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Vintage Filings

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### UNITED STATES SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 20-F

(Mark One)

□ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THESECURITIES EXCHANGE ACT OF 1934

OR

☑ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIESEXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013

OR

□ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIESEXCHANGE ACT OF 1934

OR

☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIESEXCHANGE ACT OF 1934

Commission file number: 001-33750

# Maxcom Telecomunicaciones, S.A.B. de C.V.

(Exact name of Registrant as specified in its charter)

Maxcom Telecommunications, Limited Liability Public Stock Corporation (Translation of Registrant's name into English)

United Mexican States (Jurisdiction of incorporation or organization)

Avenida Guillermo González Camarena No. 2000 Col. Santa Fe Centro Ciudad Mexico, D.F., 01376 (Address of principal executive offices)

> Rodrigo Wright Castro Investor Relations Tel. + (52) 55 4770-1170 Fax. + (52) 55 5147-3820 rodrigo.wright@maxcom.com

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Maxcom Telecomunicaciones, S.A.B. de C.V. Avenida Guillermo González Camarena No. 2000 Col. Santa Fe Centro Ciudad

Mexico, D.F., 01376

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

American Depositary Shares ("ADSs"), each representing seven (7) Ordinary Participation Certificates (*Certificados de Participación Ordinarios*) ("<u>CPOs</u>"), each CPO representing three (3) Series A Common Stock, without par value, registered with the New York Stock Exchange Euronext

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:  None				
	each of the issuer's classes of capital or common stock as of the close o ock. Indicate by check mark if the registrant is a well-known seasoned issu			
If this report is an annual or transition repo Securities Exchange Act of 1934. Yes □ No I	rt, indicate by check mark if the registrant is not required to file repor  ✓	ts pursuant to Section 13 or 15(d) of the		
	t (1) has filed all reports required to be filed by Section 13 or 15(d) of th period that the registrant was required to file such reports), and (2) has be			
	t has submitted electronically and posted on its corporate website, if any, of Regulation S-T ( $\S 232.405$ of this chapter) during the preceding 12 m h files) Yes $\square$ No $\square$ N/A $\square$			
Indicate by check mark whether the registrar large accelerated filer" in Rule 12b-2 of the E	nt is a large accelerated filer, an accelerated filer, or a non-accelerated filexchange Act.	er. See definition of "accelerated filer and		
☐ Large accelerated filer	☐ Accelerated filer	☑ Non-accelerated filer		
Indicate by check mark which basis of accour	ting the registrant has used to prepare the financial statements included in	this filing:		
□ U.S. GAAP	☑ International Financial Reporting Standards as issued by the International Accounting Standards Board	☐ Other		
If "Other" has been checked in response to th 17 $\square$ Item 18 $\square$	e previous question, indicate by check mark which financial statement iter	n the registrant has elected to follow: Item		
If this is an annual report, indicate by check m	nark whether the registrant is a shell company (as defined in Rule 12b-2 of	the Exchange Act): Yes □ No ☑		

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### PRESENTATION OF FINANCIAL INFORMATION AND OTHER DATA

Unless otherwise specified, all references to "U.S. dollars," "dollars," "U.S.\$" or "\$" are to United States dollars and references to "Ps." and "pesos" are to Mexican pesos. Unless otherwise specified, our financial data for the years ended December 31, 2013 and 2012 is presented in thousands of nominal Mexican pesos. Amounts presented in this annual report may not add up or may be slightly inconsistent due to rounding.

Unless otherwise provided, this annual report contains translations of peso amounts into U.S. dollars solely for the convenience of the reader based on the exchange rate reported by the Banco de México (Central Bank of Mexico) as its buying rate for pesos at December 31, 2013, which was Ps.13.08 per U.S.\$1.00. The currency conversions should not be construed as representations that the peso amounts actually represent such dollar amounts. Additionally, these conversions should not be construed as representations that these peso amounts have been or could have been converted into U.S. dollars at those or any other rates of exchange. For more information on exchange rates, see "Item 3. Key Information — Selected Financial Data — Exchange Rates."

Beginning with the fiscal year starting January 1, 2012, Mexican issuers that disclose information through the Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange, which we refer to as the BMV) are required to prepare financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. We refer in this document to "International Financial Reporting Standards as issued by the International Accounting Standards Board" as IFRS. In addition, these financial statements must be audited in accordance with the International Standards on Auditing, as required by the Comisión Nacional Bancaria y de Valores (National Banking and Securities Commission, which we refer to as the CNBV), and in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) for purposes of filings with the U.S. Securities and Exchange Commission, or SEC.

Our consolidated financial statements for the years ended December 31, 2013 and 2012 were prepared in accordance with IFRS. Our date of transition to IFRS was January 1, 2011, being those consolidated financial statements our first financial statements prepared in accordance with IFRS. IFRS 1, "First-time Adoption of International Financial Reporting Standards," (IFRS 1) has been applied in preparing these financial statements. The selected financial information for 2011 differs from the information we previously published for 2011, because it is presented in accordance with IFRS for comparative purposes, as required by

#### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Statements that are not statements of historical fact, including statements about our beliefs and expectations are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "predicts," "projects," "targets," "will," "could," "may," "should" and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Accordingly, our actual results of operations may be different from our current expectations and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made and we do not undertake any obligation to update them in light of new information or future developments.

These statements are based on management's assumptions and beliefs in light of the information currently available to it. These assumptions also involve risks and uncertainties which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Potential risks and uncertainties include, without limitation:

- competition in local services, data. Internet and Voice over Internet Protocol services;
- our ability to service our debt;
- limitations on our access to sources of financing on competitive terms;

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- significant economic or political developments in Mexico and the U.S.;
- changes in our regulatory environment, particularly developments affecting the regulation of the telecommunications industry;
- our need for substantial capital;
- general economic conditions, including the economic slow-down in the U.S. and Mexico, due to the global financial crisis;
- the global telecommunications downturn;
- our ability to service our debt;
- performance of financial markets and thus our ability to refinance our financial obligations when they come due;
- our history of operating losses;
- the risks associated with our ability to implement our strategy;
- customer attrition;
- technological innovations;
- currency fluctuations and inflation in Mexico;
- currency exchange rates, including the Mexican Peso U.S. dollar exchange rate;
- changes in the policies of central banks and/or foreign governments; and
- the risk factors discussed under "Risk Factors."

As used in this Form 20-F, unless the context otherwise indicates, the terms "we," "us," "our," or similar expressions, as well as references to "Maxcom," mean Maxcom Telecomunicaciones, S.A.B. de C.V. and its consolidated subsidiaries. Please refer to the glossary of telecommunications terms included in the back of this Form 20-F.

We will provide without charge to each person to whom this report is delivered, upon written or oral request, a copy of any or all of the documents incorporated by reference into this annual report (other than exhibits, unless such exhibits are specifically incorporated by reference in such documents). Written requests for such copies should be directed to Maxcom Telecomunicaciones, S.A.B. de C.V., Avenida Guillermo González Camarena No. 2000, Colonia Santa Fe Centro Ciudad, Mexico, D.F. 01376, attention: Investor Relations. Telephone requests may be directed to 011-52-55-4770-1170.

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### PART I

# ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

# ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### **ITEM 3. KEY INFORMATION**

### A. Selected financial data

The selected financial data set forth below as of and for the years ended December 31, 2013, 2012 and 2011 have been derived from, and should be read in conjunction with, our consolidated financial statements for the years ended December 31, 2013, 2012 and 2011, which are included in Item 18 of this report. Our consolidated financial statements for the fiscal year ended December 31, 2013 were audited by PricewaterhouseCoopers, S.C., an independent registered public accounting firm. Our consolidated financial statements for the fiscal years ended December 31, 2012 and December 31, 2011 were audited by KPMG Cárdenas Dosal, S.C., an independent registered public accounting firm.

	For the Year Ended December 31,			
	2013(1)	2013	2012	2011
	(U.S.\$)	(Ps.)	(Ps.)	(Ps.)
	( ',	(in thousa	nds)	,
Consolidated statement of comprehensive loss Data:		· ·		
Revenue — net	191,563	2,504,968	2,201,252	2,375,941
Operating costs and expenses:				
Network operating costs	87,419	1,143,139	812,086	770,257
Selling, general and administrative expenses	66,841	874,047	699,611	795,544
Depreciation and amortization	46,000	601,521	576,565	668,655
Impairment	44,221	578,257	_	_
Other expenses	25,085	328,018	171,279	123,761
Debt restructuring charges	16,214	212,017	5,899	8,129
Total operating costs and expenses	285,780	3,736,999	2,265,440	2,366,346
Operating loss	(94,217)	(1,232,031)	(64,188)	9,595
Interest expense	(16,391)	(214,337)	(339,835)	(319,203)
Amounts capitalized on qualifying assets	_	_	9,444	4,513
Interest income	1,403	18,340	5,779	2,748
Foreign currency (gain) loss	(3,561)	(46,570)	219,927	(320,854)
Gain on extinguishment of debt	19,005	248,515	_	_
Loss on valuation of derivative financial instruments (loss) gain	(714)	(9,341)	(49,500)	95,174
Gain on repurchase of senior notes	_	_	97,845	
Net finance cost	(260)	(3,393)	(56,340)	(537,622)
Income tax expense	1,170	15,305	15,560	(14,890)
Comprehensive loss for the year	(95,647)	(1,250,729)	(136,088)	(513,137)
Loss and comprehensive loss per share:				
Basic		(1.11)	(0.17)	(0.65)
Diluted		(1.11)	(0.17)	(0.63)
Weighted average basic shares		1,127,528	789,819	789,819
Weighted average diluted shares		1,127,528	799,013	812,882

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	For the Year Ended December 31,							
		2013(1)		2013		2012		2011
		(U.S.\$)		(Ps.)		(Ps.)		(Ps.)
		` /		(in tho	usand			,
Statement of financial position Data								
Assets								
Current assets:								
Cash and cash equivalents	\$	149,405	\$	1,953,692	\$	146,516	\$	396,580
Derivative financial instruments		-		-		16,385		27,583
Accounts receivables— net		48,421		633,179		614,674		654,740
Value added tax recoverable		3,893		50,911		14,598		88,554
Other sundry debtors		9,106		119,077		107,845		46,236
Inventory		1,277		16,697		17,512		8,895
Prepaid expenses		566		7,395		16,047		25,109
Total current assets		212,668		2,780,951		933,577		1,247,697
Non-current assets:				• 00 1 2 -		• • • • • • •		
Telecommunications network systems and equipment — net		216,906		2,836,371		3,854,575		3,916,656
Investment property — net		2,729		35,690		37,671		39,651
Intangible assets — net		6,431		84,098		136,326		127,419
Deferred income tax		673		8,794		9,793		12,888
Derivative financial instruments		- 010		10.700		15,756		54,058
Other assets		819		10,709		9,920		9,860
Total non-current assets		227,558		2,975,662		4,064,041		4,160,532
Total assets	\$	440,226	\$	5,756,613	\$	4,997,618	\$	5,408,229
Liabilities and Stockholders' Equity								
Current liabilities:								
Current step-up senior notes and senior notes	\$	474	\$	6,200	\$	11,920	\$	
Accounts payable		26,614		266,793		406,532		215,773
Current installments of obligations under finance leases		319		4,171		5,488		2,975
Current other accounts payable		6,211		81,222		39,062		34,073
Customer deposits		184 3.839		2,400		2,152		2,051
Other taxes payable				50,200		22,412		34,626
Current provisions Total current liabilities		4,622		60,436		107 566		200 400
Total current habilities		36,051		471,422		487,566		289,498
Non-current liabilities:		1.45 000		1.909.139		2 222 774		2744207
Non-current step-up senior notes and senior notes		145,998		9 9		2,282,774		2,744,287
Installments of obligations under finance leases Non-current other accounts payable		319 2,832		4,177 37,034		5,173 23,246		6,141 39,650
Labor obligations upon retirement		335		4,378		4,198		2,485
Other non-current liabilities		11,399		149,054		25,532		
Non-current provisions		1,236		16,164		3,801		28,345
Total non-current liabilities		162,119		2,119,946		2,344,725		2,820,908
Total liabilities		198,170		2,591,368		2,832,291		3,110,406
Stockholders' equity:		525 501		7.000.601		4.01.4.420		4.014.420
Capital stock		537,501		7,028,634		4,814,428		4,814,428
Additional paid-in capital		3,061		40,033		3,592		817,054
Accumulated losses		(298,507)		(3,903,422)		(2,652,693)		(3,333,659)
Total stockholders' equity		242,056		3,165,245		2,165,327		2,297,823
Total liabilities and stockholders' equity	\$	440,226	\$	5,756,613	\$	4,997,618	\$	5,408,229

487,782

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689,555

810,140

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Resources used in investing activities

Adjusted EBITDA<sup>(3)</sup>

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For the Year Ended December 31, 2013<sup>(1)</sup> 2013 2012 2011 (U.S.\$)(Ps.) (Ps.) (Ps.) (in thousands) Other Operational and Financial Data Capital expenditures (2) (29,559)(386,524)(583,390)(419,630)Resources arising from operating activities 12,952 169,368 772,414 752,016 2.019.568 (441.382)Resources used in financing activities 154,443 (313.242)(384,844)(581,096)(417,418)

(1) Peso amounts were converted to U.S. dollars at the exchange rate of Ps.13.0765 per US\$1.00 reported by the Banco de Mexico as its buying rate for pesos on December 31, 2013. Such conversions are for the convenience of the reader and 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 rate indicated, or at any other rate.

(29,430)

37,302

- (2) Capital expenditures are presented according to the statement of cash flows and only include acquisitions.
- (3) Adjusted EBITDA for any period is defined as consolidated net income (loss) excluding depreciation and amortization, net finance cost, other income and expenses and (income) taxes expense. Adjusted EBITDA is a non-gaap measure and should not be considered as alternate measures of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with IFRS, or as indicators of operating performance or cash flows from operating activity as measures of liquidity. The following table sets forth a reconciliation of Adjusted EBITDA to net income (loss) under IFRS for each of the periods presented.

The Adjusted EBITDA is considered a useful measure of the business operating performance since it shows the income before depreciation and amortization, and it also provides a significant analysis of the commercial performance upon excluding specific items disclosed separately due to their

	For the Ye	For the Year Ended December 31,		
	2013	2012	2011	
	(Ps.)	(Ps.)	(Ps.)	
		(in thousands)		
Adjusted EBITDA Reconciliation				
Comprehensive loss for the year	(1,250,729)	(136,088)	(513,137)	
Income tax expense (benefit)	15,305	15,560	(14,890)	
Debt restructuring charges	212,017	5,899	8,129	
Other expenses	328,018	171,279	123,761	
Net finance cost	3,393	56,340	537,622	
Depreciation and amortization	601,521	576,565	668,655	
Impairment	578,257	_	_	
Adjusted EBITDA	487,782	689,555	810,140	

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### **EXCHANGE RATES**

The following table sets forth, for the periods indicated, the period-end, average, high and low buying rates, in each case for the purchase of U.S. dollars, all expressed in nominal pesos per U.S. dollar. The buying rate on May 13, 2014 was Ps.12.92 per U.S.\$1.00.

	Buying Rate(1)			
	Period End	Average(2)	High	Low
A	D. 12.14	D. 12.00	D. 12.14	D. 12.06
I ·	Ps. 13.14			Ps. 12.96
March 2014	13.08	13.21	13.32	13.08
February 2014	13.30	13.29	13.39	13.19
January 2014	13.37	13.20	13.49	12.99
December 2013	13.08	13.00	13.24	12.86
November 2013	13.08	13.06	13.24	12.86
October 2013	12.89	13.02	13.27	12.77
2013	13.08	12.82	13.44	11.98
2012	13.01	13.17	14.39	12.63
2011	13.99	12.49	14.24	11.50
2010	12.36	12.64	13.18	12.16
2009	13.06	13.57	15.37	12.60

<sup>(1)</sup> Source: Banco de México.

Our inclusion of these exchange ratios is not meant to suggest that the peso amounts actually represent such U.S. dollars or that such amounts could have been converted into U.S. dollars at such rate or any other rate.

### B. Capitalization and indebtedness

Not applicable.

### C. Reasons for the offer and use of proceeds

Not applicable.

### D. Risk factors

#### Risks Related to Our Business

Because we have a history of losses and may continue to incur significant expenses, we may not be able to generate sufficient cash flows to meet our debt service obligations and implement our business plan.

We incurred losses of Ps.1,250.7 million (U.S.\$95.6 million) for the year ended December 31, 2013 as compared to losses of Ps.136.1 million for the year ended December 31, 2012.

The losses for the year ended December 31, 2013 are mainly related to one time charges from the debt restructuring process, the impairment analysis and lower operating income primarily due to a decrease in our wholesale margin and public telephony business when compared to the year ended December 31, 2012. We expect to continue having negative impact from our wholesale margin and public telephony business.

In addition, our business plan, which contemplates the expansion of our network and services, requires significant capital expenditures. Our ability to fund our debt service obligations, our operating expenses, and any planned capital expenditures will depend on our ability to retain our existing customer base, develop a significantly larger customer base and increase our operating cash flows.

<sup>(2)</sup> Represents the average rates for each period indicated, calculated by using the average of the exchange rates on the last day of each month during the period.

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However, we may not succeed in retaining existing customers and attracting more customers and as a result our business may not generate sufficient operating cash flows to meet our existing debt service obligations or implement our business plan.

In the event we continue to incur significant losses, we may not be able to service all of our debt obligations or fund our capital expenditure plan which could have a material adverse effect on our business, results of operations and financial condition. If we cannot service our debt obligations, we may have to take actions such as selling assets, seeking additional equity investments, reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, or restructuring our indebtedness pursuant to in court or out of court procedures, any of which could materially harm our business, results of operations and financial condition.

We have historically experienced low and declining cash balances and increases in our trade accounts payable and other current liabilities, which may result in our not having sufficient cash to meet our debt service obligations and operating expenses.

We have had a history low cash balances that have been declining. In addition, our trade accounts payable and other current liabilities increased significantly during 2013, due in part to our need to rely on vendor financing in order to preserve cash for the interest payment that were made in connection with the emergence confirmation of our U.S. Chapter 11 bankruptcy proceeding in connection with our Senior Notes due 2014, which we refer to as Old Notes or Senior Notes.

### We may be unable to maintain or expand our network in a timely manner or without undue cost.

Our ability to achieve our strategic objectives will depend in large part upon the successful, timely and cost effective expansion of our network. Factors that could affect such build-out include:

- municipal or regional political events or local rulings;
- our ability to obtain permits to use public rights of way;
- state municipal elections and change of local government administration;
- our ability to generate cash flow or to obtain future financing necessary for such build-out;
- unforeseen delays, costs or impediments relating to the granting of municipal and state permits for our build-out;
- delays or disruptions resulting from physical damage, power loss, defective equipment or the failure of third party suppliers or contractors to meet their obligations in a timely and cost-effective manner; and
- regulatory and political risks relating to Mexico, such as the revocation or termination of our concessions, the temporary seizure or permanent expropriation of assets, import and export controls, political instability, changes in the regulation of telecommunications and any future restrictions or easing of restrictions on the repatriation of profits or on foreign investment.

Although we believe that our cost estimates and expansion schedule are reasonable, we cannot assure you that the actual construction costs or time required to complete the build-out will not substantially exceed our current estimates. Any significant cost overrun or delay could hinder or prevent the successful implementation of our business plan, including the development of a significantly larger customer base, and result in revenues and net income being less than

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### The loss of our key personnel could harm our business, results of operations and financial condition.

Our operations are managed by a small number of executive officers and key management personnel. Our continued success, including our ability to effectively expand our network, largely depends on the efforts and abilities of our executive officers. The competition for highly qualified management personnel in the telecommunications industry is intense and, accordingly, we cannot assure that we will be able to hire or retain necessary management personnel.

### If we have to pay Telmex local interconnection fees, we may not be able to provide services at competitive rates.

Teléfonos de México, S.A.B de C.V. (which we refer to as Telmex), and its affiliates exert significant influence on all aspects of the telecommunications market in Mexico, including interconnection agreements for local and long-distance services. We use Telmex's network for call termination to service virtually all of our customers' calls to Telmex's customers. Our current local interconnection agreement with Telmex incorporates a "bill and keep" procedure under which we do not pay Telmex an interconnection fee unless we exceed a certain level of traffic imbalance. Under the "bill and keep" arrangement, if the imbalance between calls originated by Telmex and terminated by us and calls originated by us and terminated by Telmex during a month does not exceed 5%, excluding commercial traffic and customers who have had contracts for less than 180 days, then no interconnection fee amounts are payable by the net carrier of interconnection services. The interconnection rate is currently Ps.0.02015 per minute. If the allowed percentage for imbalance of traffic for the "bill and keep" procedure is exceeded and/or if the "bill and keep" procedure is eliminated and we have to pay Telmex for local interconnection, our operating costs may increase and we may not be able to offer services at competitive rates.

#### Our results may be negatively impacted by high levels of churn or decreased revenues from existing customers resulting from efforts to limit churn rates.

We historically have experienced customer attrition, which we refer to as churn. Churn results in the loss of future revenue from lost customers as well as the inability to recover the costs incurred to acquire those customers, such as installation costs and commissions. Churn occurs for several reasons which include disconnection of a customer for non-payment, disconnection of a customer who switches to a competing company and disconnection of a customer who requests termination of service. Our average monthly churn rate for the last three years has been 2.49%. Our churn rates for the year ended December 31, 2013 was 2.8%. An increase in customer churn could have a material adverse impact on our revenue growth and in our results of operations, even if we could replace the customer deactivated with a new customer. Churn may be impacted by:

- customer delinquency;
- our limited coverage area that restricts our ability to continue providing service when a customer moves;
- our failure to meet service levels required by our customers;
- a decline in national or international economic conditions (in particular conditions that can affect our residential customers); and
- promotional and pricing strategies of our competitors.

In addition, we may experience decreased revenues from existing customers due to our efforts to limit churn rates, such as by offering promotional pricing to maintain existing customers that might otherwise switch carriers or cancel particular services. High levels of churn or decreased revenues as a result of our efforts to combat churn may have a material adverse effect on our financial condition and results of operations.

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Rapid 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 rapid and significant changes in technology and requires the introduction of new products and services. Like other operators, we cannot predict the effect of technological changes on our business. New services and technological advances may offer additional

Like other operators, we cannot predict the effect of technological changes on our business. New services and technological advances may offer additional opportunities for competitors to compete against us on the basis of cost, quality or functionality. In prior years, we were working on installing what we believe to be a technologically advanced fiber optic network with a microwave overlay, however, we cannot assure you that this technology will not be challenged by competition from new or improved digital or other technologies in the near future. In 2013, our capital expenditures were limited primarily to maintaining our existing network. Due to our low cash balance, we may be unable to replace or upgrade our installed technologies in response to competitors' actions to build up their networks. Our future success depends, in part, on our ability to anticipate and respond in a timely manner to technological changes. In particular, Axtel, S.A.B. de C.V. ("Axtel") and "Total Play" (a company owned by Grupo Salinas and Grupo Televisa) have installed fiber optic networks that we believe may represent a significant competitive threat to our existing network. This may require us to devote significant capital to the development, procurement or implementation of new technologies and we currently do not have and in the future may not have the resources to implement such technologies.

There can be no assurance as to the nature and extent of the impact of technological change on our viability or competitiveness. If any future technological change places at risk our viability or competitiveness, the cost of upgrading our products and technology to remain competitive could be significant and our ability to fund this upgrading may depend on our ability to obtain additional financing, which may not be available on terms acceptable to us or at all.

# Our telecommunications network infrastructure has several vulnerabilities and limitations.

Our telecommunications network is the source of all our revenues and any damages to or loss of our equipment or any problem with or limitation of our network whether accidental or otherwise, including network, hardware and software failures may result in a reduction in the number of our customers or usage level by our customers, our inability to attract new customers or increased maintenance costs, all of which would have a negative impact on our results of operations. The development and operation of our network is subject to problems and technological risks, including:

- physical damage;
- power surges or outages;
- capacity limitations:
- software defects as well as hardware and software obsolescence;
- breaches of security, whether by computer virus, break-in or otherwise;
- failure to interconnect with carriers linking us with our customers;
- denial of access to our sites for failure to obtain required municipal or other regulatory approvals; and
- other factors which may cause interruptions in service or reduced capacity for our customers.

Our operations also rely on a stable supply of utilities service. We cannot assure you that future supply instability will not impair our ability to procure required utility services in the future, which could adversely impact our business, financial condition and results of operations.

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We are subject to delinquencies on our accounts receivable. If we are unable to limit payment delinquencies by our customers, or if delinquent payments by our customers increase, our financial condition and results of operations could be adversely affected.

Our business significantly depends on our customers' ability to pay their bills and comply with their obligations to us. We do not perform credit checks on residential customers who have never had service with us, which accounts for approximately 67% of our residential customers. In the year ended December 31, 2013, we recorded provisions for doubtful accounts in the amount of Ps.157.3 million, including taxes. In 2012, we recorded provisions for doubtful accounts of Ps.81.4 million, including taxes, primarily due to customers' delinquencies. As of December 31, 2013, our provision for doubtful accounts as a percentage of our net revenues was 6.3%. As of December 31, 2012, our provision for doubtful accounts as a percentage of net revenues was 3.7%.

If we are unable to successfully implement policies to limit subscriber delinquencies or otherwise select our customers based on their credit records, persistent customer delinquencies and bad debt will continue to adversely affect our operating and financial results.

In addition, if the Mexican economy declines due to, among other factors, a reduction in the level of economic activity, depreciation of the Mexican peso, an increase in inflation or an increase in domestic interest rates, a greater portion of our customers may not be able to pay their bills on a timely basis, which would require an increase our provision for doubtful accounts and adversely affect our financial condition and results of operations.

Our inability to successfully monitor, maintain and upgrade our accounting, billing, customer service and management information systems as they become obsolete and as new technology becomes available could jeopardize our internal controls, increase our churn rates, inhibit our ability to attract new customers and result in decreased revenue and increased costs.

Sophisticated information and processing systems are important to our existing operations, billing and accounting and future growth and our ability to monitor costs, deliver invoices, process customer orders, provide customer service and achieve operating efficiencies. While we have already acquired a complete application solution from the market leader System Process Application (SAP) that will ensure our future growth and enable us to conduct our existing and future operations efficiently, the implementation of such a solution will take at least until 2015. Thus, we will still operate during 2014 on our existing systems whose utilization could lead to an increase of our churn rates, jeopardize our internal controls, inhibit our ability to attract new customers and result in decreased revenue and increased costs and accordingly could materially and adversely affect our business, financial condition and results of operations.

We have identified a material weakness in our internal control over financial reporting which could, if not remediated, have a material adverse effect on us.

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act. Our management identified a material weakness in our internal control over financial reporting with respect to certain aspects of our revenue and interconnection processes, specifically in the access controls to our systems, backup procedures and capacity systems and security policies and procedures, which could have a material adverse effect on us. This material weakness effects the ability of management to adequately rely on the auditing and billing reports, particularly related to revenues and interconnection fees.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this material weakness, our management concluded that our internal control over financial reporting was not completely effective. We have implemented a remediation plan designed to address this material weakness based on the implementation of a rigorous access control procedures to our systems and security policies procedures. If our remedial measures are insufficient to address the material weakness or if additional material weaknesses or significant deficiencies in our internal control are discovered or occur in the future, our consolidated financial statements may contain material misstatements.

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### Service interruptions due to natural disasters or unanticipated problems with our network infrastructure could result in customer loss.

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Natural disasters or unanticipated problems with our network infrastructure could cause interruptions in the services we provide. The failure of a switch and our back-up system would result in the interruption of service to the customers served by that switch until necessary repairs are completed or replacement equipment is installed. The successful operation of our network and its components is highly dependent upon our ability to maintain the network and its components in reliable enough working order to provide sufficient quality of service to attract and maintain customers. Any damage or failure that causes interruptions in our operations or lack of adequate maintenance of our network could result in the loss of customers and increased maintenance costs that would adversely impact our results of operations and financial condition.

We have backup data for our key information and data processing systems that could be used in the event of a catastrophe or a failure of our primary systems, and have established alternative communication networks where available. However, we cannot assure you that our business activities would not be materially disrupted if there were a partial or complete failure of any of these primary information technology systems or communication networks. Such failures could be caused by, among other things, software bugs, computer virus attacks or conversion errors due to system upgrading. In addition, any security breach caused by unauthorized access to information or systems, or intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment, could have a material adverse effect on our business, results of operations and financial condition.

### The intellectual property rights utilized by us, our suppliers or service providers may infringe on intellectual property rights owned by others.

Some of our products and services use intellectual property that we own or license from others. We also provide content services we receive from content distributors, such as ring tones, text games, video games, wallpapers or screensavers, and outsource services to service providers, including billing and customer care functions, that incorporate or utilize intellectual property. We and some of our suppliers, content distributors and service providers have received, and may receive in the future, assertions and claims from third parties that the products or software utilized by us or our suppliers, content distributors and service providers infringe on the patents or other intellectual property rights of these third parties. These claims could require us or an infringing supplier, content distributor or service provider to cease engaging in certain activities, including selling, offering and providing the relevant products and services. Such claims and assertions could also make us subject to costly litigation and significant liabilities for damages or royalty payments, or require us to cease certain activities or to cease selling certain products and services.

### Our insurance coverage may not adequately cover losses resulting from the risks for which we are insured.

We maintain insurance policies for our network facilities and all of our corporate assets. This insurance coverage protects us in the event we suffer losses resulting from theft, fraud, natural disasters or other similar events or from business interruptions caused by such events. In addition, we maintain insurance policies for our directors and officers. We cannot assure you however, that such insurance will be sufficient or will adequately cover potential losses.

#### We intend to start selling pre-paid mobile services and therefore we are exposed to a higher risk of customer churn.

We currently intend to offer pre-paid mobile services in the Mexican market. Pre-paid customers do not enter into service contracts, which will make our customer base more susceptible to switching mobile service providers.

We expect that many of our future pre-paid customers will be first-time users of mobile telecommunications services, who have a tendency to migrate among service providers more frequently than established users. To the extent our competitors may offer incentives to switch wireless service providers, through eliminating connection fees and/or subsidizing or giving away handsets, the risk of churn will increase. Our inability to retain future pre-paid customers and manage churn levels could have a material adverse effect on our business, financial condition and results of operations.

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We could be adversely affected if major suppliers fail to provide needed equipment and services on a timely or cost-efficient basis or are unwilling to provide us credit on favorable terms or at all.

We rely on a few strategic suppliers and vendors, including Alcatel-Lucent, Microsoft, NEC and HP to provide us with equipment, materials and services that we need in order to expand and to operate our business. There are a limited number of suppliers with the capability of providing the network equipment and platforms that our operations and expansion plans require or the services that we require to maintain our extensive and geographically widespread networks. In addition, because the supply of network equipment and platforms requires detailed supply planning and this equipment is technologically complex, it would be difficult for us to replace the suppliers of this equipment. Suppliers of cables that we need to extend and maintain our networks may suffer capacity constraints or difficulties in obtaining the raw materials required to manufacture these cables.

We also depend on network installation and maintenance services providers, equipment suppliers, call centers, collection agencies and sales agents, for network infrastructure, and services to satisfy our operating needs. Many suppliers rely heavily on labor; therefore, any work stoppage or labor relations problems affecting our suppliers could adversely affect our operations. Suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. Similarly, interruptions in the supply of telecommunications equipment for networks could impede network development and expansion. If these suppliers fail to deliver products and services on a timely and cost-efficient basis that satisfies our demands or are unwilling to sell to us on favorable credit terms or at all, we could experience disruptions, which could have an adverse effect on our business, financial condition and results of operations.

