capital Stock or assets of such Restricted Subsidiary; *provided* that such restrictions apply solely to the Capital Stock or assets of such Restricted Subsidiary being sold;
- (10) customary restrictions imposed on the transfer of copyrighted or patented materials;
- (11) contractual requirements Incurred with respect to a Qualified Receivables Transaction relating exclusively to a Receivables Subsidiary that, in the good faith determination of the Board of Directors, are necessary to effect such Qualified Receivables Transaction; and
- (12) Purchase Money Indebtedness and Capitalized Lease Obligations for assets acquired in the ordinary course of business that impose encumbrances and restrictions only on the assets so acquired or subject to lease.

Limitation on Liens

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness or trade payables, unless contemporaneously therewith effective provision is made to secure the notes, any Subsidiary Guarantees and all other amounts due under the Indenture equally and ratably with such Indebtedness or other obligation (or, in the event that such Indebtedness is subordinated in right of payment to the notes or any Subsidiary Guarantee prior to such Indebtedness or other obligation) with a Lien on the same properties and assets securing such Indebtedness or other obligation for so long as such Indebtedness or other obligation is secured by such Lien.

Limitation on Merger, Consolidation and Sale of Assets

The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease,

convey or otherwise dispose of (or cause or permit any Restricted Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's properties and assets (determined on a consolidated basis for the Company and its Restricted Subsidiaries), to any Person unless:

- (a) either:
 - (1) the Company is the surviving or continuing corporation; or
 - (2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):
 - (A) is a corporation organized and validly existing under the laws of Mexico, the United States of America, any State thereof or the District of Columbia or any other OECD member country (each such country, a "Permitted Jurisdiction"); and
 - (B) expressly assumes, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the notes and the performance and observance of the covenants of the notes and the Indenture on the part of the Company to be performed or observed;
- (b) immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including giving effect on a *pro forma* basis to any Indebtedness (including any Acquired Indebtedness) Incurred or anticipated to be Incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, will either:
 - (1) be able to Incur at least U.S.\$1.00 of additional Indebtedness pursuant to clause (1) of "— Limitation on Incurrence of Additional Indebtedness"; or
 - (2) have a Net Debt to EBITDA Ratio of not more than the Net Debt to EBITDA Ratio of the Company and its Restricted Subsidiaries immediately prior to such transaction;
- (c) immediately before and immediately after giving effect to such transaction and the assumption contemplated by clause (a)(2)(B) above (including, without limitation, giving effect on a *pro forma* basis to any Indebtedness (including any Acquired Indebtedness) Incurred or anticipated to be Incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default has occurred or is continuing;
- (d) any Subsidiary Guarantor (including Persons that are required to provide Subsidiary Guarantees as a result of the transaction) has confirmed by supplemental indenture that its Subsidiary Guarantee will apply for the Obligations of the Surviving Entity in respect of the Indenture and the notes;
- (e) if the Company is organized under the laws of a Permitted Jurisdiction or any political subdivision thereof or therein, and (i) the Company merges with a corporation organized under the laws of any other Permitted Jurisdiction or any political subdivision thereof or therein, or (ii) the Surviving Entity is organized under the laws of any other Permitted Jurisdiction or any political subdivision thereof or therein, then the Company or the Surviving Entity will have delivered to the Trustee an Opinion of Counsel from each such Permitted Jurisdiction to the effect that, as applicable:
 - (1) the Holders of the notes will not recognize income, gain or loss for purposes of the income tax of either Permitted Jurisdiction as a result of the transaction and will be taxed in the Holder's home jurisdiction in the same manner and on the same amounts (assuming solely for this purpose that no Additional Amounts are required to be paid on the notes) and at the same times as would have been the case if the transaction had not occurred;

- (2) any payment of interest or principal under or relating to the notes or any Subsidiary Guarantee will be paid in compliance with any requirements under the section “—Additional Amounts”; and
- (3) no other taxes on income, including capital gains, will be payable by Holders of the notes under the laws of either Permitted Jurisdiction relating to the acquisition, ownership or disposition of the notes, including the receipt of interest or principal thereon; *provided* that the Holder is not a tax resident of either Permitted Jurisdiction, as applicable, and does not use or hold, and is not deemed to use or hold the notes in carrying on a business in either Permitted Jurisdiction, as applicable; and
- (f) the Company or the Surviving Entity has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

For purposes of this covenant, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Restricted Subsidiaries), will be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

The provisions of clause (b) above will not apply to:

- (1) any transfer of the properties or assets of a Restricted Subsidiary to the Company or to another Restricted Subsidiary;
- (2) any merger of a Restricted Subsidiary into the Company or another Restricted Subsidiary; or
- (3) any merger of the Company into an Affiliate of the Company incorporated solely for purposes of reincorporating the Company in another jurisdiction,

so long as, in each case the Indebtedness of the Company and its Restricted Subsidiaries taken as a whole is not increased thereby.

Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Restricted Subsidiaries in accordance with this covenant, in which the Company is not the continuing Person, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the notes with the same effect as if such Surviving Entity had been named as such. For the avoidance of doubt, compliance with this covenant will not affect the obligations of the Company (including a Surviving Entity, if applicable) under “— Change of Control,” if applicable.

Any merger, consolidation, transfer or sale of assets conducted in accordance with the provisions described above will be deemed to have been authorized by the Holders of the notes for purposes of Article 225 of the Mexican Law on Commercial Companies (*Ley General de Sociedades Mercantiles*).

Limitation on Transactions with Affiliates

- (1) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with, or for the benefit of, any of its Affiliates (each an “Affiliate Transaction”), unless:
 - (a) the terms of such Affiliate Transaction are not materially less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm’s-length basis from a Person that is not an Affiliate of the Company;

- (b) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$25.0 million (or the equivalent in other currencies), the terms of such Affiliate Transaction will be set forth in an Officers' Certificate delivered to the Trustee stating that such transaction complies with clause (a) above;
 - (c) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$50.0 million (or the equivalent in other currencies), the terms of such Affiliate Transaction will be approved by a majority of the members of the Company's Board of Directors (including a majority of the disinterested members thereof), the approval to be evidenced by a Board Resolution stating that the Board of Directors has determined that such transaction complies with clause (a) above; and
 - (d) in the event that such Affiliate Transaction involves aggregate payments, or transfers of property or services with a Fair Market Value, in excess of U.S.\$75.0 million (or the equivalent in other currencies), the Company will, prior to the consummation thereof, obtain a favorable opinion as to the fairness of such Affiliate Transaction to the Company and any such Restricted Subsidiary, if any, from a financial point of view from an Independent Financial Advisor and file the same with the Trustee.
- (2) Paragraph (1) above will not apply to:
- (a) Affiliate Transactions with or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries (in each case, other than any Receivables Subsidiary);
 - (b) reasonable fees and compensation paid to, and any indemnity provided on behalf of, officers, directors and employees of the Company or any Restricted Subsidiary as determined in good faith by the Company's Board of Directors;
 - (c) Affiliate Transactions undertaken pursuant to the terms of any agreement or arrangement to which the Company or any of its Restricted Subsidiaries is a party as of or on the Issue Date, as these agreements or arrangements may be amended, modified, supplemented, extended or renewed from time to time; *provided* that any future amendment, modification, supplement, extension or renewal entered into after the Issue Date will be permitted to the extent that its terms are not materially more disadvantageous to the Holders of the notes as a whole than the terms of the agreements or arrangements in effect on the Issue Date;
 - (d) any Restricted Payments made in compliance with “— Limitation on Restricted Payments”;
 - (e) sales or other transfers or dispositions of accounts receivable and other related assets customarily transferred in an asset securitization transaction involving accounts receivable to a Receivables Subsidiary in a Qualified Receivables Transaction, and acquisitions of Permitted Investments in connection with a Qualified Receivables Transaction;
 - (f) loans and advances to officers, directors and employees of the Company or any Restricted Subsidiary in the ordinary course of business and not exceeding U.S.\$1.0 million (or the equivalent in other currencies) outstanding at any one time;
 - (g) any issuance or sale of Capital Stock of the Company (other than Disqualified Capital Stock) to Affiliates of the Company;
 - (h) guarantees granted by the Company to any of its Restricted Subsidiaries, by a Restricted Subsidiary to the Company and between or among Restricted Subsidiaries; and
 - (i) contracts for the provision of telecommunications or related services in the ordinary course of business with Alfa or its Affiliates; provided the terms of such Affiliate Transaction are no less favorable than those that could reasonably be expected to be obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company.

Conduct of Business

The Company and its Restricted Subsidiaries will not engage in any business other than a Permitted Business.

Additional Guarantees

The Company will, on the date it furnishes its annual audited consolidated financial statements to the Holders pursuant to clause (a) of the covenant described under “—Reports to Holders,” and subject to compliance with the provisions described below in “— Limitation on Guarantees and Indebtedness by Restricted Subsidiaries,” cause each of its Restricted Subsidiaries that is not a Subsidiary Guarantor and is a Significant Subsidiary as of the end of the most recently completed fiscal year to become a Subsidiary Guarantor and to execute and deliver to the Trustee, together with an Officers’ Certificate and an Opinion of Counsel, a supplemental indenture to the Indenture, pursuant to which it provides a Subsidiary Guarantee. Thereafter, such Significant Subsidiary that was not a Subsidiary Guarantor shall be a Subsidiary Guarantor for all purposes of the Indenture. The Company may cause any other Restricted Subsidiary of the Company to issue a Subsidiary Guarantee and become a Subsidiary Guarantor.

The Obligations of each Subsidiary Guarantor in respect of its Subsidiary Guarantee will be limited to the maximum amount permitted such that the Obligations will not constitute a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law.

Each Subsidiary Guarantor will be released and relieved of its obligations under its Subsidiary Guarantee in the event that:

- (1) there is a sale or other disposition of such Subsidiary Guarantor (whether by merger, consolidation, the sale of its Capital Stock or the sale of all or substantially all of its assets), following which such Subsidiary Guarantor is no longer a direct or indirect Subsidiary (other than a Receivables Subsidiary) of the Company;
- (2) such Subsidiary Guarantor is designated as an Unrestricted Subsidiary in accordance with “— Covenants — Limitation on Designation of Unrestricted Subsidiaries”;
- (3) there is a Legal Defeasance of the notes or upon satisfaction and discharge of the Indenture; or
- (4) the Indebtedness, the Incurrence of which gave rise to such Subsidiary Guarantor’s obligation to provide such Subsidiary Guarantee, has been repaid in full or otherwise discharged;

provided that such transaction is carried out pursuant to, and in accordance with, the applicable provisions of the Indenture.

Reports to Holders

The Company will provide the Trustee and, upon request, the Holders of the notes, with the following reports:

- (a) an English language version in electronic format of our annual audited consolidated financial statements prepared in accordance with IFRS promptly upon such financial statements becoming available but not later than 135 days after the close of each fiscal year;
- (b) an English language version in electronic format of our unaudited quarterly financial statements prepared in accordance with IFRS, promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of each fiscal year); and
- (c) without duplication, English language versions or summaries in electronic format of such other reports or notices as may be filed or submitted by (and within 10 days after filing or submission by) us with (i) the CNBV and (ii) the Global Exchange Market of the Irish Stock Exchange, or any other stock exchange on which the notes may be listed, in each case, to the extent that any such report or notice is generally available to our security holders or the public in Mexico or elsewhere, *provided, however*, that we shall not be required to furnish such information to the extent such information is available in the English language on our website or to the extent that

the information contained therein is not materially different than the information provided pursuant to clause (a) and (b) above; and

- (d) so long as we are not subject to Section 13 or Section 15(d) of the Exchange Act and we are not exempt from reporting pursuant to Rule 12g3-2(b) of the Exchange Act, upon request, to any Holder and any prospective purchaser of the notes, the information required pursuant to Rule 144A(d)(4) under the Securities Act.

To the extent such information is not publicly available on its website, the Company will maintain a non-public website or other electronic distribution system to which the beneficial owners of the notes, prospective investors, the Trustee and security analysts will be given access and on which the reports and information referred to in clauses (a), (b) and (c) above are posted and will give written notice of the posting to the Trustee; provided, however, that the Company may, in its sole discretion, exclude direct competitors, customers and suppliers from access thereto.

Simultaneously with the delivery of each set of financial statements referred to in clause (a) above, the Company will provide the Trustee with an Officers' Certificate stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which we are taking or propose to take with respect thereto. Promptly following any of our directors or executive officers becoming aware of the existence of a Default or Event of Default or any event by reason of which payments of either principal or interest on the notes are prohibited, the Company will provide the Trustee with an Officers' Certificate setting forth the details thereof and the action we are taking or propose to take with respect thereto.

Delivery of the reports referred to in clauses (a), (b) and (c) above to the Trustee is for informational purposes only and the Trustee's receipt of such reports will not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including our compliance with any covenant in the Indenture (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Notices

For so long as notes in global form are outstanding, notices to be given to holders will be given to the depositary, in accordance with its applicable policies as in effect from time to time. If notes are issued in individual definitive form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the registrar's records. For so long as the notes are listed on the Official List of the Irish Stock Exchange and trading on the Global Exchange Market and the rules of such exchange so require, publication of such notice to the holders of the notes will be in English in a leading newspaper having general circulation in Ireland (which is expected to be the *Irish Times*). Notices may also be published on the website of the Irish Stock Exchange (www.ise.ie). Neither the failure to give any notice to a particular holder of the notes, nor any defect in a notice given to a particular holder of the notes, will affect the sufficiency of any notice given to another holder of the notes.