### We are subject to different corporate disclosure and accounting standards than U.S. companies.

As a non-U.S. issuer, investors may not be able to obtain as much publicly-available information about us as they would about U.S. issuers of publicly traded securities. Therefore, potential investors may not be able to easily ascertain the risks facing us as they would if we were a public U.S. company.

In 2012 we began preparing our financial statements in accordance with IFRS and, as a result, some of our financial data are not easily comparable from period to period.

On January 1, 2012, we began preparing our financial statements in accordance with IFRS. Prior to the year ended December 31, 2011, we prepared our financial statements only in accordance with MFRS. Therefore, our financial data as of and for the years ended December 31, 2011 presented in prior year's annual report on Form 20-F has been derived from our Annual Audited Financial Statements prepared in accordance with MFRS. Because IFRS differs in certain significant respects from MFRS, MFRS financial information presented in prior years is not directly comparable to our IFRS financial information in this annual report. The lack of comparability of our financial data may make it difficult to gain a full and accurate understanding of our operations and financial condition in periods prior to 2012.

#### Risks Relating to the Mexican Telecommunications Industry

The recent Constitutional Bill Passed by the Mexican Federal Congress may have an adverse effect on our business, results of operations and financial Condition.

Effective June 12, 2013 the Mexican Congress enacted an amendment to the Mexican Constitution in connection with the telecommunications and broadcasting (radio and television) industries. This amendment to the Mexican Constitution (articles 6, 7, 27, 28, 73, 78, 94 and 105) is aiming to strengthen competition and providing the telecommunications authorities, the new Federal Telecommunications Institute or IFT, with broader capacities to regulate the telecommunication and broadcasting industries.

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The enacted bill provides for a number of measures that include eliminating the limit on foreign investment in the telecommunications industry (including satellite operations), raising the limit on foreign investment in the broadcasting industry to 49%.

Additionally, the enacted bill provides for the issuing of two new broadcasting licenses to be awarded by public auction.

"Must carry" and "must offer" obligations for television companies were also included in the new bill.

In March the new IFT issued rulings declaring America Movil and Grupo Televisa and certain of the subsidiaries of both companies as preponderant economic agents in the telecommunications and broadcasting industries, respectively and imposing both companies with specific asymmetrical regulations. It is still uncertain to determine the impact of such asymmetrical regulations in the telecommunications and broadcasting industries.

On March 24, 2014, the Mexican President submitted to the Mexican Congress a proposed telecommunications and broadcasting law that will implement the changes to the Mexican Constitution. This bill is under discussion in the Mexican Congress. It is still uncertain to determine the impact of such proposed bill to the telecommunications and broadcasting industries.

The telecommunications industry in Mexico is increasingly competitive, which may result in lower prices for telecommunications services, lower margins and/or a loss of market share.

The Mexican telecommunications industry is increasingly competitive and rapidly changing. We face significant competition from Telmex (the incumbent wireline telecommunications provider in Mexico) as well as other telecommunications providers and new market entrants such as cable operators. Telmex is the largest telecommunications service provider in Mexico with a market share of approximately 75% in telephone services and broadband internet access. In addition, cable operators who have substantial coverage of cities we currently serve may offer the same voice and data services we provide at lower prices since telephony income represents incremental revenue to cable operators. The emergence of satellite television in Mexico as one of the main competitors of cable television has adversely affected the demand for cable, especially since satellite television providers are not limited by network coverage. Many of our current and potential competitors have significantly more employees and greater financial, technical, marketing and other resources than we do. Increased competition could result in fewer customers, reduced pricing, reduced gross and operating margins and loss of market share, any of which could harm our business.

In 2011, Axtel and "Total Play" began offering high end fiber optic services in a number of the markets we serve. As a result of this high-end offering, operators promise high capacities, valued added and quadruple-play benefits.

We expect increased competition in our upper and medium income socio-economic segments coverage in the short-term and in the medium-term we expect this product to spread to other segments. If we are unable to offer similar products at competitive prices, we may lose significant market share which would have a material adverse effect on our business and results of operation.

#### Rate pressure could have a material adverse effect on our business, results of operations and our financial condition.

We expect the Mexican telecommunications market to continue to experience rate pressure, primarily as a result of:

- increased competition and focus by our competitors on increasing market share:
- technological advances that allow higher transmission capacities of both new and existing fiber-optic networks, results in better margins and more bandwidth offering;
- increased participation by traditional fixed-line competitors in the provision of data and pay TV services;

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the entrance of cable television operators into certain markets that we currently serve and the provision by such operators of services we have historically provided, such as telecommunications and broadband Internet:

- the entrance of new competitors, such as broadcasting companies, OTT IPTV service providers or the Mexican Federal Power Commission (Comision Federal de Electricidad, or "CFE"); and
- the merger or consolidation of some concessionaires (fix-mobile-cable), which may affect market penetration.

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

Moreover, these developments may lead to smaller operating margins, greater choices for customers and increasing movement of customers among competitors, which may make it more difficult for us to retain customers or add new customers. The cost of adding new customers may also continue to increase, reducing profitability. In addition, as the cost of acquiring new customers is higher than the cost of maintaining existing customers, high levels of customers deactivations could have an adverse effect on our results of operations, even if we are able to obtain one new customers for each lost customers.

We experience increasing pressure to reduce our rates in response to pricing competition. This pricing competition often takes the form of special promotional packages. Competing with the service plans and promotions offered by our competitors may cause an increase in our marketing expenses and customer acquisition costs, which may adversely affect our results of operations. Our inability to compete effectively with these packages could result in our loss of market share and adversely affect our net operating revenue and profitability.

Our ability to compete successfully will depend on our network coverage, the quality of our network and service, our rates, customer service, marketing and our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services and technologies, changes in consumer preferences, demographic trends, economic conditions and discount pricing strategies by competitors. If we are unable to respond to competition and compensate for declining prices by adding new subscribers, increasing usage and offering new services, our business, financial condition and results of operations could be adversely affected.

Our fixed-line telecommunications services face increased competition from mobile service providers and other fixed-line service providers, which may adversely affect our revenues and margins.

Our fixed-line telecommunications services face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed-line services. We expect the number of fixed lines in service to continue to decline or stagnate, as certain customers eliminate their fixed-line services in favor of mobile services, and the use of existing fixed lines to decrease as customers substitute fixed-line calls with calls from mobile telephones as a result of lower mobile rates. The rate at which the number of fixed lines in service in Mexico may decline depends on many factors beyond our control, such as economic, social, technological and other developments in Mexico.

We also compete in the market for fixed-line services with other fixed-line service providers, primarily Telmex, Axtel and Alestra, S. de R.L. de C.V. ("Alestra"). In addition to direct competition, we also face competition from other providers of value-added services that offer VoIP and other Internet-based telephony. Our loss of a significant number of fixed-line customers would adversely affect our operating revenue and may adversely affect our results of operations.

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

The telecommunications industry is regulated by the Mexican government. Our concessions are not exclusive and the Mexican government may grant concessions covering the same geographic regions and frequency bands to other entrants. We cannot assure you that additional concessions granted by the Mexican government to provide similar services to those we provide or plan to provide will not be granted to other competitors and that the value of our concessions will not be adversely affected.

The awarding of spectrum segments opened the market to new concessions and to new technologies, such as WiMax, that may compete with some of the services we provide. An auction for the 3400–3700 MHz spectrum segment was expected to take place during 2011, but it did not occur. If this auction takes place during 2014, we will explore whether to participate. In the event we fail to successfully bid for this spectrum, we may not be able to provide additional services to our customers that are dependent on these spectrums, which could have an adverse effect on our business prospects and results of operation.

### We could lose our concessions if we do not fully comply with their terms and we may not be able to renew our existing concessions.

We hold concessions that enable us to provide telecommunications services. Under the terms of our concessions, we are required to meet a number of technical, build-out and financial conditions and in the past we have failed to meet some of these conditions such as providing coverage to cities within the scope of our concessions within the time-frame provided for in the concession. We cannot assure you that we will not be fined for our past failures to comply with the terms of our concessions. In addition, any failure to comply with any of the terms of our concessions or to obtain a waiver or modification could result in the termination of those concessions, the imposition of new terms applicable to our concessions, the imposition of fines or the loss of surety bonds that we have issued to the SCT. The Mexican government is not required to compensate us in the event of such termination.

Furthermore, all of our concessions have a specified duration of 10 to 30 years and are scheduled to expire between 2016 and 2028. Mexican law provides that concessions, except for the microwave transmission concessions which could be reauctioned, SCT recently granted the authorization for the concession titles modification, in order to ask for a renewal. Maxcom has made the rights payments and is awaiting for the modification terms.

If any of our key concessions, including our local and long distance telephony concession, were terminated or not renewed, we would be unable to engage in our business.

### Under Mexican law, our concessions could be expropriated or temporarily seized.

Holders of concessions to install, operate and develop public telecommunications networks are subject to the provisions of the Mexican Federal Telecommunications Law (Ley Federal de Telecomunicaciones) and any other provision contained in the relevant concession grant and other applicable laws. The Mexican government (through the SCT) may expropriate any telecommunications concession and claim any related asset for reason of public interest or national security, or may 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.

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 of expropriation, we cannot assure you that the indemnification will equal the market value of the concessions and related assets or that we will receive such indemnification in a timely manner or at all.

### Fraudulent use of telecommunications networks increases our expenses.

The fraudulent use of telecommunications networks imposes a significant cost upon service providers, who must bear the cost of services provided to fraudulent users. We suffer a loss of revenue as a result of fraudulent use and a cash cost due to our obligation to reimburse carriers for the cost of services provided to fraudulent users. These costs also include administrative and capital costs associated with monitoring and preventing the incidence of fraud, as well as raising interconnection costs and capacity costs. We cannot assure you that our efforts to combat fraud will be effective or that fraud will not result in material costs for us in the future. In addition, since we rely on other long-distance carriers for interconnection, some of which do not have anti-fraud technology incorporated in their networks, we are particularly exposed to this risk in our long-distance service and in traffic originating in our network to mobile users under the mode of "calling party pays."

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### "Long-distance Calling Party Pays" system could result in a loss of customer traffic and revenue.

In 1997, Cofetel implemented the "Calling Party Pays" system, and in 2006 the "Long-distance Calling Party Pays" system, whereby the customer originating a domestic or international call, from either a fixed line or mobile phone to a mobile phone, pays the entire fee for placing the call rather than the mobile telephone subscriber who receives such call, who only pays for outgoing calls. Even though the mobile telephone subscriber receiving the call does not pay to receive the call, the network from which the call originates must still compensate the terminating mobile network.

In 2006, we negotiated with the mobile carriers a provisional "Calling Party Pays" interconnection tariff for local and long-distance calls to be terminated in such mobile operators' network, achieving a significant reduction of the original tariff contemplated by the agreements implementing this system issued by Cofetel, for the period 2006 to 2010.

For the 2011 Cofetel has issued a resolution regarding "Calling Party Pays" interconnection tariffs with the mobile carriers, and has determined the tariff at Ps.0.3912. It is probable that for the subsequent years until 2015, Mexican Federal Telecommunications Institute (known as IFT and formerly known as Cofetel) will issue, on a yearly basis, resolutions oriented to lowering the tariff set forth in 2011. If the IFT applies the same cost model used for the 2011 resolution, the most probable scenario would be a 10% further decrease in the interconnection tariff.

### Foreign ownership competition may limit our ability to grow.

Restrictions imposed by the Mexican Foreign Investment Law (Ley Federal de Inversion Extranjera) and the Mexican Federal Telecommunications Law (Ley Federal de Telecomunicaciones) in connection with foreign participation in the telecommunication sector were eliminated by a reform to the Mexican Constitution. These amendments could increase the competition in the sector and thus impairing our ability to gain market share and grow.

### We operate in a highly regulated industry which is currently experiencing broad-based regulatory changes.

The operation of the telecommunications sector in Mexico, including ours, has been subject to laws and regulations administered by the SCT and the IFT.

In June 11, 2013, the Mexican Congress, enacted an amendment to the Mexican Constitution that allows further participation in the telecommunications industry by restricting monopolistic competitors and liberalizing the sector.

### If any of our telecommunication concessions is revoked, we could be prevented from applying for a new concession within five years.

Article 39 of the Mexican Federal Telecommunications Law provides that, in case the SCT revokes a concession from a concession holder, such concession holder will be prevented from obtaining any new concessions or permits from those indicated in the Mexican Federal Telecommunications Law, for a term of 5 years from the date on which revocation takes effect.

The inability to apply for a new concession for such period of time could adversely affect our business financial condition and results of operations.

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#### Risks Related to Mexico

#### Mexican and global economic conditions may adversely affect us.

The global economy continues to be uncertain, and many companies have limited access to funding. This risk has been exacerbated by concerns over the higher levels of public debt, wider fiscal deficit and credit rating downgrades on public debt of European countries such as the Republic of Ireland, Greece, Portugal, Italy, France and Spain and the downgrade and risk of a potential credit deterioration of the U.S. economy. This global economic downturn and/or any future economic downturn, including downturns in the United States and Europe, could affect our financial condition and results of operations.

Additionally, this recent volatility in the global financial markets and ongoing uncertainty affecting these markets have resulted in extreme volatility in the credit, equity and fixed income markets. This volatility has limited many companies' access to funding. If access to credit tightens further and borrowing costs rise, our costs could be adversely affected. Difficult financial markets may also adversely affect some of our customers.

The Mexican economy may be, to varying degrees, affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, the prices of both Mexican debt and equity securities decreased substantially as a result of the prolonged decrease in the United States securities markets. Most recently, credit issues in the United States related principally to the sale of sub-prime mortgages have resulted in significant fluctuations in the financial markets.

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of the North American Free Trade Agreement ("NAFTA") and increased economic activity between the two countries. Therefore, adverse economic conditions in the United States, the termination or re-negotiation of NAFTA or other related events could have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our business, financial condition or results of operations.

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 incorporated in Mexico and substantially all of our assets and operations are located in Mexico. As a result, we are subject to political, legal and regulatory risks specific to Mexico which can have a significant impact on our business, results of operations and financial condition. The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions, fiscal and monetary policy could have an impact on Mexican private sector entities, including our company, and on market conditions, prices and returns on Mexican securities. We cannot predict the impact that political conditions will have on the Mexican economy. 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. We cannot assure potential investors that changes in Mexican federal governmental policies will not adversely affect our business, financial condition, results of operations and prospects.

Presidential elections in Mexico occur every six years, with the most recent one occurring in July 2012. Currently, no single party has succeeded in securing a majority in the senate or the *Camara de Diputados* (House of Representatives), and the absence of a clear majority by a single party could continue, which may result in government gridlock and political uncertainty due to the Mexican congress' potential inability to reach consensus on the structural reforms required to modernize certain sectors of and foster growth in the Mexican economy. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition, results of operations and prospects.

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Mexico has recently experienced periods of violence and crime due to the activities of drug cartels. In response, the Mexican government has implemented various security measures and has strengthened its police and military forces. Despite these efforts, 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 the future. The social and political situation in Mexico could adversely affect the Mexican economy, which in turn could have a material adverse effect on our business, results of operations and financial condition.

### Political and economic developments in Mexico may adversely affect our business.

The majority of our customers are Mexican companies or individuals, and all of our operations and the vast majority of our assets are located in Mexico. For these reasons, our operations, results and financial condition are dependent upon the level of economic activity in Mexico. Telecommunications traffic in Mexico and our revenues are highly affected by the level of economic activity in Mexico and the general purchasing power of individuals and companies. Accordingly, declines in our customers' spending could have additional negative effects on our revenues. Economic slowdowns in Mexico may have additional consequences that impact our business. We also face risks associated with the impact of economic downturns on third parties, such as suppliers, financial institutions and other parties with which we do business. If these parties experience negative effects on their businesses due to the economic crisis, it could negatively affect our business or operating results.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions and policies concerning the economy could have a significant impact on private sector entities in general and on us in particular and on market conditions, prices and returns on Mexican securities.

### Changes to Mexican laws, regulations and decrees applicable to us could have a material adverse effect on our business, results of operations and financial condition.

The telecommunications sector in Mexico is subject to numerous laws and extensive regulations by a number of governmental authorities, including the SCT and IFT, which are responsible for, among others, formulating policy, granting licenses, setting tariff schemes, regulating interconnection among providers, levying taxes on services and supervising the provision of services. Laws applicable to our business may be enacted, amended or repealed and governmental agencies may make regulatory interpretations or take regulatory actions that could damage our business, increase competition, increase our costs of operation, decrease our revenues, and limit our ability to grow our operations, or otherwise adversely impact our business.

#### Peso devaluation relative to the U.S. dollar could make it more difficult for us to service our indebtedness and could decrease the value of the notes due 2020.

While our revenues are almost entirely denominated in pesos, the majority of our obligations and all of our long-term indebtedness are denominated in U.S. dollars. In addition, most of our capital expenditures are denominated in U.S. dollars. We are, and will continue to be, exposed to peso devaluation risk. The peso has devalued substantially against the U.S. dollar in the past and may devalue significantly in the future. For example, the noon buying rate rose from Ps.3.45 per U.S.\$1.00 on December 19, 1994 to Ps.5.00 per U.S.\$1.00 on December 31, 1994 and Ps.7.74 per U.S.\$1.00 on December 31, 1995, representing a 124.6% devaluation of the peso relative to the U.S. dollar from December 19, 1994 to December 31, 1995. The peso appreciated relative to the U.S. dollar 0.1% in 2007, depreciated 24.6% in 2008, appreciated 3.5% in 2009, appreciated 5.4% in 2010, depreciated 13.2% in 2011, appreciated 7.0% in 2012 and depreciated 0.5% in 2013.

The general economic conditions in Mexico resulting from a peso devaluation and consequential inflation may have an adverse effect on our results of operation by:

increasing the peso-carrying costs of our U.S. dollar-denominated debt and capital expenditure requirements;

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- decreasing the purchasing power of Mexican consumers, resulting in a decrease in demand for telephony services; and
- resulting in our inability, due to competitive pressures, to increase our prices in response to such inflation.

The peso-to-dollar exchange rate may experience significant devaluations in the future. Further declines in the value of the peso relative to the U.S. dollar could adversely affect our ability to meet our U.S. dollar-denominated obligations, including the notes due 2020. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

### High inflation rates in Mexico may decrease demand for our services while increasing our costs.

In recent years, Mexico has experienced higher levels of inflation relative to the United States, its main commercial partner. Mexico's annual rate of inflation was 4.0% during 2013, 3.6% in 2012, 3.8% in 2011, 4.4% in 2010, 3.6% in 2009, 6.5% in 2008 and 3.8% in 2007. High inflation rates can adversely affect us as follows:

- inflation can adversely affect consumer purchasing power, thereby adversely affecting consumer demand for our services and products; and
- to the extent inflation exceeds our price increases, our prices and revenues will be adversely affected in real terms.

### High interest rates in Mexico could increase our financing costs.

Mexico has, and is expected to continue to have, high real and nominal interest rates, relative to the United States, its main commercial partner. The interest rates on 28-day Mexican government treasury securities averaged, 3.8% for the year ended December 31, 2013, 4.2% in 2012, 4.2% in 2011, 4.4% in 2010, 5.4% in 2009, 7.7% in 2008 and 7.2% in 2007. Although we do not currently have any peso-denominated indebtedness, if we need to incur such indebtedness in the future, it will likely be at high interest rates.

### We could be negatively affected by "by-pass" international traffic.

Pursuant to Mexican telecommunications regulations, international long-distance traffic in Mexico must be routed and terminated through authorized international gateways at established international settlement rates. However, less expensive alternatives which by-pass authorized gateways exist, particularly in the case of countries with whom Mexico exchanges a significant amount of traffic. Given the disparity between the government-authorized and alternative longdistance interconnection and termination rates through local service routes and/or Internet Protocol services, an increasing portion of the long-distance market between Mexico and the United States is served by entities that circumvent or "by-pass" the international long-distance interconnection system. This practice is illegal under applicable law.

Maxcom cannot confirm whether any of its high-volume customers are engaging in "by-pass" activities because it is not required to make such a determination under Mexican regulations and therefore has not implemented a system to detect such activity. Maxcom is required, however, to comply with competent authority order to disconnect a customer deemed to be engaged in "by-pass" activities. In 2000, Mexican regulatory authorities announced their intention to conduct more rigorous audits of persons or companies believed to be engaged in "by-pass" activities. In December 2000, some of the major Mexican long-distance carriers, including Maxcom, signed a cooperation agreement to combat "by-pass" activities. If, as a consequence of such actions, the regulatory authorities determine that any of our high-volume customers are engaged in "by-pass" activity, Maxcom would be required to disconnect their service and our revenues could be negatively affected.

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### Our telecommunications network infrastructure has several vulnerabilities and limitations.

Our telecommunications network is the source of all our revenues. Any problem with or limitation of our network may result in a reduction in the number of our customers or usage level by our customers, our inability to attract new customers or increased maintenance costs, all of which would have a negative impact on our revenues and net income. The development and operation of our network is subject to problems and technological risks, including:

- physical damage:
- power loss;
- capacity limitations;
- software defects as well as hardware and software obsolescence;
- breaches of security, whether by computer virus, break-in or otherwise:
- failure to interconnect with carriers linking us with our customers;
- denial of access to our sites for failure to obtain required municipal or other regulatory approvals; and
- other factors which may cause interruptions in service or reduced capacity for our customers.

Our indebtedness could have a material adverse effect on our financial condition, including our ability to fulfill our obligations under our Step-Up Senior Notes due 2020 and our ability to operate our business and implement our business plan.

We are highly leveraged. As of December 31, 2013 and 2012, we had total indebtedness in the amount of Ps.1,963.6 (U.S.\$150.2 million) and Ps.2,305.4 million, respectively, which consists primarily, as of December 31, 2013 of U.S.\$149.0 million aggregate principal of Step-Up Senior Notes due 2020. We will use approximately U.S.\$11.2 million annually from our cash flows to service our Step-Up Senior Notes due 2020 (interest payments only). Despite our current level of indebtedness, we may be able to incur additional indebtedness. Although the terms of the indenture governing the Step-Up Senior Notes due 2020 restrict us and our restricted subsidiaries from incurring additional indebtedness, these restrictions are subject to important exceptions and qualifications including with respect to our ability to incur additional senior indebtedness. If we or our subsidiaries incur additional indebtedness to finance working capital, capital expenditures, investments or acquisitions or for other purposes, the risks related to our business associated with our high level of indebtedness could be intensified. Specifically, our high level of indebtedness could have important consequences to our business, including consequences that could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- require us to dedicate a substantial portion of our cash flow from operations to debt service payments, reducing the funds available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in the telecommunications industry;
- limit our ability to take advantage of opportunities for acquisitions and other business combinations;
- place us at a competitive disadvantage compared to our less leveraged competitors;
- increase our vulnerability to both general and industry-specific adverse economic conditions; and
- limit our ability to obtain additional financing or obtain it on commercially reasonable terms, to fund future working capital, capital expenditures, acquisitions or other general corporate requirements and increasing our cost of borrowing.

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If we and our subsidiaries incur additional indebtedness in the future, the leverage-related risks that we now face could intensify and have a material adverse effect on business, results of operation and financial condition.

The indenture governing our Step-Up Senior Notes due 2020 contains restrictions on our ability to operate our business and to pursue our business strategies. Our failure to comply with these covenants could result in an acceleration of our indebtedness.

The indenture governing our Step-Up Senior Notes due 2020 contains covenants that may restrict our ability to finance future operations or capital needs, to respond to changing business and economic conditions or to engage in certain transactions or business activities that may be important to our growth strategy, necessary to remain competitive or otherwise important to us. The indenture restricts, among others, our ability to:

- incur additional indebtedness;
- pay dividends or make other distributions on our capital stock or repurchase our capital stock or subordinated indebtedness;
- make investments or other specified restricted payments;
- · create liens;
- enter into mergers, consolidations, sales of substantially all of our assets and other forms of business combinations;
- enter into change of control transactions;
- sell assets and subsidiary stock; and
- enter into transactions with affiliates of the following nature:
  - (i) the transaction is on terms no less favorable to Maxcom or the relevant restricted subsidiary than those that would have been obtained in a comparable transaction by the Maxcom or such restricted subsidiary with an unrelated entity;
  - (ii) in transactions involving in excess of U.S.\$2.5 million, a majority of the disinterested directors have determined that the transaction complies with (i); and
  - (iii) in transactions involving in excess of U.S.\$6.0 million, Maxcom shall deliver to the trustee a fairness opinion from an investment banking firm of national standing.

If we do not comply with these restrictions, we could be in default despite our ability to service our indebtedness. If there were an event of default under the indenture governing our Step-Up Senior Notes due 2020, holders of such senior notes could demand immediate payment of the aggregate principal amount and accrued interest on such senior notes outstanding which, as of December 31, 2013, was an amount equal to U.S.\$175.7 million aggregate principal of Step-Up Senior Notes due 2020. This could lead to our inability to pay our obligations or to our bankruptcy or reorganization for the benefit of our creditors. Any additional financings we obtain in the future would most likely contain similar or more restrictive covenants.

The terms of the indenture governing our Step-Up Senior Notes due 2020 restrict us and our restricted subsidiaries from incurring additional indebtedness are subject to certain exceptions and qualifications, including exceptions allowing us to incur capital lease, financing and purchase money obligations not exceeding U.S.\$15 million and additional indebtedness not exceeding U.S.\$20 million. If we or our subsidiaries incur additional indebtedness to finance working capital, capital expenditures, investments or acquisitions or for other purposes, the risks related to our business associated with our high level of indebtedness could be intensified.

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Exchange rate control rules enacted in the future could make it more difficult for us to service our U.S. dollar-denominated debt, raise capital outside of Mexico and make capital expenditures.

In the past, the Mexican government has issued exchange control rules that, although not in effect today, may be enacted in the future. If so enacted, exchange control rules could make it more difficult to service our U.S. dollar denominated debt, raise capital outside of Mexico and make capital expenditures.

### The price of our securities could decrease due to events in other countries, especially the United States and emerging market countries.

We cannot assure you that the price of our securities will not be adversely affected by events elsewhere, especially in the United States and in emerging market countries. Mexican financial and securities markets are, to varying degrees, influenced by economic and market conditions in other countries. Although economic conditions are different in each country, investor reaction to developments in one country has had and can have significant effects on the prices of securities of issuers in other countries, including Mexico.

Less information about our Company may be publicly available because we are subject to different corporate disclosure and accounting standards than U.S. companies.

A principal objective of the securities laws of the United States and Mexico is to promote full and fair disclosure of all material corporate information. However, there may be less publicly available information about foreign issuers of securities listed in the United States and of Mexican issuers in Mexico than is regularly published by or about U.S. issuers of listed securities. In addition, we prepare our consolidated financial statements in accordance with IFRS.

### You may suffer a U.S. dollar shortfall if you obtain a judgment against us.

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In the event that the outstanding holders of our Step-Up Senior Notes due 2020 are awarded a judgment from a Mexican court enforcing our U.S. dollar-denominated obligations under our Step-Up Senior Notes due 2020, we will have the right to discharge our obligations by paying to the outstanding holders of our senior notes in pesos at the exchange rate in effect on the date of payment of such judgment. The exchange rate is currently determined by the Central Bank of Mexico (Banco de México) every banking day in Mexico and published the following banking day in the Official Gazette of the Federation (Diario Oficial de la Federación). As a result of such currency conversion, you could face a shortfall in U.S. dollars. No separate actions exist or are enforceable in Mexico for compensation for any such shortfall.

### Minority shareholders may be less able to enforce their rights against us, our directors, or our controlling shareholders in Mexico.

Under Mexican law and our bylaws which are governed by Mexican law, the protections afforded to minority shareholders are different from those afforded to minority shareholders in the United States. For example, because provisions concerning fiduciary duties of directors have only recently been incorporated into the Mexican Securities Market Law (Ley del Mercado de Valores) and are not as developed as in the United States, it may be difficult for CPO holders to bring an action against directors for breach of this duty and achieve the same results as in most jurisdictions in the United States. Procedures for class action lawsuits do not exist under applicable Mexican law. Furthermore, if investors hold our securities through the CPO trustee, their minority rights may only be exercised through instructions of the CPO trustee. Such indirect ownership arrangement may further limit such investor's rights. Therefore, it may be more difficult for CPO holders to enforce their rights against us, our directors, or our controlling shareholders than it would be for minority shareholders of a U.S. company.

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Investors may experience difficulties in enforcing civil liabilities against us or our directors, officers and controlling persons.

We are organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, all or a substantial portion of our assets and our directors' and officers' assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws because Mexican courts may determine that the obligation for which enforcement is sought contravenes or goes beyond Mexican law (and public policy (*órden público*) there under).

### ITEM 4. INFORMATION ON THE COMPANY

### A. History and development of the Company

Maxcom Telecomunicaciones, S.A.B. de C.V. is a limited liability public stock corporation (sociedad anónima bursátil de capital variable) with indefinite life, organized under the laws of Mexico, incorporated on February 28, 1996. We were originally organized under the name "Amaritel, S.A. de C.V." We changed our legal name to "Maxcom Telecomunicaciones, S.A. de C.V." on February 9, 1999. In connection with our initial public offering, our corporate name was changed to "Maxcom Telecomunicaciones, S.A.B. de C.V." on October 19, 2007, when we adopted the form of a public company or limited liability public stock corporation (sociedad anónima bursátil de capital variable). Our legal name is also our commercial name.

Our principal offices are located at Avenida Guillermo González Camarena No. 2000, Colonia Santa Fe Centro Ciudad, Mexico, D.F. 01376 and our general phone number is (52) 55-5147-1111. Our website address, the contents of which are not part of, or incorporated into, this annual report, is www.Maxcom.com. Our agent in the United States is Puglisi & Associates, 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19715.

In February 1997, we were awarded Mexico's first competitive wireline local and long-distance telephony concession, covering the Federal District of Mexico and over 100 cities and towns in the Gulf region for local service and the whole nation for long-distance service. This concession has a term of 30 years. The local telephony portion of our concession was expanded in September 1999 to cover most of the Greater Mexico City area and a wider area within the Gulf region. In September 2001, our concession was further expanded to allow us to provide nationwide wireline local telephony service. In October 1997, we were awarded seven nationwide point-to-point and three regional point-to-multipoint microwave concessions. Each of these concessions has a term of 20 years.

We commercial operations on May 1, 1999. We are currently offering local, long-distance, Internet, Voice over Internet Protocol services, public telephony, paid TV, mobile services, other value-added services and data services in the cities of Mexico City, Puebla, Queretaro and San Luis Potosi.

On October 24, 2007, we completed a global initial public offering of 12,296,970 American Depositary Shares (ADSs) in the United States and 16,969,697 Ordinary Participation Certificates (Certificados de Participación Ordinaria "which we also refer to as CPOs" for its initials in Spanish) in Mexico. Approximately 16% of the ADSs and the CPOs were sold by existing Maxcom shareholders. Each ADS represents seven CPOs, while each CPO represents three Series "A" common shares.

In connection with our initial public offering, each issued and outstanding share of our Series A, Series B and Series N common stock was converted into one new share of Series A common stock. Upon completion of the conversion, which took place prior to the closing of the initial public offering, we had 484,357,036 shares of Series A common stock issued and outstanding. The initial public offering resulted in Maxcom receiving gross proceeds of approximately U.S.\$260

On December 4, 2012, Maxcom entered into a recapitalization agreement pursuant to which it would conduct and an exchange offer for its outstanding debts securities (the "Debt Exchange Offer") and concurrently Ventura Capital Privado S.A. de C.V. ("Ventura") would conduct a tender offer for Maxcom's outstanding equity securities (the "Tender Offer") and make a capital contribution to Maxcom (the "Capital Contribution"). The Tender Offer and Capital Contribution were conditioned on, among other things, the success of the Debt Exchange Offer. The Debt Exchange Offer was extended three times and expired on April 24, 2013 without the conditions to the offer having been satisfied and, as a result, Maxcom did not receive the Capital Contribution.

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#### Recapitalization and Debt Restructuring

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On December 4, 2012 Maxcom received an offer from Ventura Capital Privado, S.A. de C.V. ("Ventura") to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom pursuant to a public tender to be conducted, upon authorization of the Mexican and U.S. corresponding governmental authorities. As part of such transaction, Ventura committed to subscribe a capital increase of at least U.S.\$22 million dollars.

Ventura's obligation to consummate the tender was subject to i) acquiring more than 50% of all shares outstanding on a fully diluted basis and ii) a successful completion of an offer to exchange Maxcom's then current 11% Senior Notes Due 2014.

On February 20, 2013 Maxcom commenced an offer to exchange all of its then outstanding 11% Senior Notes due 2014 for new Step-Up Senior Notes due 2020. On the same date, Ventura initiated an equity tender offer to acquire 100% of the issued and outstanding shares of Maxcom.

After several intents Maxcom advised that on April 24, 2013, that since the conditions for the consummation of the exchange offer were not satisfied or waived, such exchange offer was not consummated and consequently the equity tender offer launched by Ventura, which was conditioned upon the consummation of the exchange offer, was not consummated and thus, Maxcom would not be receiving the capital contribution offered by Ventura.

In light of this outcome, Maxcom considered all of its alternatives including, but not limited to, commencement of a Chapter 11 case or other restructuring proceeding.

On June 18, 2013 Maxcom announced its intention to use a 30-day grace period with respect with its scheduled interest payment of approximately U.S.\$11 million on its 11% Senior Notes due 2014 to implement a comprehensive plan of recapitalization.

On July 3, 2013 Maxcom, Ventura, an ad hoc group of bondholders (the "Ad Hoc Group") holding an aggregate amount of approximately U.S.\$84 million of Maxcom's Senior Notes due 2014, and certain of its current equity holders reached an agreement on the terms of a restructuring and support agreement, a recapitalization agreement, and agreements to tender. In connection with this comprehensive restructuring process, Maxcom entered into a recapitalization agreement with Ventura and certain related shareholders, pursuant to which the Ventura also agreed to make a capital contribution of at least U.S.\$45 million dollars and conduct a tender offer to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom.

On July 23, 2013, the Company undertook a restructuring by commencing voluntary cases under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101–1532, in the United States Bankruptcy Court for the District of Delaware to effect the restructuring as set forth in the plan of reorganization, including the issuance of new step-up senior notes by the Company.

On September 10, 2013, the U.S. Bankruptcy Court for the District of Delaware confirmed the Company's prepackaged Chapter 11 plan of reorganization (the "Plan"). The only class of creditors entitled to vote, the holders of the senior notes issued by the Company due 2014 (the "Old Notes"), voted in favor of the Plan and no party objected to confirmation of the Plan.

Pursuant to the terms of the Plan, all classes of creditors were unimpaired and their payments were not affected, except for the holders of Maxcom's Old Notes, which received (1) the step-up senior notes due 2020 (which include the capitalized interest amount for unpaid interest accrued on the Old Notes from (and including) April 15, 2013 through (and excluding) June 15, 2013, at the rate of 11% per annum), (2) cash in the amount of unpaid interest accrued on the Old Notes (A) from (and including) December 15, 2012 through (and excluding) April 15, 2013, at the rate of 11% per annum, and (B) from (and including) June 15, 2013 through (and excluding) the effective date of the Plan at the rate of 6% per annum, and (3) rights to purchase equity that is unsubscribed by the Company's current equity holders pursuant to the terms of the Plan.

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On September 27, 2013 Maxcom completed a comprehensive plan of recapitalization and an equity tender offer initiated by Ventura, acting through the Trust 1387 held by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, a banking institution organized and existing under the laws of the United Mexican States and other investors. As part of this transaction, Ventura investors became the major shareholder in the Company.

On October 2, 2013, Maxcom held a general ordinary shareholders' meeting that approved among other things, a capital increase of approximately U.S.\$119.7 million. The Ventura investors also paid this capital increase.

According to the terms of the Plan, on October 11, 2014, Maxcom issued new Step-Up Senior Notes due 2020 (the "Step-Up Senior Notes") in an aggregate principal amount of U.S.\$180,353,962, which reflects the amount of the Old Notes less the amount of Old Notes held in treasury by the Company plus the capitalized interest amount. The Step-Up Senior Notes bear interest (i) from the date of issuance until June 14, 2016, at the annual rate of 6% per annum, (ii) from June 15, 2016 until June 14, 2018, at the annual rate of 7% per annum, and (iii) from June 15, 2018 until the maturity date, at the annual rate of 8% per annum; have a maturity date of June 15, 2020; are secured by the same collateral that secures the Old Notes; and (e) are unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by all of Maxcom's direct and indirect subsidiaries, excluding Fundación Maxcom, A.C. The collateral comprise the item "Telephone Network System and Equipment", including, but are not limited to constructions, transportation equipment and vehicles, computers, information electronic data processing equipment, telecommunications and office furniture and equipment. The guarantee was perfected on October 11, 2013 through a voluntary mortgage set up in order of priority and degree.

The Step-Up Senior Notes are governed by indenture that Maxcom and its subsidiaries entered into with The Deutsche Bank Trust Company Americas, acting as trustee, on October 11, 2013. The indenture governing our Step-Up Senior Notes contains certain covenants that among other things, limit the ability of the Company and subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of the Company's subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates

Pursuant to the terms of the indenture governing Maxcom's Step-Up Senior Notes, Maxcom used 50% of the capital contribution made by the Ventura investors to make an offer to repurchase Step-Up Senior Notes, but only to the extent such capital contribution that exceeded U.S.\$5 million, at a price equal to 85% fo the principal amount of the notes, in cash. This tender offer was initiated on November 8, 2013 and consummated on December 12, 2013, accepting the purchase and payment of validly tendered Step-Up Senior Notes in an amount of U.S.\$2,544,811.

During December 2013, a few of the Step-Up Senior Bond Holders exercised their equity purchase rights, thereby the company exchanged bonds worth \$23.3 million pesos (equivalent to US\$ 1.8 million) at carrying value, for 22,655,679 Series A common stock shares (see note 20). The rest of the equity purchase rights held by the remaining Step-Up Senior Bond Holders were extinguished, as the right to convert them had expired in December 2013. As a result of the above events, Maxcom derecognized the associated embedded derivative liability valued at its fair value of \$33.4 million Pesos (equivalent to U.S.2.6 million). The shares issued were recognized as an increase of capital stock and additional paid-in-capital of \$22.1 million pesos (equivalent to U.S.1.7 million dollars) and \$34.6 million Pesos (equivalent to U.S.2.7 million), respectively.

In accordance with a report issued by The Bank Of New York, our depositary agent for the ADRs, as of March 31, 2014, there were 746,151 ADRs being traded in the New York Stock Exchange (which we refer to as the NYSE), under the symbol "MXT". As of that date, there were approximately 1,018,798,858 CPOs being traded in the BMV.

### B. Business overview

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### **Industry Overview**

Mexico is the second largest country in Latin America in terms of population, with approximately 118 million people, a gross domestic product of US\$1.2 billion and a gross domestic product per capita of over US\$9,951 as of December 31, 2013, one of the highest GDPs per capita in Latin America.

The Mexican telecommunications market, the second largest in Latin America, is expected to generate approximately U.S.\$30,186 million in revenues in 2013 and is forecast to grow at an compounded annual growth rate or CAGR of 3.3% over the next four years, to approximately U.S.\$34,434 million in 2017, according to data from Pyramid. For 2013, income from fixed and mobile telecommunications services in Mexico will amount to over U.S.\$26,990 million, with the expectation of continued growth in the mobile sector and in the local, data and internet segments of the fixed sector.

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The fixed telecommunications sector, which includes basic telephone services such as local and long distance calls as well as data and internet services, is a very important part of the telecommunications industry in Mexico. For 2013, revenue from the fixed telecommunications sector is expected to be approximately U.S.\$9,576 million, or approximately 32% of the total telecommunications market in Mexico.

According to information provided by Cofetel and by the National Institute of Statistics, Geography and Informatics of Mexico (*Instituto Nacional de Estadistica Geografia e Informatica*), Mexico has relatively low wire line penetration compared to other countries in Latin America. According to Pyramid, the level of penetration of narrow band access in Mexico is expected to be 18.9% for the year 2013 and to decrease slightly in 2014 to 18.5%. Broadband penetration is estimated to grow from 12.8% in 2013 to 16.6% in 2017, and total fixed penetration is expected to be 31.7% in 2013 and to grow to 34.0% by 2017. It is expected that the total number of broadband subscribers in Mexico will be approximately 14.9 million in 2013, and will grow to approximately 20.2 million subscribers by 2017, representing an estimated annual growth rate of 7.9% from 2013 to 2017.

### **Market Liberalization**

The Mexican telecommunications market has long been dominated by Telmex, the former government owned telecommunications monopoly. However, since the Mexican government completed the privatization of Telmex in 1990, the Mexican telecommunications sector has become increasingly open to competition which has created an opportunity for competitive carriers to capture market share from Telmex.

On October 4, 2006, the Federal government enacted a new directive known as the "Convergence Regulations," (Acuerdo de Convergencia de Servicios Fijos de Telefonia Local y Television y/o Audio Restringidos que se Proporcionan a través de Redes Publicas Alambricas e Inalambricas). These regulations allow certain concessionaries of media and telecommunication services to provide other services not included in their original concessions through voluntary adherence to the regulations. Upon compliance with certain regulations, cable television providers are now allowed to provide voice and data services. Likewise, voice and data service providers, such as us and Telmex, upon compliance with certain regulations, are now allowed to provide television services. In addition, the Mexican government is allowing cable companies to act as "carriers of carriers" by providing bidirectional data, Internet broadband services and voice services, including VoIP services. As a result, we face significant competition from new entrants providing telephony services, including cable television providers.

Several companies without legal authorization have begun to target the Mexican telecommunications market to offer telephone services through the Internet. Moreover, although we provide paid television services in some of our service areas, we are uncertain about our ability to provide these new services profitably due to the market penetration of current competitors providing similar services in such areas.

Number portability came into effect in Mexico enabling Mexican consumers and businesses to benefit from the added choice and convenience that number portability provides, allowing subscribers to easily switch communications providers without the time, inconvenience and expense associated with changing phone numbers. Portability is currently only possible from one fixed line network to another and from one mobile network to another, but the transfer between fixed and mobile networks is still not possible.

Effective June 12, 2013 the Mexican Congress enacted an amendment to the Mexican Constitution in connection with the telecommunications and broadcasting (radio and television) industries. This amendment to the Mexican Constitution (articles 6, 7, 27, 28, 73, 78, 94 and 105) is aiming to strengthen competition and providing the telecommunications authorities, the new Federal Telecommunications Institute or IFT, with broader capacities to regulate the telecommunication and broadcasting industries.

The enacted bill provides for a number of measures that include eliminating the limit on foreign investment in the telecommunications industry (including satellite operations), raising the limit on foreign investment in the broadcasting industry to 49%.

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Additionally, the enacted bill provides for the issuing of two new broadcasting licenses to be awarded by public auction.

"Must carry" and "must offer" obligations for television companies were also included in the new bill.

In March the new IFT issued rulings declaring America Movil and Grupo Televisa and certain of the subsidiaries of both companies as preponderant economic agents in the telecommunications and broadcasting industries, respectively and imposing both companies with specific asymmetrical regulations. It is still uncertain to determine the impact of such asymmetrical regulations in the telecommunications and broadcasting industries.

On March 24, 2014, the Mexican President submitted to the Mexican Congress a proposed telecommunications and broadcasting law that will implement the changes to the Mexican Constitution. This bill is under discussion in the Mexican Congress. It is still uncertain to determine the impact of such proposed bill to the telecommunications and broadcasting industries.

#### Local Telephony Market

In connection with the privatization of Telmex, the Mexican government granted Telmex a six-year implied monopoly over local telephony services, which was eliminated in mid-1996 when the SCT published regulations governing the licensing of local services on a competitive basis. In order to promote competition in the local telephony market, the Mexican government auctioned several concessions beginning in 1997, including the regional concession awarded to us for wireline local telephony service which was later expanded to a nationwide concession.

Each wireline local telephony concession granted by the Mexican government generally has a 30-year term and can be extended at the request of the concessionaire, subject to the approval of the SCT. Each concession authorizes, among others, the provision of local telephony services and value-added services such as voice mail, call hold, call forwarding, three-way calling and caller identification, in specified regions of the country.

The Mexican government also conducted auctions of the following spectrum frequencies:

- 450 MHz, 1.9 GHz (Personal Communications Services) and 3.4-3.7 GHz (fixed wireless local loop) nationwide and regional frequency bands;
- 7, 15, 23 and 38 GHz frequency bands for nationwide point-to-point microwave transmission links; and
- 10.5 GHz frequency band for regional point-to-multipoint microwave transmission service.

In 1998, three companies won nationwide concessions for fixed wireless local loop frequencies, although one later forfeited its right for failure to pay concession fees. In addition, in 1997 six companies won concessions in the 1.9 GHz (Personal Communications Services) frequencies on either a nationwide or regional basis, although one also forfeited its right for failure to pay concession fees. See "— Mobile Telephony Market."

In addition, the Mexican government does not permit the unbundling of local loop frequencies, requiring all telephone companies wishing to offer local telephone service to build their own last-mile connectivity to reach their targeted customers.

### Long-Distance Telephony Market

In connection with the privatization of Telmex, the Mexican government granted Telmex an exclusivity period of six years for long-distance telephony services. In August 1996, the exclusivity period expired and competition commenced in January 1997. In order to promote competition among domestic and international long distance providers, the Mexican government granted several concessions, including the national concession awarded to us, for domestic and international long-distance services, as well as value-added services. Each concession generally has a nationwide scope and a 30-year term which can be extended at the request of the concessionary, subject to the approval of the SCT.

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Other long-distance concessionaires include, among others, (i) Axtel, (ii) Alestra, (iii) Bestel, S.A. de C.V. ("Bestel"), (iv) Iusatel, S.A. de C.V. and (v) Marcatel, S.A. de C.V. ("Marcatel"). International liberalization trends will likely continue to impact the flow of long-distance telephone traffic to and from Mexico. In particular, demand for long-distance services may be inhibited by the increasing use of VoIP.

#### Mobile Telephony Market

The Mexican mobile telephony market is divided into nine regions. The SCT divided the cellular telephony system in each region into the cellular A-Band and cellular B-Band. Today, cellular A-Band concessions are owned by Telefonica Moviles, in cellular regions 1, 2, 3 and 4, and by Iusacell in cellular regions 5, 6, 7, 8 and 9. The main mobile telephony carriers in Mexico include:

- Telcel with nationwide Personal Communications Services and cellular concessions;
- Telefonica Moviles with nationwide Personal Communications Services and regional cellular (regions 1through 4) concessions;
- Iusacell with regional cellular (regions 5 through 9) and nationwide Personal Communications Services concessions;
- Unefon, S.A.B. de C.V., an affiliate of Iusacell, with a nationwide Personal Communications Services concession; and
- Nextel, an affiliate of NII Holdings, Inc., through enhanced specialized mobile radio licenses.

According to Pyramid, a well-known industry source, in 2013 mobile telephony penetration in Mexico reached 91% with 105.7 million mobile subscriptions. Despite the existence of five main players in the market, Telcel holds a dominant position with 69.5% of total mobile subscribers. In 2013, total mobile revenues grew 9.1%. The majority of the growth in the Mexican market has resulted from the prepaid segment, which accounted for 84.3% of the total mobile subscriber base at the third quarter of 2013 according to Cofetel. We believe wireless tariffs in the Mexican market continue to be relatively high when compared to international standards.

### **Our Company**

We are an integrated telecommunication services operator providing widespread voice and data services to residential and small- and medium-sized business customers in four metropolitan markets in Mexico and selected service in other markets. Since our inception in 1996, we have targeted the residential and business customer segments which we believe have been underserved by the local telephone incumbent and other competing telecommunications providers. We provide, individually, and in bundles, a wide range of services including local and long-distance voice, data, high speed, dedicated and dial-up Internet access, public telephony, Voice over Internet Protocol telephony and paid TV. We also offer mobile voice service through resale and capacity leasing agreements with third parties

We operate our own telecommunications network and support infrastructure, including the critical "last mile," or customers' premise level infrastructure (modems, handsets and set-up boxes), which allows us to control the quality of the user experience and adapt our service offerings to meet market demand.

We believe the combination of innovative, bundled offerings, competitive pricing and dedicated customer service provides value for our customers, and has allowed us to achieve significant growth from 125,231 voice lines in service as of December 31, 2002, to 330,941 as of December 31, 2013, representing a compound annual growth rate of 14.9%.

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We have a history of being the first provider in Mexico to introduce new services, including:

- the first commercial digital subscriber line broadband offering in 2005,
- the first "triple-play" (or cable, voice and broadband) offering to residential customers through a revenue-sharing agreement with cable television companies in 2005, and
- the first unbundled "quadruple-play" by adding mobile services to our bundled "triple-play" offering as a Mobile Virtual Network Operator ("MVNO") with Pegaso PCS, S.A. de C.V. on September 5, 2007.

In addition, in August 2007, we launched paid TV services over our copper network using Internet protocol ("IP"), representing the first Internet protocol television ("IPTV") offering in Mexico.

We operate in selected metropolitan areas that we believe offer opportunities for growth in telecommunications use through a combination of a concentrated population, low subscriber line penetration, potential expenditure in telecom services per customer and economic growth. We currently offer residential and business services in the cities of Puebla, Mexico City, Queretaro, San Luis Potosi and Tehuacan. We focus our development efforts on a small number of large cities where we seek to achieve strong penetration to capture operating efficiencies through a combination of network density and economies of scale. As of December 31, 2013, in areas covered by our network where we own the last mile infrastructure, we have achieved penetration levels (measured by homes passed) of 28% in the city of Puebla, 28% in Mexico City, 23% in the city of Queretaro, 22% in the city of San Luis Potosi and 16% in the city of Tehuacan. Assuming that adequate capital is available to us, we believe our business model is replicable in other cities and other urban markets which have favorable demographics and economic conditions.

We reach our customers with efficient technology, using a combination of fiber optic cable, broadband-capable copper wire and microwave transmission technology. Since we began construction of our network in 1998, we have employed reliable technology from world class providers, primarily Alcatel–Lucent, capable of providing a wide range of value-added services, including broadband and video. We regularly analyze technological developments and strive to incorporate the most capital efficient network technology available to satisfy our customers' requirements. We build our telecommunications networks in each city by initially installing centralized equipment, fiber optics and then adding last-mile network infrastructure in a modular fashion through our individual network "clusters" (under-penetrated city areas with the largest potential for new lines) that strategically target individual neighborhoods, business areas and new residential developments. This approach enables us to adapt our network expansion plans, rapidly increase service in a given area and reduce the time between our incurrence of capital expenditures and generation of revenues. This approach also allows us to match our locally-oriented sales efforts, which are primarily conducted by our door-to-door sales force, to our network modules, or cluster builds, so as to maximize the degree and speed of penetration of new areas in which we expand.

As of December 31, 2013, our network encompasses 1,411 kilometers of metropolitan fiber optic cable and over 4,718 kilometers of high-quality copper loops capable of high speed data transmission. We have four state-of-the-art Lucent Technologies 5ESS switches in service, located in Mexico City (two switches), Puebla and Queretaro, and two softs witches, one Alcatel A5020 softs witch and the IMS platform located in Mexico City and one Nortel CSK2 located in Monterrey. We also operate a 170-kilometer fiber optic link connecting Puebla and Mexico City and a 5,915 kilometer long haul fiber optic backbone connecting Mexico City and Laredo, Texas, allowing us to have points of presence in the United States that allow us to sell data solutions to customers, thereby reducing their cost of Internet services. We have a point-to-point concession in the 15 GHz and 23 GHz frequency bands forming a complex microwave network through the cities of Mexico City, Puebla, Queretaro and San Luis Potosi, in which we currently operate. This complex microwave network also passes through the cities of Aguascalientes, Guadalajara, Leon, Monterrey and Toluca, in which we intend to expand our offering and footprint to allow us to obtain additional customers. We also have a point-to-multipoint concession in the 10.5GHz frequency band, covering telecommunications regions 3, 5 and 8 (North, Gulf and South East) of Mexico.

For the year ended December 31, 2013, we invested Ps.386.5 million (U.S.\$29.6 million) in capital expenditures, primarily for telephone network system and equipment.

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We manage all aspects of the service offering to our customers, including installation, provisioning, network monitoring and management, proactive trouble ticket management and billing. Since we control our entire network and are not dependent on the local telephone incumbent for local loops, we are able to manage the speed of our service initiation and ensure the quality of our service offerings. We have a customer retention program that includes a customer service call center open Monday thru Friday from 8 am to 10 pm / Saturday & Sunday from 9 am to 9 pm; a technical customer service call center open 24 hours a day, seven days a week and a dedicated customer retention team. We believe our customers place high value on, among other things, competitive pricing, quality of service and accurate billing.

We believe that the combination of our ability to offer high quality bundled offerings at competitive prices, our position as a customer service-oriented provider, our locally focused modular network construction strategy, our focus on quality and reliability and our state-of-the-art network and systems will allow us to benefit from the expected growth of the Mexican telecommunications industry.

### Competitive Strengths

Our business is characterized by the following strengths:

We offer local and long-distance wireline voice telecommunications service and dial-up and broadband digital subscriber line Internet access throughout our service areas, and in August 2007, we launched our multichannel IP video service in Puebla, entirely on our own network. We offer these services separately and in bundles including a "triple-play" of voice, broadband Internet and video. We also offer an unbundled "quadruple-play," which includes mobile services, through an MVNO agreement with Grupo de Telecomunicaciones Mexicana, S.A. de C.V. ("Telefonica Moviles"). We have a history of being the first provider in Mexico to introduce new services. In 1997, we were the first carrier to obtain competitive wireline local and long-distance telephony concessions.

In 2001, we were the first in Mexico to offer digital subscriber line and to offer VoIP over hybrid fiber coaxial networks. In 2005, we were the first telecommunication carrier in Mexico authorized to provide "triple-play" services through a joint venture with a cable operator and in January 2007 we provided the "triple play" through our own network. We were the first telecommunication carrier in Mexico authorized to provide "quadruple-play" services by the addition of IPTV and mobile services to our residential portfolio in 2007. In addition, in 2012 we launched an "over-the-top" ("OTT") IPTV service operating through third party broadband Internet access service, which allows us to expand to new market segments at a lower cost to our customers.

### History of High Penetration Rates.

Our business model is based on careful geographical targeting of certain underserved segments of the residential and business population in urban markets. Our network "cluster" build-outs are executed in tandem with sales and promotional efforts to sign up customers prior to or immediately after offering service in each cluster. As of December 31, 2013, in areas covered by our network where we own the last mile infrastructure, we have achieved landline penetration levels (measured by homes passed) of 24% in the city of Puebla, 25% in Mexico City, 17% in the city of Queretaro, 17% in the city of San Luis Potosi and 10% in the city of Tehuacan.

These penetration levels allow us to capture operating efficiencies through a combination of network density and economies of scale. As a result of our strategy, we have subscribers for approximately 58% of built lines in our network clusters within 180 days after the completion of the build-out.

### Cost Efficient and Flexible, Reliable Technology.

We deploy our network and service our customers' needs in a cost-efficient manner. We combine fiber optic, copper lines and microwave technology which we deploy for specific customers or areas based on customer requirements, deployment cost, time to market, time to revenue and profitability potential. Our network uses fiber optic trunks and heavy gauge copper loops, most of which do not exceed 3 kilometers in length which provide us with the capability to deliver broadband data at speeds of up to 20 Mbps. The flexibility of our network allows us to provide value-added services such as video without major outside plant upgrades. We use reliable and widely used technology for our voice, data and IPTV services such as Centrex and Asymmetric Digital Subscriber Line ("ADSL"), which, we believe, ensures the reliability of our network.

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### Valuable Last-Mile Ownership.

Current Mexican telecommunications regulations do not require Telmex, the wireline incumbent, to provide other telecom carriers with access to its unbundled local loops. This has presented a significant barrier to entry for other telecommunications service providers. We built our own last-mile infrastructure and own in excess of 4,718 kilometers of broadband-capable copper wire that passes by approximately one million homes, connecting a majority of our end users to our fiber network and switches. As a result, we are not dependent on other telecommunications carriers for last mile connectivity to reach our customers. Our broadband-capable last-mile infrastructure provides flexibility to offer additional value-added services in certain clusters and we expect will enable our product offerings to evolve with future market shifts and technology trends. Upon acquiring additional capital, we intend to expand our last mile infrastructure and value-added service offerings. For more information on last-mile connectivity, see "Business—Property, Plant and Equipment—Our Network—Last-mile Connectivity."

### Recognized Brand Name and Customer Perception for Quality Services.

Because we control the entire process of network provisioning, service initiation and service quality, we are able to ensure the quality of our service and maintain customer loyalty. We believe we have been able to achieve high customer satisfaction that has allowed us to gain new customers and retain our existing customers.

We constantly monitor our customer satisfaction levels through surveys and utilize this information to enhance the quality of our services and the experience for our customers. As a result, we have been able to reduce our churn rate from 2.6% as of December 31, 2008 to 2.5% as of December 31, 2013. For more information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operation—Customer attrition (churn)."

### History of Developing Strategic Alliances.

We have a track record of developing strategic alliances through revenue sharing agreements, capacity leasing, resale arrangements and business relationships with mobile wireless operators, technology suppliers and real estate developers that allow us to expand our product offerings, ensure compatible network technologies and gain access to new customers. We also provide unbundled wireless services as part of the "quadruple—play" through our MVNO agreement with mobile operator Telefonica Moviles. In addition, we pre—install communications services for new residential developments by joining forces with real estate developers who facilitate our access to install new infrastructure in new residential communities.

#### **Business Strategy**

Our growth strategy includes the following components:

#### Increase Penetration of Niche Markets with Unmet Demand for Telecommunication Services.

We intend to continue to focus on residential customers and small—, medium— and large—sized business customers in selected metropolitan areas that offer telecommunications growth potential due to a combination of a large population, low subscriber penetration and economic growth. We believe there is unmet demand for wireline, telephony, broadband, Internet and paid television services, especially among the lower and middle—low income socioeconomic classes. According to "Asociacion Mexicana de Agencias de Investigacion—AMAI" the lower and middle—low income socioeconomic classes represented approximately 61% of Mexico's households in 2010.

According to Pyramid Research our penetration rate was 1.6% in telephony, 0.6% in pay television and 1.0% in Internet access in 2013 in Mexico.

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# Seize Wireline Opportunity Created by Highly Priced Wireless Offering.

Mobile wireless penetration in Mexico is approximately 91.0%, nearly triple the penetration rate of wireline telephony, according to the Mexican Federal Telecommunications Commission (Comisión Federal de Telecomunicaciones, or "Cofetel"). Based on average call duration of five minutes, current per-minute pricing of prepaid wireless services used by 84.3% of Mexican mobile users according to Cofetel is over ten times that of wireline. While wireless service has served as the introduction of many Mexicans to the telecommunications network, we believe the high per-minute price of wireless services combined with the socio-demographic characteristics of Mexico, including an average of 3.9 family members per household, have generated significant untapped demand in Mexican households and businesses for a wired offering at lower prices. We intend to capitalize on this trend by continuing to offer high quality and integrated fixed-line services at competitive prices.

### Expand Tailor-made Solutions to Business Customers.

We also focus on small- and medium-sized business customers which contributed to approximately 52% of Mexican GDP and employed approximately 72% of the total employees in the country in 2013. This group increasingly requires reliable integrated voice, data and managed services which we can provide with tailor-made solutions to meet their specific needs.

# Expand Our Network on a Disciplined Demand-Driven, Modular Basis.

As part of our growth strategy, we intend to continue building our network on a carefully targeted, modular basis with a rigorous focus on return on investment. We expand our networks in each city based on identified customer demand in specific local areas, which we refer as "clusters." We execute network build-out in tandem with sales and promotional efforts targeted at customers in the cluster. We also construct our network on a customer demand basis to support small- and medium sized business customers in buildings or locations other than clusters. We refer to these locations as "single sites." The clusters, single sites and potential build-outs we identify compete internally for capital expenditure funds based on expected profitability and return on investment.

# Enhance Residential Penetration Rates and Average Revenue per User through Bundling.

We launched Mexico's first multichannel IPTV service over our own network in Puebla. Our service uses broadband internet access with ADSL technology to provide digital television allowing our customers to select from over 135 video channels of content with instantaneous channel changes, interactive programming guide, video on demand content and digital video recording ("DVR") option for premium customers.

We believe that our digital television offerings will allow us to sell video subscriptions to non-customers that are already passed by our networks, which would increase our overall penetration. We also expect to sell video service bundles to a substantial percentage of our existing telephony and Internet subscribers, increasing our revenue per customer. We believe that bundled services increase the use of multiple services, enhance margins and lower churn.

### Maintain Our Service Quality Differentiation and Focus.

We provide a differentiated customer experience based on high service quality and customer-focused product offerings. Key elements of our differentiation strategy include proactive marketing efforts with door-to-door personal sales and promotions, competitive pricing, fast and affordable installation and tailor made solutions for small- and medium-sized business customers. We also differentiate our services by providing accurate and timely billing, minimizing activation errors and delivering near real-time activations and disconnections. Our billing systems provide us with the ability to combine all of the services provided to our customers in a convenient single invoice.

# **Our Products**

In addition to our innovative reliable product offering and high quality customer service, our pricing is typically at a modest discount to the levels charged by Telmex and other competitors for comparable services. The following are the service products we currently offer to our customers.

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For the residential market we have the following products:

- LineaMax Residencial. This service provides a high-quality wireline telephone line with value-added features available, including voice mail, call waiting, call forwarding, three-way calling, call blocking, speed dialing and unlisted numbers.
- Larga Distancia Max. This product provides domestic and international long-distance services to our local telephony customers who require long-distance service. Approximately 97% of our local telephony customers also subscribe to Larga Distancia Max. We do not offer our long-distance service separately from our local telephony service.
- CentralMax. This service provides customers in residential developments with all of the functions of a private branch exchange using centrex technology (central functionality for simulating a private branch exchange), without having to acquire and maintain equipment. It also allows customers to communicate with the common areas of the development with four-digit internal calling. The features offered under this product include call waiting, call forwarding, three-way calling, direct inward dialing, direct outward dialing, intercom dialing, call transfer, speed dialing, call hold, call pick up, outgoing call blocking and distinctive ringing.
- I-line. This is our VoIP service, which uses an analog-to-digital telephone adapter to allow any conventional telephone to access the telephone network through any broadband connection around the world.
- Internet Max. This service uses a traditional telephone line and modem to provide dial-up Internet access at speeds of up to 56 Kbps. We provide this service to customers, regardless of whether they have a telephone line with us.
- SpeediMax (ADSL). This is our broadband Internet access service with speeds of 128Kbps, 256Kbps, 512Kbps, 1Mbps, 2 Mbps, 4Mbps and 8Mbps using ADSL transmission technology over ordinary telephone lines.
- AsistelMax. This service provides basic telephone medical and home assistance to our residential customers in case of emergency.
- Pay TV services. This service provides digital television content to our residential customers over our copper network using IP including value added features such as video on demand, DVR and interactive programming guide.
- MaxcomCel: This is our residential mobile communication service, which is provided through a cellular network. This postpaid service is only available for our existing customers.
- STB Off-Net: This is our IPTV service which provides a mix of 54 live TV channels and subscription video on demand services.
- Yuzu: This service provides live TV and video on demand service provided over the Internet, accessible at any time and compatible with different connectivity devices such as smart phones, tablets and personal computers, among others.