Events of Default

The following are "Events of Default" with respect to the notes:

- (1) default in the payment when due of the principal of or premium, if any, on (including, in each case, any related Additional Amounts) any notes, including the failure to make a required payment to purchase notes tendered pursuant to an optional redemption, Change of Control Offer or an Asset Sale Offer;
- (2) default for 30 days or more in the payment when due of interest (including any related Additional Amounts) on any notes;
- (3) the failure to perform or comply with any of the provisions described under "— Covenants — Limitation on Merger, Consolidation and Sale of Assets";

- (4) the failure by the Company or any Restricted Subsidiary to comply with any other covenant or agreement contained in the Indenture or the notes for 45 days or more after written notice to the Company from the Trustee or to the Company and the Trustee by the Holders of at least 25% in aggregate principal amount of the outstanding notes;
- (5) default by the Company or any Restricted Subsidiary on any Indebtedness which:
 - (a) is caused by a failure to pay principal of or premium, if any, or interest on such Indebtedness prior to the expiration of any applicable grace period provided in such Indebtedness on the date of such default; or
 - (b) results in the acceleration of such Indebtedness prior to its Stated Maturity; and the principal or accreted amount of Indebtedness covered by clause (a) or (b) at the relevant time, aggregates U.S.\$50.0 million (or the equivalent in other currencies) or more;
- (6) failure by the Company or any of its Restricted Subsidiaries to pay one or more final judgments against any of them, aggregating U.S.\$50.0 million (or the equivalent in other currencies) or more, which are not paid, discharged or stayed for a period of 60 days or more (to the extent not covered by a reputable and creditworthy insurance company that has acknowledged liability therefor in writing);
- (7) certain events of bankruptcy affecting the Company or any of its Significant Subsidiaries that are Restricted Subsidiaries; or
- (8) except as permitted by the Indenture, any Subsidiary Guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any Restricted Subsidiary denies or disaffirms its obligations under its Subsidiary Guarantee.

If an Event of Default (other than an Event of Default specified in clause (7) above with respect to the Company) has occurred and is continuing, the Trustee or the Holders of at least 25% in principal amount of outstanding notes may declare the unpaid principal of and premium, if any, and accrued and unpaid interest on all the notes to be immediately due and payable by notice in writing to the Company (and the Trustee, if given by the Holders) specifying the Event of Default and that it is a “notice of acceleration.” If an Event of Default specified in clause (7) above occurs with respect to the Company, then the unpaid principal of and premium, if any, and accrued and unpaid interest on all the notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

At any time after a declaration of acceleration with respect to the notes as described in the preceding paragraph, the Holders of a majority in principal amount of the outstanding notes may rescind and cancel such declaration and its consequences:

- (1) if the rescission would not conflict with any judgment or decree;
- (2) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;
- (3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and
- (4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its reasonable expenses, disbursements, costs, indemnities and advances.

No rescission will affect any subsequent Default or impair any rights relating thereto.

The Holders of a majority in principal amount of the outstanding notes may waive any existing Default or Event of Default under the Indenture, and its consequences, except a Default or Event of Default in the payment of the principal of, premium, if any, or interest on any notes.

The Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee indemnity and/or security

reasonably satisfactory to it. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then-outstanding notes have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

No Holder or Holders of any notes will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless:

- (1) such Holder or Holders give to the Trustee written notice of a continuing Event of Default;
- (2) Holders of at least 25% in principal amount of the then-outstanding notes make a written request to pursue the remedy;
- (3) such Holder or Holders provide to the Trustee satisfactory indemnity and/or security;
- (4) the Trustee does not comply within 60 days; and
- (5) during such 60-day period the Holders of a majority in principal amount of the outstanding notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

provided that a Holder of a note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such note on or after the respective due dates expressed in such note.

The Company is required, upon becoming aware of any Default or Event of Default, to deliver to the Trustee written notice of such Default or Event of Default, the status thereof and what action the Company is taking or proposes to take in respect thereof. In addition, the Company is required to deliver to the Trustee, within 135 days after the end of each fiscal year, an Officers' Certificate indicating whether the signers thereof know of any Default or Event of Default that occurred during the previous fiscal year. The Indenture provides that if a Default or Event of Default occurs, is continuing and is actually known to a responsible officer of the Trustee, the Trustee must give to each Holder notice of the Default or Event of Default within 45 days after such Default or Event of Default is actually known to a responsible officer of the Trustee. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any note, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders.

Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its obligations and those of the Subsidiary Guarantors discharged with respect to the outstanding notes ("Legal Defeasance"). Legal Defeasance means that the Company will be deemed to have paid and discharged the entire indebtedness represented by the outstanding notes on the 91st day after the deposit specified in clause (1) of the third paragraph under "—Legal Defeasance and Covenant Defeasance," except for:

- (1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on, the notes when such payments are due;
- (2) the Company's obligations with respect to the notes concerning issuing temporary notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payments;
- (3) the rights, powers, trust, duties, indemnities and immunities of the Trustee and the Company's (and each Subsidiary Guarantor's) obligations in connection therewith; and
- (4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have its obligations released with respect to the covenants that are described under "—Covenants" (other than "Limitation on Merger, Consolidation and Sale of Assets") ("Covenant Defeasance") and thereafter any omission to comply with such obligations will not constitute a Default or Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders cash in U.S. Dollars, U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient without reinvestment, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest (including Additional Amounts) on the notes on the stated date for payment thereof or on the applicable redemption date, as the case may be;
- (2) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Company to the effect that:
 - (a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or
 - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law; andin either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;
- (3) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Company to the effect that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;
- (4) in the case of Legal Defeasance or Covenant Defeasance, the Company has delivered to the Trustee
 - (a) an Opinion of Counsel from Mexican counsel reasonably acceptable to the Trustee and independent of the Company to the effect that, based upon Mexican law then in effect, Holders will not recognize income, gain or loss for Mexican tax purposes, including withholding tax except for withholding tax then payable on interest payments due, as a result of such Legal Defeasance or Covenant Defeasance, as the case may be, and will be subject to Mexican taxes on the same amounts and in the same manner and at the same time as would have been the case if such Legal Defeasance or Covenant Defeasance, as the case may be, had not occurred or
 - (b) a ruling directed to the Trustee received from tax authorities of Mexico to the same effect as the Opinion of Counsel described in clause (a) above;
- (5) no Default or Event of Default has occurred and is continuing on the date of the deposit pursuant to clause (1) of this paragraph (except any Default or Event of Default resulting from any failure to comply with “— Covenants — Limitation on Incurrence of Additional Indebtedness” as a result of the borrowing of the funds required to effect such deposit);
- (6) the Company has delivered to the Trustee an Officers’ Certificate stating that such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, the Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;
- (7) the Company has delivered to the Trustee an Officers’ Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;
- (8) the Company has delivered to the Trustee an Officers’ Certificate and an Opinion of Counsel reasonably acceptable to the Trustee from U.S. counsel and independent of the Company, each

stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with;

- (9) the Company has delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee from U.S. counsel and independent of the Company to the effect that the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally; and
- (10) the Company has delivered to the Trustee an Opinion of Counsel reasonably acceptable to the Trustee from U.S. counsel and independent of the Company to the effect that the trust resulting from the deposit does not constitute, or is qualified as, a regulated investment company under the U.S. Investment Company Act of 1940, as amended.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes and the rights, powers, trust, duties, immunities and indemnities of the Trustee and the obligations of the Company and the Subsidiary Guarantors with respect thereto, as expressly provided for in the Indenture) as to all outstanding notes when:

- (1) either:
 - (a) all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or
 - (b) all notes not theretofore delivered to the Trustee for cancellation (i) have become due and payable or (ii) are subject to irrevocable instructions that have been given for redemption within 60 days under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee, in the form delivered to the Trustee by the Company, in the name, and at the expense, of the Company, and, in each case, the Company has irrevocably deposited or caused to be deposited with the Trustee funds and/or U.S. Government Obligations without reinvestment to pay and discharge the entire Indebtedness on the notes not theretofore delivered to the Trustee for cancellation, for principal of, premium, if any, and interest on the notes to the date of deposit (in the case of notes that have become due and payable) or to the maturity or redemption date, as the case may be, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment of the notes;
- (2) the Company has paid all other sums payable under the Indenture and the notes by it; and
- (3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent under the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company and the Trustee, without the consent of the Holders, may amend, modify or supplement the Indenture and the notes for the following purposes:

- (1) to cure any ambiguity, defect or inconsistency contained therein;
- (2) to provide for the assumption by a successor Person of the obligations of the Company under the Indenture;
- (3) to add Subsidiary Guarantees or additional Guarantees with respect to the notes or release the Subsidiary Guarantee of a Subsidiary Guarantor in accordance with the terms of the Indenture;
- (4) to secure the notes;

- (5) to add to the covenants of the Company for the benefit of the Holders or surrender any right or power conferred upon the Company;
- (6) to provide for the issuance of Additional Notes in accordance with the Indenture;
- (7) to conform the terms of the Indenture or the notes with the description thereof set forth in this “Description of the Notes” to the extent that such description was intended to be a verbatim recitation of a provision of the Indenture or the notes;
- (8) to evidence the replacement of the Trustee as provided for under the Indenture;
- (9) if necessary, in connection with any release of any security permitted under the Indenture; or
- (10) to make any other change that does not adversely affect the rights of any Holder in any material respect.

In entering into such modification, the Trustee will be entitled to rely on an Opinion of Counsel and an Officers’ Certificate.

Other modifications to, amendments of, and supplements to, the Indenture or the notes may be made with the consent of the Holders of a majority in principal amount of the then-outstanding notes issued under the Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

- (1) reduce the percentage of the principal amount of the notes whose Holders must consent to an amendment, supplement or waiver;
- (2) reduce the rate of or change or have the effect of changing the time for payment of interest on any notes;
- (3) reduce the principal of or change or have the effect of changing the fixed maturity of any notes, or change the date on which any notes may be subject to redemption, or reduce the redemption price therefor;
- (4) make any notes payable in money, or change the place of payment, other than as stated in the notes;
- (5) make any change in provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such notes on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of outstanding notes to waive Defaults;
- (6) amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control Triggering Event that has occurred or make and consummate an Asset Sale Offer with respect to any Asset Sale that has been consummated;
- (7) eliminate or modify in any manner a Subsidiary Guarantor’s obligations with respect to its Subsidiary Guarantee which adversely affects Holders in any material respect, except as contemplated in the Indenture;
- (8) make any change in the provisions of the Indenture described under “— Additional Amounts” that adversely affects the rights of any Holder or amend the terms of the notes in a way that would result in a loss of exemption from any applicable taxes; and
- (9) make any change to the provisions of the Indenture or the notes that adversely affect the ranking of the notes.

Governing Law; Jurisdiction

The Indenture, the notes and the Subsidiary Guarantees will be governed by, and construed in accordance with, the law of the State of New York.

The Company and each Subsidiary Guarantor will submit to the jurisdiction of and venue in the U.S. federal and New York state courts located in The City of New York, Borough of Manhattan and will appoint an agent for service of process with respect to any actions brought in these courts arising out of or based on the Indenture, the notes or any Subsidiary Guarantee.

The Company, Subsidiary Guarantors, the Trustee and the Holders agree to waive any right they may have to trial by jury (to the extent permitted by law).

The Trustee

The Bank of New York Mellon is the Trustee under the Indenture. Its Corporate Trust Office address is currently 101 Barclay Street, Floor 7 East, New York, New York 10286.

Except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided* that if the Trustee acquires any conflicting interest, it must eliminate such conflict or resign.

The Trustee may resign at any time by so notifying the Company. In addition, the Holders of a majority in aggregate principal amount of the notes then outstanding may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. The Company will remove the Trustee if (1) the Trustee is no longer eligible; (2) the Trustee is adjudged bankrupt or insolvent; (3) a receiver or other public officer takes charge of the Trustee or its property; or (4) the Trustee otherwise becomes incapable of acting.

If the Trustee resigns, is removed by the Company or by the Holders of a majority in aggregate principal amount of the notes then outstanding and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of Trustee for any reason, the Company will promptly appoint a successor Trustee. If the Company does not appoint, or is not capable of appointing, a successor Trustee within 60 days of the resignation or removal of the Trustee, then the Company or the Trustee may petition a court of competent jurisdiction for the appointment of a successor Trustee. The successor Trustee will give notice of its succession to the Holders of the notes and, as long as the notes are listed on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market and the rules of the exchange so require, the successor Trustee will also publish such notice as described under “—Notices.”

Notwithstanding any other provision herein to the contrary, we and our affiliates may from time to time enter into normal banking and trustee relationships with the Trustee and its affiliates.

No Personal Liability

No past, present or future incorporator, director, officer, employee, shareholder or controlling Person, as such, of the Company will have any liability for any obligations of the Company under the notes or the Indenture or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the U.S. federal securities laws or under Mexican corporate law, and it is the view of the SEC that such a waiver may be contrary to public policy.

Currency Indemnity

The Company and the Subsidiary Guarantors will pay all sums payable under the Indenture, the notes or such Subsidiary Guarantee solely in U.S. Dollars. Any amount that any recipient receives or recovers in a currency other than U.S. Dollars in respect of any sum expressed to be due from the Company and the Subsidiary Guarantors will only constitute a discharge to us, to the greatest extent permitted under applicable law, to the extent of the U.S. Dollar amount which the recipient is able to purchase with the amount received or recovered in that other currency on the date of the receipt or recovery or, if it is not practicable to make the purchase on that

date, on the first date on which the recipient is able to do so. If the U.S. Dollar amount is less than the U.S. Dollar amount expressed to be due from the Company and the Subsidiary Guarantors, then the Company and the Subsidiary Guarantors will indemnify the recipient against any loss the recipient sustains as a result. In any event, the Company will indemnify the recipient against the cost of making any purchase of U.S. Dollars. For purposes of this paragraph, it will be sufficient for the recipient to certify in a satisfactory manner that the recipient would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery or, if it was not practicable to make the purchase on that date, on the first date on which the recipient was able to do so. In addition, the recipient will also be required to certify in a satisfactory manner the need for a change of the purchase date.

The indemnities described above:

- constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors;
- will give rise to a separate and independent cause of action;
- will apply irrespective of any indulgence granted by any Holder; and
- will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

Listing

In the event that the notes are listed on the Official List of the Irish Stock Exchange for trading on the Global Exchange Market, the Company will use its commercially reasonable efforts to maintain such listing; *provided, however*, that if the Company is unable to list the notes on the Official List of the Irish Stock Exchange and/or the notes do not trade on the Global Exchange Market, or if the Company is unable to maintain such listing and trading, or if as a result of regulations adopted or enforced by authorities governing the Irish Stock Exchange continued listing on such exchange becomes impracticable or materially more burdensome, the Company may delist the notes from such exchange and will, prior to the delisting of such notes, use its commercially reasonable efforts to list and maintain a listing of the notes on another internationally recognized stock exchange.

Certain Definitions

The following sets forth certain of the defined terms used in the Indenture. Reference is made to the Indenture for full disclosure of all such terms, as well as any other terms used herein for which no definition is provided.

“*Acquired Indebtedness*” means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or any of its Restricted Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Acquired Indebtedness will be deemed to have been Incurred at the time such Person becomes a Restricted Subsidiary or at the time it merges or consolidates with the Company or a Restricted Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“*Additional Amounts*” has the meaning set forth under “— Additional Amounts” above. “*Additional Notes*” has the meaning set forth under “— General” above.

“*Affiliate*” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. Solely for purposes of this definition, the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“*Alfa*” means Alfa, S.A.B. de C.V.

“*Asset Acquisition*” means:

- (1) an Investment by the Company or any Restricted Subsidiary in any other Person pursuant to which such Person will become a Restricted Subsidiary, or will be merged with or into the Company or any Restricted Subsidiary; or
- (2) the acquisition by the Company or any Restricted Subsidiary of the assets of any Person (other than a Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprise any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business; or
- (3) any Revocation with respect to an Unrestricted Subsidiary.

“*Asset Sale*” means any direct or indirect sale, disposition, issuance, conveyance, transfer, lease, assignment or other transfer, including, without limitation, a Sale and Leaseback Transaction (each, a “disposition”), by the Company or any Restricted Subsidiary of:

- (a) any Capital Stock other than Capital Stock of the Company; or
- (b) any property or assets (other than cash, Cash Equivalents or Capital Stock) of the Company or any Restricted Subsidiary;

Notwithstanding the preceding, the following items will not be deemed to be Asset Sales:

- (1) the disposition of all or substantially all of the assets of the Company and its Restricted Subsidiaries as permitted under “— Covenants — Limitation on Merger, Consolidation and Sale of Assets” or any disposition which constitutes a Change of Control;
- (2) the sale of property or equipment that, in the reasonable determination of the Company, has become worn out, obsolete or damaged or otherwise unsuitable for use in connection with the business of the Company or any Restricted Subsidiary;
- (3) sales or other dispositions of equipment, inventory, accounts receivable or other assets in the ordinary course of business, including the sale of Receivables pursuant to factoring arrangements and sales or other dispositions of capacity or indefeasible rights of use in the Company’s telecommunications network in the ordinary course of business;
- (4) for purposes of “— Covenants — Limitation on Asset Sales” only, the making of a Restricted Payment permitted under “— Covenants — Limitation on Restricted Payments”;
- (5) a disposition to the Company or a Restricted Subsidiary (other than a Receivables Subsidiary), including a Person that is or will become a Restricted Subsidiary immediately after the disposition;
- (6) sales of accounts receivable and related assets or an interest therein of the type specified in the definition of “Qualified Receivables Transaction” to a Receivables Subsidiary;
- (7) the creation of a Permitted Lien;
- (8) dispositions of receivables and related assets or interests in connection with the compromise, settlement or collection thereof in the ordinary course of business or in bankruptcy or similar proceedings and exclusive of factoring or similar arrangements;
- (9) the licensing or sublicensing of intellectual property or other general intangibles in the ordinary course of business;
- (10) a Sale and Leaseback Transaction within one year of the acquisition of the relevant asset in the ordinary course of business;
- (11) exchanges of telecommunications assets for other telecommunications assets where the Fair Market Value of the telecommunications assets received is at least equal to the Fair Market Value of the telecommunications assets disposed of or, if less, the difference is received in cash; and

(12) any transaction or series of related transactions involving property or assets with a Fair Market Value not in excess of U.S.\$10.0 million (or the equivalent in other currencies).

“*Asset Sale Offer*” has the meaning set forth under “— Covenants — Limitation on Asset Sales.”

“*Asset Sale Transaction*” means any Asset Sale and, whether or not constituting an Asset Sale, (1) any sale or other disposition of Capital Stock, (2) any Designation with respect to an Unrestricted Subsidiary and (3) any sale or other disposition of property or assets excluded from the definition of Asset Sale by clause (4) of that definition.

“*Average Exchange Rate*” means, with respect to any calculation of Consolidated Adjusted EBITDA for any period, the arithmetic average of the daily exchange rates for such period for converting non-Dollar-denominated income statement accounts into Dollars that the Company and its auditors would use in the preparation of the consolidated balance sheet of the Company and its consolidated Subsidiaries in accordance with IFRS.

“*Board of Directors*” means, with respect to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

“*Board Resolution*” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“*Business Day*” means a day other than a Saturday, Sunday or any day on which banking institutions are authorized or required by law to close in New York City, United States or in Mexico City (*Ciudad de México*), Mexico.

“*Capital Stock*” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated and whether or not voting) of equity of such Person, including each class of Common Stock, Preferred Stock, limited liability interests or partnership interests, but excluding any debt securities convertible into such equity.

“*Capitalized Lease Obligations*” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under IFRS. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with IFRS.

“*Cash Equivalents*” means:

- (1) any investment in direct obligations of the United States government or any agency thereof or obligations guaranteed by the United States government or any agency thereof;
- (2) investments in time deposit accounts, certificates of deposit and money market deposits maturing within 270 days of the date of acquisition thereof issued by a bank or trust company which is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States, and which bank or trust company has capital, surplus and undivided profits, aggregating in excess of U.S.\$500 million or the foreign currency equivalent thereof and has outstanding debt which is rated “A”, or such similar equivalent rating, or higher by at least one nationally recognized statistical rating organization, as defined in Rule 436 under the Securities Act; *provided* that in the case of Argentina, Brazil, India, China, Russia and Turkey, a minimum local rating of “A” from Standard & Poor’s Ratings Services, Inc. or from Moody’s Investors Service, Inc. shall be required (or if no financial institution has a minimum local rating of “A”, the highest available credit rating in such country shall be required) or demand deposits maintained in the ordinary course of business with any top tier commercial bank maintaining deposit accounts in countries where the Company and its Subsidiaries have operating facilities if such accounts with such other commercial banks are limited to amounts customary for working capital purposes for operations in such country;

- (3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;
- (4) investments in demand deposits, commercial paper, maturing not more than 270 days after the date of acquisition, issued by a corporation other than an Affiliate of the Company, organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of at least "P-1" according to Moody's or "A-1" according to S&P;
- (5) investments in securities with maturities of six months or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, with a rating at the time at which any investment therein is made of at least "A" by S&P or "A" by Moody's;
- (6) *Cetes* or *Bonos de Desarrollo del Gobierno Federal* or *Bonos Adjustables del Gobierno Federal* or other similar securities issued by the Mexican government and maturing not more than 180 days after the acquisition thereof, and debt instruments issued by the Mexican government which are denominated and payable in U.S. Dollars and maturing not later than one year after the acquisition thereof;
- (7) Investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (1) through (6) above; and
- (8) investments in demand deposits, certificates of deposit, bank promissory notes and bankers' acceptances denominated in Pesos, maturing not more than 180 days after the acquisition thereof and issued or Guaranteed by any one of the five largest banks (based on assets as of the immediately preceding December 31) organized under the laws of Mexico and which are not under intervention or controlled by the Mexican government.

"Change of Control" means the occurrence of one or more of the following events:

- (1) (a) the consummation of any transaction (including without limitation any merger or consolidation) the result of which is that any "person" (as defined in Section 13(d) and 14(d) under the Exchange Act), other than Alfa and its Affiliates, becomes the beneficial owner, directly or indirectly, of more than 35% of the Voting Stock of the Company and (b) Alfa and its Affiliates beneficially own, directly or indirectly, in the aggregate, a lesser percentage of the total Voting Stock of the Company than such other person and do not have the right or ability by voting power, contract or otherwise to elect or designate for election a majority of the Board of Directors of the Company, unless, as a result of such transaction, the ultimate direct or indirect ownership of the Company is substantially the same immediately after such transaction as it was immediately prior to such transaction;
- (2) the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Company, determined on a consolidated basis, to any "person" (as defined in Sections 13(d) and 14(d) under the Exchange Act) other than Alfa, or any subsidiary of Alfa that is a holding company for Alfa's interest in the Company (or one or more of the Subsidiaries of the Company), whether or not otherwise in compliance with the Indenture; and
- (3) the approval by the holders of Capital Stock of the Company of any plan or proposal for the liquidation or dissolution of the Company, whether or not otherwise in compliance with the Indenture.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control if (i)(A) the Company becomes a wholly-owned Subsidiary of a holding company and (B) the holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of the Company's Voting Stock immediately prior to that transaction, (ii) pursuant to a transaction in which the shares of the Company's Voting Stock of the surviving person immediately after giving effect to such transaction or (iii) the "person" referenced in clause (1) or (2) of the preceding sentence previously became the beneficial owner of the Company's Voting Stock so as to have constituted a Change of Control in respect of which a Change of Control

Offer was made (or otherwise would have required a Change of Control Offer in the absence of the waiver of such requirement by the holders of the notes).

“*Change of Control Payment*” has the meaning set forth under “— Change of Control.” “*Change of Control Payment Date*” has the meaning set forth under “— Change of Control.”

“*Change of Control Triggering Event*” means the occurrence of a Change of Control that results in a Ratings Decline.

“*Commodity Agreement*” means, with respect to any Person, any commodity or raw material futures contract or any other agreement designed to protect against fluctuations in prices of any commodity or raw material used in a Permitted Business.

“*Common Stock*” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“*Consolidated Adjusted EBITDA*” means, with respect to any Person for any period, Consolidated Net Income for such Person for such period, *plus* the following (without duplication) to the extent deducted or added in calculating such Consolidated Net Income:

- (1) Consolidated Interest Expense for such Person for such period;
- (2) Consolidated Income Tax Expense for such Person for such period;
- (3) Consolidated Non-cash Charges for such Person for such period; and
- (4) any non-operating and/or non-recurring charges, expenses or losses for such period, including, without limitation, any (i) restructuring charges or reserves and (ii) any one-time provisions, adjustments or costs incurred in connection with mergers or acquisitions,

less (x) all non-cash credits and gains increasing Consolidated Net Income for such Person for such period and (y) all cash payments made by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period relating to non-cash charges (other than such charges set forth in clause (4) above) that were added back in determining Consolidated Adjusted EBITDA in any prior period.

Notwithstanding the foregoing, the items specified in clauses (1) and (3) above for any Subsidiary (Restricted Subsidiary in the case of the Company) will be added to Consolidated Net Income in calculating Consolidated Adjusted EBITDA for any period:

- (a) in proportion to the percentage of the total Capital Stock of such Subsidiary (Restricted Subsidiary in the case of the Company) held directly or indirectly by such Person at the date of determination; and
- (b) to the extent that a corresponding amount would be permitted at the date of determination to be distributed to such Person by such Subsidiary (Restricted Subsidiary in the case of the Company) pursuant to its charter and bylaws (*estatutos sociales*) and each law, regulation, agreement or judgment applicable to such distribution.

“*Consolidated Income Tax Expense*” means, with respect to any Person for any period, the provision for any income taxes payable by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period as determined on a consolidated basis in accordance with IFRS (including, for purposes of this definition, any alternative taxes payable in lieu of income taxes, such as the Mexican *Impuesto Empresarial a Tasa Unica* (IETU)).

“*Consolidated Interest Expense*” means, with respect to any Person for any period, the sum (without duplication) determined on a consolidated basis in accordance with IFRS of:

- (1) the aggregate of cash and non-cash interest expense of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period determined on a consolidated basis in accordance with IFRS, including, without limitation, the following (whether or not interest expense in accordance with IFRS):
 - (a) any amortization or accretion of debt discount or any interest paid on Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) in the form of additional Indebtedness;
 - (b) any amortization of deferred financing costs;
 - (c) the net costs under Hedging Obligations (including amortization of fees) in respect of Indebtedness or that are otherwise treated as interest expense or equivalent under IFRS; *provided* that if Hedging Obligations result in net benefits rather than costs, such benefits will be credited to reduce Consolidated Interest Expense unless, pursuant to IFRS, such net benefits are otherwise reflected in Consolidated Net Income;
 - (d) all capitalized interest;
 - (e) the interest portion of any deferred payment obligation;
 - (f) commissions, discounts and other fees and charges Incurred in respect of letters of credit or bankers' acceptances; and
 - (g) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company) or secured by a Lien on the assets of such Person or one of its Subsidiaries (Restricted Subsidiaries in the case of the Company), whether or not such Guarantee or Lien is called upon; and
- (2) the interest component of Capitalized Lease Obligations paid, accrued and/or scheduled to be paid or accrued by such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) during such period; and
- (3) Receivables Fees.

“*Consolidated Net Income*” means, with respect to any Person for any period, the aggregate net income (or loss) of such Person and its Subsidiaries (after deducting (or adding) the portion of such net income (or loss) attributable to minority interests in Subsidiaries of such Person) for such period on a consolidated basis, determined in accordance with IFRS; *provided* that there will be excluded therefrom to the extent reflected in such aggregate net income (loss):

- (1) net after-tax gains or losses from Asset Sale Transactions or abandonments or reserves relating thereto;
- (2) net after-tax items classified as extraordinary gains or losses;
- (3) the net income (or loss) of any Person, other than such Person and any Subsidiary of such Person (Restricted Subsidiary in the case of the Company); except that the Company’s equity in the net income of any Person will be included up to the aggregate amount of cash actually distributed by such Person during such period to the Company or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution to a Restricted Subsidiary, to the limitations contained in clause (4) below); and except further that the Company’s equity in the net loss of any Person will be included to the extent such loss may have been funded with cash from the Company or a Restricted Subsidiary;
- (4) the net income (but not loss) of any Subsidiary of such Person (Restricted Subsidiary in the case of the Company) to the extent that a corresponding amount could not be distributed to such Person at the date of determination as a result of any restriction pursuant to the constituent documents of such Subsidiary (Restricted Subsidiary in the case of the Company) or any law, regulation, agreement or judgment applicable to any such distribution;

- (5) any restoration to income of any contingency reserve, except to the extent that provision for such reserve was made out of Consolidated Net Income accrued at any time following the Issue Date;
- (6) any gain (or loss) from foreign exchange translation or change in net monetary position;
- (7) any net gain or loss (after any offset) resulting in such period from Hedging Obligations entered into for bona fide hedging purposes and not for speculative purposes; *provided* that the net effect on income or loss (including in any prior periods) will be included upon any termination or early extinguishment of such Hedging Obligations, other than any Hedging Obligations with respect to Indebtedness (that is not itself a Hedging Obligation) and that are extinguished concurrently with the termination or other prepayment of such Indebtedness;
- (8) the amount of amortization or write-off of deferred financing costs and debt issuance costs of the Company and its Restricted Subsidiaries during such period and any premium or penalty paid in connection with redeeming or retiring Indebtedness of the Company and its Restricted Subsidiaries prior to the stated maturity thereof pursuant to the agreements governing such Indebtedness; and
- (9) the cumulative effect of changes in accounting principles.