For the commercial market, our product portfolio includes:

LineaMax Comercial. This service is identical to LineaMax Residencial, except that it also includes multiline hunting.

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CentralMax. This service provides business customers with all of the functions of a private branch exchange using centrex technology, without having to acquire and maintain equipment. The features offered under this product include four-digit internal calling, call waiting, call forwarding, three-way calling, direct inward dialing, direct outward dialing, intercom dialing, call transfer, speed dialing, call hold, call pick up, outgoing call blocking, single digit access to attendant and distinctive ringing. Optional solutions include voice mail, music-on-hold, multi-line hunting and operator services.

- TroncalMax Digital. This service provides digital trunks for business customers that need highly reliable access to and from the public telephone network through their existing private branch exchange. This service is sold in groups of 10, 20 or 30 trunks. The groups can be configured with direct inward dial, direct outward dial, caller identification or main telephone number assignments.
- TroncalMax Analogica. This service provides business customers with connectivity to their analog private branch exchange or key systems. The features available with this product are multi-line hunting, caller identification and call barring.
- TroncalSip. This service provides SIP trunks (Session IP) for business customers that need highly reliable access to and from the public telephone network through their existing IP private branch exchange. This service can be delivered through our Internet Dedicated Access or a third party provider.
- Hosted Contact Center. This service provides virtual agents infrastructure through our outsourcing model to deliver software licenses and Troncal Sip sessions to customers that needs extra call agents. This services is oriented to call center that needs virtual infrastructure with no investment and gives them flexibility and scalability to grow their campaigns on demand.
- Hosted Private Branch Exchange. This service provides our business customers with all of the functions of an IP private branch exchange using VoIP technology, without having to acquire and maintain expensive equipment. The features offered under this service include those of CentralMax as well as other IP enhanced services such as web portal setup, "click to dial," hosted directory and Microsoft Outlook integration.
- I-line. This is our VoIP service, which uses an analog-to-digital telephone adapter to allow any conventional telephone to access the telephone network through a customer's broadband connection. We market this service to customers who make and receive a significant volume of international and domestic long-distance calls. This service includes additional voice features such as call hold, caller identification and voice mail.
- MaxcomCel: This is our business mobile communication service, which is provided through a cellular network. This postpaid service is only available for our existing customers.
- 1-800 Numbers. This service is available to our customers interested in receiving toll-free calls, domestic and international, into their call centers or businesses.
- SpeediMax. This is our broadband Internet access service for small businesses with speeds of 128Kbps, 256Kbpsand 512Kbps, 1Mbps, 2Mbps, 4Mbps and 8Mbps using ADSL transmission technology over ordinary telephone lines. An ADSL provides a secure, dedicated link to the Internet or a company's internal data network.
- Dedicated Internet Access. This service offers Internet access at high speed within a clear channel access to the Internet backbone.

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- Digital private lines. This service provides highly reliable dedicated circuits between two or more physical locations.
- E-Security. This service provides managed security including perimetral anti-virus, content filter and spyware solutions. We supply all of the software and hardware equipment as an integrated solution for our customers.
- SOSMax. This service provides preventive and corrective maintenance to our customers' IT equipment.
- Managed Servers. It provides Dedicated Servers according to customers' needs. The service provides configurations in different versions of Windows, Linux and Solaris operating systems. The service features redundant power: generators, UPS, PDU, fire detection and extinction, temperature and humidity control systems, physical and logical security monitoring, interconnections to Internet backbone and technical support 24x7.
- Managed Backup. Backup and Restore services provide safe data storage in heterogeneous environments, adapting to the increasing demand of customer information. The platform for data backup and recovery is provided through a dedicated high speed fibre channel network (SAN), in a centralized manner.
- Managed Storage. This service provides on-demand data storage capacity. Our Storage solutions provide either NAS (Network Attached Storage) or SAN (Storage Area Network) with high availability, performance, compatibility and scalability for mission critical customer applications
- Managed Tape Storage. Managed Tape Storage services allow our customers to store large volumes of information, offering the necessary space and security for their backup in order to have it always available and easy to recover when required. Tapes are either stored in an off-site location or kept inside the Data Center or sent to our customer's sites.
- Business Continuity Center. This service provides workstation positions inside the data center's premises, providing telephony, PC, printers and internet access, all available to be used by our customers in case of contingencies at their operating offices.
- Co-location Services. Managed Colocation Services provide all the services of basic infrastructure necessary to operate IT, communications and security equipment or any other device in a high-availability data center. The service features redundant power: generators, UPS, PDU, fire detection and extinction, temperature and humidity control systems, physical and logical security monitoring, optional interconnections to Internet backbone and technical support 24x7.
- Managed Firewall. This service provides control of the perimeter customers' network access through either a physical or virtual device that it integrates Firewall and VPN functionality.
- Virtual Servers. This service enable our clients count with Virtual Server resources using predefined templates, for the execution of their applications in a highly available environment. The service includes the licensing of operating systems.
- Backup Online. This service provides remote backup for laptops, desktops or servers via a software agent and an internet access. Backups are performed with robust infrastructure in our high availability datacenter.

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• Lync. Offers optimized communications through instant messaging and collaboration tools. It includes VoIP software, Web, audio and video conference, and instant messaging for companies without the need to invest in costly IT infrastructure or network updates.

- Sharepoint. The services offer: creation of Intranet Portals, Administration of files, and documents, Collaboration, Social networks, Extranets, Web sites, Searches on the Intranet, Business Intelligence (reports), Integration of processes, Automation of workflows.
- Bulk Short Message Service (SMS). This service is a web-based service for bulk-messaging to mobile phones via short message service ("SMS"), allowing our customers to upload and distribute mass SMS marketing messages for texting to mobile users.

We believe that our products will help us benefit from the significant growth expected for data applications in Mexico and help us increase our participation in the small- and medium-sized business market. In particular, we believe that the combination of voice and data services constitutes an attractive set of products for those business customers enabling us to compete more effectively in such a market.

### Pricing

We generally seek to maintain very competitive prices. We offer pricing plans that are simple in order to assure customers of the integrity of our billing process. We also provide discounts to high-usage customers that are likely to generate a significant outflow of calls. Our residential pricing offerings range from a low monthly rent option with some calls included to an all-inclusive option including unlimited local calls, long-distance and mobile minutes, broadband Internet access and customers' premises equipment for a fixed monthly fee. For our business customers, our pricing offerings range from a per-minute charge to unlimited local usage. We pay interconnection charges to other carriers on a per-minute basis. However, the common practice in the Mexican retail market is to charge customers on a per-call basis for local service. We seek to minimize the risk associated with this mismatch between our revenues and costs and therefore, in some cases, have implemented a per-minute charge plan for long holding time customers to be consistent with our interconnection fees that are on a per-minute basis.

# **Revenue Composition**

Our management uses information such as revenue by division to evaluate performance, make general operating decisions and allocate resources. The following table sets forth our revenues for the periods indicated below. No interdivision revenues are applicable for the periods presented herein.

	Year Ended December 31					
Segments*		2013		2012		2011
			(I	n millions)		
Residential	Ps.	968.1	Ps.	1,003.5	Ps.	994.7
Business		643.6		632.0		607.0
Public Telephony		146.2		174.9		232.8
Wholesale		729.2		374.1		526.9
Other Revenue		17.9		16.7		14.6
Total Revenues	Ps.	2,505.0	Ps.	2,201.2	Ps.	2,375.9

<sup>\*</sup> The above segments are comprised of homogeneous customers.

The distribution by geographical location of revenue for the years ended December 31, 2013 and 2012 is as follows:

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	Metro	politan		Central				
Services	Aı	rea		South	I	North		Total
				(In mi	llions)			
Local	Ps.	1,134.2	Ps.	669.6	Ps.	16.7	Ps.	1,820.5
Long Distance		448.8		137.8		31.5		618.1
Rent of dedicated links		0.2		_		_		0.2
Sale of equipment to customers		2.5		2.7				5.2
Capacity Leasing		61.0		_		_		61.0
Total Revenues	Ps.	1,646.7	Ps.	810.1	Ps.	48.1	Ps.	2,505.0

# 2012

	N	<b>1etropolitan</b>		Central				
Services		Area		South	N	North		Total
				(In m	illions)	_		_
Local	Ps.	1,084.4	Ps.	616.2	Ps.	10.0	Ps.	1,710.6
Long Distance		201.5		186.8		46.4		434.8
Rent of dedicated links		0.2		_		_		0.2
Sale of equipment to customers		12.9		2.0		_		14.9
Capacity Leasing		40.8						40.8
Total Revenues	Ps.	1,339.8	Ps.	805.0	Ps.	56.4	Ps.	2,201.2

### 2011

Services	Me	etropolitan Area		Central South	1	North		Total
				(In mi	llions)			
Local	Ps.	1,278.1	Ps.	651.9	Ps.	34.6	Ps.	1,964.5
Long Distance		208.4		139.0		24.1		371.5
Rent of dedicated links		0.2		<del>-</del>		_		0.2
Sale of equipment to customers		2.5		1.6		_		4.0
Capacity Leasing		35.7		_		_		35.7
Total Revenues	Ps.	1,524.8	Ps.	792.4	Ps.	58.7	Ps.	2,375.9

### **Our Markets**

### Concession Areas

A majority of our operations take place in five markets in Mexico; Mexico City, Puebla, Queretaro, San Luis Potosi and Tehuacan. We offer our full range of products and services in each of these five areas. In addition, our concessions allow us to charge a different rate for our services in different cities, giving us an advantage over our competitors.

# Mexico City

We commenced commercial operations in Mexico City in May 1999. Mexico City has the nation's greatest concentration of service and manufacturing industries, is the center of Mexico's public and financial services sectors and has a population of approximately 21.3 million people. Although the Federal District, which covers most of the metropolitan area, has the highest teledensity rate in Mexico of approximately 50.7 telephone lines per 100 inhabitants as of December 31, 2013, we believe that significant unmet demand for high-quality local telephony services in Mexico City remains. As of December 31, 2013, we had 119,490 residential lines in service in Mexico City, representing 4% of all residential lines in service in the city according to our internal data, compared to 136,062 residential lines in service as of December 31, 2012.

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### Puebla

We also commercial operations in the city of Puebla in May 1999. Puebla is the fourth largest city in Mexico, with a population of approximately 2.4 million people. In the city of Puebla we have expanded our market share in local telephony service from 2.5% in 2000 to 22% of all residential lines in service in the city of Puebla as of December 31, 2013 according to our internal data. As of December 31, 2013, we had 58,446 residential lines in service, compared to 67,046 residential lines in service as of December 31, 2012.

### Oueretaro

We commenced commercial operations in the city of Queretaro in November 2002. The city of Queretaro has a population of approximately 1.1 million people. As of December 31, 2013, we had 12,982 residential lines in service, representing 10% of all residential lines in service in the city of Queretaro compared to 14,431 residential lines in service as of December 31, 2012, according to our internal data.

### San Luis Potosi

We also commenced commercial operations in the city of San Luis Potosi in May 2008, with a "quadrupleplay" strategy. The city of San Luis Potosi has a population of approximately 1.1 million people. As of December 31, 2013 we had 17,436 residential lines in service, representing 18% of all residential lines in service in the city of San Luis Potosi, compared to 18,791 residential lines in service as of December 31, 2012 according to our internal data.

We commenced commercial operations in the city of Tehuacan in February 2008 with a "triple-play" strategy. The city of Tehuacan has a population of approximately 288 thousand people. As of December 31, 2013we had 5,535 residential lines in service, representing 15% of all residential lines in service to the city of Tehuacan, compared to 7,057 lines in service as of December 31, 2012 according to our internal data.

We have developed a comprehensive marketing strategy that starts by identifying a number of under penetrated city areas with the largest potential for new lines, which we refer to as "clusters." We use a variety of techniques to identify potential clusters, including canvassing, plotting of potential clusters and database marketing.

Once a cluster is identified, a map of the geographic area is produced and the cluster is defined. The cluster becomes the basis for network design and deployment. During the network construction phase, we also launch in tandem a targeted field sales and door-to-door marketing effort.

Our cluster strategy is divided into three stages:

- Identify clusters through market research. Our market research is designed to identify residential customers and small- and medium-sized businesses. Once we identify potential customers within the clusters, based on the marketing sales forecast we design the deployment of the access network to cover them. We perform a return on investment and profitability analysis for each cluster to assure that the investment made in such cluster meets our return benchmarks.
- Deploy clusters through the implementation of a sales plan for each cluster based on our network deployment schedule. We commence promoting our services at the same time we build our network. These coordinated and parallel efforts help reduce the time between network deployment and revenue
- Fill in clusters by offering our services to all customers within the cluster. Marketing efforts are focused on achieving the highest penetration within our clusters.

Most of our clusters are capable of supporting additional traffic, however, we may need to upgrade some of our initial clusters to be able to adequately handle any increase in demand.

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We also build our network on a customer demand basis to support small- and medium-sized enterprises in buildings or locations other than clusters. We refer to these locations as "single sites." When our corporate sales personnel identify a potential opportunity, we analyze its technical feasibility, the costs associated with providing the service within such locations and the potential revenues, in order to determine whether it is economically attractive to offer our services in that particular location.

### Our Network

### **Build-out Strategy**

We build our network on a modular basis. In each city where we operate, we initially install a digital switch and obtain a metropolitan fiber optic network backbone which form the core of the network in that city. Our outside plant development is then executed in a modular and scalable fashion based on individual network clusters that target specifically identified areas of the city that include residential areas we deem attractive as well as areas with concentrations of small- and medium-sized businesses. Once a cluster has been identified by our marketing, engineering and sales departments, we build our network in clusters varying from 1,500 to 6,000 lines. This strategy allows us to match capital expenditure to customer opportunity and to concentrate our sales efforts in a timely fashion to match the in-service dates of new clusters.

We have subscribers for approximately 58% of all lines built in a new cluster within 180 days after the completion of the build-out. To ensure quality service to our customer, we install 24-gauge copper wire and limit the distance between our backbone network and the customer premises to three kilometers. These attributes also allow us to provide to our customers voice (including VoIP services) and data services, such as xDSL services with bandwidth of up to 20 Mbps.

We have standardized our network design using Alcatel-Lucent, Advanced Fiber Communications equipment and Huawei equipment (including digital subscriber line access equipment and VoIP technology). We believe this equipment suite represents best-of-breed technologies that integrate well to assure consistent, cost efficient, high quality service. By standardizing the equipment throughout our networks and using a small number of suppliers who provide industry-leading vendor support and technology innovation, we increase our purchasing effectiveness and minimize our cost of network capital expenditures.

### Network Backbone

We own and operate 5,915 route-kilometers of long-haul fiber connecting 23 of Mexico's largest cities and Laredo, Texas. We have a 24-strand fiber optic link between the cities of Mexico City and Puebla and two strands of fiber throughout the rest of this network. The cities that have access to this network include Nuevo Laredo, Monterrey, Saltillo, San Luis Potosi, Aguascalientes, Leon, Irapuato, Guadalajara, Celaya, Queretaro, Mexico City, Toluca, Tehuacan, Cordoba, Orizaba, Jalapa, Poza Rica, Tampico, Cd. Victoria, Matamoros, Reynosa and Matehuala. We have installed dense wavelength division multiplexing with a maximum growth capacity of up to 32 wave lengths, each with 2.5 and 10 Gbps capacity. We have installed three dense wavelength division multiplexing systems to date.

We own and operate four Lucent Technologies 5ESS digital switches in the cities of Mexico City, Puebla and Queretaro with a total capacity of 282,750 trunks. Our two softswitches, the Alcatel A5020 and the Nortel CS2K provide class 4 and class 5 VoIP and Session Initiation Protocol Trunking or SIP trunking services to the residential and commercial markets. Our Alcatel-Lucent IMS platform has one class 4 tandem softswitch with an actual capacity of 3 GW 7510, with a total of 12 STM1 each one, providing the interconnection to the PSTN with full redundancy. This switch also provides the connection to the commercial market through SIP Protocol using carrier class SBC on high Availability configuration The Alcatel 5060 provide class 5 to the residential and commercial markets. We switch our Toluca telephone traffic using our Mexico City softswitch. All of our switches are connected to the public switched telephone network through multiple dedicated fiber connections.

We have a lit 144-strand, 59-kilometer fiber optic ring in the city of Puebla. We also have indefeasible rights of use for 299 route-kilometers of metropolitan fiber in the Mexico City area. We have installed coarse wavelength division multiplexing equipment in our Mexico City metro fiber network, providing a maximum growth capacity of 8 wavelengths, each with up to 2.5 Gbps capacity. We have eight Lambdas already installed and we will install more Lambdas as needed to meet our customers' requirements. In addition, we have the infrastructure in place to provide local telephony service to three towns — San Martin Texmelucan, Huejotzingo and Rio Frio — located along our Mexico City-city of Puebla fiber optic link.

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We use our own fiber optic rings to connect our microwave nodes, to provide backhaul to our switches and to connect to the public switched telephone network. We also use this fiber to connect directly to the premises of some of our high-volume business customers for voice and data services and private line service.

# Last-mile Connectivity

The last-mile connectivity portion of our network is comprised of a mix of wireline and wireless access technologies. We use copper feeder wire and distribution facilities to connect the majority of our end users to our fiber network and switches. Our copper feeder wire is installed with a mix of aerial and underground construction. Aerial is our preferred and most used method because of its lower cost and faster speed of deployment. For aerial deployment, we typically use electricity poles we lease from the CFE. We integrate fiber optic and Digital Subscriber Line Access Multiplexer facilities in the distribution plant to allow us to provide broadband services.

Our copper feeder wire is designed to provide copper twisted pair loop lengths of no more than three kilometers. With these loop lengths and our use of broadband-capable copper wire, we are capable of achieving up to 20 Mbps downstream data transmission speed to customers on our copper network using our currently installed ADSL technology.

We use point-to-point microwave transmission technology to provide rapid turn-up of service connecting newly built network clusters and single site locations to our fiber backbone. We have point-to-point frequencies in the 15 GHz and 23 GHz bands forming a complex microwave network throughout the cities of Mexico City, Puebla, Queretaro, San Luis Potosi, Aguascalientes, Guadalajara, Leon, Monterrey and Toluca. We also use microwave links to connect customers directly to our own fiber network in situations where a fiber connection is not practical and microwave provides the most cost-efficient means of providing a high speed connection. We also have a point to-multipoint concession in the 10.5 GHz band, covering telecommunications regions 3, 5 and 8 (North, Gulf and South East) of Mexico.

We have four Lucent Technologies 5ESS digital switches in the cities of Mexico City, Puebla and Queretaro. Our two switches in Mexico City are equipped for 183,390 trunks, our switch in the city of Puebla is equipped for 54,600 trunks and our switch in the city of Queretaro is equipped for 44,760 trunks. Each trunk can generally support between one and three access lines, depending on whether it serves a residential or a business customer. Our equipment capacity is scalable at incremental costs according to customer demand. These switches are capable of providing analog lines, E1 digital lines, digital high-speed data services, centrex services and operator-assisted services. In addition, they can provide private analog lines, private clear-channel digital lines, data transmission and value-added services.

We also have two next generation softswitches (one Alcatel-Lucent A5020and one Nortel CS2K) which provide VoIP and Session Initiation Protocol Trunking or SIP trunking services to the residential market. Our platform is fully IP integrated with additional services including class 5 services like voice mail, call hold and IP centrex features such as hunting group, call transfer and 3-way conference call. Our VoIP services includes Session Initiation Protocol Trunking or SIP trunking to offer IP connectivity to IP private branch exchange into the commercial market. The A5020 Softswitch has a capacity to manage 25,000 VoIP endpoints and is interconnected to the public switched telecommunications network using SS7 signaling.

We count with an IMS platform for the core (Alcatel-Lucent softwitch Plexus) and is formed with a Softswitch A5060 to provide the class 5 features with a total of, The softswitch Plexus provide VoIP, Session Initiation Protocol Trunking or SIP trunking services for strategic commercial clients, it also provides the SS7 interconnection with the PSTN and the other switches with 2268 ETSI CC S7 E1s or ISDN distributed in 3 7510 Gateways, and 16 STM1 distributed en 3 M8K gateways from Audio codes provider. The A5060 Softswitch has a capacity to manage 22,000 VoIP simultaneous calls and is interconnected to the public switched telecommunications network through the Alcatel-lucent IMS plexus.

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The CS2K Nortel Softswitch located in Monterrey has the following interconnection capacity: Class 5 functionalities for 22,000 Session Initiation Protocol trunks/lines, 488 ETSI CC S7 E1s, 63 ANSI C7 T1s, 32 R2M E1s and 32 PRI E1s.

We also own and operate one pair of Tekelec SS7 Signaling Transfer Points in Mexico City and one in the city of Monterrey, to manage our interconnection with all other carriers using N7 ISUP signaling.

Operational support systems

We have a network operations and control center in Mexico City which oversees, administers and provides technical support to all of our service areas. Our center, which uses Hewlett Packard, Sun Microsystems hardware and Lucent Technologies software controls and monitors, among other systems, all of our network, microwave, fiber, access equipment, data equipment, synchrony, signaling and energy systems. Our center allows us to manage a multi-vendor network with the greatest efficiency possible and to identify problems early in order to utilize available redundancy and repair the damaged part of our network.

Our operational support systems are designed to allow us to differentiate ourselves from our competitors by enabling us to:

- offer a flexible, large selection of services;
- provide tailored service packages;
- quickly introduce products and services;
- deliver near real-time activation and disconnection;
- minimize activation errors; and
- provide accurate and timely billing services.

Our information technology strategy is to implement operational support systems possessing a high level of functionality and flexibility from the service order to the delivery of customer invoices. The systems include the following functional features:

- Spanish language support for invoices and documentation;
- a high degree of integration among all operational support systems components;
- flow-through of information, provisioning and service activation;
- capabilities to monitor, manage and resolve network problems:
- allowance for growth on a modular scalable basis; and
- support of administrative operations for financial controls.

The data center groups all information technology infrastructures (hardware and software) to support the current and future business processes that our organization demands. The data center contains solutions from leading companies in the IT industry, including Hewlett Packard, Sun Microsystems, IBM, Microsoft, Oracle, Alcatel-Lucent and Cisco. We have acquired EMC'c Vmax storage solution to replace our previous Hitachi solution. VMax architecture offers a highly virtualized solution with solid state disks and the highest availability rate in the market. We will finish our migration by the end of the first quarter in order to support storage actual and future growth requirements for all operational support systems.

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For all IT elements, we use a backup solution by Hewlett Packard, which lets us generate a security copy to support recovery activities. The data center operates under a controlled condition which includes regulated energy, cooling, illumination and fire prevention systems. We collect, format and process call records using a mediation system provided by Byte Vendor. Provisioning is managed using the ASAP System from Oracle. The customer account and its associated products are managed in a telecommunication business system or TBS by Oracle, which handles order management and service provisioning, workflow management, network inventory and design management and trouble ticketing.

We use a billing system that is highly flexible and equipped to bill all commercial products that we offer, both to residential and business customers. It is also fully capable of bundled billing for multiple service bundles, including "double-play", "triple-play" and "quadruple-play" for mobile post pay subscribers.

We use Settler by Intec Company to manage reconciliation, settlement and revenue assurance of call records and inter carrier compensation with all of the carriers with which we have interconnection agreements. We use Siebel Customer Relationship Management by Oracle for our customer relationship management and for our contact center areas, including call center, post-sales and collections. Siebel concentrates all historical information of customers, including contacts, products, service requests, invoicing, payments, balance due, commitments, credit limit and network status.

While our existing systems installed platform have the necessary characteristics to conduct our actual operations efficiently, we have acquired a complete application solution for Telecom Companies from the market leader System Process Application (SAP) that will ensure our future growth and enable our company to conduct our existing and future operations even more efficiently. However, the implementation of such a solution will take at least one year. Thus, we will still operate this year on our existing systems whose utilization might lead to an increase of our churn rates, inhibit our ability to attract new customers and result in decreased revenue and increased costs and accordingly could materially and adversely affect our business, financial condition and results

# Strategic Alliances

# MVNO Agreement with Telefonica Moviles

In 2007 we entered into an MVNO agreement with Telefonica Moviles, pursuant to which we are able to offer mobile services to our customers by reselling traffic and mobile numbers available from Telefonica Moviles, allowing our customers to have their landline and mobile phones under one invoice. A MVNO provides mobile services to its customers but does not have an allocation of spectrum. Rates charged under this agreement vary from fixed rates to variable rates based on volume utilized.

### Marketing and Sales

#### General

We seek to develop brand name recognition by using our corporate name, logo and product names to portray a unified image. We conduct sales efforts within target clusters to residential customers and small- and medium-sized businesses. We seek to differentiate ourselves from our competitors by our pricing, consistent quality and reliability of first-to-market technology, one-stop shopping, comprehensive billing and speed of line activation.

As a result, we believe we have positioned ourselves as an excellent quality service provider as a result of a sustained growth of our customer satisfaction level on year by year comparisons.

# Sales and Distribution Channels

We focus our sales efforts within clusters using door-to-door sales and telemarketing promotions. We promote our services primarily through advertisements on radio, billboards, in-building promotions, press and magazines. As we commence the deployment of our network within a cluster, we intensify our promotional efforts through our direct sales force in such cluster.

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Our direct sales continue in the same approach that consists of assigning sales representatives or teams to locations within a cluster or to single sites. We

We assign our sales force based on territory, product or market segment, depending on their background and experience. The compensation structure for our sales force is tailored to attract and retain high achievers by providing a base salary and a bonus component. Sales commissions are paid only after the new line is installed.

Candidates for our sales force undergo extensive training that covers the industry of telecommunications, our products and our internal marketing and sales procedures. In its sales effort, our sales force uses, among other things, multimedia presentations, corporate videos and corporate and product brochures.

In addition to our sales force, we have developed other distribution channels, including store fronts, agents, distributors, outsourcing and telemarketing. In order to promote our IP services with distribution channels, we provide all the necessary support in advertising and promotion tools to our distributors.

### Customer Service

We seek to differentiate ourselves by providing superior and consistent customer service, which is one of the main components of our business plan.

Our customer service group is divided into three areas:

Centralized Call Center. This call center, located in Mexico City, responds to calls to our customer care telephone numbers in the cities of Mexico City, Puebla, Queretaro, San Luis Potosi and Tehuacan, Monday thru Friday from 8 am to 10 pm, Saturday & Sunday from 9 am to 9 pm. Many prospective and existing customers use our centralized call center for all types of queries, including queries regarding billing, new services or products, area codes, rates, and line installation changes. Prior to being connected to one of our customer service agents, we have an interactive voice response system ("IVR") that allows customers to consult their bill balance, payment and customer service locations, among other information. By offering customer self-service of information, we increase satisfaction and reduce the number of calls that have to be attended by an agent. The IVR then allows the customer to direct his call to the Centralized Call center, Centralized Trouble shooting Center or Collections.

Walk-in Center. We have two types of walk-in centers which offer customer care services and bill pay cashiers.

had 705 sales representatives as of December 31, 2013, compared to 720 sales representatives as of December 31, 2012.

Customer Care Center ("CAC"). We have 14 CACs. Each one of these CACs consists of an average of 4 customer care executives and 2 cashiers. They are located as follows: four walk-in centers in Mexico City, five in the city of Puebla, one in the city of Tehuacan, two in the city of Queretaro and two in the city of San Luis Potosi for prospective and existing customers who wish to make inquiries in person regarding our services.

Casas Maxcom ("CM"), we have 44 CMs. This is a reduced CAC concept, as there in only one customer service executive attending the center and one salesperson. The purpose of the CM is to integrate ourselves into the community by establishing small home-type offices, increase our brand penetration and offer additional payment locations to our customers. They are located as follows: 17 in Mexico City, 11 in the city of Puebla, 2 in the city of Tehuacan, 7 in the city of Queretaro and 7 in the city of San Luis Potosi for prospective and existing customers who wish to make inquiries in person regarding our services.

The hours of operation of both the CACs and the CMs in Mexico City are from 9:00 am to 5:30 pm on Mondays through Fridays and from 9:30 am to 3:00 pm on Saturdays. In the rest of the cities the hours of operation are from 9:00 am to 6:00 pm on Mondays through Fridays and from 9:30 am to 3:00 pm on Saturdays.

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Centralized Trouble-Shooting Center. This call center, located in Mexico City, responds to calls in the cities of Mexico City, Puebla, Queretaro Tehuacan and San Luis Potosi. This center is available 24 hours a day, seven days a week and handles technical problems and inquiries.

Centralized Customer Retention Center (Telecare), this call center, located in Mexico City, receives calls transferred from any of the other call centers or even Walk-In Centers. Its role is to enforce customer retention programs both reactively (for calls received) and proactively. The proactive effort is based on customer life cycle and a specific customer loyalty program designed to increase customer satisfaction, customer loyalty, and reduce churn. This center is available from Monday through Friday from 8:00 am to 8:00 pm, and Saturday from 9 am to 2:00 pm.

Corporate Customer Care group, we have a specialized group of customer service executives whose mission is to maintain high satisfaction levels in selected corporate customers. The group consists of 14 persons in Mexico City and 1 person in Puebla.

Customers may access their billing statements through our website. We have also installed an IVR that allows customers to consult their balance, payment and customer service locations, among other information. In addition, customers may pay their bills through monthly direct deposit, cash payments at four of the largest Mexican banks, several large chain of stores (Farmacias del Ahorro, Elektra and Tiendas Extra) or at our walk-in centers located in Mexico City, Queretaro, Tehuacan, San Luis Potosi and the city of Puebla. We also assist our customers with new service requests and product information.

# Credit, Billing and Collection

The Credit Area is centralized in the city of Mexico and we have a small review group in the city of Puebla.

This area is responsible for the analysis of commercial and residential customers. For all Commercial Customers, the Credit Bureau consulted and depending on the result of the verification of credit, financial statements may be requested in order to analyze whether a security deposit, payment, third-party guarantees or standby letter of credit required. If customers have a bad credit history, we require two months deposit, which is calculated based on the estimated average billing.

For Call Centers and other high volume customers use, they may require larger deposits or prepaid monthly or weekly and also keep monitoring the activity calls.

The sales process for residential customers is divided into two: a) Sales in homes where Maxcom has never sold any services. (Fast Track Process) b) Sales in homes where Maxcom has sold services. (Normal Process).

In the case of the Fast Track Process, the Credit area does not intervene and therefore no credit study or consultation is made to the Credit Bureau. (These sales account for approximately 52 % of all Residential Customers).

In the case of Normal Process, here the Credit area if involved in these cases if a credit study is performed, however, only queries are performed Bureau Credit sales are made in those homes that have a worse payment behavior based on the information that has Maxcom. (These sales represent approximately 15% of all Residential Customers).

We invoice customers monthly on a staggered basis, we have four commercial billing cycles and four billing cycles in the case of residential customers. We process and print our bills within seven days after closing of each cycle. Customers then have an approximate of 20 to 23 days to pay the bill (depending on their billing cycle). We have implemented for commercial customers on our current systems a paper-less billing strategy, which allows us to reduce billing expenses, invoice delivery times, waste and simplifies the billing information management for our customers.

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For Commercial and Residential Customers with one or more lines, if you do not pay your bill on time, the fourth day of delinquency service is completely restricted, cannot receive calls or make calls, cannot use the Internet and cannot watching the television. They can only receive calls from the collection area of Maxcom. After 30 days delinquent, collection visits are scheduled. If payment is not received after 90 days delinquent account is disconnected and proceed to assign the portfolio to collection agencies.