“*Consolidated Non-cash Charges*” means, with respect to any Person for any period, the aggregate depreciation, amortization and other non-cash expenses or losses of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) for such period, determined on a consolidated basis in accordance with IFRS (excluding any such charge which constitutes an accrual of or a reserve for cash charges for any future period or the amortization of a prepaid cash expense paid in a prior period).

“*Consolidated Total Assets*” means the total amount of the consolidated assets of the Company and its consolidated subsidiaries, as set forth as “Total assets” in the consolidated balance sheet of the Company, as of the end of the most recently completed fiscal quarter or full-year period for which the Company’s published financial statements are available.

“*Consolidated Total Indebtedness*” means, with respect to a Person as of any date of determination, an amount equal to the aggregate amount (without duplication) of all Indebtedness of such Person and its Subsidiaries (Restricted Subsidiaries in the case of the Company) outstanding at such time.

“*Corporate Trust Office*” means with respect to the Trustee, 101 Barclay Street, Floor 7 East, New York, NY, 10286, United States.

“*Covenant Defeasance*” has the meaning set forth under “— Legal Defeasance and Covenant Defeasance.”

“*Currency Agreement*” means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed solely to hedge foreign currency risk of such Person.

“*Default*” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“*Designation*” and “*Designation Amount*” have the meanings set forth under “Covenants — Limitation on Designation of Unrestricted Subsidiaries” above.

“*Disqualified Capital Stock*” means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof, in any case, prior to or on the 91st day after the final maturity date of the notes.

“*Event of Default*” has the meaning set forth under “— Events of Default.”

“*Exchange Act*” means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“*Fair Market Value*” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction. The Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Company acting in good faith.

“*Fitch*” means Fitch Ratings Ltd. and its successors and assigns.

“*Four-Quarter Period*” means the four most recent full fiscal quarters for which financial statements are available ending prior to the date of such determination.

“*Guarantee*” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person:

- (1) to purchase or pay, or advance or supply funds for the purchase or payment of, such Indebtedness of such other Person, whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise; or
- (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof, in whole or in part;

provided that “*Guarantee*” will not include endorsements for collection or deposit in the ordinary course of business. “*Guarantee*,” when used as a verb, has a corresponding meaning.

“*Hedging Obligations*” means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

“*Holder*” means the Person in whose name a note is registered in the note register pursuant to the terms of the Indenture.

“*IFRS*” means International Financial Reporting Standards as adopted by the International Accounting Standards Board, and any financial reporting standards authorized by the Mexican *Comisión Nacional Bancaria y de Valores* and applied by the Company.

“*Incur*” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, Guarantee or otherwise become liable in respect of such Indebtedness or other obligation on the balance sheet of such Person. “*Incurrence*,” “*Incur*” and “*Incurring*” have corresponding meanings.

“*Indebtedness*” means, with respect to any Person, without duplication:

- (1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;
- (2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business);
- (5) letters of credit, banker’s acceptances or similar credit transactions, including reimbursement obligations in respect thereof (except to the extent any standby letter of credit or performance bond and the related reimbursement obligation relates to trade payables or contracts entered into in the ordinary course of business and such obligation is satisfied within 20 Business Days of Incurrence);

- (6) Guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clauses (8) through (10) below;
- (7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) above which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset and the amount of the Indebtedness so secured;
- (8) all net obligations under Hedging Obligations (not including hedging obligations entered into for non-speculative purposes) of such Person (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);
- (9) all Disqualified Capital Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Capital Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding (i) accrued dividends, if any, and (ii) any shares of a Mexican company that are part of the variable portion of its Capital Stock and that are redeemable, under the Mexican General Law of Business Corporations (*Ley General de Sociedades Mercantiles*); *provided that*:
 - (a) if the Disqualified Capital Stock does not have a fixed repurchase price, such maximum fixed repurchase price will be calculated in accordance with the terms of the Disqualified Capital Stock as if the Disqualified Capital Stock were purchased on any date on which Indebtedness will be required to be determined pursuant to the Indenture; and
 - (b) if the maximum fixed repurchase price is based upon, or measured by, the fair market value of the Disqualified Capital Stock, the fair market value will be the Fair Market Value thereof; and
- (10) to the extent not otherwise included in the foregoing, the Receivables Transaction Amount outstanding relating to a Qualified Receivables Transaction.

“*Independent Financial Advisor*” means an accounting firm, appraisal firm, investment banking firm or consultant of internationally recognized standing that is, in the judgment of the Company’s Board of Directors, qualified to perform the task for which it has been engaged and which is independent in connection with the relevant transaction.

“*Interest Rate Agreement*” means, with respect to any Person, any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed solely to hedge the interest rate risk of such Person.

“*Investment*” means, with respect to any Person, any:

- (1) direct or indirect loan, advance or other extension of credit (including, without limitation, a Guarantee) to any other Person (other than advances or extensions of credit to customers in the ordinary course of business);
- (2) capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others) any other Person; or
- (3) any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any other Person.

“Investment” will exclude accounts receivable, trade credits, advances to customers, commissions, travel or similar advances to employees or consultants or deposits arising in the ordinary course of business. “Invest,” “Investing” and “Invested” have corresponding meanings.

For purposes of the “— Limitation on Restricted Payments” covenant, the Company will be deemed to have made an “Investment” in an Unrestricted Subsidiary at the time of its Designation, which will be valued at the Fair Market Value of the sum of the net assets of such Unrestricted Subsidiary at the time of its Designation and the

amount of any Indebtedness of such Unrestricted Subsidiary or owed to the Company or any Restricted Subsidiary immediately following such Designation. Any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer. If the Company or any Restricted Subsidiary sells or otherwise disposes of any Capital Stock of a Restricted Subsidiary (including any issuance and sale of Capital Stock by a Restricted Subsidiary) such that, after giving effect to any such sale or disposition, such Restricted Subsidiary would cease to be a Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the sum of the Fair Market Value of the Capital Stock of such former Restricted Subsidiary held by the Company or any Restricted Subsidiary immediately following such sale or other disposition and the amount of any Indebtedness of such former Restricted Subsidiary Guaranteed by the Company or any Restricted Subsidiary or owed to the Company or any other Restricted Subsidiary immediately following such sale or other disposition.

“*Investment Grade Rating*” means a rating equal to or higher than (i) BBB- (or the equivalent) by Fitch, (ii) Baa3 (or the equivalent) by Moody’s or (iii) BBB- (or the equivalent) by S&P, or, if any such entity ceases to rate the notes for reasons outside of the control of the Company, the equivalent investment grade credit rating from any other Rating Agency.

“*Issue Date*” means the first date of issuance of the notes under the Indenture.

“*Legal Defeasance*” has the meaning set forth under “— Legal Defeasance and Covenant Defeasance.”

“*Lien*” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder; *provided, further*, that any security interest with respect to a non-recourse true sale of any assets will not constitute a Lien.

“*Moody’s*” means Moody’s Investors Service, Inc., or any successor thereto.

“*NAVE*” means the Company’s information and communication technologies corporate incubator focused on identifying and developing start-ups and scale-ups related primarily to “big data”, mobility, the internet of things, social networks, security and virtualization solutions.

“*Net Cash Proceeds*” means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents, including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries from such Asset Sale, net of:

- (1) out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);
- (2) taxes paid or payable in respect of such Asset Sale after taking into account any reduction in consolidated tax liability due to available tax credits or deductions and any tax sharing arrangements;
- (3) repayment of Indebtedness secured by a Lien permitted under the Indenture that is required to be repaid in connection with such Asset Sale;
- (4) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Sale; and
- (5) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with IFRS, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, but excluding any reserves with respect to Indebtedness.

“*Net Debt to EBITDA Ratio*” means, with respect to any Person as of any date of determination, the ratio of the aggregate amount of Consolidated Total Indebtedness (less cash and Cash Equivalents, excluding any amount listed in the Company’s consolidated statement of financial position as “restricted” on such statement of financial

position) for such Person as of such date to Consolidated Adjusted EBITDA for such Person for the Four-Quarter Period.

For purposes of this definition, Consolidated Total Indebtedness and Consolidated Adjusted EBITDA will be calculated after giving effect on a *pro forma* basis in good faith for the period of such calculation for the following:

(1) the Incurrence, repayment or redemption of any Indebtedness (including Acquired Indebtedness) of such Person or any of its Subsidiaries (Restricted Subsidiaries in the case of the Company) and the application of the proceeds thereof, including the Incurrence of any Indebtedness (including Acquired Indebtedness), and the application of the proceeds thereof, giving rise to the need to make such determination, occurring during such Four Quarter Period and at any time subsequent to the last day of such Four Quarter Period and prior to or on such date of determination, as if such Incurrence, and the application of the proceeds thereof, repayment or redemption occurred on the first day of such Four Quarter Period; and

(2) any Asset Sale Transaction or Asset Acquisition by such Person or any of its Subsidiaries (Restricted Subsidiaries in the case of the Company), including any Asset Sale or Asset Acquisition giving rise to the need to make such determination, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and prior to or on such date of determination, as if such Asset Sale Transaction or Asset Acquisition occurred on the first day of such Four Quarter Period.

Furthermore, for purposes of making the computation referred to above, the amount of Indebtedness under a revolving credit facility will be computed on a *pro forma* basis, giving effect to any borrowings related to any transaction referred to in clause (2) above, based upon the average daily balance of such Indebtedness during the applicable Four Quarter Period or, if such facility was created after the end of such Four Quarter Period, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation.

For purposes of calculating the Net Debt to EBITDA Ratio: (i) Consolidated Total Indebtedness shall be calculated by converting all relevant amounts into U.S. Dollars as of the relevant date of calculation using the Period-End Exchange Rate and (ii) Consolidated Adjusted EBITDA shall be calculated by converting the relevant amounts on the basis of the Average Exchange Rate during the relevant period and aggregating the twelve monthly calculations for such period.

“*Obligations*” means, with respect to any Indebtedness, any principal, interest (including, without limitation, Post-Petition Interest), premium, Additional Amounts, penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the documentation governing such Indebtedness, including in the case of the notes and any Subsidiary Guarantees, the Indenture.

“*OECD*” means the Organization for Economic Cooperation and Development or any successor thereto.

“*Officers’ Certificate*” means a certificate signed on behalf of the Company or a Subsidiary Guarantor, as the case may be, by two officers of the Company or such Subsidiary Guarantor, as applicable, one of whom must be the principal executive officer, principal financial officer, treasurer, or principal accounting officer of the Company or the Subsidiary Guarantor, as applicable, that meets the requirements set forth in the Indenture.

“*Opinion of Counsel*” means a written opinion of counsel, who may be an employee of or counsel for the Company or any of its Affiliates (except as otherwise provided in the Indenture) and which opinion is reasonably acceptable to the Trustee.

“*Period-End Exchange Rate*” means, with respect to any calculation of Consolidated Total Indebtedness for any period, the exchange rate at the end of such period for converting such relevant non-U.S. Dollar amounts into U.S. Dollars that the Company and its auditors would use in the preparation of the consolidated balance sheet of the Company and its consolidated Subsidiaries in accordance with IFRS.

“*Permitted Business*” means the business or businesses conducted by the Company and its Restricted Subsidiaries as of the Issue Date and any business related, ancillary or complementary thereto.

“*Permitted Indebtedness*” has the meaning set forth under clause (2) of “— Covenants — Limitation on Incurrence of Additional Indebtedness.”

“*Permitted Investments*” means:

- (1) Investments by the Company or any Restricted Subsidiary in any Person that is, or that result in any Person becoming, immediately after such Investment, a Restricted Subsidiary (other than a Receivables Subsidiary) or constituting a merger or consolidation of such Person into the Company or with or into a Restricted Subsidiary (other than a Receivables Subsidiary);
- (2) Investments by any Restricted Subsidiary in the Company;
- (3) Investments in cash and Cash Equivalents;
- (4) Investments in existence on the Issue Date;
- (5) any extension, modification or renewal of any Investments existing as of the Issue Date (but not Investments involving additional advances, contributions or other investments of cash or property or other increases thereof, other than as a result of the accrual or accretion of interest or original issue discount or payment-in-kind pursuant to the terms of such Investment as of the Issue Date);
- (6) Investments permitted pursuant to clause (2)(b) or (e) of “— Covenants — Limitation on Transactions with Affiliates”;
- (7) Investments received as a result of the bankruptcy or reorganization of any Person or taken in settlement of or other resolution of claims or disputes, and, in each case, extensions, modifications and renewals thereof;
- (8) Investments made by the Company or its Restricted Subsidiaries as a result of non-cash consideration permitted to be received in connection with an Asset Sale made in compliance with the covenant described under “— Covenants — Limitation on Asset Sales”;
- (9) Investments in the form of Hedging Obligations permitted under clause 2(d) of “— Covenants — Limitation on Incurrence of Additional Indebtedness”;
- (10) Receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided* that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;
- (11) Investments consisting of payroll, travel or similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (12) Investments in Capital Stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;
- (13) Investments by the Company or any of its Restricted Subsidiaries, in an aggregate amount outstanding at any time not to exceed the greater of (i) US\$60 million (or the equivalent in other currencies) or (ii) 4.0% of Consolidated Total Assets, in any company formed by or affiliated with (a) the Altan consortium in connection with *Red Compartida* or (b) the Red Troncal initiative, relating in this latter case to the development of a national fiber backbone from assets owned or formerly owned by the *Comisión Federal de Electricidad*;
- (14) Investments by the Company or any of its Restricted Subsidiaries in any company formed by or affiliated with projects resulting only in the provision of mobile IT and telecommunications services in which the Company or any of its Restricted Subsidiaries will have one or more strategic or financial partners, in an aggregate amount outstanding at any time not to exceed the greater of (i) US\$80 million or (ii) 5.0% of Consolidated Total Assets;

- (15) Investments by the Company or any of its Restricted Subsidiaries, in any company or companies affiliated with NAVE in an aggregate amount, for all such Investments, not to exceed US\$4,000,000 (or the equivalent in other currencies) in any calendar year;
- (16) minority Investments, in an aggregate amount not to exceed the greater of (i) US\$30 million (or the equivalent in other currencies) or (ii) 2.0% of Consolidated Total Assets;
- (17) any Investment by the Company or a Restricted Subsidiary in a Receivables Subsidiary or any Investment by a Receivables Subsidiary in any other Person, in each case, in connection with a Qualified Receivables Transaction; *provided* that the Investment in any Person is in the form of a Purchase Money Note or an equity interest or interest in Receivables and related assets generated by the Company or a Restricted Subsidiary and transferred to any Person in connection with a Qualified Receivables Transaction or any Person owning those accounts receivable; and
- (18) Investments by the Company or any of its Restricted Subsidiaries, together with all other Investments pursuant to this clause (18), in an aggregate amount at the time of such Investment not to exceed the greater of (a) U.S.\$50 million (or the equivalent in other currencies) and (b) 3.0% of Consolidated Total Assets outstanding at any one time (with the Fair Market Value of each such Investment being measured at the time made and without giving effect to subsequent changes in value); *provided* that any Person in which such Investments are made is principally engaged in a Permitted Business.