For commercial and residential customers with more than 6 lines, the same procedure as described above is used, except that a personalized approach where it comes to negotiating the payment terms before imposing any restriction, suspension or disconnection of service is used.

We use our Siebel customer relationship management tool to manage our relationships with customers. This application works on a service request registration basis, where our representatives register all contacts with our customers to track customer history, to solve inquires and performs quality service, to support our business growth, collections and training of our sales force and to enhance marketing.

### Competition

We primarily compete in the local telecommunications market on the basis of customer service, value added products and price. Our main competitors are wireline and fixed wireless local telephone operators, although we also face competition from mobile wireless operators, cable television providers and

Our core strategy is to focus on underserved markets by targeting new customers that do not currently receive the type of products and services we offer. In particular, our intention is to service markets with lower teledensity rates that are also underserved by Telmex.

Although we provide long-distance service, we position such service as an integrated value-added service for our local telephony customers. As a result, in the residential market we do not offer our long-distance service separately from our local telephony service.

In 2006, however, we began to compete directly in the wholesale long distance market in certain cities where we have our fiber optic network.

### **Telmex**

Our main local telephony competitor is Telmex, the incumbent carrier and former government-owned telecommunications monopoly. Telmex has significantly greater financial and other resources than those available to us. In addition, Telmex has an established customer base, which represents approximately 75% of the telephone service and broadband internet access in Mexico according to the 22 million subscribers published in their financial results as of December 31, 2013. Telmex customers still represent the main destination of outgoing calls from our network; therefore local interconnection with Telmex is critical to our operations.

# Other Competitors

We also face competition in local telephony from companies that were awarded concessions since the opening of the Mexican wireline telecommunications market in 1997. The more significant of these competitors are Axtel, Alestra, Mega Cable, S.A. de C.V. ("Megacable") and Marcatel. Axtel is a fixed wireless company that was founded in 1994. Axtel has several nationwide wireless spectrums: 60 MHz at 10.5 GHz for point-to-multipoint access, 128 MHz at 15 GHz for point-to-point backhaul access, 100 MHz at 23 GHz for point-to-point last-mile access and 50 MHz at 3.4 GHz for fixed wireless access, the last one being the most used for its current local service. In the fourth quarter of 2006 Axtel acquired Avantel, S. de R.L. de C.V. ("Avantel"). This acquisition increased Axtel's market position in the small and medium businesses segment and also enhanced its service portfolio in the large corporate segment with Avantel's services portfolio. In 2007, Axtel launched its pre-WiMax service.

In 2010, Axtel developed Fiber to the Home ("FTTH") technology, a new capability for offering high speed broadband directly to the end user. As part of the FTTH project, in 2010 Axtel deployed a last-mile fiber optic network in the regions with the highest home and business broadband density in Guadalajara, Mexico City and Monterrey.

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Alestra was awarded a long-distance service concession in December 1995 and a local telephony concession in June 2000. In addition, Alestra has a point-to-point microwave concession in the 15 GHz and 23 GHz frequency bands, a point-to-multipoint microwave concession in the 10.5 GHz frequency band and a point-to-point national wireless telecommunications concession in the 7 GHz frequency band. Alestra offers nationwide long distance service and local service in numerous cities, including Mexico City, Puebla and Toluca. Alestra and Axtel are using their local telephony concessions to service primarily the corporate business segment. We believe they are targeting the small- and medium-sized business and residential segments, supported by their alliances with mass-market oriented Internet service providers with which they have partnered to provide VoIP service through broadband access (Netvoice with Axtel and Masternet Services with Alestra).

Dish started operations at the end of 2008, attempting to serve lower income consumers where TV offerings were very limited at the moment. Their strategy was based on price and a selected content offering (this content did not include Televisa in its beginning). At the end of the first quarter of 2009, Dish was already offering services in several cities such as Puebla, Queretaro, Monterrey, Guadalajara, Leon, San Luis Potosi, Cuernavaca, Tlaxcala, Toluca and in the second quarter Mexico City was launched. As a reaction, Megacable, Cablevision and Cablemas joined forces to offer a new TV, Data and Voice package under one brand named "YOO". As of May 12, 2009, this alliance is focused on pricing as well as to serve the same socio economical level as Dish's offering. YOO is currently offered in a number of cities including the main cities in the country such as: Mexico City, Guadalajara, San Luis Potosi, Puebla, Monterrey, Queretaro, etc. Finally, Sky an incumbent DTH pay TV company launched their own new service with a low price strategy to compete in this same segment with Dish and the other Cable TV companies. This new brand called "VETV" has a limited channel offering that includes Televisa content as a differentiator against Dish.

At the end of 2010, new products aimed at small- and medium-sized enterprises appeared on the market and heavy users of data services, such as Iusacell company that offer up to 150 MB and Axtel which offers up to 200 MB of navigation. It is possible to provide telecommunications services through fiber optics in areas of high and medium added value, where it is common to find offices or even corporate, the products are referred "Axtel Xtremo" and "Iusacell Enlace". A new competitor appears on the market during 2010, a company owned by Grupo Salinas under the brand of "Total Play", their services are geared to the residential market and the main advantage is their high speed browsing due to the optical fiber last mile.

The Nextel/Televisa Consortium was awarded with a concession for the 30 Mhz spectrum, however on October 2010, both parties announced that they mutually agreed to terminate the agreement due to several injunctions filed against the award by Grupo Salinas, Nextel announced that they will continue with the development of the concession.

Other competitors such as Marcatel and Bestel that hold local telephony concessions may become more significant competitors by gaining last-mile connectivity through alliances with cable television providers. Megacable is one of the largest cable television companies in the country offering pay television, Internet broadband access and telephony by cable. Megacable signed a MVNO deal with Telefonica that allows Megacable to offer quadruple play services. Cablevision, the exclusive cable provider in Mexico City, has offered broadband Internet access since 2005, and since 2007 Cablevision has offered IP telephony with "triple play" services.

The adoption of the Convergence Regulations by the SCT could also increase the level of competition we face in certain markets. In addition, Cofetel issued rules relating to number portability which, when effectively applied will enable customers to switch their telephone service to another carrier while maintaining their telephone number. Based on the results of implementation of number portability in other countries, we believe carriers who are newer market entrants, such as us, will benefit because we expect a greater number of the dominant carrier's clients than newer entrant carriers' clients to switch to another carrier.

In April 2011, Televisa and Iusacell announced that subject to receive a regulatory approvals, Televisa will acquire 50% of the capital stock of Iusacell through an equity investment and a conversion of debt of Iusacell. In June 2012, the CFC approved the transaction, subject to several conditions related to television advertising and corporate governance.

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# **Employees**

As of December 31, 2013, we had 2,052 employees, a 1.6% increase compared to 2,018 employees as of December 31, 2012. As of December 31, 1,292 of our employees are unionized and covered by the terms of a collective bargaining agreement that we entered into with the National Union of Telecommunications, Telephony, Communications, Cybernetics, Electric, Electronic and Similar Products Workers of the Mexican Republic (Sindicato Nacional de Trabajadores de Telecomunicaciones, Telefonia, Comunicaciones, Cibernetica, Productos Electricos, Electronicos, Similares y Conexos de la Republica Mexicana). This agreement is renegotiated every year with respect to salaries and every two years with respect to benefits. The current agreement expires on April 1, 2014. We have not experienced any strikes or work stoppages and we believe we have a good relationship with our employees and the union representing them.

We also had 705 sales representatives as of December 31, 2013, compared to 720 sales representatives as of December 31, 2012.

# **Facilities**

As of December 31, 2013, our network encompasses 1,411 kilometers of metropolitan fiber optic cable and over 4,718 kilometers of high-quality copper loops capable of high speed data transmission. We have four state-of-the-art Lucent Technologies 5ESS switches in service, located in Mexico City (two switches), Puebla and Queretaro, and two softswitches, one Alcatel A5020 located in Mexico City and one Nortel CSK2 located in Monterrey, and one IMS Platform located in Mexico City. We also operate a 170-kilometer fiber optic link connecting Puebla and Mexico City and a 5,915 kilometer long haul fiber optic backbone connecting Mexico City and Laredo, Texas, allowing us to have points of presence in the United States that allow us to sell data solutions to customers, thereby reducing their cost of Internet services. We have a point-to-point concession in the 15 GHz and 23 GHz frequency bands forming a complex microwave network through the cities of Mexico City, Puebla, Queretaro and San Luis Potosi, in which we currently operate. This complex microwave network also passes through the cities of Aguascalientes, Guadalajara, Leon, Monterrey and Toluca, in which we intend to expand our offering and footprint to allow us to obtain additional customers. We also have a point-to-multipoint concession in the 10.5GHz frequency band, covering telecommunications regions 3, 5 and 8 (North, Gulf and South East) of Mexico.

We currently lease the buildings and land where our operations are carried out and where our microwave transmission equipment and switching centers are located. We lease space for administrative offices in Mexico City and in the cities of Puebla, Queretaro and San Luis Potosi. Our main headquarters are located in Santa Fe, Mexico City in a building leased for a 5-year term that expires on December 31, 2017 and is renewable for one additional 5-year term. The Santa Fe lease area is comprised of 85,271 square feet.

Our offices in the city of Puebla are leased for a 3-year renewable term that expires on March 25, 2016. These offices in Puebla are comprised of 14,100 square feet and hold one of our Lucent Technologies 5ESS switches. We also have a branch office in Puebla that is leased under a 5-year lease which expires on September 1, 2015. This building is comprised of 2,100 square feet. Our offices in the City of Queretaro are leased for a 15-year renewable term that expires on August 1, 2017. These offices in Queretaro are comprised of 12,015 square feet.

We have a branch office in Queretaro that is leased for a 15-year term that expires on June 23, 2017. This branch office is comprised of 33,947 square feet and holds one of our other Lucent Technologies 5ESS switches. On August 1, 2012, we renewed the lease of a warehouse in Mexico City comprised of 28,616 square feet for a 3-year term that expires on July 31, 2015. On August 1, 2012 we renewed the leased space to an additional 10,753 square feet on a 3-year lease expiring July 31, 2015, to add an on-site vault to our warehouse. On April 1, 2013 we leased a 7,190 square feet office for a 5-year term, and on March 31, 2018 we leased a 16,900 square feet warehouse on a 5-year term in San Luis Potosi term that expires on March 31, 2018. In addition, we lease approximately 250 other sites that are used as walk-in centers, hosts or single-site buildings and are located throughout the cities of Mexico City, Puebla, Queretaro, San Luis Potosi and Tehuacan Additionally, we own twenty four portions of land in the City of Puebla, San Luis Potosi and Estado de Mexico that are used as part of our infrastructure. We believe that our facilities are adequate for our present needs and are suitable for their intended purposes. Date: 05/14/2014 05:57 PM User: Haideh. EttehadiehVintage FilingsProject: v378425 Form Type: 20-F

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# **Legal Matters and Administrative Proceedings**

We are involved in various claims and legal actions arising in the ordinary course of business. In addition, from time to time, we become aware of potential non-compliance with applicable regulations, which have either been identified by us (through our internal compliance auditing program) or through notice from a governmental entity. In some instances, these matters could potentially become the subject of an administrative or judicial proceeding and could potentially involve monetary sanctions. We believe, after considering a number of factors, including, but not limited to, the opinion of legal counsel, our prior experience and the nature of existing claims and proceedings to which we are currently subject, that the ultimate disposition of these claims and proceedings should not materially affect our consolidated financial position or results of operations.

### Telcel interconnection Agreement.

On September 3, 2013, Maxcom executed with Radiomovil Dipsa, S.A. de C.V. (Telcel), an amendment agreement to the existing interconnection agreements.

### REGULATION

# **Industry Regulation**

The telecommunications industry in Mexico is subject to the Mexican Federal Telecommunications Law (Ley Federal de Telecomunicaciones) which was enacted in 1995. However, certain rules set forth under the General Means of Communications Law (Ley de Vias Generales de Comunicacion), the Telecommunications Regulation (Reglamento de Telecomunicaciones) and the rules promulgated there under generally remain effective and are referred to as the Old Telecommunications Law.

On March 24, 2014, the Mexican President submitted to the Mexican Congress a proposed telecommunications and broadcasting law that will implement the changes to the Mexican Constitution and will supersed the Mexican Federal Telecommunications Law. This bill is under discussion in the Mexican Congress. It is still uncertain to determine the impact of such proposed bill to the telecommunications and broadcasting industries.

Under the Mexican Federal Telecommunications Law, the Mexican telecommunications industry is regulated for administrative and operational matters by Cofetel. Cofetel was created in 1996 as an autonomous entity from the SCT to regulate and promote the efficient development of the telecommunications industry in Mexico. Cofetel is responsible for, among other things:

- enacting regulations and technical standards for the telecommunications industry;
- ensuring that holders fulfill the terms of their concessions and permits;
- suspending operators without concessions;
- resolving interconnection controversies between competitors;
- maintaining a telecommunications registry; and
- maintaining a registry of applicable rates.

Effective June 12, 2013, Mexican Congress issued a constitutional amendment arising the new telecom authority, the Instituto Federal de Telecomunicaciones ("IFT").

The new IFT has the authority to grant all concessions and permits, allocating spectrum frequencies, granting, transferring, renewing or revoking concessions and applying penalties for violations of provisions contained in the concession titles.

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The terms of our concessions require us to satisfy a number of technical, build-out and financial conditions. A failure to comply with any of the terms of our concessions or to obtain the waiver or modification could result in the revocation or termination of any of our concessions, the imposition of new terms applicable to our concessions or imposition of fines. The Mexican government would not be required to indemnify us in case of such revocation or termination. See "— Concessions and Permits — Termination" below. A failure to comply with any of the terms of our concessions could also result in the loss of surety bonds (*fianzas*) that we were required to issue in favor of the SCT. We have issued surety bonds in the amount of Ps.0.52 million with respect to our local telephony and long-distance concessions, Ps.1.81 million with respect to all seven of our point-to-point microwave concessions and Ps.0.26 million with respect to all three of our point-to-multipoint microwave concessions.

### Concessions and Permits

The new IFT grants concessions to operators of public telecommunications networks to provide specific telecommunications services in designated areas of Mexico or nationwide. In accordance with the amendments to the Mexican Constitution it is expected that the telecommunication concessions will cover all telecommunication services.

To provide telephony services in Mexico through a public network, a service provider must first obtain a concession from the IFT. Pursuant to the Mexican Federal Telecommunications Law, concessions for public telephony networks may not exceed a term of 30 years and concessions for spectrum frequencies may not exceed a term of 20 years. Generally, concessions for public telephony networks may be extended for a term equivalent to the term for which the concession was originally granted if the concessionaire is in compliance with the terms of the concession and has filed an extension request in a timely manner prior to the expiration of the concession.

Concessions for spectrum frequencies and microwave transmission concessions will be reauctioned at least three years prior to their expiration date. Concessions specify, among other things:

- the type and technical specifications of the network, system or services that may be provided;
- the allocated spectrum frequencies, if applicable;
- the geographical region in which the holder of the concession may provide the service:
- the required capital expenditure program;
- the term during which such service may be provided;
- the payment, where applicable, required to be made to acquire the concession, including, where applicable, the participation of the Mexican government in the revenues of the holder of the concession or the periodic payments to be made to the Mexican government;
- the amount of the surety bond (fianza); and
- rights granted to and obligations imposed on the concession holder.

In addition to concessions, the IFT may also grant permits for installing, operating or exploiting transmission-ground stations and providing telecommunications services as a reseller. There is no legally mandated maximum term for these permits unless specifically stated in the permit. Under the Mexican Federal Telecommunications Law, a company needs to notify IFT of the rates for telecommunication services it wishes to provide to be permitted to charge them to the public and, thereafter, such rates are made public information by IFT.

# **Ownership Restrictions**

Under the amendments to the Mexican Constitution that were enacted on June 12, 2013, the restrictions on foreign ownership in the telecommunication industry, including satellite sector, were eliminated.

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### Transfer

Concessions are transferable if the SCT approves the transfer of the concession title, the assignee agrees to comply with the terms of the concession and such a transfer does not violate the foreign ownership requirements of the Mexican Federal Telecommunications Law and the Mexican Foreign Investment Law.

### **Termination**

A concession or a permit may be terminated pursuant to the Mexican Federal Telecommunications Law upon the occurrence of any of the following events:

- expiration of its term;
- resignation by the concession holder or the permit holder;
- revocation; or
- dissolution or bankruptcy of the concession holder or the permit holder.

A concession or a permit may be revoked prior to the end of its term under certain circumstances, including:

- failure to exercise the rights of the concession within 180 days of the grant;
- failure to provide interconnection services to other holders of telecommunications concessions and permits without reason;
- loss of the concession or permit holder's Mexican nationality;
- unauthorized assignment, transfer or encumbrance of the concession or permit;
- unauthorized interruption of service;
- taking any action that impairs the rights of other concessionaires or permit holders;
- failure to comply with the obligations or conditions specified in the concession or permit (including making any necessary investments and capital expenditures): and
- failure to pay to the Mexican government its fee for the concession or, where applicable, its participation in the revenues of the holder of the concession.

The IFT may revoke a concession for violations in any of the circumstances referred to in the first four events described above. Under the last four events described above, the IFT would have to fine the concessionaire at least three times for the same failure before moving to revoke a concession. No indemnification may be claimed or paid in the event of revocation.

# Temporary Seizure

The Mexican government, through the SCT, 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, it must indemnify the concession holder for all losses and damages, including lost revenues, except in the event of war where no payments are made. We are not aware of any instance in which the SCT has exercised its temporary seizure powers in connection with a telecommunications company; however, should this be the case, there is uncertainty as to when this indemnification would be paid and as to the actual amount payable.

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# Expropriation

Pursuant to applicable law, the Mexican government has the statutory right to expropriate any telecommunications concession and claim any related assets for reasons of public interest or national security. Under Mexican law, the Mexican government is obligated to compensate the concession holder, considering any investments made and the depreciation of such assets, owner of such assets in the case of a statutory expropriation.

The amount of the compensation is determined by appraisers. If the party affected by the expropriation disagrees with the appraisal amount, such party may initiate judicial action against the government and require a judicial authority to determine such compensation amount. 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 SCT has exercised its expropriation rights in connection with a telecommunications company.

In the event of compensation for the temporary seizure or expropriation of a concession or a related asset, there can be no assurances that any such compensation paid by the government will be adequate or that the affected concessionaire will receive any such compensation in a timely manner.

# **Rates for Telecommunications Services**

Under the Mexican Federal Telecommunications Law, rates for telecommunications services (including local, mobile and long-distance services) are freely determined by the providers of such services, except that such rates may not be set below a service provider's long-term incremental cost. All rates for telecommunications services (other than value-added services) must be registered with IFT prior to becoming effective.

In addition, IFT is authorized to impose specific rate, quality and service requirements on those companies determined by the CFC to have substantial market power pursuant to the provisions of Mexico's antitrust statute. The Mexican Federal Telecommunications Law also prohibits telecommunications providers from cross subsidizing among their services and requires that they keep separate accounting for each of their services.

### **Our Concessions**

We currently have public telecommunications network concessions to provide the services described below. Each of our public telecommunications network concessions contain one or more specific exhibits that describe the telecommunications services that we are allowed to provide under such concession. In order to broaden the scope of the services we are allowed to offer under our concessions, we must undergo an authorization process before the SCT for each concession.

### Local Telephony

We obtained our regional wireline local telephony concession in December 1996. In September 2001, this concession was expanded to a nationwide concession. The concession, which is not exclusive, grants us the right to provide business, residential and public wireline local telephony services all over Mexico. Our wireline local telephony concession has a term of 30 years and may be renewable for up to an additional 30-year period provided we have complied with all of its terms and have received the IFT approval for the extension.

Our concession expressly permits us to provide the following services:

basic local telephony;

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the sale or lease of network capacity for the generation, transmission or reception of signs, signals, writings, images, voice, sounds or other information

- the purchase and lease of network capacity from other carriers, including the lease of digital circuits;
- value-added services;
- operator services;
- data, video, audio and video conference services, except for cable or other restricted television, continuous music or digital audio;
- credit or debit telephone cards; and
- public telephony.

The concession does not impose any limitations on the setting of our rates other than the requirement that we file with IFT a notification of any rate change prior to it becoming effective.

The concession requires us to comply with service quality specifications and to install infrastructure on the basis of a yearly schedule, including a certain number of lines along routes between certain cities in Mexico. Although we complied with the requirement in our concession for the number of lines installed, we were in default with respect to the coverage obligations in certain cities and towns required by our concession. However, in December 2004, we obtained an amendment to both our local and long distance telephony concessions. The amendment to the national concession to install and operate a public telecommunications network in Mexico, entered into on December 2, 2004, sets forth a capacity installation program to attend a certain number of lines at the end of 2006. Moreover, it sets forth a geographic expansion commitment up to 2014. We should be able to comply with the capacity installation and geographic expansion commitment discussed above, as well as other requirements, in order for the concession to remain in effect. As of December 31, 2013 we had not been notified by the IFT of any default of any of our obligations under our concessions.

### Long-distance

We obtained our nationwide long-distance concession in December 1996, concurrently with our local telephony concession. Our nationwide longdistance concession has a term of 30 years and may be renewable for up to an additional 30-year period, provided that we comply with all of its terms and receive IFT approval for the extension.

Our concession expressly permits us to provide the following services:

- the carrying of switched traffic between two different local calling areas that requires the use of a dialing prefix for its routing;
- 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 and domestic and international long-distance telephony.

The concession expressly prohibits the following services:

- those which require a concession for frequency bands of the radio electric spectrum for specific uses;
- those which require a concession to occupy and exploit geostationary orbital positions and satellite orbits assigned to Mexico;

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- those which require a concession to operate radio or television broadcasting systems; and
- cable or other restricted television.

The concession does not impose any limitations on our ability to set rates other than the requirement that we file with IFT a notification of any rate change prior to it becoming effective. The concession requires us to comply with service quality specifications and to install infrastructure on the basis of the schedule for our local telephony concession. According to this schedule, we must provide nationwide long-distance service in the same locations and at the same time in geographic areas where we provide local telephony services. As described above, in December 2004, both our local and long-distance concessions were amended and we are in compliance with the obligations of our amended concessions.

We service our long-distance concession through direct interconnection with other carriers and by reselling our long-distance traffic to other carriers that have such capability. We currently have long-distance interconnection with Telmex in the cities of Aguascalientes, Celaya, Guadalajara, Irapuato, Leon, Mexico City, Monterrey, Nuevo Laredo, Puebla, Queretaro, Saltillo, San Luis Potosi and Toluca, among others.

The U.S. Federal Communications Commission (FCC) has granted Maxcom U.S.A., Inc. and Sierra USA Communications, Inc. a license under section 214 of the Communication Act of 1934 (which we refer to and are known as "214 license"), to provide international telecommunications services between the United States and international points, mainly Mexico.

## Microwave Transmissions

Point-to-point

In October 1997, we were awarded seven nationwide point-to-point microwave concessions. These concessions cover:

- two consecutive frequency segments in the 15 GHz band, with a 56 MHz bandwidth;
- three consecutive frequency segments in the 23 GHz band, with a 56 MHz bandwidth; and
- two consecutive frequency segments in the 23 GHz band, with a 100 MHz bandwidth.

These concessions, which were issued in June 1998, have a term of 20 years. Cofetel could re-auction the frequencies covered by the concessions at least three years before the expiration date of the concessions. Despite this possibility, IFT recently authorized the concession title amendment in order to ask for a renewal. The concessions do not impose any limitations on the setting of our rates other than the requirement that we file with Cofetel a notification of any rate change prior to it becoming effective. The concessions require us to provide available capacity to the general public. We are currently in compliance with all the material terms of the concessions.

Point-to-multipoint

In October 1997, we were awarded three regional point-to-multipoint microwave concessions covering telecommunications regions 3, 5 and 8, which include states in the north and southeast of Mexico's Gulf region, in the 10.5 GHz frequency band with a 60MHz bandwidth. These concessions, which were issued in April 1998, have a term of 20 years. Cofetel will re-auction the frequencies covered by the concessions at least three years before the expiration date of the concessions. These concessions originally required us to install a network and offer service to at least 30% of the population in each concessioned region by the end of the second year after the issuance of the concession.

We are in compliance with our initial coverage obligations for region 8. Although we have the capability to initiate operations in regions 3 and 5, to date no customer has requested such service and we therefore have not initiated operations in these regions.

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These concessions do not impose any limitations on the setting of our rates other than the requirement that we file with Cofetel a notification of any rate change prior to it becoming effective.

### Cable Television

On August 4, 2006, the SCT granted us a traditional cable concession to provide cable TV and radio services in the city of Puebla. Our cable television concession has a term of 10 years and may be renewed for up to an additional 10-year period. Shortly thereafter, the SCT filed the Convergence Regulations through which different types of carriers could be authorized to provide additional services to those included in their original concessions.

On October 13, 2006, we notified the SCT of our compliance and voluntary affiliation with the Convergence Regulations and, as a result, the SCT authorized us to provide cable TV and radio services in addition to those services already granted in our original public telecommunication network concession.

As a result, we are now authorized to provide nationwide cable TV and radio services through two concessions and was the first telecommunication concessionaire to be authorized to provide "triple-play" services. We are able to service cities by notifying the SCT and to date have notified them of service provision in 99 cities. We intend to add more cities in the future.

# Mobile Network Operation

On January 17, 2007, former Cofetel granted us authorization to provide MVNO services based on our 1996 concession. This authorization enables us to provide mobile service nationwide under its own brand by acquiring capacity from other mobile telephony concessionaires in Mexico. As a result of this authorization, we were the first telecommunications concessionaire to offer unbundled "quadruple-play" services exclusively under its own brand name.

The terms of both the cable TV and radio and MVNO authorizations match our 1996 concession term of 30 years (expiring in 2026) and do not impose any additional obligations, including minimum coverage or investment commitments, upon us.

Although we have not provided pre-paid mobile services in the past, we are currently evaluating a project to launch our pre-paid mobile service during 2014

# Material Ongoing Obligations Relating to Our Concessions

Each concession title sets forth the ongoing obligations that we must meet on a monthly, quarterly or annual basis.

Our principal ongoing obligations include the following:

- File information related to each concessionaire's shareholders on the first quarter of every year;
- Prepare a monthly report on any failures and interruptions of the services;
- Prepare quarterly quality of services reports which shall be filed before the SCT if required;
- Prepare commercial practices guidelines which shall be available for review by any third party;
- Prepare an emergency response plan which shall be filed before the SCT during the following six months after the relevant concession granting date;
- Notify the IFT of any relevant event that could affect the provision of the services or the performance of the network;

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Register its service fees with IFT each time they are modified;

- File within the following 150 days after the last day of the preceding fiscal year (i) the corresponding audited financial statements, (ii) a description of the principal assets of the network, and (iii) a report on the employee training and teaching programs that are being implemented;
- Prepare a quarterly report on the status of the expansion and coverage of the network;
- Make available the internal statistics on traffic, routing and performance of the network;
- Grant a surety bond in favor of the Federal Government (SCT) to guarantee its obligations under the concession;
- File with the IFT within the following 60 days after the concession granting date a plan describing the coverage and extension of the network; and
- File with the IFT the form of agreement to be entered with the concessionaire's subscribers.

Failure to comply with the above-mentioned obligations usually entails penalties investigated and proposed by IFT. In certain cases, failure to comply with these obligations may result in revocation of the relevant concession.

### Interconnection

### Local Interconnection

Our interconnection agreement incorporates a "bill and keep" procedure under which we do not pay Telmex an interconnection fee unless we exceed a certain level of traffic imbalance. Our interconnection agreement with Telmex provides for an allowed percentage of imbalanced traffic of 5%, subtracting from such calculation traffic from Internet Service Providers, call centers, long duration calls, trunking operations and customers who have had contracts for less than 180 days. Under the "bill and keep" arrangement, if the imbalance between calls originated by Telmex and terminated by us and calls originated by us and terminated by Telmex during a month does not exceed 5%, then no interconnection fee amounts are payable by the net carrier of interconnection services. If the imbalance exceeds 5% in any given month, the "bill and keep" feature will not apply for that month. As of December 31, 2013, the interconnection rate is Ps.0.03951 per minute.

If we fail to maintain a significant percentage of residential users, the "bill and keep" arrangement will be terminated and asymmetrical interconnection rates may apply. IFT has not yet defined what constitutes a "significant percentage of residential users" in this case, although in our local concession and in those granted to Alestra and Avantel it is defined as having at least 50% residential customers out of our total customers.

### Mobile Interconnection

We have also signed reciprocal interconnection agreements with Telcel and certain affiliates of Telefonica Moviles, Nextel and Iusacell. The agreements provide for cellular phone usage, text messaging and data usage. The total fees paid under this agreement as of December 31, 2013 were Ps.248.1 million.

# Long-distance Interconnection

Long-distance carriers are required to ensure call termination by providing transit and direct or indirect interconnection. Since we view long-distance services as a complement to our core local telephony business, we started our operations giving our customers the option to use our long-distance services or those of other providers.

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As a result, we granted long-distance carriers the option to pick up calls at our facilities. However, in May 2002, we obtained a waiver from former Cofetel of the obligation to offer such option to our customers. For more information about this waiver, see "—Our Concessions—Long-distance."

We currently provide our long-distance service only to our local telephony customers through our own network and leased facilities on a reselling basis. In 2006, however, we began to compete directly in the wholesale long distance market in cities where we have a fiber optic network.

# Local Exchange Interconnection Tariffs

In 2008, Local Exchange Carriers ("LEC's") (comprising Alestra, Avantel/Axtel, MCM Comunicaciones, S.A. de C.V. and Bestphone, S.A. de C.V.) filed different interconnection rates disputes against Telmex before Cofetel.

In 2009, we and Telmex executed different amendments to our interconnection agreements, establishing that if we do not reach an agreement regarding the interconnection rates, both parties would submit request to Cofetel for a resolution.

In 2011, Cofetel issued several resolutions regarding the disputes between Telmex and the LEC's, reducing the interconnection rates, and established the following rates per minute:

- Interconnection (origin and termination): Ps.0.03951
- Long Distance transport (resell): Ps.0.04530
- Local Transit: Ps.0.01904

We are still waiting for IFT's resolution regarding the interconnection rates with Telmex for the years 2012 and 2013. There were no specific rates asked from the other LEC's. On March 28th, 2014, IFT issued a resolution regarding interconnection rates between Telmex and other LEC's for the year 2014, exclusively. This resolution was based on a prior resolution issued by IFT, determining Telmex as a preponderant economic agent on telecoms market. These interconnection tariffs are only applicable between Telmex and other LEC's on certain local and long distance calls, depending on the route.

On April 12, 2011, former Cofetel published guidelines for developing cost models to be used to settle disputes regarding interconnection rates between public telecommunication networks providers in the Federal Official Gazette.

In February 2012, the Mexican Supreme Court of Justice resolved that the SCT does not have the authority to review the interconnection rates established by former Cofetel and ratified that former Cofetel (today IFT) is the authority that should solved the interconnection tariffs disputes.

### "By-pass" international traffic

Pursuant to Mexican telecommunication regulations, international long-distance traffic in Mexico must be routed and terminated through authorized international gateways at established international settlement rates. However, less expensive alternatives which by-pass authorized gateways exist, particularly in the case of countries with whom Mexico exchanges a significant amount of traffic. Given the disparity between the government-authorized and alternative long-distance interconnection and termination rates through local service routes and/or IP services, an increasing portion of the long-distance market between Mexico and the United States is served by entities that circumvent or "by-pass" the international long-distance interconnection system. This practice is illegal under applicable law.

We cannot confirm whether any of our high-volume customers are engaging in "by-pass" activities. There is no requirement to make such a determination under Mexican regulations and we have not implemented a system to detect such activity. We are required, however, to comply with any order from competent regulatory authorities to disconnect a customer deemed to be engaged in "by-pass" activities. In 2000, Mexican regulatory authorities announced their intention to conduct more rigorous audits of persons or companies believed to be engaged in "by-pass" activities. In December 2000, some of the major Mexican long-distance carriers, including us, signed a cooperation agreement to combat "by-pass" activities. If, as a consequence of such actions, the regulatory authorities determine that any of our high-volume customers are engaged in "by-pass" activity, we would be required to disconnect their service and our revenues could be negatively affected.

# **IFT Approvals**

The terms of most public telecommunications network concessions, including ours, require IFT approval in the event of a transfer of more than 10% of a concessionaire's outstanding capital stock, except shares representing "neutral stock," for more information, see "—Ownership Restrictions." IFT approval is not required for the transfer of the shares of a holding company that controls a company with a public telecommunications network concession. The transfer of an existing public telecommunications network concession from one operator to another operator also requires the approval of the IFT. See Approvals."

Maxcom entered into a network convergence agreement with SCT on October 11, 2006, that allowed us to provide paid TV services in addition to services included in our concession. As a result, the SCT authorized us to offer authorization paid television and audio services on October 13, 2006.

On January 17, 2007, SCT confirmed our request in connection with MVNO service, which allows us to provide mobile cellular telephone service to our customers, using other mobile concessionaires' networks.

# Municipal and Other Regulatory Approvals

Our transmission antennas and telecommunication sites are located in sites that may require municipal and federal approvals to operate. See "Risk -Risks Related to Our Business—our telecommunications network infrastructure has several vulnerabilities and limitations.

# C. Organizational structure

The following table set forth our subsidiaries as of December 31, 2013:

	Jurisdiction of	_	
	organization or	Percentage	
Name of the subsidiary	incorporation	Ownership(1)	
Maxcom Servicios Administrativos, S.A. de C.V.(2)	Mexico	99.9	
Corporativo en Telecomunicaciones, S.A. de C.V. (2)	Mexico	99.9	
Maxcom SF, S.A. de C.V.	Mexico	99.9	
Maxcom TV, S.A. de C.V. (3)	Mexico	99.9	
TECBTC, Estrategias de Promocion, S.A. de C.V.(2)(5)	Mexico	99.9	
Outsourcing Operadora de Personal, S.A. de C.V. (2)(5)	Mexico	99.9	
Asesores Telcoop, S.A. de C.V.(2)(5)	Mexico	99.9	
Telereunión, S.A. de C.V.	Mexico	99.9	
Telscape de Mexico, S.A. de C.V.	Mexico	99.9	
Sierra Comunicaciones Globales, S.A. de C.V,	Mexico	99.9	
Celmax Movil, S.A. de C.V. (3)	Mexico	99.9	
Servicios MSF, S.A. de C.V.(2)(5)	Mexico	99.9	
Maxcom USA, Inc.	USA	100	
Sierra Communications, Inc.	USA	100	
Fundacion Maxcom A.C. (4)	Mexico	99.9	

This organizational structure is due to the fact that Mexican law requires that corporations have a minimum of two shareholders

- Percentage of equity owned by us directly or indirectly through subsidiaries. As per Mexican corporate law, Mexican corporations must have at least two shareholders.
- Direct and indirect personnel subsidiaries.

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3. These companies are in pre-operational stage.

- 4. A Mexican nonprofit foundation that will provide social services, such as education, culture and housing aids to people in need in the areas where we serve Fundación Maxcom is an unrestricted subsidiary.
- 5. Indirect subsidiaries

All of our subsidiaries are wholly-owned, directly or indirectly, by us.

All of our subsidiaries (except Fundación Maxcom, A.C.) act as guarantors under the indenture governing Step-Up Senior Notes due 2020.

# D. Property, plant and equipment

### **Property**

We currently lease the buildings and land where our operations are carried out and where our microwave transmission equipment and switching centers are located. We lease space for administrative offices in Mexico City and in the cities of Puebla, Queretaro and San Luis Potosi. Our main headquarters are located in Santa Fe, Mexico City in a building leased for a 5-year term that expires on December 31, 2017 and is renewable for one additional 5-year term. The Santa Fe lease area is comprised of 85,271 square feet.

Our offices in the city of Puebla are leased for a 3-year renewable term that expires on March 25, 2016. These offices in Puebla are comprised of 14,100 square feet and hold one of our Lucent Technologies 5ESS switches. We also have a branch office in Puebla that is leased under a 5-year lease which expires on September 1, 2015. This building is comprised of 2,100 square feet. Our offices in the City of Queretaro are leased for a 15-year renewable term that expires on August 1, 2017. These offices in Queretaro are comprised of 12,015 square feet.

We have a branch office in Queretaro that is leased for a 15-year term that expires on June 23, 2017. This branch office is comprised of 33,947 square feet and holds one of our other Lucent Technologies 5ESS switches. On August 1, 2012, we renewed the lease of a warehouse in Mexico City comprised of 28,616 square feet for a 3-year term that expires on July 31, 2015. On August 1, 2012 we renewed the leased space to an additional 10,753 square feet on a 3-year lease expiring July 31, 2015, to add an on-site vault to our warehouse. On April 1, 2013 we leased a 7,190 square feet office for a 5-year term, and on March 31, 2013 we leased a 16,900 square feet warehouse on a 5-year term in San Luis Potosi term that expires on March 31, 2018. In addition, we lease approximately 250 other sites that are used as walk-in centers, hosts or single-site buildings and are located throughout the cities of Mexico City, Puebla, Queretaro, San Luis Potosi and Tehuacan Additionally, we own twenty four portions of land in the City of Puebla, San Luis Potosi and Estado de Mexico that are used as part of our infrastructure. We believe that our facilities are adequate for our present needs and are suitable for their intended purposes.

#### Our Network

Build-out Strategy

We build our network on a modular basis. In each city where we operate, we initially install a digital switch and obtain a metropolitan fiber optic network backbone which forms the core of the network in that city.

Our outside plant development is then executed in a modular and scalable fashion based on individual network clusters that target specifically identified areas of the city that include residential areas we deem attractive as well as areas with concentrations of small- and medium-sized businesses. Once a cluster has been identified by our marketing, engineering and sales departments, we build our network in clusters varying from 1,500 to 6,000 lines. This strategy allows us to match capital expenditure to customer opportunity and to concentrate our sales efforts in a timely fashion to match the in-service dates of new clusters.

We have subscribers for approximately 58% of all lines built in a new cluster within 180 days after the completion of the build-out. To ensure quality service to our customer, we install 24-gauge copper wire and limit the distance between our backbone network and the customer premises to three kilometers. These attributes also allow us to provide to our customers voice (including VoIP services) and data services, such as xDSL services with bandwidth of up to 20 Mbps

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We have standardized our network design using Alcatel-Lucent, Advanced Fiber Communications equipment and Huawei equipment (including digital subscriber line access equipment and VoIP technology). We believe this equipment suite represents best-of-breed technologies that integrate well to assure consistent, cost efficient, high quality service. By standardizing the equipment throughout our networks and using a small number of suppliers who provide industry-leading vendor support and technology innovation, we increase our purchasing effectiveness and minimize our cost of network capital expenditures.

### Network Backbone

We own and operate 5,915 route-kilometers of long-haul fiber connecting 23 of Mexico's largest cities and Laredo, Texas. We have a 24-strand fiber optic link between the cities of Mexico City and Puebla and two strands of fiber throughout the rest of this network. The cities this network accesses include Nuevo Laredo, Monterrey, Saltillo, San Luis Potosi, Aguascalientes, Leon, Irapuato, Guadalajara, Celaya, Queretaro, Mexico City, Toluca, Tehuacan, Cordoba, Orizaba, Jalapa, Poza Rica, Tampico, Cd. Victoria, Matamoros, Reynosa and Matehuala. We have installed dense wavelength division multiplexing with a maximum growth capacity of up to 32 wave lengths, each with 2.5 and 10 Gbps capacity. We have installed three dense wavelength division multiplexing systems to date.

We own and operate four Lucent Technologies 5ESS digital switches in the cities of Mexico City, Puebla and Queretaro with a total capacity of 282,750 trunks. Our two softswitches, the Alcatel A5020 and the Nortel CS2K provide class 4 and class 5 VoIP and Session Initiation Protocol Trunking or SIP trunking services to the residential and commercial markets. Our class 4 tandem is an Alcatel-Lucent IMS plexus with an actual capacity of 3 GW 7510, with a total of 12 STM1 each one, providing the interconnection to the PSTN with full redundancy. This switch also provides the connection to the commercial market through SIP Protocol using carrier class SBC on high Availability configuration The Alcatel 5060 provide class 5 to the residential and commercial markets. We switch our Toluca telephone traffic using our Mexico City softswitch. All of our switches are connected to the public switched telephone network through multiple dedicated

All of our switches are connected to the public switched telephone network through multiple dedicated fiber connections.

We have a lit 144-strand, 59-kilometer fiber optic ring in the city of Puebla. We also have indefeasible rights of use for 299 route-kilometers of metropolitan fiber in the Mexico City area. We have installed coarse wavelength division multiplexing equipment in our Mexico City metro fiber network, providing a maximum growth capacity of 8 wavelengths, each with up to 2.5 Gbps capacity. We have eight Lambdas already installed and we will install more Lambdas as needed to meet our customers' requirements. In addition, we have the infrastructure in place to provide local telephony service to three towns — San Martin Texmelucan, Huejotzingo and Rio Frio —located along our Mexico City-city of Puebla fiber optic link.

We use our own fiber optic rings to connect our microwave nodes, to provide backhaul to our switches and to connect to the public switched telephone network. We also use this fiber to connect directly to the premises of some of our high-volume business customers for voice and data services and private line service

### Last-mile Connectivity

The last-mile connectivity portion of our network is comprised of a mix of wireline and wireless access technologies. We use copper feeder wire and distribution facilities to connect the majority of our end users to our fiber network and switches. Our copper feeder wire is installed with a mix of aerial and underground construction. Aerial is our preferred and most used method because of its lower cost and faster speed of deployment.

For aerial deployment, we typically use electricity poles we lease from the CFE

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We integrate fiber optic and Digital Subscriber Line Access Multiplexer facilities in the distribution plant to allow us to provide broadband services.

Our copper feeder wire is designed to provide copper twisted pair loop lengths of no more than three kilometers. With these loop lengths and our use of broadband-capable copper wire, we are capable of achieving up to 20 Mbps downstream data transmission speed to customers on our copper network using our currently installed ADSL technology.

We use point-to-point microwave transmission technology to provide rapid turn-up of service connecting newly built network clusters and single site locations to our fiber backbone. We have point-to-point frequencies in the 15 GHz and 23 GHz bands forming a complex microwave network throughout the cities of Mexico City, Puebla, Queretaro, San Luis Potosi, Aguascalientes, Guadalajara, Leon, Monterrey and Toluca.

We also use microwave links to connect customers directly to our own fiber network in situations where a fiber connection is not practical and microwave provides the most cost-efficient means of providing a high speed connection.

We also have a point to-multipoint concession in the 10.5 GHz band, covering telecommunications regions 3, 5 and 8 (North, Gulf and South East) of Mexico. We have four Lucent Technologies 5ESS digital switches in the cities of Mexico City, Puebla and Queretaro. Our two switches in Mexico City are equipped for 183,390 trunks, our switch in the city of Puebla is equipped for 54,600 trunks and our switch in the city of Queretaro is equipped for 44,760 trunks.

Each trunk can generally support between one and three access lines, depending on whether it serves a residential or a business customer.

Our equipment capacity is scalable at incremental costs according to customer demand. These switches are capable of providing analog lines, E1 digital lines, digital high-speed data services, Centrex services and Operator-assisted services. In addition, they can provide private analog lines, private clear-channel digital lines, data transmission and value-added services.

We also have two next generation softswitches (one Alcatel-Lucent A5020, one IMS Alcatel-Lucent platform and one Nortel CS2K) which provide VoIP and Session Initiation Protocol Trunking or SIP trunking services to the residential market. Our platform is fully IP integrated with additional services including class 5 services like voice mail, call waiting and IP centrex features such as hunting group, call transfer and 3-way conference call. Our VoIP services includes Session Initiation Protocol Trunking or SIP trunking to offer IP connectivity to IP private branch exchange into the commercial market. The A5020 Softswitch has a capacity to manage 25,000 VoIP endpoints and is interconnected to the public switched telecommunications network using SS7 signaling.

We count with an IMS platform for the core (Alcatel-Lucent softwsitch Plexus) and is formed with a Softwich A5060 to provide the class 5 features with a total of, The softswitch Plexus provide VoIP, Session Initiation Protocol Trunking or SIP trunking services for strategic commercial clients, it also provides the SS7 interconnection with the PSTN and the other switches with 2268 ETSI CC S7 E1s or ISDN distributed in 3 7510 Gateways, and 16 STM1 distributed en 3 M8K gateways from Audio codes provider. The A5060 Softswitch has a capacity to manage 22,000 VoIP simultaneous calls and is interconnected to the public switched telecommunications network through the Alcatel-lucent IMS plexus

The CS2K Nortel Softswitch located in Monterrey has the following interconnection capacity: Class 5 functionalities for 22,000 Session Initiation Protocol trunks/lines, 488 ETSI CC S7 E1s, 63 ANSI C7 T1s, 32 R2M E1s and 32 PRI E1s.

We also own and operate one pair of Tekelec SS7 Signaling Transfer Points in Mexico City and one in the city of Monterrey, to manage our interconnection with all other carriers using N7 ISUP signaling.

# Operational support systems

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We have a network operations and control center in Mexico City which oversees, administers and provides technical support to all of our service areas. Our center, which uses Hewlett Packard, Sun Microsystems hardware and Lucent Technologies software controls and monitors, among other systems, all of our network, microwave, fiber, access equipment, data equipment, synchrony, signaling and energy systems. Our center allows us to manage a multi-vendor network with the greatest efficiency possible and to identify problems early in order to utilize available redundancy and repair the damaged part of our network.

Our operational support systems are designed to allow us to differentiate ourselves from our competitors by enabling us to:

- offer a flexible, large selection of services;
- provide tailored service packages;
- quickly introduce products and services;
- deliver near real-time activation and disconnection;
- minimize activation errors; and
- provide accurate and timely billing services.

Our information technology strategy is to implement operational support systems possessing a high level of functionality and flexibility from the service order to the delivery of customer invoices. The systems include the following functional features:

- Spanish language support for invoices and documentation;
- a high degree of integration among all operational support systems components;
- flow-through of information, provisioning and service activation;
- capabilities to monitor, manage and resolve network problems;
- allowance for growth on a modular scalable basis; and
- support of administrative operations for financial controls.

The data center groups all information technology infrastructures (hardware and software) to support the current and future business processes that our organization demands. The data center contains solutions from leading companies in the IT industry, including Hewlett Packard, Sun Microsystems, IBM, Microsoft, Oracle, Alcatel-Lucent and Cisco. We have acquired EMC'c Vmax storage solution to replace our previous Hitachi solution. VMax architecture offers a highly virtualized solution with solid state disks and the highest availability rate in the market. We will finish our migration by the end of the first quarter in order to support storage actual and future growth requirements for all operational support systems.

For all IT elements, we use a backup solution by Hewlett Packard, which lets us generate a security copy to support recovery activities. The data center operates under a controlled condition which includes regulated energy, cooling, illumination and fire prevention systems. We collect, format and process call records using a mediation system provided by Byte Vendor. Provisioning is managed using the ASAP System from Oracle. The customer account and its associated products are managed in a telecommunication business system or TBS by Oracle, which handles order management and service provisioning, workflow management, network inventory and design management and trouble ticketing.

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We use a billing system that is highly flexible and equipped to bill all commercial products that we offer, both to residential and business customers. It is also fully capable of bundled billing for multiple service bundles, including "double-play", "triple-play" and "quadruple-play" for mobile postpay subscribers.

We use Settler by Intec Company to manage reconciliation, settlement and revenue assurance of call records and intercarrier compensation with all of the carriers with which we have interconnection agreements. We use Siebel Customer Relationship Management by Oracle for our customer relationship management and for our contact center areas, including call center, post-sales and collections. Siebel concentrates all historical information of customers, including contacts, products, service requests, invoicing, payments, balance due, commitments, credit limit and network status.

Our administrative processes system, or Enterprise Resource Planning, is Software Application Process. Some of the processes that are handled in this system include general ledger, accounts payable, purchasing and warehouse.

# ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

# ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

You should read the following discussion and analysis in conjunction with the audited consolidated financial statements for the years ended December 31, 2013, 2012 and 2011 and accompanying notes appearing elsewhere in this annual report, which are henceforth referred to as "financial statements". The U.S. dollar translations provided in this annual report are solely for the convenience of the reader and are, unless otherwise indicated, calculated utilizing the buying rate at December 31, 2013, which was Ps.13.08 per U.S.\$1.00 as reported by the Banco de Mexico (Central Bank of México). Sums may not add due to rounding.

The following discussion and analysis is intended to facilitate an understanding and assessment of significant changes and trends in our historical consolidated results of operations and financial condition and factors affecting our financial resources. It should be read in conjunction with the financial statements

Adoption of New Accounting Standards

In January 2009, the Comisión Nacional Bancaria y de Valores (Mexican Banking and Securities Commission or "CNBV") published certain amendments to the Rules for Public Companies and other participants in the Mexican Securities Market that require public companies to report financial information in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), effective as of January 1, 2012.

Following these amendments, on January 1, 2012, we adopted IFRS, meeting the CNBV requirements, following the guidance set forth by IFRS 1, First time adoption ("IFRS 1"). The financial information presented in this annual report is not comparable with the financial information presented on the previous reports, which was presented under Mexican Financial Reporting Standards. At the same time, our financial statements for fiscal year 2011 were reconciled under IFRS to make them comparable to our financial statements for fiscal year 2012.

Our Audited Consolidated Financial Statements included elsewhere in this Annual Report have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

The regulations of the Securities and Exchange Commission, or SEC, do not require foreign private issuers that prepare their financial statements on the basis of IFRS (as published by the IASB) to reconcile such financial statements to U.S. GAAP. As such, while the Company has in the past reconciled its consolidated financial statements prepared in accordance with MFRS to U.S. GAAP, those reconciliations are no longer presented in the Company's filings with the SEC.

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# **Recent Developments**

### The Recapitalization Transactions

On December 4, 2012 Maxcom received an offer from Ventura to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom pursuant to a public tender to be conducted, upon authorization of the Mexican and U.S. corresponding governmental authorities. As part of such transaction, Ventura committed to subscribe a capital increase of at least U.S.\$22 million dollars.

Ventura's obligation to consummate the tender was subject to i) acquiring more than 50% of all shares outstanding on a fully diluted basis and ii) a successful completion of an offer to exchange Maxcom's then current 11% Senior Notes Due 2014.

On February 20, 2013 Maxcom commenced an offer to exchange all of its outstanding 11% Senior Notes due 2014 for new Step-Up Senior Notes due 2020. On the same date, Ventura initiated an equity tender offer to acquire 100% of the issued and outstanding shares of Maxcom.

After several intents Maxcom advised that on April 24, 2013, that since the conditions for the consummation of the exchange offer were not satisfied or waived, such exchange offer was not consummated and consequently the equity tender offer launched by Ventura, which was conditioned upon the consummation of the exchange offer, was not consummated and thus, Maxcom would not be receiving the capital contribution offered by Ventura.

In light of this outcome, Maxcom considered all of its alternatives including, but not limited to, commencement of a Chapter 11 case or other restructuring

On June 18, 2013 Maxcom announced its intention to use a 30-day grace period with respect with its scheduled interest payment of approximately U.S.\$11 million on its 11% Senior Notes due 2014 to implement a comprehensive plan of recapitalization.

On July 3, 2013 Maxcom, Ventura, an ad hoc group of bondholders (the "Ad Hoc Group") holding an aggregate amount of approximately U.S.\$84 million of Maxcom's Senior Notes due 2014, and certain of its current equity holders reached an agreement on the terms of a restructuring and support agreement, a recapitalization agreement, and agreements to tender. In connection with this comprehensive restructuring process, Maxcom entered into a recapitalization agreement with Ventura and certain related shareholders, pursuant to which the Ventura also agreed to make a capital contribution of at least U.S.\$45 million dollars and conduct a tender offer to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom.

On July 23, 2013, the Company undertook a restructuring by commencing voluntary cases under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101–1532, in the United States Bankruptcy Court for the District of Delaware to effect the restructuring as set forth in the plan of reorganization, including the issuance of new step-up senior notes by the Company.

On September 10, 2013, the U.S. Bankruptcy Court for the District of Delaware confirmed the Company's Plan. The only class of creditors entitled to vote, the holders of the Old Notes, overwhelmingly voted in favor of the Plan and no party objected to confirmation of the Plan.

Pursuant to the terms of the Plan, all classes of creditors were unimpaired and their payments were not affected, except for the holders of Maxcom's Old Notes, which received (1) the step-up senior notes due 2020 (which include the capitalized interest amount for unpaid interest accrued on the Old Notes from (and including) April 15, 2013 through (and excluding) June 15, 2013, at the rate of 11% per annum), (2) cash in the amount of unpaid interest accrued on the Old Notes (A) from (and including) December 15, 2012 through (and excluding) April 15, 2013, at the rate of 11% per annum, and (B) from (and including) June 15, 2013 through (and excluding) the effective date of the Plan at the rate of 6% per annum, and (3) rights to purchase equity that is unsubscribed by the Company's current equity holders pursuant to the terms of the Plan.

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On September 27, 2013 Maxcom completed a comprehensive plan of recapitalization and an equity tender offer initiated by Ventura, acting through the Trust 1387 held by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, a banking institution organized and existing under the laws of the United Mexican States and other investors. As part of this transaction, Ventura investors became the major shareholder in the Company.

On October 2, 2013, Maxcom held a general ordinary shareholders' meeting that approved among other things, a capital increase of approximately U.S.\$119.7 million. The Ventura investors also paid this capital increase.

According to the terms of the Plan, on October 11, 2013, Maxcom issued new Step-Up Senior Notes due 2020 in an aggregate principal amount of U.S.\$180,353,962, which reflects the amount of the Old Notes less the amount of Old Notes held in treasury by the Company plus the capitalized interest amount. The Step-Up Senior Notes bear interest (i) from the date of issuance until June 14, 2016, at the annual rate of 6% per annum, (ii) from June 15, 2016 until June 14, 2018, at the annual rate of 7% per annum, and (iii) from June 15, 2018 until the maturity date, at the annual rate of 8% per annum; have a maturity date of June 15, 2020; are secured by the same collateral that secures the Old Notes; and (iv) are unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by all of Maxcom's direct and indirect subsidiaries, excluding Fundación Maxcom, A.C. The collateral comprise the item "Telephone Network System and Equipment", including, but are not limited to constructions, transportation equipment and vehicles, computers, information electronic data processing equipment, telecommunications and office furniture and equipment. The guarantee was perfected on October 11, 2013 through a voluntary mortgage set up in order of priority and degree.

The Step-Up Senior Notes are governed by indenture that Maxcom and its subsidiaries entered into with The Deutsche Bank Trust Company Americas, acting as trustee, on October 11, 2013. The indenture governing our Step-Up Senior Notes contains certain covenants that among other things, limit the ability of the Company and subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of the Company's subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates.

Pursuant to the terms of the indenture governing Maxcom's Step-Up Senior Notes, Maxcom used 50% of the capital contribution made by the Ventura investors to make an offer to repurchase Step-Up Senior Notes, but only to the extent such capital contribution that exceeded U.S.\$5 million, at a price equal to 85% for the principal amount of the notes, in cash. This tender offer was initiated on November 8, 2013 and consummated on December 12, 2013, accepting the purchase and payment of validly tendered Step-Up Senior Notes in an amount of U.S.\$2,544,811.

During December 2013, a few of the Step-Up Senior Bond Holders exercised their equity purchase rights, thereby the company exchanged bonds worth \$ 23.3 million pesos (equivalent to US\$ 1.8 million) at carrying value, for 22,655,679 Series A common stock shares (see note 20). The rest of the equity purchase rights held by the remaining Step-Up Senior Bond Holders were extinguished, as the right to convert them had expired in December 2013. As a result of the above events, Maxcom derecognized the associated embedded derivative liability valued at its fair value of \$33.4 million Pesos (equivalent to U.S.2.6 million). The shares issued were recognized as an increase of capital stock and additional paid-in-capital of \$22.1 million pesos (equivalent to U.S.1.7 million dollars) and \$34.6 million Pesos (equivalent to U.S.2.7 million), respectively.

The consolidated audited financial statements will be approve by the Annual Shareholders' Meeting to be held on May 19, 2014. At such Shareholders' Meeting, our shareholders could decide to modify or amend our consolidated financial statements.

# Appointment of the new CEO of the Company

On October 31, 2013, the Board of Directors appointed Mr. Enrique Anaya Ibarra as the new CEO of the Company replacing Mr. Rene Sagastuy.

# Appointment of Independent Auditors

In October 2013, the Board of Directors, as per recommendation of its Audit Committee, approved the appointment of PricewaterhouseCoopers, S.C. ("PwC") as the Company's independent auditor as of the fourth quarter of 2013 replacing KPMG Cárdenas Dosal, S.C ("KPMG").

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### New Telecommunications law in Mexico

Effective June 12, 2013 the Mexican Congress enacted an amendment to the Mexican Constitution in connection with the telecommunications and broadcasting (radio and television) industries. This amendment to the Mexican Constitution (articles 6, 7, 27, 28, 73, 78, 94 and 105) is aiming to strengthen competition and providing the telecommunications authorities, the new Federal Telecommunications Institute or IFT, with broader capacities to regulate the telecommunication and broadcasting industries.

The enacted bill provides for a number of measures that include eliminating the limit on foreign investment in the telecommunications industry (including satellite operations), raising the limit on foreign investment in the broadcasting industry to 49%.

Additionally, the enacted bill provides for the issuing of two new broadcasting licenses to be awarded by public auction.

"Must carry" and "must offer" obligations for television companies were also included in the new bill.

In March the new IFT issued rulings declaring America Movil and Grupo Televisa and certain of the subsidiaries of both companies as preponderant economic agents in the telecommunications and broadcasting industries, respectively and imposing both companies with specific asymmetrical regulations. It is still uncertain to determine the impact of such asymmetrical regulations in the telecommunications and broadcasting industries.

On March 24, 2014, the Mexican President submitted to the Mexican Congress a proposed telecommunications and broadcasting law that will implement the changes to the Mexican Constitution. This bill is under discussion in the Mexican Congress. It is still uncertain to determine the impact of such proposed bill to the telecommunications and broadcasting industries.

# A. Operating Results

# **Devaluation and Inflation**

Relative to the U.S. dollar, the peso depreciated 0.5% in 2013, appreciated 7.0% in 2012, depreciated 13.2% in 2011, appreciated 5.4% in 2010 and appreciated 3.5% in 2009. Peso depreciations contribute to increases in inflation. The following table summarizes the general economic conditions and inflation in Mexico for the periods specified below:

Year Ended December 31	Inflation Rate	Average 28-day Cetes	Mexican GDP Annual Growth Rate*	Gross International Reserves as of the End of Each Year (Billion)			
2013	4.0%	3.8%	1.1%	U.S.\$	180.2		
2012	3.6%	4.2%	3.9%	U.S.\$	167.1		
2011	3.8%	4.2%	3.9%	U.S.\$	149.2		
2010	4.4%	4.4%	5.4%	U.S.\$	120.6		
2009	3.6%	5.4%	(6.2)%	U.S.\$	99.9		

Source: Central Bank of Mexico

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The general economic conditions in Mexico resulting from a peso devaluation and consequential inflation may have a negative impact on our results of operations by:

- increasing the peso-carrying costs of our U.S. dollar-denominated debt and capital expenditure requirements;
- decreasing the purchasing power of Mexican consumers, resulting in a decrease in demand for telephony services; and
- resulting in our inability, due to competitive pressures, to increase our prices in response to such inflation.

## Impact of Foreign Currency Fluctuations

Our principal foreign currency fluctuation risk involves changes in the value of the peso relative to the U.S. dollar. Although U.S. dollar-denominated revenues and expenses, including capital expenditures, are exposed to foreign currency fluctuations, our financial debt instruments have greater exposure. As of December 31, 2013, the amount of debt denominated in U.S. dollars was Ps. 1,955.2 million.

Depreciation of the peso against the U.S. dollar results in an increase of our dollar-denominated revenues and expenses as reported in pesos. Conversely, appreciation in the value of the peso against the U.S. dollar results in decreases to U.S. dollar-denominated revenue and expenses as reported in pesos.

Interest expense on our U.S. dollar-denominated debt, as expressed in pesos in our financial statements, varies with exchange rate fluctuations. Depreciation of the peso, results in increases in interest expense on a pesos basis.

We record foreign exchange gains or losses when the peso appreciates or depreciates against the U.S. dollar. Because our U.S. dollar-denominated monetary liabilities have exceeded, and are expected to continue to exceed, our U.S. dollar-denominated monetary assets, depreciation of the peso, against the U.S. dollar will result in foreign exchange losses.

The peso-to-dollar exchange rate may experience significant devaluations in the future. Further declines in the value of the peso relative to the U.S. dollar could adversely affect our ability to meet our U.S. dollar-denominated obligations, including our senior notes due 2014. In May 2007, we entered into currency swap transactions with the banks Morgan Stanley A.G. and Merrill Lynch Capital Markets A.G. to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$150 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2008 to December 2010. In December 2009, the company unwound the swap with Morgan Stanley A.G. and entered into a new swap with the same bank that covers the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In March 2010 the company unwound the swap with Merrill Lynch Capital Markets A.G. and entered into a new cross currency swap transaction with Morgan Stanley A.G. that minimize the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In May 2011 we amended the cross currency swap agreements with Morgan Stanley (France), SAS to delete from the agreements the clause authorizing Morgan Stanley to terminate the agreements in case the credit rating of Maxcom continues to decline.

In counterpart, Maxcom agreed to deposit U.S.\$1.5 million in a collateral account in Morgan Stanley.

In February 2013 the company unwound the swap with Morgan Stanley (France) SAS. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

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At December 31, 2013, an immediate 10% devaluation of the peso relative to the U.S. dollar would have increased our interest expense (related to the interest payments on the U.S.\$175.7 million aggregate principal amount of our Step-Up Senior Notes maturing on June 2020 not covered by the currency swaps) by approximately Ps.11.7 million over a one-year period. In addition, any further decrease in the value of the peso may negatively affect the value of Mexican securities such as ours.

See "Item 3. Key Information — Selected Financial Data — Exchange Rates" for a discussion of exchange rates.

### Revenues

Our net revenues primarily include monthly fees, usage fees, installation charges, interconnection fees and the sales of telephone sets.

Voice services constitute our core business. Revenues from voice services include:

- installation charges of voice lines;
- monthly fees for the rental of voice lines, which depending on the product, include a certain number of free local calls;
- usage charges of voice lines, which can include a combination of local calls above those already included in the monthly fees, long distance minutes, as well as minutes to mobile numbers under the "Long Distance Calling Party Pays" system; and
- charges relating to value-added services such as voice mail, call hold, call forwarding, three-way calling and caller identification;
- public telephony services;
- · mobile services;
- revenues derived from our strategic and commercial alliances with cable television operators, which are offset by the corresponding amount we are charged by the cable television operator; and
- the sale of telephone sets.