“*Permitted Jurisdiction*” has the meaning set forth under “—Covenants—Limitation on Merger, Consolidation and Sale of Assets.”

“*Permitted Liens*” means any of the following Liens:

- (1) Liens existing on the Issue Date;
- (2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by IFRS shall have been made in respect thereof;
- (3) Liens Incurred or deposits made in the ordinary course of business in connection with workers’ compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- (4) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person’s obligations in respect of bankers’ acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (5) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;
- (6) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Restricted Subsidiary, including rights of offset and setoff;
- (7) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings promptly initiated and diligently conducted, *provided* that appropriate reserves required pursuant to IFRS have been made in respect thereof;
- (8) encumbrances, ground leases, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning,

building codes or other restrictions (including, without limitation, minor defects or irregularities in title and similar encumbrances) as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

- (9) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired;
- (10) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution;
- (11) Liens securing Hedging Obligations so long as the related Indebtedness is, and is permitted to be under the Indenture, secured by Liens on the same assets securing such Hedging Obligations;
- (12) Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness below which has been secured by a Lien permitted under the covenant described under "— Covenants — Limitation on Liens" not incurred pursuant to clause (15) or (16) and which Indebtedness has been Incurred in accordance with "— Covenants — Limitation on Incurrence of Additional Indebtedness"; *provided* that such new Liens:
 - (a) are no less favorable to the Holders and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced and
 - (b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;
- (13) Liens securing Indebtedness or other obligations of a Restricted Subsidiary owing to the Company or another Restricted Subsidiary (other than a Receivables Subsidiary) and permitted to be Incurred under the Indenture;
- (14) Liens securing Acquired Indebtedness Incurred in accordance with "— Covenants — Limitation on Incurrence of Additional Indebtedness" not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided* that
 - (a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary and
 - (b) such Liens do not extend to or cover any property of the Company or any Restricted Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Restricted Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Restricted Subsidiary;
- (15) Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred to finance the acquisition or leasing of property of the Company or a Restricted Subsidiary used in a Permitted Business; *provided* that:
 - (a) the related Purchase Money Indebtedness does not exceed the cost of such property and will not be secured by any property of the Company or any Restricted Subsidiary other than the property so acquired; and
 - (b) the Lien securing such Indebtedness will be created within 180 days of such acquisition; and

- (16) Liens on assets transferred to a Receivables Subsidiary or on assets of a Receivables Subsidiary, in either case Incurred in connection with a Qualified Receivables Transaction;
- (17) Liens in favor of the Company or any Restricted Subsidiary;
- (18) Liens incurred in the ordinary course of business with respect to obligations that do not exceed U.S.\$30 million at any one time outstanding;
- (19) Liens on the Capital Stock of any Unrestricted Subsidiary;
- (20) any Lien securing Indebtedness for the purpose of financing all or part of the cost of the acquisition, construction or development of a project; provided that the lenders of such Indebtedness expressly agree to limit their collateral in respect of such Indebtedness to assets (including Capital Stock of the project entity) and/or revenues of such project; and provided, further, that the Lien is incurred before, or within 180 days after the completion of, that acquisition, construction or development and does not apply to any other property or assets owned by us or any Restricted Subsidiary; and
- (21) Liens securing an amount of Indebtedness outstanding at any one time not to exceed the greater of (i) U.S.\$100 million (or the equivalent in other currencies) and (ii) 7.5% of Consolidated Total Assets at the time of incurrence of such Indebtedness.

“*Person*” means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

“*Post-Petition Interest*” means all interest accrued or accruing after the commencement of any insolvency or liquidation proceeding (and interest that would accrue but for the commencement of any insolvency or liquidation proceeding) in accordance with and at the contract rate (including, without limitation, any rate applicable upon default) specified in the agreement or instrument creating, evidencing or governing any Indebtedness, whether or not, pursuant to applicable law or otherwise, the claim for such interest is allowed as a claim in such insolvency or liquidation proceeding.

“*Preferred Stock*” means, with respect to any Person, any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

“*Purchase Money Indebtedness*” means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement of any property; *provided* that the aggregate principal amount of such Indebtedness does not exceed the lesser of the Fair Market Value of such property or such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of the Refinancing.

“*Purchase Money Note*” means a promissory note evidencing a line of credit, or evidencing other Indebtedness owed to the Company or any Restricted Subsidiary in connection with a Qualified Receivables Transaction, which note shall be repaid from cash available to the maker of such note, other than amounts required to be established as reserves, amounts paid to investors in respect of interest, principal and other amounts owing to such investors and amounts paid in connection with the purchase of newly generated accounts receivable.

“*Qualified Capital Stock*” means any Capital Stock that is not Disqualified Capital Stock and any warrants, rights or options to purchase or acquire Capital Stock that is not Disqualified Capital Stock that are not convertible into or exchangeable into Disqualified Capital Stock.

“*Qualified Receivables Transaction*” means any transaction or series of transactions that may be entered into by the Company or any Restricted Subsidiary pursuant to which the Company or any Restricted Subsidiary may sell, convey or otherwise transfer to (a) a Receivables Subsidiary (in the case of a transfer by the Company or any Restricted Subsidiary) and (b) any other person (in the case of a transfer by a Receivables Subsidiary), or may grant a security interest in, any Receivable (whether now existing or arising in the future) of the Company or any Restricted Subsidiary and any asset related thereto, including, without limitation, all collateral securing such Receivables, all contracts and all guarantees or other obligations in respect of the accounts receivable, proceeds of

such Receivables and other assets which are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving Receivables.

“*Rating Agencies*” means (i) Fitch, (ii) Moody’s and (iii) S&P or (iv) if any of Fitch, Moody’s or S&P shall not make a rating of the notes publicly available, a nationally recognized United States securities rating agency or agencies, as the case may be, selected by the Company, which shall be substituted for any of Fitch, Moody’s or S&P, as the case may be.

“*Ratings Decline*” means that at any time within 90 days (which period shall be extended so long as the rating of the notes is under publicly announced consideration for possible downgrade by Moody’s, S&P or Fitch or a substitute or successor of any thereof) after the date of public notice of a Change of Control, of an arrangement that could result in a Change of Control, or of the Company’s intention or that of any other Person to effect a Change of Control, (i) in the event the notes are assigned an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the notes are rated below an Investment Grade Rating by at least two of the Rating Agencies prior to such public notice, the rating of the notes by at least two of the Rating Agencies shall be decreased by one or more categories; provided that, in each case, any such rating decline is in whole or in part in connection with a Change of Control.

“*Receivable*” means a right to receive payment arising from a sale or lease of goods or the performance of services by a Person pursuant to an arrangement with another Person pursuant to which such other Person is obligated to pay for goods or services under terms that permit the purchase of such goods and services on credit, including, without limitation, an account receivable.

“*Receivables Fees*” means any fees or interest paid to purchasers or lenders providing the financing in connection with a Qualified Receivables Transaction, factoring agreement or other similar agreement, including any such amounts paid by discounting the face amount of Receivables or participations therein transferred in connection with a Qualified Receivables Transaction, factoring agreement or other similar arrangement, regardless of whether any such transaction is structured as on-balance sheet or off-balance sheet or through a Restricted Subsidiary or an Unrestricted Subsidiary

“*Receivables Subsidiary*” means a Wholly Owned Subsidiary of the Company which engages in no activities other than in connection with the financing of accounts receivables and which is designated by the Company as a Receivables Subsidiary:

- (1) no portion of the Indebtedness or any other Obligations (contingent or otherwise) of which (a) is guaranteed by the Company or any other Restricted Subsidiary (excluding guarantees of Obligations (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitization Undertakings), (b) is recourse to or obligates the Company or any other Restricted Subsidiary in any way other than pursuant to Standard Securitization Undertakings, or (c) subjects any property or asset of the Company or any other Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitization Undertakings;
- (2) with which neither the Company nor any other Restricted Subsidiary has any material contract, agreement, arrangement or understanding (except in connection with a Purchase Money Note or Qualified Receivables Transaction) other than on terms no less favorable to the Company or such other Restricted Subsidiary than those that might be obtained at the time from persons that are not Affiliates of the Company, other than fees payable in the ordinary course of business in connection with servicing accounts receivable; and
- (3) to which neither the Company nor any Restricted Subsidiary has any obligation to maintain or preserve such entity’s financial condition or cause such entity to achieve certain levels of operating results.

“*Receivables Transaction Amount*” means the amount of obligations outstanding under the legal documents entered into as part of such Qualified Receivables Transaction on any date of determination that would be characterized as principal if such Qualified Receivables Transaction were structured as a secured lending transaction rather than as a purchase.

“*Red Compartida*” means a public-private partnership project awarded to the Altan consortium by Mexico’s Ministry of Communications and Transport (Secretaría de Comunicaciones y Transportes) granting exclusive rights to exploit 90 MHz of spectrum in the 700 MHz frequency band for the creation of a nationwide 4G wholesaler network in Mexico.

“*Refinance*” means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. “Refinanced” and “Refinancing” have correlative meanings.

“*Refinancing Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary issued to Refinance any other Indebtedness of the Company or a Restricted Subsidiary so long as:

- (1) the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing);
- (2) such new Indebtedness has:
 - (a) a Weighted Average Life to Maturity that is equal to or greater than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; and
 - (b) a final maturity that is equal to or later than the final maturity of the Indebtedness being Refinanced; and
- (3) if the Indebtedness being Refinanced is Subordinated Indebtedness, then such Refinancing Indebtedness will be subordinate to the notes or any relevant Subsidiary Guarantee, if applicable, at least to the same extent and in the same manner as the Indebtedness being Refinanced.

“*Restricted Payment*” has the meaning set forth under “— Covenants — Limitation on Restricted Payments.”

“*Restricted Subsidiary*” means any Subsidiary (including, without limitation, a Receivables Subsidiary) of the Company which at the time of determination is not an Unrestricted Subsidiary.

“*Revocation*” has the meaning set forth under “— Covenants — Limitation on Designation of Unrestricted Subsidiaries.”

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such property.

“*S&P*” means Standard & Poor’s Ratings Group, a division of McGraw-Hill, Inc. and its successors.

“*SEC*” means the U.S. Securities and Exchange Commission.

“*Senior Indebtedness*” means the notes and the Subsidiary Guarantees and any other Indebtedness of the Company or any Restricted Subsidiary that ranks equal in right of payment with the notes or the relevant Subsidiary Guarantee, as the case may be.

“*Significant Subsidiary*” means a Subsidiary of the Company that would constitute a “significant subsidiary” of the Company in accordance with Rule 1-02 under Regulation S-X under the Securities Act in effect on the Issue Date.

“*Standard Securitization Undertakings*” means representations, warranties, covenants and indemnities entered into by the Company or any Restricted Subsidiary which are reasonably customary in securitization of Receivables transactions.

“*Stated Maturity*” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“*Strategic Subordinated Indebtedness*” means Indebtedness of the Company or any Restricted Subsidiary owed or payable to solely an Affiliate of the Company (other than a Subsidiary) which by its terms, or by the terms of any agreement or instrument pursuant to which such Indebtedness is Incurred:

- (1) is expressly made subordinate in right of payment to the notes; and
- (2) provides that no payment of principal or premium, if any, or interest on, or any other payment with respect to, such Indebtedness may be made prior to the payment in full of all of the Company’s obligations under the notes.

“*Subordinated Indebtedness*” means, with respect to the Company or any Restricted Subsidiary, any Indebtedness of the Company or such Restricted Subsidiary, as the case may be, which is expressly subordinated in right of payment to the notes or the relevant Subsidiary Guarantee, as the case may be.

“*Subsidiary*” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person’s outstanding Voting Stock.

“*Subsidiary Guarantee*” means the unconditional Guarantee, on a joint and several basis, of the full and prompt payment of all Obligations of the Company under the Indenture and the notes, in accordance with the terms of the Indenture.

“*Surviving Entity*” has the meaning set forth under “— Covenants — Limitation on Merger, Consolidation and Sale of Assets.”

“*Unrestricted Subsidiary*” means any Subsidiary of the Company Designated as an Unrestricted Subsidiary pursuant to “— Covenants — Limitation on Designation of Unrestricted Subsidiaries.” Any such Designation may be revoked by a Board Resolution of the Company, subject to the provisions of such covenant.

“*U.S. Dollars*” or “*U.S.\$*” means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

“*U.S. Government Obligations*” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer’s option.

“*Voting Stock*” means, with respect to any Person, securities of any class of Capital Stock of such Person then outstanding and normally entitled to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person. The term “normally entitled” means without regard to any contingency.

“*Weighted Average Life to Maturity*” means, when applied to any Indebtedness at any date, the number of years (calculated to the nearest one-twelfth) obtained by dividing:

- (1) the then outstanding aggregate principal amount or liquidation preference, as the case may be, of such Indebtedness into
- (2) the sum of the products obtained by multiplying:
 - (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal or liquidation preference, as the case may be, including payment at final maturity, in respect thereof, by
 - (b) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

“*Wholly Owned Subsidiary*” means, for any Person, any Subsidiary (Restricted Subsidiary in the case of the Company) of which all the outstanding Capital Stock (other than, in the case of a Subsidiary not organized in the United States, directors’ qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) is owned by such Person or any other Person that satisfies this definition in respect of such Person.

BOOK-ENTRY, DELIVERY AND FORM

The notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A (“Rule 144A notes”). Notes also may be offered and sold in offshore transactions in reliance on Regulation S (“Regulation S notes”). Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Rule 144A global notes”). Regulation S notes initially will be represented by one or more notes in registered, global form without interest coupons (collectively, the “Regulation S global notes” and, together with the Rule 144A global notes, the “global notes”).

The global notes will be deposited upon issuance with the Trustee as custodian for DTC, in New York, New York, and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC including Euroclear and Clearstream as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the “restricted period”), beneficial interests in the Regulation S global notes may be held only through Euroclear and Clearstream (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A global note in accordance with the certification requirements described below. Beneficial interests in the Rule 144A global notes may not be exchanged for beneficial interests in the Regulation S global notes at any time except in the limited circumstances described below. See “—Exchanges Between Regulation S Notes and Rule 144A Notes.”

Except as set forth below, the global notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the global notes may not be exchanged for notes in certificated form except in the limited circumstances described below. See “—Exchange of Global Notes for Certificated Notes.” Except in the limited circumstances described below, owners of beneficial interests in the global notes will not be entitled to receive physical delivery of notes in certificated form.

Rule 144A notes (including beneficial interests in the Rule 144A global notes) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under “Transfer Restrictions.” Regulation S notes will also bear the legend as described under “Transfer Restrictions.” In addition, transfers of beneficial interests in the global notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream is provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited purpose trust company created to hold securities for its participating organizations (collectively, the “participants”) and to facilitate the clearance and settlement of transactions in those securities between participants through electronic book entry changes in accounts of its participants. The participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC’s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain custodial relationship with a participant, either directly or indirectly (collectively, the “indirect participants”). Persons who are not participants may beneficially own securities held by or on behalf of DTC only through the participants or the indirect participants. DTC has no knowledge of the identity of beneficial owners of securities held by or on behalf of DTC. DTC’s records reflect only the identity of participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the participants and indirect participants.

DTC has also advised us that, pursuant to procedures established by it:

- (1) upon deposit of the global notes, DTC will credit the accounts of participants designated by the initial purchasers with portions of the principal amount of the global notes; and
- (2) ownership of these interests in the global notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the participants) or by the participants and the indirect participants (with respect to other owners of beneficial interests in the global notes).

Investors in the global notes who are participants in DTC's system may hold their interests therein directly through DTC. Investors in the Rule 144A global notes who are not participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are participants in such system. Euroclear and Clearstream will hold interests in the global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories. All interests in a global note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a global note to such persons will be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants, the ability of a person having beneficial interests in a global note to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the global notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or "holders" thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium and additional interest, if any, on a global note registered in the name of DTC or its nominee will be payable by the Trustee (or the paying agent if other than the Trustee) to DTC in its capacity as the registered holder under the Indenture. Under the terms of the Indenture, the Issuer and the Trustee will treat the persons in whose names the notes, including the global notes, are registered as the owners of the notes for the purpose of receiving payments and for any and all other purposes whatsoever. Consequently, none of the Issuer, the Trustee, any transfer agent, the registrar, any paying agent or any agent of the Issuer or the Trustee has or will have any responsibility or liability for:

- (1) any aspect of DTC's records or any participant's or indirect participant's records relating to or payments made on account of beneficial ownership interest in the global notes or for maintaining, supervising or reviewing any of DTC's records or any participant's or indirect participant's records relating to the beneficial ownership interests in the global notes; or
- (2) any other matter relating to the actions and practices of DTC or any of its participants or indirect participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest) is to credit the accounts of the relevant participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the participants and the indirect participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the participants or the indirect participants and will not be our responsibility or that of DTC, the Trustee or any agent appointed pursuant to the Indenture. None of the Issuer, the Trustee or any of their respective agents will be liable for any delay by DTC or any of its participants in identifying the beneficial owners of the notes, and the Issuer, the Trustee and each of their respective agents may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under “Transfer Restrictions,” transfers between participants in DTC will be effected in accordance with DTC’s procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC’s rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counter-party in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf of delivering or receiving interests in the relevant global note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more participants to whose account DTC has credited the interests in the global notes and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, if there is an event of default under the notes, DTC reserves the right to exchange the global notes for legended notes in certificated form, and to distribute such notes to its participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Rule 144A global notes and the Regulation S global notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. Neither the Issuer nor the Trustee nor any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A global note is exchangeable for definitive notes in registered certificated form (“certificated notes”) if:

- (1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depository for the global notes and DTC fails to appoint a successor depository or (b) has ceased to be a clearing agency registered under the Exchange Act;
- (2) The Issuer, at its option, notifies the Trustee in writing that it has elected to cause the issuance of the certificated notes; or
- (3) there has occurred and is continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a global note may be exchanged for certificated notes upon prior written notice given to the Trustee by or on behalf of DTC in accordance with the Indenture. In all cases, certificated notes delivered in exchange for any global note or beneficial interests in global notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in “Transfer Restrictions,” unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated notes may not be exchanged for beneficial interests in any global note unless the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes. See “Transfer Restrictions.”

Exchanges Between Regulation S Notes and Rule 144A Notes

Beneficial interests in the Regulation S global notes may be exchanged for beneficial interests in the Rule 144A global notes only if:

- (1) such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A; and
- (2) the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the notes are being transferred to a person:
 - (A) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;
 - (B) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and
 - (C) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

A beneficial interest in a Rule 144A global note may be transferred to a person who takes delivery in the form of an interest in the Regulation S global note only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S.

Transfers involving exchanges of beneficial interests between the Regulation S global notes and the Rule 144A global notes will be effected in DTC by means of an instruction originated by the DTC participant and approved by the Trustee through the DTC Deposit/ Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the Regulation S global note and a corresponding increase in the principal amount of the Rule 144A global note or vice versa, as applicable. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and will become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interest in such other global note for so long as it remains such an interest. Transfers between Regulation S and Rule 144A notes will need to be done on a delivery free of payment basis and separate arrangements will need to be made outside of DTC for payment.

TRANSFER RESTRICTIONS

The notes and the guarantees have not been, and will not be, registered under the Securities Act, or the securities laws of any other jurisdiction and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, we are offering the notes only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) pursuant to Rule 144A; and
- outside the United States to non-U.S. persons in offshore transactions meeting the requirements of Rule 903 of Regulation S.

As used herein, the terms “offshore transaction,” “United States” and “U.S. person” have the respective meanings given to them in Regulation S.

Purchasers’ Representations and Restrictions on Resale and Transfer

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made pursuant to Rule 144A or (b) a non-U.S. person that is outside the United States;
- it acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any state, that the notes are being offered in a transaction that does not involve any public offering in the United States within the meaning of the Securities Act and that the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- it understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by a global note and that notes offered outside the United States pursuant to Regulation S will also be represented by a global note;
- it will not resell or otherwise transfer any of such notes except (a) to us, (b) within the United States to a qualified institutional buyer in a transaction in compliance with Rule 144A, (c) outside the United States in compliance with Rules 903 or 904 under the Securities Act, (d) pursuant to an exemption from registration under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- it agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes;
- it acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either in compliance with (a) Rule 144A or (b) Regulation S) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture;
- it acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us that the restrictions set forth herein have been complied with;
- if it is a non-U.S. purchaser acquiring a beneficial interest in a Regulation S global note offered pursuant to this offering memorandum, it acknowledges and agrees that, until the expiration of the 40 day

“distribution compliance period” within the meaning of Regulation S, any offer, sale, pledge or other transfer shall not be made by it in the United States or to, or for the account or benefit of, a U.S. person, except pursuant to Rule 144A to a qualified institutional buyer taking delivery thereof in the form of a beneficial interest in a U.S. global note;

- it acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers; and
- if it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF AXTEL, S.A.B. DE C.V. (THE “COMPANY”) THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT IT SHALL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE RESPECTIVE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ONLY AT THE OPTION OF THE ISSUER.”

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE OR OTHER SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT, PRIOR TO THE EXPIRATION OF THE 40-DAY DISTRIBUTION COMPLIANCE PERIOD (AS DEFINED IN REGULATION S (“REGULATION S”) UNDER THE SECURITIES ACT), NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES (AS DEFINED IN REGULATION S) OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, A U.S. PERSON (AS DEFINED IN REGULATION S), EXCEPT TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT IN A TRANSACTION MEETING THE REQUIREMENTS OF THE INDENTURE REFERRED TO HEREIN.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF (A) THE DATE ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATIONS UNDER THE SECURITIES ACT) AND (B) THE ORIGINAL ISSUE DATE OF THE NOTES.”

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes.”

Other Jurisdictions

The distribution of this offering memorandum and the offer and sale or resale of the notes may be restricted by law in certain jurisdictions. Persons into whose possession this offering memorandum comes are required by us and the initial purchasers to inform themselves about and to observe any such restrictions.

TAXATION

General

The following summary contains a description of certain material United States and Mexican federal income tax consequences of the purchase, ownership and disposition of the notes by holders that are treated as non-resident of Mexico for tax purposes.

This summary is based upon federal tax laws of the United States and Mexico as in effect on the date of this offering memorandum, including certain of the provisions of the income tax treaty between the United States and Mexico, which we refer to in this offering memorandum as the “Tax Treaty”, all of which are subject to change, including changes with retroactive effects. This summary does not purport to be a comprehensive description of all the United States or Mexican tax considerations that may be relevant to a decision to purchase, hold or dispose of the notes. The summary does not address any tax consequences under the laws of any state, municipality or locality of Mexico or the United States or the laws of any taxing jurisdiction other than the federal tax laws of Mexico and the United States.

Prospective investors should consult their own tax advisors as to the Mexican and United States tax consequences of the purchase, ownership and disposition of notes, including, in particular, the effect of any foreign (non-Mexican and non-U.S.), national, state, municipal or other non-national tax laws.

Mexico has also entered into or is negotiating several double taxation treaties with various countries that may have an impact on the tax treatment of the purchase, ownership or disposition of notes. Prospective purchasers of notes should consult their own tax advisors as to the tax consequences, if any, of the application of any such treaties.

Mexican Federal Tax Considerations

General

The following is a general summary of the principal Mexican federal income tax consequences of the purchase, ownership and disposition of the notes by holders that are treated as non-residents of Mexico, for Mexican federal income tax purposes, and that do not hold such notes through a permanent establishment for tax purposes in Mexico to which income under the notes is attributable; for purposes of this summary, each such non-resident holder is referred to as a foreign holder.

This summary is based on the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) and regulations in effect on the date of this offering memorandum, which are subject to change, possibly with retroactive effect, or to new or different interpretations, which could affect the continued validity of this summary.

This summary does not constitute tax advice and does not address all of the Mexican tax consequences that may be applicable to specific holders of the notes and does not purport to be a comprehensive description of all the Mexican tax considerations that may be relevant to a decision to purchase, own or dispose of the notes, including a comprehensive description of all Mexican federal tax considerations. In addition, this summary does not describe any tax consequences arising under the laws of any state or municipality of Mexico.

Potential investors should consult with their own tax advisors regarding the particular consequences of the purchase, ownership or disposition of the notes under the federal laws of Mexico and the laws of any state or municipality of Mexico or any other jurisdiction or under any applicable double taxation treaty to which Mexico is a party, which is in effect.

For purposes of Mexican taxation, an individual or corporation that does not satisfy the requirements to be considered a resident of Mexico for tax purposes, as specified below, is treated as a non-resident of Mexico for tax purposes, a foreign holder for purposes of this summary, and generally subject to taxation solely with respect to income under the notes, at a Mexican federal level, as specified in this summary.

Tax residency is a highly technical definition that involves the application of a number of factors that are specified in the Mexican Tax Code (*Código Fiscal de la Federación*). An individual is a resident of Mexico for tax purposes, if he/she established his/her home in Mexico. When the individual has a home in another country, the individual will be deemed a resident in Mexico if his/her center of vital interests is located in Mexican territory; this will be deemed to occur if (i) more than 50.0% of the aggregate income realized by such individual in the calendar year is from a Mexican source of income, or (ii) the principal center of the professional activities of the individual is located in Mexico. Mexican nationals who filed a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and where his/her income is subject to a preferred tax regime as defined by Mexican law, will be considered as Mexican residents for tax purposes during the fiscal year of the filing of notice of such residence change and during the following three fiscal years. Unless otherwise proven, a Mexican national is deemed a resident of Mexico for tax purposes.

A legal entity is a resident of Mexico, if it maintains the principal administration of its business or the effective location of its management in Mexico.

If a legal entity or an individual is deemed to have a permanent establishment in Mexico for Mexican tax purposes or is deemed to be a resident of Mexico for tax purposes, any and all income attributable to that permanent establishment of such resident, or to such deemed resident, will be subject to Mexican income taxes, in accordance with applicable Mexican tax laws.

Payments of Interest

Pursuant to the Mexican Income Tax Law, payments of interest on the notes (including original issue discount or any premium paid in respect of the notes, which is deemed to be interest) made by us to foreign holders, will be subject to Mexican withholding tax at a rate of 4.9%, if, as expected, the following requirements are met:

- the issuance of the notes (including the principal characteristics of the notes) is notified to the CNBV pursuant to Article 7 of the LMV and Articles 24 Bis, 24 Bis 1 and other applicable provisions of the General Regulations Applicable to Issuers and Other Market Participants (Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores);
- the notes, as expected, are placed outside of Mexico through banks or brokerage houses, in a country with which Mexico has entered into a treaty that is currently in force for the avoidance of double taxation which is in effect (which currently includes the United States); and
- we timely comply with the informational requirements specified from time to time by the Mexican tax authorities under their general rules, including, after completion of the transaction described in this offering memorandum, the filing with the Mexican Tax Administration Service (*Servicio de Administración Tributaria* or “SAT”), fifteen business days after the placement of the notes, certain information regarding such placement and this offering memorandum (including the principal characteristics of the notes).