Revenues from data services include:

- Internet dial-up access;
- · asymmetric digital subscriber line;
- · dedicated Internet access;
- · managed services;
- digital private lines; and
- lease of backbone capacity.

Revenues from pay TV includes charges related to paid TV services, such as premium channels, Pay-Per-View or Video On-Demand.

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Revenues from wholesale services are related primarily to the sale of bulk minutes where the cost of minutes depends on the volume of traffic. We also include interconnection fees and other miscellaneous revenues in this group.

# Average Revenue Per Unit (ARPU)

Average revenue per unit is used as an industry-standard measurement of the average amount of revenue a telecommunications company derives from each customer of its voice business. We calculate average revenue per unit by dividing the total voice revenues for a given period by the average number of voice lines, excluding wholesale lines, in service during such period. Revenues from data and wholesale services are reported separately and are not a factor in calculating average revenue per unit.

We calculate the average revenue per unit for voice lines for each of our business and residential segments. Blended average revenue per unit is affected by our business/residential line mix because business lines tend to generate higher average revenue per unit than residential lines. Total Company average revenue per unit includes public telephony revenues and lines.

#### Revenue Generating Units

Revenue Generating Units or RGUs are related to the sources of revenue, which may not always be the same as subscriber numbers. One person may subscribe to two different services thereby accounting for only one subscriber but two RGUs.

Revenue Generating Unit is separately a telephone line, broadband internet subscriber, mobile subscriber or paid television subscriber. A home or business may contain one or more RGUs. For example, a subscriber to our paid TV services, broadband internet, mobile telephony service and residential telephony service would constitute four RGUs.

# **Operating Costs and Expenses**

Our operating costs and expenses include:

- network operating costs, which include: (i) technical expenses (comprised of electric power, site leases and maintenance of telecommunications equipment); (ii) installation expenses, when applicable; and (iii) disconnection expenses;
- selling, general and administrative expenses, which primarily include: (i) salaries, wages and benefits; (ii) fees, which are primarily related to consulting, legal and accounting services; (iii) leasing costs, which are primarily related to our headquarters, warehouses and other facilities; (iv) marketing expenses, which are primarily related to the implementation of our branding campaign, general advertising and promotions; and (v) allowance for doubtful accounts (related to past due accounts receivable); and
- depreciation and amortization mainly related to frequency rights, telephone network systems and equipment and intangibles.

We anticipate that our operating costs and expenses will generally increase with the size of our network infrastructure and the number of customers served. Our network operating costs, which are composed primarily of interconnection fees, are expected to grow at approximately the same rate as revenues. We expect technical expenses will generally increase as the size and capacity of our network increases. Selling, general and administrative expenses are indirectly related to the number of customers served and some of these expenses are directly related with the acquisition of new customers. Historically, sales commissions, advertising and promotion expenses will increase at approximately the same rate as the number of new customers acquired. Our depreciation and amortization expenses are directly related to our existing fixed assets and to the expansion of our network and acquisition of equipment as well as the increase of intangible assets.

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#### **Net Finance Cost**

For presentation purposes, "net finance cost" refers to the combined financial effects of:

- interest expense and interest income;
- effects of valuation of financial instruments:
- net foreign exchange gains or losses;
- · derivative financial instruments gain or losses and the gain on repurchase of our senior notes; and
- gain on extinguishment debt.
- · gain on repurchase of senior notes

# **Critical Accounting Policies**

# Applications of Critical Accounting Policies and Estimates

We have identified certain key accounting estimates on which our consolidated financial condition and results of operations are dependent. These key accounting estimates most often involve complex matters or are based on subjective judgments or decisions that require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience, where applicable and other assumptions that we believe are reasonable under the circumstances. Actual results may differ from our estimates under different assumptions or conditions. In addition, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information. In the opinion of our management, our most critical accounting estimates under IFRS are those that require management to make estimates and assumptions that affect the reported amounts related to the carrying amount of telephone network systems and equipment, intangible assets, frequency rights, including depreciation and amortization rates, assumptions made for the calculation of the impairment test to long lived assets; valuation allowances for receivables, inventories, construction in progress of telephone network systems and equipment and the recognition of deferred income tax assets; valuation of financial instruments; and obligations related to employee benefits. For a full description of all of our accounting policies, see note 5 to the consolidated financial statements included in this document.

There are certain critical estimates that we believe require significant judgment in the preparation of our consolidated financial statements. We consider an accounting estimate to be critical if:

- it requires us to make assumptions because information was not available at the time or it included matters that were highly uncertain at the time we were making the estimate; and
- changes in the estimate or different estimates that we could have selected would have had a material impact on our financial condition or results of
  operations.

# Allowance of Doubtful Accounts Receivable

The allowance for doubtful accounts represents our estimate of losses resulting from the failure or inability of our customers to make required payments. Determining our allowance for doubtful accounts receivable requires significant estimates. Due to the large number of customers that we serve, it is impractical to review the creditworthiness of each of our customers, although a credit review is performed for business customers that request more than two lines. We consider a number of factors in determining the proper size and timing for the recognition of and the amount of the allowance, including historical collection experience, customer base, current economic trends and the aging of the accounts receivable portfolio. From this analysis, our current policy is to reserve in the amount of 90% and 100% of account receivable balance due over 91 but less than 120 days, and over 121 days, respectively, except when there is a negotiated agreement with a customer. In such cases, the allowance amount is 30% with balances due over 91 days if there is not a settlement negotiated with the client.

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In addition, in order to mitigate collection risk, our collection procedures include, but are not limited to, periodic reminder phone calls once a customer is past due, suspension of service, use of a collection agency and disconnection of service, if needed. Furthermore, within our network we have systems to detect fraudulent call activity. If these systems fail to identify this activity, we may have to recognize a higher degree of uncollectible accounts. While we believe that our estimates are reasonable, changes in our customer trends or any of the factors mentioned above could materially affect our bad debt expense. At December 31, 2013 and 2012, our provision for bad debt was Ps.153.8 million and Ps.586.0 million, respectively. We consider this provision sufficient to cover the potential risk of uncollectible accounts; however, we cannot assure that we will not be required to increase the amount of this provision in the future.

#### Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amount receivable for services provided. The Company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity, as described below:

- Sale of telephone equipment to clients is recognized at the time of delivery of said equipment and the risk and rewards are transferred to the customer.
   Revenues from services are recognized as rendered.
- Revenues from public telephone services are recognized based on the cash collected which is the same time when services are rendered.
- Revenues from interconnection services are recognized on accrual basis. The Company entered into local interconnection agreements with various telephone companies under the "bill and keep" compensatory clause. In accordance with these agreements, if the imbalance between local calls originated from the other telephone concessionaire and completed by Maxcom, and the calls originated from Maxcom and completed by the other telephone company over the course of one month do not exceed an established percentage of 5%, there will be no payment of an interconnection rate charge to the user for interconnection services. However, if the imbalance exceeds that percentage in a particular month, the Company or the telephone concessionaire is subject to a charge per minute. During the years 2013, 2012 and 2011, the imbalance did not exceed 5%.

The Company has interconnection agreements for long-distance and mobile services with other concessionary telephone companies. However, they do not include the clause of the "bill and keep" compensatory agreement.

- Revenues from pay television services are recognized as rendered.
- Revenues from mobile telephone services are recognized when the service is provided or minutes expire.
- For mobile telephone revenues the Company evaluates the revenue recognition of multiple-element arrangements evaluating the time and manner in which revenues for the different accounting units should be recognized. For the Company the separated accounting units are the sale of mobile telephone equipment which is recognized at fair value at the moment of delivery to the customer; and mobile services which are recognized as the service is provided.
- Customer contracts that include both equipment and bundled services (voice, data, pay TV or mobile services) are evaluated to determine whether the components are separable. Revenue from bundled services is recognized in the month in which the services are provided. The sale of the equipment is not separable from the sale of the services; the services cannot be obtained independently from the purchase of the equipment. Therefore, the bundled services are not unbundled
- Revenues from lease of transmission capacity through the fiber optic ring are recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and are recognized on the same basis as the lease revenues. The transactions are therefore recorded as operating lease agreements. The contracted sales price is mainly paid in advance and sales that are not recognized in income are recorded as deferred revenues in non-current other accounts payable and current other accounts payable, respectively, in the statement of financial position.

# Installation cost

The Company amortize the installation cost over the period in which the service is provided. Once the customer terminates the service, the Company does not consider any additional value related to the installation cost. The Company perform impairment reviews related to determine the average customer life and came to the conclusion that is five years.

# Derivative financial instruments

The fair value of derivative financial instruments that are not traded in an active market (over-the-counter derivatives) is determined by using valuation techniques.

The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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# Impairment sensitivity analysis

The Company test telecommunication network and equipment for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When any indicator of impairment is identified, an impairment test is performed based on each cash-generating unit (CGU). The CGUs identify by the Company are pay TV, public telephone (PT) and other services (OS). The carrying values of these CGUs are compared to their recoverable amount, which is the higher of value in use and fair value less costs to sell. On October, 2013, according to the business plan of the Company's new management, the CGUs pay TV and public telephone are not considered strategic, and recognized an impairment loss of \$578,257 as of December 31, 2013.

The impairment analysis were performed with a discount rate of 11.71%. An increase in the discount rate to 15% or a decrease in the discount rate to 10% would not have a significant impact on the impairment analysis.

### Valuation of Long-Lived Assets

For impairment testing, assets are grouped into cash generating units (CGU), i.e., the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets. Since the Company provides bundled services and the network and certain intangibles are common across many services, Management has determined that such assets should be tested for impairment at the level of the whole economic entity.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Key assumptions used in the calculation of recoverable amounts are the discount rate and the asset's residual values.

As of December 31, 2013, based on the Company's impairment testing, an additional impairment loss was recognized.

# Deferred Taxes

Deferred taxes under IFRS, are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and in the case of income taxes, for operating loss and asset tax carry forwards. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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Significant management judgment is required in determining our reserve for income taxes, our deferred tax assets and liabilities recorded against our deferred tax assets are based on management projections of future financial results. Accordingly, we have only recognized deferred tax assets that we feel it is more likely than not that we will use our net operating loss carry forwards before they expire.

As of December 31, 2013, we had cumulative tax losses in aggregate of Ps.1,327.6 million that will be carried forward against future taxable income as follows:

Year of Loss	Amount	Year of Maturity
	(in the	usands of pesos)
2013	Ps. 105,99	28 2023
2012		3 2022
2011	206,4	27 2021
2010	3,8	92 2020
2008	536,3	98 2018
2007	284,9	32 2017
2006	89,5	71 2016
2005	11,5	10 2015
2004	88,8	91 2014
Total	<u>Ps. 1,327,5.</u>	<u>52</u>

Starting January 1, 2008, we and our subsidiaries are subject to Income Tax and IETU at a legal entity level, which means that our subsidiaries are not consolidated for tax payment calculations.

Because management estimates that the tax payable in future years will be Income Tax, deferred tax effects as of December 31, 2013 and 2012 have been recorded on the Income Tax basis.

On December 11, 2013 was issued the decree in the Official Federal Journal (DOF, for its acronym in Spanish) amending; supplementing and repealing several tax laws which apply from 2014. These changes to the tax law do not affect the amount or the reversal period of tax loss carry forwards estimated by management.

# **Results of Operations**

The following table sets forth, for the periods indicated, selected statement of operations data calculated in accordance with IFRS and expressed as a percentage of net revenue:

	Year Ended December 31			
	2013	2012	2011	
Revenues – net	100%	100%	100%	
Operating cost and expenses:				
Network operating costs	45.6	36.9	32.4	
Selling, general and administrative expenses	34.9	31.8	33.5	
Depreciation and amortization	24.0	26.2	28.1	
Other expenses:				
Other expenses	13.1	7.8	5.2	
Debt restructuring charges	8.5	0.3	0.3	
Income tax expense (benefit)	0.6	0.7	(0.6)	
Comprehensive loss for the year	(49.9)%	(6.2)%	(21.6)%	

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# Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

#### Net revenues

Our net revenues increased 13.8%, from Ps.2,201.3 million in 2012 to Ps.2,505.0 million in 2013. The increase primarily resulted from:

- Residential revenues represented 38.6% of total revenues during 2013, compared with 45.6% in the previous year of 2012. Revenues in the residential business reached Ps.968.1 million in 2013, a decrease of 3.5% or Ps.35.4 million in comparison to Ps.1,003.5 million in 2012. The effect in revenues is a combination of a decrease in voice services by approximately Ps.66.4 million, an increase in paid TV services by approximately Ps.7.5 million, an increase in data revenues by approximately Ps.24.4 million and a decrease in mobile services by Ps.0.9 million. The effects mainly explain by the termination of an agreement linked to the MVNO.
- Commercial revenues represented 25.7% of total revenues during 2013, compared with 28.7% in 2012. Revenues in the commercial business totaled Ps.643.6 million in 2013, an increase of 1.8% or Ps.11.6 million in comparison to Ps.632.0 million in the year 2012. This increase in revenues was explained by an increase of Ps.34.1 million in data services that was offset by a decrease of Ps.22.6 million in voice services. This effects mainly due by the sale of "IRUs", that generating an extraordinary income.
- Public Telephony represented 5.8% of total revenues during 2013 in comparison with 7.9% in 2012. Revenues in this segment totaled Ps.146.2 million in 2013, a decrease of 16.4% compared to Ps.174.9 million in 2012. The decrease in the public telephony business was primarily driven by the availability of the number of public telephones and a decrease in the average usage per phone that is driven by the acquisition of more cell phones in the market.
- In 2013, wholesale revenues totaled Ps.729.2 million, an increase of 94.9% in comparison to Ps.374.1 million in the same period in 2012. The increase in the wholesale business was mainly driven by higher traffic.
- Revenue from other services accounted for 0.7% or Ps.17.9 million of total revenues in 2013 an increase, from the Ps.16.7 million recorded in the same period last year. Other revenues are primarily comprised of lease of microwave frequencies and Customer Premise Equipment (CPE) sales.

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The following table sets forth our revenues for the periods indicated below:

		Year Ended December 31			
	201	2013		2012	%
		(In millions)			
Residential	Ps.	968.1	Ps.	1,003.5	(3.5)%
Commercial		643.6		632.0	1.8%
Public Telephony		146.2		174.9	(16.4)%
Wholesale		729.2		374.1	94.9%
Other Revenue		17.9		16.7	7.4%
Total revenues	Ps.	2,505.0	Ps.	2,201.3	13.8%

The following table presents a breakdown of our ARPU for the periods indicated below:

	ARPU			
	2013	2012	%	
Monthly charges	Ps. 153.2	Ps. 159.0	(3.6)%	
Usage	90.3	107.3	(15.9)%	
Subtotal	243.5	266.3	(8.6)%	
Non-recurring	4.6	5.4	(14.8)%	
Total	Ps. 248.1	Ps. 271.7	(8.7)%	

Total ARPU (we calculate average revenue per unit by dividing the total voice revenues for a given period by the average number of voice lines, excluding wholesale lines, in service during such period) decreased 8.7% from Ps.271.7 in 2012 to Ps.248.1 in 2013. The ARPU presented a diminution because the growth of RGUs base not was proportional at the revenues. The major changes in absolute and relative terms were: (i) a decrease in monthly charges of 3.6% from Ps.159.0 in 2012 to Ps.153.2 in 2013; (ii) a 15.9% decrease in usage from Ps.107.3 in 2012 to Ps.90.3 in 2013; and (iii) a 14.8% decrease in non-recurring charges from Ps.5.4 in 2012 to Ps.4.6 in 2013.

# Revenue Generating Units

The term RGU represents an individual service subscriber who generates recurrent revenue for us. During 2013, we augmented a total of 7,561 revenue generating units. As of December 31, 2012, Maxcom reported a total of 617,866 RGUs, an increase of 1.2% in comparison to the same period last year.

The following table presents a breakdown of our RGUs by type of customer at December 31, 2013 and 2012 and the percentage variation:

		At December 31		
	2013	2012	%	
Residential	483,008	484,556	(0.3)%	
Commercial	82.943	69,764	18.9%	
Public Telephony	35,044	36,622	(4.3)%	
Wholesale lines	16,871	19,363	(12.9)%	
Total lines	617,866	610,305	1.2%	

# **Operating Costs and Expenses**

Our operating costs and expenses increased 65.0% from Ps.2,265.4 million in 2012 to Ps.3,737.0 million in 2013. This increase was mainly due by the operation of wholesale business unit that generate a higher cost in long distance interconnection (approximately Ps.331.1 million), is important to mention that this business generate a less gross margin. In the other hand, Maxcom recognized: i) the impairment test that was Ps.578.3 million and ii) during the year 2013 Maxcom generated legal and professional expenses related to reorganization and recapitalization process, the amount of these expenses was Ps.212.0 million. Primarily the result of:

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- a Ps.340.8 million, or 52.0% increase in network operating services resulting mainly from:
  - a Ps.342.2 million increase related to long distance interconnection costs due to higher wholesale operation...
  - a Ps.18.8 million higher TV content cost..
  - a Ps.2.8 million higher local interconnection costs.
  - a Ps.36.5 million decrease related to mobile interconnection costs.
  - a Ps.11.1 million decrease related to public telephony cost.
  - a Ps.3.4 million decrease related to fix to mobile interconnection.
- a Ps.3.6 million, or 2.5% decrease in technical expenses primarily due to:
  - o a Ps.1.5 million decrease in network maintenance; and,
  - a Ps.2.1 million decrease in other technical expenses.
- Installation expenses for 2013 decrease Ps.6.2 million or 63.2%.
- a Ps.25.0 million, or 4.3% increase in depreciation and amortization expenses mainly related to the installation expenses; and,
- Selling, general and administrative expenses increase Ps.174.4 million, or 24.9% primarily due to:
  - o a Ps.25.5 million increase in salaries, wages and benefits;
  - a Ps.24.0 million increase in external services.
  - a Ps.58.6 million increase in bad debt reserve.

# Net Financing Cost

Our comprehensive cost of financing was Ps.3.4 million in 2013, a 94.0% decrease compared to Ps.56.3 million in 2012.

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The following table sets forth our comprehensive cost of financing for the periods indicated below:

	Year Ended December 31			
	2	<del></del>	2012	%
		(In n	nillions)	
Interest expense	Ps.	(214.3) Ps.	(339.7)	(36.9)%
Interest income		18.3	5.8	215.5%
Foreign currency gain (loss)		(46.6)	219.9	(121.2)%
Gain on extinguishment of debt		248.5	-	100.0%
Gain on repurchase of senior notes		-	97.8	(100.0)%
Loss on valuation of derivative financial instruments (loss) gain		(9.3)	(49.5)	(81.2)%
Amounts capitalized on qualifying assets		<u>-</u>	9.4	(100.0)%
Net finance cost	Ps.	(3.4) Ps.	(56.3)	(94.0)%

The increase of net finance cost was primarily due to:

- a Ps.125.4 million or 36.9% of decrease in interest expense, was mainly due by the effect of interest rate recognized on 2012 of the Senior notes due 2014 (11%) and the recognition in 2013 of Step-Up Senior Notes due 2020 (6%);
- a Ps.12.5 million or 215.5% of increase in the item of interest income, net derived from a surplus in the cash of the Company by the capital contributions in the last quarter of 2013;
- a Ps.46.6 million foreign currency loss compared to a net foreign currency gain of Ps.219.9 million recognized in the same period last year mainly due to a depreciation of the Mexican peso of 0.5% during 2013 compared with a peso appreciation of 7.0% during 2012;
- a Ps.97.8 gain on the repurchase of senior notes during 2012, which were repurchased at fair value and had been recognized previously at a higher nominal value;
- a Ps.40.2 million effect from the valuation of derivative financial instruments mainly due to a depreciation of the Mexican peso as previously explained. The variation derived from the unwound of the swap with Morgan Stanley (France) SAS on February, 2013;
- a Ps.248.5 gain related to the fair value recognition of the new debt Step-Up Senior Notes; and
- a Ps.9.4 interest capitalized during 2012.

#### Net Losses

		Year Ended December 31			
		2013	2012		
		(In millions)			
Revenues – net	Ps.	2,504,968 Ps.	2,201,252		
Total operating cost and expenses		3,736,999	2,265,440		
Net finance cost		(3,393)	(56,340)		
Income tax expense		15,305	15,560		
Net loss and comprehensive loss for the year	Ps.	(1,250,729) Ps.	(136,088)		

We incurred losses of Ps.1,250.7 million (U.S.\$95.7 million) for the year ended December 31, 2013 as compared to losses of Ps.136.1 million for the year ended December 31, 2012.

The losses for the year ended December 31, 2013 are mainly related to one time charges from the debt restructuring process, the impairment analysis and lower operating income primarily due to a decrease in our wholesale margin and public telephony business when compared to the year ended December 31, 2012. We expect to continue the negative impact from our wholesale and public telephony business.

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#### Tax Provisions

We recorded a debit of Ps.15.3 million in taxes during 2013 mainly due to a tax provision of some companies of the group, compared to the debit of Ps.15.6 million registered in 2012.

Tax reform impacts

On December 11, 2013 was issued the decree by the President in the Official Federal Journal (DOF, for its acronym in Spanish) amending; supplementing and repealing several tax laws which apply from 2014. The most significant Company's affections are described below:

- General provisions: The Income Tax Law (ITL) includes changes to the tax rate (30% for 2014), to authorized deductions, to as the moments for income recognition or deductions, as well as changes in some regimes.
- Employee benefits: Worker remunerations that represent an exempt item of income for the employee, such as fringe benefits, employees' savings and loan funds, severance payments, annual bonus, overtime, vacation premium, Sunday premium and exempt portion of PTU, may only be deducted to 47% or 53%. The tax reform also states that the deduction for contributions to pension and retirement funds' will be limited to 47% or 53% of the contribution made during the year.
- Flat Rate Business Tax Law and Cash Deposit Tax Law: These laws are repealed, and transition provisions are established to secure the rights and obligations acquired during the effective term of the law.

VAT: The 16% rate is standardized throughout the country, by eliminating the 11% rate applicable to the border zone.

Reconciliation of effective tax rate:

	2013		2012		
	%	<b>\$</b>	%	\$	
Loss before income taxes					
Total income tax expense (benefit)		(1,235,424)	\$	(120,528)	
Total income tax expense (benefit)	2%	15,305	13%	15,560	
Income tax expense (benefit) using the Company's domestic tax rate	(30)%	(370,627)	(30)% \$	(36,158)	
Employee Statutory Profit Sharing	-	-	1%	1,054	
Inflationary effect	4%	50,642	(5)%	(6,597)	
Non-deductible expenses	2%	25,301	24%	28,677	
Non-deductible employee benefits	1%	2,330			
Unrecognized deferred tax assets	24%	282,638	(30)%	(35,956)	
Tax loss carry forwards that expired	-	-	53%	63,557	
Other	1%	9,355	1%	983	
	2%	15,305	13% \$	15,560	

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# **Results of Operations**

# Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

#### Net revenues

Our net revenues decreased 7.4%, from Ps.2,375.9 million in 2011 to Ps.2,201.3 million in 2012. The decrease primarily resulted from:

- Residential revenues represented 45.6% of total revenues during 2012, compared with 41.9% in the previous year of 2011. Revenues in the residential business reached Ps.1,003.5 million in 2012, an increase of 0.9% or Ps.8.8 million in comparison to Ps.994.7 million in 2011. The increase in revenues is a combination of a decrease in voice services by approximately Ps.89.9 million, an increase in paid TV services by approximately Ps.34.9 million, an increase in data revenues by approximately Ps.61.7 million and an increase in mobile services by Ps.2.7 million.
- Commercial revenues represented 28.7% of total revenues during 2012, compared with 25.5% in 2011. Revenues in the commercial business totaled Ps.632.0 million in 2012, an increase of 4.1% or Ps.25.1 million in comparison to Ps.607.0 million in the year 2011. This increase in revenues was explained by an increase of Ps.1.6 million in voice services and an increase of Ps.23.1 million in data services.
- Public Telephony represented 7.9% of total revenues during 2012 in comparison with 9.8% in 2011. Revenues in this segment totaled Ps.174.9 million in 2012, a decrease of 24.9% compared to Ps.232.8 million in 2011. The decrease in the public telephony business was primarily driven by the availability of the number of public telephones and a decrease in the average usage per phone.
- In 2012, wholesale revenues totaled Ps.374.1 million, a decrease of 29.0% in comparison to Ps.526.9 million in the same period in 2011. The decrease in the wholesale business was mainly driven by lower traffic.
- Revenue from other services accounted for 0.8% or Ps.16.7 million of total revenues in 2012 an increase, from the Ps.14.6 million recorded in the same period last year. Other revenues are primarily comprised of lease of microwave frequencies and Customer Premise Equipment (CPE) sales.

The following table sets forth our revenues for the periods indicated below:

		Year Ended December 31			
		2012		2011	%
		(In millions)			
Residential	Ps.	1,003.5	Ps.	994.7	0.9%
Commercial		632.0		607.0	4.1%
Public Telephony		174.9		232.8	(24.9)%
Wholesale		374.1		526.9	(29.0)%
Other Revenue		16.7		14.6	14.1%
Total revenues	Ps.	2,201.3	Ps.	2,375.9	(7.4)%

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The following table presents a breakdown of our ARPU for the periods indicated below:

	ARPU			
	2012	(In millions)	<u>%</u>	
Monthly charges	Ps. 159.0	Ps. 125.3	26.9%	
Usage	107.3	175.2	(38.8)%	
Subtotal	266.3	300.5	(11.4)%	
Non-recurring	5.4	6.5	(17.5)%	
Total	Ps. 271.7	Ps. 307.1	(11.5)%	

Total ARPU (we calculate average revenue per unit by dividing the total voice revenues for a given period by the average number of voice lines, excluding wholesale lines, in service during such period) decreased 11.5% from Ps.307.1 in 2011 to Ps.271.7 in 2012. The major changes in absolute and relative terms were: (i) an increase in monthly charges of 26.9% from Ps.125.3 in 2011 to Ps.159.0 in 2012; (ii) a 38.8% decrease in usage from Ps.175.2 in 2011 to Ps.107.3 in 2012; and (iii) a 17.5% decrease in non-recurring charges from Ps.6.5 in 2011 to Ps.5.4 in 2012.

#### Revenue Generating Units

The term RGU represents an individual service subscriber who generates recurrent revenue for us. During 2012, we augmented a total of 54,841 revenue generating units. As of December 31, 2012, Maxcom reported a total of 610,305 RGUs, an increase of 9.9% in comparison to the same period last year.

The following table presents a breakdown of our RGUs by type of customer at December 31, 2012 and 2011 and the percentage variation:

		At December 31		
	2012	2011	%	
Residential	484,556	424,121	14.2%	
Commercial	69,764	67,826	2.9%	
Public Telephony	36,622	37,769	(3.0)%	
Wholesale lines	19,363	25,748	(24.8)%	
Total lines	610,305	555,464	9.9%	

# **Operating Costs and Expenses**

Our operating costs and expenses decreased 4.3% from Ps.2,366.3 million in 2011 to Ps.2,265.4 million in 2012. This decrease was primarily the result of:

- a Ps.17.3 million, or 2.2% increase in network operating services resulting mainly from:
  - o a Ps.6.1 million lower fixed-to-mobile interconnection costs.
  - o a Ps.96.1 million lower fixed-to-mobile national interconnection costs.
  - o a Ps.164.3 million increase related to long distance interconnection costs.
  - o a Ps.37.4 million decrease related to public telephony, circuit and port leases and internet services.
  - o This decrease was partially offset by a Ps.16.3 million increase mainly due to higher data and TV content cost.
- a Ps.17.6 million, or 13.7% increase in technical expenses primarily due to:
  - o a Ps.5.9 million increase in network maintenance; and,

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- a Ps.6.9 million increase in other technical expenses.
- Installation expenses for 2012 decrease Ps.1.2 million or 10.7%.
- a Ps.92.1 million, or 13.8% decrease in depreciation and amortization expenses mainly related to reduction on capital investments; and,
- Selling, general and administrative expenses decrease Ps.95.9 million, or 12.1% primarily due to:
  - a Ps.25.8 million decrease in salaries, wages and benefits;
  - a Ps.48.7 million in lower selling expenses and bad debt expenses.

# Net Financing Cost

Our comprehensive cost of financing was Ps.56.3 million in 2012, an 89.5% increase compared to Ps.537.6 million in 2011.

The following table sets forth our comprehensive cost of financing for the periods indicated below:

	Year Ended December 31			
	2012	2012 2011		
		(In millions)		
Interest expense	Ps. (339.7)	Ps. (319.2)	6.4%	
Interest income	5.8	2.7	114.8%	
Foreign currency gain (loss)	219.9	(320.9)	168.5%	
Extinguishment of debt		_	0.0%	
Gain on repurchase of senior notes	97.8	_	100.0%	
Derivative financial instruments (loss) gain	(49.5)	95.2	(152.0)%	
Capitalized in telecommunications equipment and network	9.4	4.5	108.9%	
Net finance cost	Ps. (56.3)	Ps. (537.6)	89.5%	

The decrease of net finance cost was primarily due to:

- a Ps.3.1 million or 114.8% increase in interest income net. For 2012 interest income was Ps.5.8 million higher when compared to 2011;
- a Ps.219.9 million foreign currency gain compared to a net foreign currency loss of Ps.320.9 million recognized in the same period last year mainly due to an appreciation of the Mexican peso of 7.0% during 2012 compared with a peso depreciation of 13.1% during 2011;
- a Ps.97.8 million gain on the repurchase of senior notes, which were repurchased at fair value and had been recognized previously at a higher nominal
- a Ps.144.7 million effect from the valuation of derivative financial instruments mainly due to an appreciation of the Mexican peso as previously

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#### Net Losses

		Year Ended December 31			
		2012			
		(In million	<u>s)</u>		
Net revenues	Ps.	2,201,252 Ps.	2,375,941		
Total operating cost and expenses		2,265,440	2,366,346		
Net finance cost		(56,340)	(537,622)		
Income tax		15,560	(14,890)		
Net loss and comprehensive loss for the year	Ps.	(136,088) Ps.	(513,137)		

We incurred losses of Ps.136.1 million for the year ended December 31, 2012 as compared to losses of Ps.513.1 million for the year ended December 31, 2011

The losses for the year ended December 31, 2012 are mainly related to lower operating income primarily due to a decrease in our wholesale and public telephony business when compared to the year ended December 31, 2011, a decline which we expect to continue.

#### Tax Provisions

We recorded a debit of Ps.15.6 million in taxes during 2012 mainly due to a tax provision of some companies of the group, compared to the credit of Ps.14.9 million registered in 2011.

#### B. Liquidity and capital resources

#### Financing Sources and Liquidity

Our business is capital intensive. We have historically met our working capital and capital expenditure requirements through our various debt arrangements, vendor financings and the sale of equity to investors. As of December 31, 2013, we had Ps.1,953.7 million (U.S.\$149.4 million) of cash and cash equivalents. As of December 31, 2013 we had Ps.366.2 million (U.S.\$28.0 million) in working capital as defined by us. We maintain the majority of our cash with Mexican banks and invested daily in Mexican pesos denominated interest bearing securities.

Our principal uses of cash have included debt service, capital expenditures and working capital. We expect that these will remain our principal uses of cash in the future; however, we may use cash to pursue acquisitions. We expect to use approximately Ps.946.9 million (U.S.\$75.2 million) of cash during 2014 to fund capital expenditures in connection the expansion of our network, of which we have expended Ps.69.0 million (U.S.\$5.3 million) as of February 28, 2014. As of December 31, 2013 the estimated cost remaining to conclude the network build out construction in progress was Ps.79.4 million and management expects to conclude them before December 31, 2014.