If any of the above mentioned requirements is not met, the Mexican withholding tax will be 10.0% or higher. If the effective beneficiaries, whether acting directly or indirectly, individually or jointly with related parties, that receive more than 5% of any interest paid under the notes (i) are persons who own, directly or indirectly, individually or with related parties, 10% of our voting stock, or (ii) are corporations or other entities, of which 20% or more of the voting stock is owned, directly or indirectly, jointly or severally, by persons related to us, then the Mexican withholding tax rate applicable to payments of interest under our notes may increase to the maximum applicable rate according to the law (currently 35%). For these purposes, persons will be related if:

- one person holds an interest in the business of the other person;
- both persons have common interests; or
- a third party has an interest in the business or assets of both persons.

As of the date of this offering memorandum, the Tax Treaty is not expected to have any effect on the Mexican tax consequences described in this summary, because, as described above, under the Mexican Income Tax Law, we

expect to be entitled to withhold taxes in connection with interest payments under the notes at a 4.9% rate (as described above).

Payments of interest on the notes made by us to non-Mexican pension and retirement funds will be exempt from Mexican withholding tax provided that:

- the applicable fund is duly incorporated pursuant to the laws of its country of residence and is the effective beneficiary of the interest payment;
- such income is exempt from taxes in the country of residence of the applicable fund; and
- such fund provides information to us, that we may in turn provide to the SAT in accordance with rules issued by SAT for these purposes.

Holders or beneficial owners of the notes may be requested to, subject to specified exceptions, provide certain information or documentation necessary to enable us to apply the appropriate Mexican withholding tax rate on interest payments under the notes made by us to such holders or beneficial owners. Additionally, the Mexican Income Tax Law provides that, in order for a foreign holder to be entitled to the benefits under the treaties for the avoidance of double taxation entered into by Mexico, which are in effect, it is necessary for the foreign holder to meet the procedural requirements established in such Law (that relate to evidencing a place of residence). In the event that the specified information or documentation concerning the holder or beneficial owner, if requested, is not timely provided, we may withhold Mexican tax from interest payments on the notes to that holder or beneficial owner at the maximum applicable rate in effect, and our obligation to pay Additional Amounts relating to those withholding taxes will be limited as described under “Description of the Notes—Additional Amounts.”

Payments of Principal

Under Mexican Income Tax Law, payments of principal on the notes made by us to foreign holders, will not be subject to any Mexican withholding tax.

Taxation of Capital Gains

Under the Mexican Income Tax Law, capital gains resulting from the sale or other disposition of the notes by a foreign holder to another foreign holder are not taxable in Mexico. Gains resulting from the sale of the notes by a foreign holder to a Mexican resident for tax purposes or to a foreign holder deemed to have a permanent establishment in Mexico for tax purposes, will be subject to the Mexican taxes pursuant to the rules described above with respect to interest payments on the notes.

Taxation of Make-Whole Amount

Under the Mexican Income Tax Law, the payment of the make-whole amounts as a result of the optional redemption of the notes, as provided in “Description of the Notes—Redemption—Optional make-whole redemption” will be subject to the Mexican taxes pursuant to the rules described above with respect to interest payments (as applied to make-whole amounts).

Other Mexican Taxes

Under current Mexican tax laws, generally there are no estate, inheritance, succession or gift taxes, applicable to the purchase, ownership or disposition of the notes by a foreign holder. Gratuitous transfers of the notes in certain circumstances may result in the imposition of a Mexican federal income tax upon the recipient. There are no Mexican stamp, issue registration or similar taxes or duties payable by us or by foreign holders of the notes with respect to the notes (including their issuance).

U.S. Federal Income Tax Considerations

The following is a general summary of certain U.S. federal income tax consequences of the ownership and disposition of the notes. This summary is limited to “U.S. Holders” (as defined below) of the notes that purchase the

notes at the original issuance, at their “issue price” (which we assume will be the price indicated on the cover of this offering memorandum) and who hold the notes as capital assets (within the meaning of the U.S. Internal Revenue Code of 1986, as amended (the “Code”)). This summary is based upon provisions of the Code and U.S. Treasury regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in U.S. federal income tax consequences different from those summarized below. We have not sought and will not seek any rulings from the Internal Revenue Service (“IRS”) regarding the matters discussed herein. There can be no assurance that the IRS will not take positions concerning the tax consequences of the purchase, ownership or disposition of the notes that are different from those discussed herein or that a court will not agree with any such positions. This summary does not address all aspects of U.S. federal income taxation that may be relevant to a particular holder or to certain types of holders subject to special treatment, such as persons subject to certain U.S. federal income tax laws regarding expatriates, dealers in securities or foreign currency, financial institutions, insurance companies, tax-exempt organizations, real estate investment trusts, regulated investment companies, partnerships, pass-through entities or persons that hold the notes through partnerships or pass through entities, “U.S. Holders” (as defined below) whose functional currency is not the U.S. Dollar, or persons who hold the notes as part of a “straddle,” “hedge,” “conversion transaction,” “synthetic security” or other integrated investment. In addition, this summary does not address alternative minimum tax consequences or the indirect effects on holders of interests in a beneficial owner of the notes. This summary also does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the U.S. federal government.

As used in this section, the term “U.S. Holder” means a beneficial owner of the notes that is for U.S. federal income tax purposes: (i) a citizen or individual resident of the United States; (ii) a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any state thereof (including the District of Columbia); (iii) any estate the income of which is subject to U.S. federal income tax regardless of its source; or (iv) any trust if (A) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner in a partnership that acquires or holds the notes should consult its own tax advisors.

If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular United States federal, state and local tax consequences to you regarding purchase, ownership and disposition of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Contingent Payment Debt Obligations

Certain debt instruments that provide for one or more contingent payments are subject to U.S. Treasury regulations governing contingent payment debt instruments. A payment is not treated as a contingent payment under these regulations if, as of the issue date of the debt instrument, the likelihood that such payment will be made is remote and/or the payments are incidental. In certain circumstances as set forth in the Description of the Notes, we may be required to redeem the notes in advance of their stated maturity, in which case we may pay amounts on the notes that are in excess of the stated interest or principal of the notes. For example, in the event of a Change of Control (as defined in the indenture), we must offer to repurchase the notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date (see “Description of the Notes—Change of Control Triggering Event”). We intend to take the position that the possibility that any such payment will be made is remote and/or the payments are incidental and therefore the notes are not subject to the rules governing contingent debt instruments. Our determination that these contingencies are remote and/or incidental is binding on you unless you disclose your contrary position to the IRS in the manner that is required by applicable U.S. Treasury regulations. Our determination is not, however, binding on the IRS. It is possible that the IRS might take a different position from that described above, in which case the timing, character and amount of taxable income in respect of the notes may differ adversely from that described herein. The remainder of this discussion assumes that the notes will not be treated as contingent payment debt instruments.

Stated Interest

The amount of stated interest payments on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. It is expected, and this discussion assumes, that the notes will be issued without original issue discount for U.S. federal income tax purposes.

In addition to interest on the notes, you will be required to include in income as ordinary interest income any Additional Amounts and any tax withheld from the interest payments you receive, even if you do not in fact receive this withheld tax. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including Mexican taxes withheld, if any, from the interest payments and any Additional Amounts) on a note generally will be considered foreign source income and generally should constitute “passive category income” for foreign tax credit purposes. You may be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange and Retirement of Notes

Unless a nonrecognition provision of the U.S. federal income tax law applies, upon the sale, exchange, redemption, retirement or other taxable disposition of a note, a U.S. Holder will recognize taxable gain or loss in an amount equal to the difference, if any, between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (other than amounts attributable to accrued but unpaid interest, which will be treated as described under “—Stated Interest,” above) and the U.S. Holder's tax basis in the note. A U.S. Holder's tax basis in a note generally will be equal to the amount paid for the note by such U.S. Holder.

Gain or loss recognized by a U.S. Holder on the sale, exchange, redemption, retirement or other taxable disposition of a note will generally be capital gain or loss and will be long-term capital gain or loss if the U.S. Holder's holding period for such note is more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. Holders generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Such gain or loss will generally be treated as U.S. source income or loss for foreign tax credit purposes, unless the applicable provisions in the Tax Treaty provide otherwise. Accordingly, if Mexican tax is imposed on the sale or other disposition of the notes, such tax generally will not be available as a credit for you against U.S. federal income tax unless you have other income treated as derived from foreign sources, in the appropriate category, for purposes of the foreign tax credit rules. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Net Investment Income Tax

Certain U.S. Holders who are individuals, estates or trusts with income that exceeds certain thresholds generally will be subject to a 3.8% tax on “net investment income”, including interest on, and capital gains from the sale or other taxable disposition of the notes, subject to certain limitations and exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of the net investment income tax on their ownership and disposition of the notes.

Foreign Financial Asset Reporting

You may be required to file Form 8938 (Statement of Specified Foreign Financial Assets) if you own “specified foreign financial assets” with an aggregate value in excess of US\$50,000 with respect to such assets. U.S. Treasury regulations provide that “specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as investment in a note not held through an account with a financial institution. Investors who fail to report required information for any year could become subject to substantial penalties and a significant extension of the statute of limitations for their tax return.

Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of these U.S. Treasury regulations on their investment in notes.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments we make to a U.S. Holder and the proceeds from a sale of a note paid to a U.S. Holder unless such U.S. Holder is an exempt recipient and demonstrates this fact when so required. To avoid the imposition of backup withholding, a U.S. Holder should (i) provide its taxpayer identification number, (ii) certify that it is not subject to backup withholding, and (iii) otherwise comply with the applicable requirements of the backup withholding rules.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against a holder's United States federal income tax liability, provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance

Sections 1471 through 1474 of the Code ("FATCA") impose reporting obligations and a 30% withholding tax with respect to certain payments of interest, as well as payments made upon maturity, redemption, or sale of certain debt instruments. FATCA generally applies to debt instruments issued by U.S. issuers, but may also apply to payments on debt instruments issued by certain non-U.S. issuers made by non-U.S. financial institutions to the extent such payments are attributable to certain U.S. source income ("foreign passthru payments") (a term not yet defined) on the later of January 1, 2019, or the date of publication in the Federal Register of final U.S. Treasury regulations defining the term foreign passthru payments. U.S. Treasury regulations exempt from such withholding any debt instrument of a non-U.S. issuer issued prior to the date that is six months after the date of publication in the Federal Register of final U.S. Treasury regulations defining the term foreign passthru payments, unless such debt instrument is materially modified after such date. As of the date of this offering memorandum, such regulations have not yet been published. If the notes are materially modified in the future, there can be no assurance that the notes will not be considered obligations that are subject to FATCA.

In the event any withholding under FATCA is imposed with respect to any payments on the notes, there will be no Additional Amounts payable to compensate for the withheld amount. Holders of the notes should consult their own tax advisors on how the FATCA rules, including any intergovernmental agreement entered into between the United States and any other jurisdiction implementing FATCA, may apply to their investment in the notes.

GENERAL INFORMATION

The Bank of New York Mellon SA/NV, Dublin Branch is acting solely in its capacity as listing agent for the Issuer (and not on its own behalf) in connection with the application for admission of the Notes to the Official List of the Irish Stock Exchange and trading on its Global Exchange Market.

The Issuer accepts responsibility for the information contained in this Listing Particulars and to the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and contains no omission likely to affect the import of such information.

The legal and commercial name of the Issuer is Axtel, S.A.B. de C.V. The Issuer is registered in the Public Registry of Property and Commerce (*Registro Público de la Propiedad y del Comercio*) of the state of Nuevo Leon, Mexico under mercantile folio (*folio mercantil*) 155687*1. The Issuer was incorporated on July 22, 1994 and is a publicly traded corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico, operating under the Mexican Securities Market Law (*Ley del Mercado de Valores*). The address of the registered office of the Issuer is Blvd. Díaz Ordaz Km. 3.33 L1, Unidad San Pedro, C.P. 66215, San Pedro Garza García, Nuevo León, México and the main phone number at such office is +52 (81) 8114 0000.

These listing particulars contain certain information which has been sourced from third parties, in each case as identified by a note or statement identifying such third party. The Issuer accepts responsibility for accurately reproducing the information and as far as the Issuer is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render such reproduced information inaccurate or misleading.

For information regarding potential conflicts of interest and risks resulting from our corporate structure, see “Risk Factors—Risks Relating to Our Business—We have a majority shareholder, Alfa, whose interests may not be aligned with the interest of Axtel or creditors,” “Principal Shareholders” and “Related Party Transactions.” We are not aware of any potential conflicts of interest between any duties to the Issuer of the members of our board of directors and their private interests and/or other duties.

Our independent accountant, Galaz, Yamazaki, Ruiz Urquiza, S.C., and our previous independent accountants, KPMG Cárdenas Dosal, S.C. and PricewaterhouseCoopers, S.C., are a member of numerous associations, including the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos, A.C.*) and the National Association of Tax Specialists (*Asociación Nacional de Especialistas Fiscales, A.C.*).

There has been no material adverse change in the prospects of the Issuer since December 31, 2016 and no significant change in the financial or trading position of Axtel since September 30, 2017.

Except as disclosed in the section entitled “Legal Proceedings”, we have not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) over the past 12 months, which may have, or have had in the recent past, significant effects on our financial position or profitability. See “Business—Legal Proceedings”.

For the duration of the listing of the notes on the Official List and their admission to trading on the Global Exchange Market of the Irish Stock Exchange, physical copies of the following documents may be inspected at our main office located at Blvd. Díaz Ordaz Km. 3.33 L1, Unidad San Pedro, C.P. 66215, San Pedro Garza García, Nuevo León, México:

- (a) the memorandum and articles of association of the Issuer;
- (b) the historical financial information for years ended December 31, 2016 and 2015;
- (c) the Indenture and subsidiary guarantees; and
- (d) all reports, letters, and other documents, historical financial information, valuations and statements prepared by any expert at the Issuer’s request, any part of which is included or referred to in this Listing Particulars.

The notes issued in reliance on Rule 144A have a CUSIP of 05462G AJ3 and an ISIN of US05462GAJ31 and were issued on November 14, 2017. The notes issued in reliance on Regulation S have a CUSIP of P0606P AC9 and an ISIN of USP0606PAC97 and were issued on November 14, 2017.

The notes will be fully and unconditionally guaranteed by certain of our subsidiaries, as described elsewhere in these listing particulars, on a joint and several basis. The Annual Audited Financial Statements included in these listing particulars include consolidated financial information for both guarantor and non-guarantor subsidiaries of the Issuer.

The board of directors of the Issuer authorized the issuance of the notes on November 1, 2017. The board of directors of Axtel, S.A.B. authorized its guarantee on November 2, 2017. The board of directors of each of the subsidiary guarantors each authorized its respective guarantee on November 2, 2017. The shareholders of each of Avantel, S. de R.L. de C.V., Alestra Comunicación, S. de R.L. de C.V., Servicios Axtel, S.A. de C.V., Servicios Alestra, S.A. de C.V. each authorized its respective guarantee on November 2, 2017. We have obtained all necessary consents, approvals and authorizations in connection with the issuance and performance of the notes and guarantees.

As of December 31, 2016, the Issuer had net assets of Ps. 28,908 million (accounting for 89.8% of its consolidated net assets) and for the year ended December 31, 2016, the Issuer had Adjusted EBITDA of Ps. 4,625 million (accounting for 102.6% of its consolidated Adjusted EBITDA). As of December 31, 2016, the subsidiary guarantors had net assets of Ps. 2,880 million (accounting for 9.0% of our consolidated net assets) and for the period ended December 31, 2016, the subsidiary guarantors had Adjusted EBITDA of Ps. (286) million (accounting for (6.3)% of our consolidated Adjusted EBITDA). As of December 31, 2016, our non-guarantor subsidiaries had net assets of Ps. 388 million (accounting for 1.2% of our consolidated net assets) and for the period ended December 31, 2016, our non-guarantor subsidiaries had Adjusted EBITDA of Ps. 170 million (accounting for 3.8% of our consolidated Adjusted EBITDA). As of December 31, 2016, the Issuer had total liabilities of Ps. 21,508 million (accounting for 100.0% of its total liabilities). As of December 31, 2016, the subsidiary guarantors had total liabilities of Ps. 6 million (accounting for 0.0% of our total liabilities). As of December 31, 2016, our non-guarantor subsidiaries had total liabilities of Ps. 1 million (accounting for 0.0% of our total liabilities).

PLAN OF DISTRIBUTION

BBVA Securities Inc., Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Santander Investment Securities Inc., are acting as joint book-running managers of the offering and initial purchasers.

Subject to the terms and conditions contained in a purchase agreement among us and the initial purchasers, we have agreed to sell to the initial purchasers, and each of the initial purchasers has, severally and not jointly, agreed to purchase from us, the principal amount of the notes that appears opposite its name in the table below:

Initial Purchaser	Principal Amount
BBVA Securities Inc.	U.S.\$125,000,000
Citigroup Global Markets Inc.	U.S.\$125,000,000
J.P. Morgan Securities LLC.....	U.S.\$125,000,000
Santander Investment Securities Inc.	U.S.\$125,000,000
Total.....	<u>U.S.\$500,000,000</u>

The initial purchasers may offer and sell the notes through any of their affiliates. The notes will be offered in the United States by the initial purchasers or their affiliates that are registered to offer and sell the notes for sale in the United States. Subject to applicable law, the initial purchasers or their affiliates will offer and sell the notes outside of the United States.

Subject to the terms and conditions set forth in the purchase agreement, the initial purchasers have agreed to purchase all of the notes sold under the purchase agreement if any notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the initial purchasers and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as the receipt by the initial purchasers of officer’s certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum and to certain dealers at that price less a selling concession. After the initial offering, the offering price, concession or any other term of the offering may be changed.

Notes Are Not Being Registered

The notes have not been registered under the Securities Act, or the securities law of any other jurisdiction, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Each purchaser of the notes will be deemed to have made acknowledgements, representations and agreements as described under “Transfer Restrictions.” In connection with sales outside the United States, each of the initial purchasers has agreed that it will not offer, sell or deliver the notes to, or for the account of, U.S. persons (unless in reliance on Rule 144A) (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and it will send to each dealer to whom it sells such notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the notes are restricted as described under “Transfer Restrictions.”

Further, until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

New Issue of Notes

The notes will constitute a new issue of securities with no established trading market. Application has been made to the Irish Stock Exchange Plc for the Notes to be admitted to the Official List and to trading on the Global Exchange Market of the Irish Stock Exchange. However, we cannot assure you that the listing application will be approved. We have been advised by the initial purchasers that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their initial offering price, depending on prevailing interest rates, the market for similar securities, our operating performance and financial condition, general economic conditions and other factors.

Settlement

We expect that delivery of the notes will be made to investors on or about November 14, 2017, which will be the third business day following the date of this offering memorandum (such settlement being referred to as "T+3"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934, trades in the secondary market are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes prior to the delivery of the notes hereunder will be required, by virtue of the fact that the notes initially settle in T+3, to specify an alternate settlement arrangement at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes prior to their date of delivery hereunder should consult their advisors.

No Sales of Similar Securities

The Issuer and the subsidiary guarantors have agreed that for a period of 30 days after the date of this offering memorandum, neither the Issuer nor the subsidiary guarantors will, without first obtaining the prior written consent of the initial purchasers, directly or indirectly, offer, sell or announce the offering of, or file any registration statement under the Securities Act in respect of, any long-term, U.S. dollar denominated debt securities of the Issuer or any of the subsidiary guarantors offered or sold in the international capital markets, except for the notes sold to the initial purchasers pursuant to the purchase agreement.

Short Positions

In connection with the offering, the initial purchasers may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the initial purchasers of a greater principal amount of notes than they are required to purchase in the offering. The initial purchasers must close out any short position by purchasing notes in the open market.

Similar to other purchase transactions, purchases by the initial purchasers to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor the initial purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor the initial purchasers make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Other Relationships

Some of the initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the initial purchasers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and instruments of ours or our affiliates. Affiliates of certain of the initial purchasers are lenders under facilities which will be partially repaid with the proceeds of the notes, including the Axtel Syndicated Loan. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Material Indebtedness—Axtel Syndicated Loan”. If any of the initial purchasers or their affiliates have a lending relationship with us, certain of those initial purchasers or their affiliates hedge, and certain other of those initial purchasers may hedge, their credit exposure to us consistent with their customary risk management policies. Typically, these initial purchasers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such credit default swaps or short positions could adversely affect the future trading prices of the notes offered hereby. The initial purchasers and their affiliates may also make investment recommendations or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and short positions in such securities and instruments.

Sales Outside the United States

Neither we nor the initial purchasers are making an offer to sell, or seeking offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute this offering memorandum, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

Notice to Prospective Investors in Mexico

The notes have not been and will not be registered with the RNV maintained by the CNBV, and may not be offered or sold publicly in Mexico, except that the notes may be sold, on a private placement basis, to institutional and qualified investors in Mexico pursuant to the private placement exemption set forth in article 8 of the Mexican Securities Market Law (*Ley del Mercado de Valores*) and regulations thereunder. We will notify the CNBV of the terms and conditions of the offering of the notes outside of Mexico, to comply with a legal requirement and for informational purposes only. The delivery of such notice to, and the receipt thereof by, the CNBV does not constitute or imply any certification as to the investment quality of the notes, our solvency, liquidity or credit quality or the accuracy or completeness of the information set forth herein. This offering memorandum is solely our responsibility and has not been reviewed or authorized by the CNBV.

Notice to Prospective Investors in the European Economic Area

In relation to each member state of the European Economic Area, an offer of securities described in this offering memorandum may not be made to the public in that member state other than:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the relevant dealer or dealers nominated by us for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of securities shall require us or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an “offer of securities to the public” in any member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the

expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in that relevant member state.

The European Economic Area selling restriction is in addition to any other selling restriction set out in this offering memorandum.

The sellers of the securities have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the initial purchasers with a view to the final placement of the securities as contemplated in this offering memorandum. Accordingly, no purchaser of the securities, other than the initial purchasers, is authorized to make any further offer of the securities on behalf of the sellers or the initial purchasers.

Notice to Prospective Investors in the Netherlands

The notes (including the rights representing an interest in the notes in global form) which are the subject of this offering memorandum, have not been and shall not be offered, sold, transferred or delivered in the Netherlands other than to qualified investors (within the meaning of the Prospectus Directive).

For the purposes of the abovementioned paragraphs, the expression an “offer of Notes to the public” in relation to any notes in the Netherlands means the announcement or communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes and the expression “Prospectus Directive” means Directive 2003/71/EC (as amended, including by Directive 2010/73/EU), and includes any relevant implementing measure in the Netherlands.

No approved prospectus within the meaning of the Prospectus Directive is required to be made generally available in connection with the offer.

Notice to Prospective Investors in Switzerland

The notes may not and will not be publicly offered, distributed or re-distributed in or from Switzerland and neither this document nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations. The notes are not a collective investment within the meaning of the Federal Collective Investment Schemes Act of June 23, 2006 (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*). This document may not be copied, reproduced, distributed or passed on to others without the joint book-running managers prior written consent. This document is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to articles 27 et seq. of the Listing Rules of SIX Exchange Regulation, the regulator of SIX Swiss Exchange AG, and may not comply with the information standards required thereunder. We will not apply for a listing of the notes on any Swiss stock exchange or other Swiss regulated market and this document may not comply with the information required under the relevant listing rules. The notes offered hereby have not been and will not be registered with the Swiss Federal Financial Market Supervisory Authority (FINMA) and have not been and will not be authorized under the Federal Collective Investment Schemes Act of June 23, 2006 (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*). The investor protection afforded by the Federal Collective Investment Schemes Act (*Bundesgesetz über die kollektiven Kapitalanlagen, KAG*) does not extend to acquirers of the notes.

Notice to Prospective Investors in United Kingdom

This offering memorandum is only being distributed to, and is only directed at, persons who are outside the United Kingdom or persons in the United Kingdom that are (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a “relevant person”). Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

Notice to Prospective Investors in Canada

The notes may be sold only to purchasers in the provinces of Alberta, British Columbia, New Brunswick, Nova Scotia, Ontario, Prince Edward Island and Quebec purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Notice to Prospective Investors in Brazil

The notes have not been, and will not be, registered with the *Comissão de Valores Mobiliários*, or CVM (Securities Commission). The notes may not be offered or sold in Brazil, except in circumstances that do not constitute a public offering or distribution under Brazilian laws and regulations.

Notice to Prospective Investors in Chile

Pursuant to Law No. 18,045 of Chile (the securities market law of Chile) and Rule (*Norma de Carácter General*) No. 336, dated June 27, 2012, issued by the Superintendency of Securities and Insurance of Chile (*Superintendencia de Valores y Seguros de Chile*, or "SVS"), the notes may be privately offered in Chile to certain "qualified investors" identified as such by Rule 336 (which in turn are further described in rule No. 216, dated June 12, 2008, of the SVS).

Rule 336 requires the following information to be provided to prospective investors in Chile:

(1) Date of commencement of the offer: March 1, 2017. The offer of the notes is subject to Rule (Norma de Carácter General) No. 336, dated June 27, 2012, issued by the SVS;

(2) The notes and the offering memorandum are not registered with the Securities Registry (*Registro de Valores*) of the SVS, nor with the foreign securities registry (*Registro de Valores Extranjeros*) of the SVS and as such as not subject to the oversight of the SVS;

(3) Since the notes are not registered in Chile, there is no obligation by the issuer to make publicly available information about the notes in Chile; and

(4) The notes shall not be subject to a public offering in Chile unless registered with the relevant Securities Registry of the SVS.

Notice to Prospective Investors in Colombia

The notes will not be authorized by the Colombian Superintendency of Finance (*Superintendencia Financiera de Colombia*) and will not be registered under the National Registry of Securities and Issuers (*Registro Nacional de Valores y Emisores*), and, accordingly, the notes will not be offered or sold to persons in Colombia except in circumstances which do not result in a public offering under Colombian law.

Notice to Prospective Investors in Peru

Neither the Notes nor the offering have been and will not be registered or approved by the Peruvian Superintendency of the Securities Market (*Superintendencia del Mercado de Valores* or the “SMV”), the Lima Stock Exchange (*Bolsa de Valores de Lima*) or the Peruvian Superintendency of Banks, Insurance and Private Pension Fund Administrators (*Superintendencia de Banca, Seguros y AFPs* or the “SBS”).

Notice to Prospective Investors in Hong Kong

The notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case, whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to Prospective Investors in Japan

The notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”), and the notes have not, directly or indirectly, been offered or sold and will not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan.

Notice to Prospective Investors in Singapore

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case, subject to compliance with conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interests (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes, pursuant to an offer made under Section 275 of the SFA except:
 - (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interests in that trust

are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

LEGAL MATTERS

The validity of the notes and the guarantees will be passed upon for us by Paul Hastings LLP, our United States counsel, and for the initial purchasers by Cleary Gottlieb Steen & Hamilton LLP, United States counsel to the initial purchasers. Certain matters of Mexican law relating to the notes will be passed upon for the initial purchasers by Ritch, Mueller, Heather y Nicolau, S.C., Mexican counsel to the initial purchasers.

INDEPENDENT AUDITORS

The annual audited consolidated financial statements as of and for the year ended December 31, 2016 have been audited by PricewaterhouseCoopers, S.C., independent auditors, as stated in the report included herein. The consolidated financial statements of Axtel, S.A.B. de C.V. and subsidiaries as of December 31, 2015 and for each of the years in the two-year period ended December 31, 2015, included in this offering memorandum, have been audited by KPMG Cárdenas Dosal, S.C., independent auditors, as stated in their report appearing herein. In April 2017, we appointed Galaz, Yamazaki, Ruiz Urquiza, S.C. (Member of Deloitte Touche Tohmatsu Limited) as our new independent auditors effective for all periods after December 31, 2016.

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ISSUER

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IRISH LISTING AGENT

The Bank of New York Mellon SA/NV, Dublin Branch
Riverside II, Sir John Rogerson's Quay
Grand Canal Dock Dublin 2
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U.S.\$500,000,000



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

6.375% Senior Notes due 2024

OFFERING MEMORANDUM

Joint Book-Running Managers

BBVA
J.P. Morgan

Citigroup
Santander