### Recapitalization and Debt Restructuring

On December 4, 2012 Maxcom received an offer from Ventura to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom pursuant to a public tender to be conducted, upon authorization of the Mexican and U.S. corresponding governmental authorities. As part of such transaction, Ventura committed to subscribe a capital increase of at least U.S.\$22 million dollars.

Ventura's obligation to consummate the tender was subject to i) acquiring more than 50% of all shares outstanding on a fully diluted basis and ii) a successful completion of an offer to exchange Maxcom's then current 11% Senior Notes Due 2014.

On February 20, 2013 Maxcom commenced an offer to exchange all of its outstanding 11% Senior Notes due 2014 for new Step-Up Senior Notes due 2020. On the same date, Ventura initiated an equity tender offer to acquire 100% of the issued and outstanding shares of Maxcom.

After several intents Maxcom advised that on April 24, 2013, that since the conditions for the consummation of the exchange offer were not satisfied or waived, such exchange offer was not consummated and consequently the equity tender offer launched by Ventura, which was conditioned upon the consummation of the exchange offer, was not consummated and thus, Maxcom would not be receiving the capital contribution offered by Ventura.

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In light of this outcome, Maxcom considered all of its alternatives including, but not limited to, commencement of a Chapter 11 case or other restructuring proceeding.

On June 18, 2013 Maxcom announced its intention to use a 30-day grace period with respect with its scheduled interest payment of approximately U.S.\$11 million on its 11% Senior Notes due 2014 to implement a comprehensive plan of recapitalization.

On July 3, 2013 Maxcom, Ventura, an ad hoc group of bondholders (the "Ad Hoc Group") holding an aggregate amount of approximately U.S.\$84 million of Maxcom's Senior Notes due 2014, and certain of its current equity holders reached an agreement on the terms of a restructuring and support agreement, a recapitalization agreement, and agreements to tender. In connection with this comprehensive restructuring process, Maxcom entered into a recapitalization agreement with Ventura and certain related shareholders, pursuant to which the Ventura also agreed to make a capital contribution of at least U.S.\$45 million dollars and conduct a tender offer to acquire for cash, at a price equal to Ps.2.90 (two pesos and 90/100) per CPO, up to 100% of the issued and outstanding shares of Maxcom.

On July 23, 2013, the Company undertook a restructuring by commencing voluntary cases under chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101–1532, in the United States Bankruptcy Court for the District of Delaware to effect the restructuring as set forth in the plan of reorganization, including the issuance of new step-up senior notes by the Company.

On September 10, 2013, the U.S. Bankruptcy Court for the District of Delaware confirmed the Company's Plan. The only class of creditors entitled to vote, the holders of the Old Notes, overwhelmingly voted in favor of the Plan and no party objected to confirmation of the Plan.

Pursuant to the terms of the Plan, all classes of creditors were unimpaired and their payments were not affected, except for the holders of Maxcom's Old Notes, which received (1) the step-up senior notes due 2020 (which include the capitalized interest amount for unpaid interest accrued on the Old Notes from (and including) April 15, 2013 through (and excluding) June 15, 2013, at the rate of 11% per annum), (2) cash in the amount of unpaid interest accrued on the Old Notes (A) from (and including) December 15, 2012 through (and excluding) April 15, 2013, at the rate of 11% per annum, and (B) from (and including) June 15, 2013 through (and excluding) the effective date of the Plan at the rate of 6% per annum, and (3) rights to purchase equity that is unsubscribed by the Company's current equity holders pursuant to the terms of the Plan.

On September 27, 2013 Maxcom completed a comprehensive plan of recapitalization and an equity tender offer initiated by Ventura, acting through the Trust 1387 held by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, a banking institution organized and existing under the laws of the United Mexican States and other investors. As part of this transaction, Ventura investors became the major shareholder in the Company.

On October 2, 2013, Maxcom held a general ordinary shareholders' meeting that approved among other things, a capital increase of approximately U.S.\$119.7 million. The Ventura investors also paid this capital increase.

According to the terms of the Plan, on October 11, 2014, Maxcom issued new Step-Up Senior Notes due 2020in an aggregate principal amount of U.S.\$180,353,962, which reflects the amount of the Old Notes less the amount of Old Notes held in treasury by the Company plus the capitalized interest amount. The Step-Up Senior Notes bear interest (i) from the date of issuance until June 14, 2016, at the annual rate of 6% per annum, (ii) from June 15, 2016 until June 14, 2018, at the annual rate of 7% per annum; have a maturity date of June 15, 2020; are secured by the same collateral that secures the Old Notes; and (e) are unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by all of Maxcom's direct and indirect subsidiaries, excluding Fundación Maxcom, A.C. The collateral comprise the item "Telephone Network System and Equipment", including, but are not limited to constructions, transportation equipment and vehicles, computers, information electronic data processing equipment, telecommunications and office furniture and equipment. The guarantee was perfected on October 11, 2013 through a voluntary mortgage set up in order of priority and degree.

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The Step-Up Senior Notes are governed by indenture that Maxcom and its subsidiaries entered into with The Deutsche Bank Trust Company Americas, acting

as trustee, on October 11, 2013. The indenture governing our Step-Up Senior Notes contains certain covenants that among other things, limit the ability of the Company and subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of the Company's subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates

Pursuant to the terms of the indenture governing Maxcom's Step-Up Senior Notes, Maxcom used 50% of the capital contribution made by the Ventura investors to make an offer to repurchase Step-Up Senior Notes, but only to the extent such capital contribution that exceeded U.S.\$5 million, at a price equal to 85% for the principal amount of the notes, in cash. This tender offer was initiated on November 8, 2013 and consummated on December 12, 2013, accepting the purchase and payment of validly tendered Step-Up Senior Notes in an amount of U.S.\$2,544,811.

During December 2013, a few of the Step-Up Senior Bond Holders exercised their equity purchase rights, thereby the company exchanged bonds worth \$ 23.3 million pesos (equivalent to US\$ 1.8 million) at carrying value, for 22,655,679 Series A common stock shares (see note 20). The rest of the equity purchase rights held by the remaining Step-Up Senior Bond Holders were extinguished, as the right to convert them had expired in December 2013. As a result of the above events, Maxcom derecognized the associated embedded derivative liability valued at its fair value of \$33.4 million Pesos (equivalent to U.S.2.6 million). The shares issued were recognized as an increase of capital stock and additional paid-in-capital of \$22.1 million pesos (equivalent to U.S.1.7 million dollars) and \$34.6 million Pesos (equivalent to U.S.2.7 million), respectively.

The indenture governing the Step-Up Senior Notes due 2020prohibits us from incurring additional indebtedness (other than permitted indebtedness) unless our leverage coverage ratio would be no greater than (i) 4.25 to 1 in the case of any incurrence or issuance on or before December 31, 2013, (ii) 4.00 to 1 in the case of any incurrence or issuance on or after January 1, 2014 and on or before December 31, 2014 and (iii) 3.50 to 1 in the case of any incurrence or issuance on or after January 1, 2015, determined on a pro forma basis (including a pro forma application of the net proceeds there from). Our leverage ratio as of a specific date is the ratio of (i) the aggregate principal amount of our outstanding indebtedness plus the amount of all obligations in respect of the repayment of certain specified stock and the liquidation preference of preferred stock of our restricted subsidiaries to (ii) our aggregate Adjusted EBITDA for the period consisting of the last two full fiscal quarters for which financial statements are publicly available multiplied by two. Regardless of our leverage ratio, we may incur permitted indebtedness, which includes, among other things:

- indebtedness, not to exceed U.S.\$15.0 million at any time outstanding, represented by capital lease obligations, financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price or cost of design, construction, installation or improvement of property, plant or equipment used in the permitted business of the company, in an aggregate principal amount, including all permitted refinancing indebtedness incurred to renew, refund, refinance, replace, defease or discharge any such indebtedness;
- hedging obligations for the purpose of managing our exposure to fluctuations in interest rates with respect to indebtedness permitted to be incurred by us pursuant to the indenture or protecting us against currency fluctuations in the ordinary course of business and not for speculative purposes; and
- indebtedness not to exceed U.S.\$20.0 million in an aggregate principal amount at any time outstanding, including all permitted refinancing indebtedness incurred to renew, refund, refinance, replace, defease or discharge such indebtedness.

The indenture governing our Step-Up Senior Notes due 2020 contains events of default, including, without limitation, (subject to customary grace periods, cure rights and materiality thresholds) defaults based on (i) the failure to make payments of interest or principal when due, (ii) breaches of covenants, (iii) cross-defaults and cross acceleration to other material indebtedness, (iv) bankruptcy events, (v) material judgments and (vi) the actual or asserted invalidity of any guarantee. If any such event of default occurs, the notes could be declared due and immediately payable. Subject to certain exceptions, the indenture prohibits us and any of our restricted subsidiaries from entering into an affiliate transaction, unless (i) the transaction is on terms no less favorable to us or the relevant restricted subsidiary than those that would have been obtained in a comparable transaction by us or such restricted subsidiary with an unrelated entity; (ii) in transactions involving in excess of U.S.\$2.5 million, a majority of the disinterested directors have determined that the transaction complies with (i); and (iii) in transactions involving in excess of U.S.\$6.0 million, we deliver to the trustee a fairness opinion from an investment banking firm of national standing.

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#### Indebtedness

Our consolidated debt as of December 31, 2013 was Ps.1,923.7 million (U.S.\$147.1 million), of which Ps.1,915.3 million (U.S.\$146.5 million) was long-term debt. Ps.1,923.7 million (U.S.\$147.1 million) of our consolidated debt outstanding as of December 31, 2013 was denominated in U.S. dollars. Our leverage ratio, as defined by the indenture governing our Step-Up Senior Notes due 2020, was 6.9:1.0 as of December 31, 2013.

During 2007, we entered into currency swap transactions with the banks Morgan Stanley A.G. and Merrill Lynch Capital Markets A.G. to minimize the exchange rate risks related to the coupon payments with respect to \$150 million aggregate principal amount of our senior notes due 2014, for the payments during period from June 2008 to December 2010.

In December 2009, the company unwound the swap with Morgan Stanley A.G. and entered into a new swap with the same bank that covers the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In March 2010 the company unwound the swap with Merrill Lynch Capital Markets A.G. and entered into a new cross currency swap transaction with Morgan Stanley, A.G. that minimize the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In May 2011 we amended the cross currency swap agreements with Morgan Stanley (France), SAS to delete from the agreements the clause authorizing Morgan Stanley to terminate the agreements in case the credit rating of Maxcom continues to decline. In counterpart, Maxcom agreed to deposit U.S.\$1.5 million in a collateral account in Morgan Stanley.

In February 2013 the company unwound the swap with Morgan Stanley (France) SAS.

In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the Step-Up Senior Notes due 2020.

At December 31, 2013, an immediate 10% devaluation of the peso relative to the U.S. dollar would have increased our interest expense (related to the interest payments on the U.S.\$175.7 million aggregate principal amount of our Step-Up Senior Notes maturing on June 2020 not covered by the currency swaps) by approximately Ps.11.7 million over a one-year period.

In addition, any further decrease in the value of the peso may negatively affect the value of Mexican securities such as ours.

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The following table presents a breakdown of our consolidated debt for 2013 and 2012:

	As of December 31, 2013(1)			As of Decem 2012(2		,		
		Pesos		Dollars		Pesos	Γ	Dollars
		(In thous				ls)		
Short Term and Long Term Vendor Financing:								
Vendor financing denominated in pesos	Ps.	8,348.0	U.S.\$	_	Ps.	10,661.0 U	J.S.\$	
Vendor financing denominated in dollars						<u> </u>		<u> </u>
Total vendor financing		8,348.0		_		10,661.0		
Long Term Payable Notes Denominated in U.S. Dollars:								
U.S.\$175 million senior secured notes (U.S.\$150 million issued on								
December 20, 2006 and U.S.\$25 million issued on January 10, 2007)								
bearing interest at a rate of 11%, maturing on December 15, 2014		_		_		2,282,774.0		175,461.7
U.S.\$175.7 senior Step-Up Notes maturing on June 2020 at amortized cost		1,909,139.0		149,043.9		_		
Accrued interest		6,200.0		474.1		11,920.0		916.2
Total long term payable bonds denominated in U.S. dollars		1,915,339.0		149,518.0		2,294,694.0		176,377.9
Total	Ps.	1,923,687.0	U.S.\$	149,518.0	Ps.	2,305,355.0 U	J.S.\$	176,377.9

- (1) Nominal pesos as of December 31, 2013. Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps.13.08 per U.S.\$1.00 as reported by the Banco de México on December 31, 2013. Such conversions should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at any other rate.
- (2) Constant pesos as of December 31, 2012. Peso amounts were converted to U.S. dollars solely for the convenience of the reader at the rate of Ps.13.01 per U.S.\$1.00 as reported by the Banco de México on December 31, 2012. Such conversions should not be construed as a representation that the peso amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated, or at any other rate.

# Resources from Operating, Financing and Investing Activities

	At December 31,			
		2013	2012	%
		(Thousa	ands of pesos)	
Net resources provided by operating activities	Ps.	169,368 Ps.	772,414	(78.1)%
Net resources used in investing activities		(384,844)	(581,096)	33.8%
Net resources (used in) provided by financing activities		2,019,568	(441,382)	557.6%

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Historically, our resources generated from operating activities have not been sufficient to meet our debt service, working capital and capital expenditure requirements. We have relied on private equity, capital markets and vendor financing. Under IFRS our earnings were insufficient to cover our fixed charges by Ps.1,212.4 million (U.S.\$92.7 million) in 2013, Ps.98.7 million (U.S.\$7.6 million) in 2012.

As of December 31, 2013, we had Ps.1,953.7 million of cash and cash equivalents, compared to Ps.146.5 million in December 31, 2012.

# Resources Provided by Operating Activities

For the year ended December 31, 2013, resources provided by operating activities decreased by Ps.603.1 million against the same period in 2012. This decrease was mainly due to a decrease of Ps.329.2 million in cash generation as a result of an increase of Ps.1,114.9 million in net loss and an increase of Ps.785.7 million in non-cash items included in the net loss. In addition a decrease of Ps.270.8 million in resources was the result of changes in working capital items, mainly due to (i) a Ps.163.7 million decrease in resources from cash generation from accounts receivable; (ii) a Ps.116.3 million decrease in resources from liabilities; and (iii) a Ps.9.3 million increase in resources from inventory.

# Resources Provided by Financing Activities

For the year ended December 31, 2013, net resources used for financing activities increased by Ps.2,461.0 million compared to the same period in 2012. This increase was mainly due to (i) Ps.2,192.3 resources generated from capital stock; (ii) Ps.95.8 million increase in resources from lower interest paid; and (iii) Ps.172.8 million resources used for other financing activities mainly related to repurchase of senior notes and shares during 2012 and 2013.

#### Resources Used for Investing Activities

For the year ended December 31, 2013, net resources used for investing activities increased by Ps.196.3 million. This increase was mainly attributable to an increase in investment in telephone equipment.

#### Capital Expenditures

Through December 31, 2013, we have invested Ps.8,434.3 million in the build out of our network operating support system and other capital expenditures, excluding cumulative pre-operating expenses and the expenses related to the issuance of several debt instruments. This amount includes Ps.143.9 million paid to obtain all of our frequency rights. Our 2013 capital expenditures amounted to Ps.386.5 million (U.S.\$29.6 million) and our expected capital expenditures for 2014 are approximately Ps.946.9 million (U.S.75.2 million) which will be funded with the cash generated from the operating activities.

#### Dividend Policy

Our current policy is to reinvest profits into our operations. In addition, the indenture that governs the terms of our Step-Up Senior Notes due 2020 allows us to pay cash dividends only if we meet the following conditions:

- a minimum consolidated leverage ratio of less than (i) 4.25 to 1.00 on or before December 31, 2013, (ii) 4.00 to 1.00 on or after January 1, 2014 and on or before December 31, 2014, and (iii) 3.50 to 1.00 on or after January 1, 2015;
- a minimum fixed charge coverage ratio of 2.00 to 1.00;
- no default (as defined in the indenture) must have occurred and be continuing or result from the payment of the cash dividend; and

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the dividend payments together with the aggregate amount of all other restricted payments (as defined in the indenture) do not exceed certain amount determined in the indenture based on, among other things: (i) the consolidated net income of the company, (ii) the net cash flows from equity offerings, (iii) the lesser of the return on the restricted investments or the original amount of the restricted investment, (iv) the lesser of the fair market value (as defined in the indenture) of the company's investment on a subsidiary after its redesignation as a restricted subsidiary or the original fair value as of the date in which such subsidiary was originally designated as unrestricted subsidiary.

In addition, we may not pay any dividend unless (i) such dividend is paid from our net profit account and the financial statements including such net profit have been approved by a shareholder resolution and (ii) the payment of the relevant dividend is approved by a shareholder resolution.

#### Recent IFRS Accounting Pronouncements

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Company has applied a number of new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

# Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The Company has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to the IFRS 7, have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

# New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011), Separate Financial Statements and IAS 28 (as revised in 2011), Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is applicable only to separate financial statements of the Company.

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The impact of the application of these standards is set out below:

## Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Company.

The application of the IFRS 10 has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

#### Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

The application of the IFRS 12 has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

#### IFRS 13. Fair Value Measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2, Share-based Payment, leasing transactions that are within the scope of IAS 17, Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

#### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Company has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

#### IAS 19 Employee Benefits (as revised in 2011)

The Company applied IAS 19 Employee Benefits (as revised in 2011) since January 1, 2011 (date of transition).

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognized in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

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b. New and revised IFRSs in issue but not yet effective

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 9, Financial Instruments<sup>3</sup>

Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures<sup>2</sup>

Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities<sup>1</sup>

Amendments to IAS 32, – Offsetting Financial Assets and Financial Liabilities<sup>1</sup>

- <sup>1</sup> Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
- <sup>2</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
- <sup>3</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

### **IFRS 9, Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

• All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).

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• With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Company's management anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

#### Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

#### Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company's management does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's consolidated financial statements.

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### C. Research and development, patents and licenses, etc.

We do not undertake research and development activities.

#### D. Trend information

The Mexican Telecommunications industry is highly influenced by various U.S. telecommunications industry trends, including:

- The growth in broadband access;
- The convergence of services and industries, as evidenced by the introduction of voice, data and video bundles in the market;
- Industry competitors forming alliances to sell and package bundles under one simple price strategies;
- Multi-service IP services; and
- Mobile services.

The growth of competition has been substantial and we expect it to continue. We are continuously improving our competitive position by strengthening our voice and data products and services. The increase in competition negatively affects our profit margins.

Our current financial constraints, including the uncertainty as to the availability of financing and the historical insufficiency of our earnings to cover fixed charges, has and may continue to negatively affect our plans for growth, including the build out of our network.

#### E. Off — balance sheet arrangements

We do not have any off-balance sheet arrangements.

#### F. Tabular disclosure of contractual obligations

The following table summarizes our minimum payments as of December 31, 2013 relating to long-term debt, operating leases, unconditional purchase obligations and other commercial commitments for the periods indicate. Certain provisions of our obligations could result in such payments being made in earlier periods than indicated below. For example, if a default exists under the indenture governing our Step-Up Senior Notes due 2020, the holders of such notes could, subject to the terms of the indenture, cause the acceleration of all principal and accrued interest payable in respect of such notes.

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Payment Due by Period Less Than More Than Total 3-5 Years 1 Year 1-3 Years 5 Years (In thousands of pesos) **Contractual Obligations:** Long-Term Debt Obligations\* Ps. 2,297,253 Ps. PsPs Ps2.297.253 Capital (Finance) Lease Obligation 25.615 25,615 Vendor Financing Capital Lease and Vendor Financing Accrued Interest 8,593 8.593 Debt Obligations Interest 1.028.148 137.835 334.112 268.013 288.177 Operating Lease Obligation 339,655 234,717 8,758 96,180 3,699,264 268,223 522,894 342,880 2,565,264

#### G. Safe Harbor

See "Special Note Regarding Forward-Looking Statements" on page 5.

# ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

# A. Directors and senior management

# Our Board of Directors

Our board of directors is responsible for the management of our business. The board of directors is comprised of eleven permanent and their alternate members, each of whom is elected annually at our general shareholders' meeting. All board members hold their position for one year and may be reelected.

Our bylaws provide that the board of directors be comprised of at least five and no more than 21 members and their corresponding alternates, in which at least 25% of the members and their corresponding alternates are independent pursuant to Mexican law.

Meetings of the board of directors are validly convened and held if a majority of the members are present. Resolutions passed at these meetings will be valid if approved by a majority of the disinterested members of the board of directors present at the meeting. If required, the chairman of the board of directors may cast a tie-breaking vote.

On October 2, 2013, through a General Shareholders Meeting, the shareholders of Maxcom approved the appointment of all the directors of the Company.

This change of all the directors was made in connection with the consummation of equity tender offer launched by Ventura Capital Privado.

The following table sets forth our current directors and their alternates, as appointed by our shareholders:

Name	Age	Position
Enrique Castillo Sánchez Mejorada	57	Chairman
Javier Molinar Horcasitas	54	Vice Chairman
Henry Davis Carstens	48	Director
Carlos Muriel Gaxiola*	53	Director
Alberto Martin Soberón	54	Director
Carlos Alverde Losada	43	Director
Ricardo Amtmann Aguilar	59	Director
Arturo Monroy Ballesteros	41	Director
Federico Chávez Peón *	47	Director
Angel Romanos Berrondo *	47	Director
Juan Carlos Braniff *	57	Director

 <sup>\*</sup> Independent Director.

<sup>\*</sup> For further information see "Item 5. Operating and Financial Review and Prospects — B. Liquidity and capital resources - Financing sources and liquidity"

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Wilfrido Javier Castillo Sánchez Mejorada, Manuel Papayanopulos Thomas, Paul Davis Carstens, Rodrigo Lebois Mateos, Gerardo Martín Bello, Ricardo Perrusquía, Ricardo Amtmann López, Juan Gilberto Guasco Godínez, Manuel Antonio Romo Villafuerte, Patricia Ferro Bertolo, José Carlos Balcazar serve as alternate directors during the absence of Enrique Castillo Sánchez Mejorada, Javier Molinar Horcasitas, Carlos Muriel Gaxiola, Juan Carlos Braniff, Angel Romanos Berrondo, Federico Chávez Peon, Ricardo Amtmann Aguilar, Henry Davis Carstens, Arturo Monroy Ballesteros, Juan Carlos Alverde Losada and Alberto Martin Soberón, respectively.

Fernando de Ovando Pacheco is the secretary of our board of directors. Armando Jorge Rivero Laing serves as alternate secretary of our board of directors. The secretary does not form part of our board of directors, but alternate secretary is part of this.

Carlos Muriel Gaxiola, Juan Carlos Braniff, Angel Romano Berrondo and Federico Chávez Peón are independent directors.

Set forth below is a brief biographical description of each of our directors:

Enrique Castillo Sanchez Mejorada has been appointed as Chairman of our board of director since October 2013. He also sits on the board of directors of Grupo Alfa, Grupo Cultiba, Grupo Aeroportuario Del Pacífico, Grupo Industrial Herdez, Médica Sur and Southern Cooper Corporation. He began his career at the Banco Nacional de México. He has been an Executive Director at Casa de Bolsa Inverlat and General Director of Seguros América; General Director of Grupo Financiero InverMéxico; General Director and Chairman of the Board of Directors of Ixe Grupo Financiero; General Director of Wholesale Banking in Banorte; Vice President and President of the Asociación de Bancos de México. His international experience includes running the Office of Credit Suisse First Boston Bank in Mexico from 1997 to 2000. Mr. Castillo has over 35 years of experience in the financial sector. He holds a Bachelor's degree in Business Administration and Management from Universidad Anahuac.

Javier Molinar Horcasitas has been appointed as Vice-Chairman of our board of directors since October 2013. He sat on the boards of directors of Entretiene, Ventura Capital Privado and Make a Team; currently is member of the board of directors of Grupo Gigante. In their professional career served as Executive Vice President of Grupo Financiero Santander Mexicano and as Director of Corporate Promotion and Subsidiaries of Casa de Bolsa Inverlat, where he was also a member of the Board. At Ixe he was responsible for Business, Administration and Finance, was General Director of Ixe Banco and General Director of Ixe Grupo Financiero and was responsible for guide the integration process as a result of the merger of Grupo Financiero Banorte and Ixe Grupo Financiero in early 2011. Mr. Horcasitas graduated with a Bachelor's degree in Business Administration from the Universidad La Salle.

Henry Davis Carstens has been one of our directors since October 2013. He also participates as member of the board of directors of Grupo Financiero Aserta, Afianzadora Aserta, Afianzadora Insurgentes and Corporativo DAC. He served as member of board of directors of Ixe Grupo Financiero and was member of the Committees of Credit and Risk. He was a President and Chief Executive Offcer of Grupo Probelco. Mr. Davis graduates with a Master's degree in Business Administration from J.L. Kellog Graduate School of Management. (Northwestern University).

Carlos Muriel Gaxiola has been appointed as one of our independent directors since October 2013. Also serves as Chairman of the board of Corporación Scribe and Virtual Market Ventures; and is independent board member of Corporación Actinver and Kubo-Financiero. He served as the Chief Executive Officer and Chairman of the board of ING Latin America and ING Mexico. Mr. Muriel has been part of the ING group where he worked as General Director, Managing Director, Country Manager and Americas Head of Financial Markets. He served as General Director of Afore Sntander-Serfin, Bursamex Casa de Bolsa; he had a leading positions on Casa de Bolsa Inverlat and Inverlat International. He is an economics and business administration graduate from Austin Community College and the University of Texas in Austin.

Alberto Martín Soberón has been one of our directors since October 2013. He participates, and has participated in the past in the board of directors of Soriana, Grupo Financiero Ixe and Grupo Inmex, among others. He served as Chief Executive Officer of Tiendas de Descuento del Nazas, which merged with Tiendas de Descuento del Norte to form Soriana. He was Managing Director of Grupo Financiero InverMexico. He has a degree in Accounting and an Engineering degree in Information Technology from Instituto Tecnológico y de Estudios Superiores de Monterrey.

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Carlos Alverde Lozada has been one of our directors since October 2013. Mr. Alverde serves as an Operations Director at Restaurantes Toks. He served before as Commercial and Marketing Director at Restaurantes Toks. He holds a bachelor degree in Communications from Universidad Anahuac and a master degree in Marketing Communications from North Western University.

Ricardo Amtmann Aguilar has been one of our directors since October 2013. He also sits on the board of directors of Banamex (Advisory Councils), Almacenadora del Valle de México and Hospital Bite Medica. He was a former member of Acciones Bursátiles, Allergan, Casa de Bolsa Bancomer, Berol, Ixe Grupo Financiero, among others. Actually is a President and Chief executive Officer of Laboratorios Sanfer. He holds a Master's degree in Business Administration and Management from Universidad Anahuac.

Arturo Monroy Ballesteros has been one of our directors since October 2013. He also sits on the board of directors of Metrofinanciera, Casa de Bolsa Banorte-Ixe and Operadora de Fondos Banorte-Ixe. Mr. Monroy serves actually as Deputy Managing Director of Investment Banking and Structured Financing of Grupo Financiero Banorte. He holds a Master's degree in Mathematics Methods in Finance from the Universidad Anahuac.

Federico Chavez Peon has been appointed as an independent directors of our board of directors since October 2013. He serves as Managing Partner of Promecap. He participates, and has participated in the past, in the board of directors of several companies including Grupo Aeroportuario del Sureste, Grupo Cultiba, Grupo Famsa, Unifin Arrendadora, Industrias Innopack, among others. Mr. Chavez acted as Chief Risk Officer at Banco Santander Mexicano and held several positions in the corporate banking division at Grupo Financiero Inverméxico, reaching the position of Divisional Director of Corporate Banking and Credit. He holds a bachelor degree in Industrial Engineering from the Universidad Nacional Autónoma de México.

Angel Romanos Berrondo has been appointed as one of our independent directors since October 2013. He serves as Chief Executive Officer and member of the board of directors of Crédito Real; also is member of the board of directors of Organización Mabe and Altamira Terminal Portuaria. He acted as Director of International Business of CB Capitales and was Director of Treasury of Mabe. Mr. Berrondo is Engineer and holds a Masters degree in Business Administration with specialization in Finance and Statistics from the Wharton School of Business at the University of Pennsylvania.

Juan Carlos Braniff has been appointed as one of our independent directors since October 2013. Actually serves as the Chairman and Chief Executive Officer of Capital I, Property Investment Funds; and is independent board member of Grupo Financiero Banorte. Mr. Braniff served as Vice-Chairmain of the board of directors of Grupo Financiero BBVA Bancomer and as Chairman of Insurance, Annuities, Afore, Bancomer, Bancomer Transfer Services (BTS) and Meximed; and a member of the Committees of Credit, Risk and Audit. He also sat on the boards of directors in companies such as: Aeroméxico, Maizoro, President Intercontinental Hotels, Gruma and Ixe Grupo Financiero, among others. He holds a Bachelor's degree in Industrial Design from Universidad Autónoma Metropolitana.

#### Senior Management

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Our executive officers are appointed by the board of directors for an indefinite term and may be removed by the board of directors at will, provided the corresponding severance payments are made in accordance with Mexican labor law and the applicable labor contract.

Set forth below are the name, age, position and a description of the business experience of each of our executive officers not described above. The business address of our executive officers is that of our principal office.

Name	Age	Position
Enrique Ibarra Anaya	51	Chief Executive Officer
Armando Jorge Rivero Laing	50	Chief Financial Officer
Gabriel Cejudo Funes	48	Chief Residential Sales Officer
Set forth below is a brief biographical description of each of our executive officers:		

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Enrique Ibarra Anaya has been appointed as Chief Executive Officer at the end of October 2013. During his professional career, he has served in high management positions in financial and telecommunication companies, such as Ixe Grupo Financiero and Pegaso PCS (Telefónica Movistar México); companies where he served as Director of Systems and Telecommunications. During the last 8 years, Mr. Ibarra was Chief Executive Officer of Bursatec, a subsidiary of Grupo Bolsa Mexicana de Valores (the Mexican Stock Exchange), as well as Deputy General Director of Technology of the Bolsa Mexicana de Valores, where he was in charge of the installation and operation of the new electronic trading system, known as MoNeT, that substantially increased the processing capabilities of the trading platform of the Mexican stock exchange, and which latency (speed) is similar to the best trading systems of the world. Mr. Ibarra holds a degree in Civil Engineering from the Universidad Nacional Autónoma de Méxicoand Masters and Ph.D. degrees from Carnegie Mellon University.

Armando Jorge Rivero Laing has been appointed as Chief Financial Officer since October 2013. Mr. Rivero has over 25 years of experience in the financial industry and in the legal area. He served 7 years in Casa de Bolsa Arka and 19 years in Grupo Financiero Ixe. He holds a law degree from the Universidad Nacional Autónoma de México.

Gabriel Cejudo Funes has been our Sales, Marketing and Client Service Vice President since April 2011. Mr. Cejudo has over 18 years of experience in the telecommunications industry. Prior to joining us in 2006, Mr. Cejudo was Data Vice President and previously worked at Iusacell for 8 years. Mr. Cejudo holds a chemistry engineering degree from the Universidad Iberoamericana in Mexico City and a master in business administration from the Instituto Panamericano de Alta Dirección de Empresa (IPADE).

# B. Compensation

We paid an aggregate of Ps.1.5 million in cash compensation to the members of our board of directors during 2013.

Our senior management is not entitled to any benefits upon termination, except for what is due to them according to the Federal Labor Law (Ley Federal del Trabajo).

#### **Stock Option Plan**

On April 20, 2012, by means of resolutions adopted at our General Extraordinary and Ordinary Shareholders Meetings, our shareholders ratified a new executive incentive plan and the compensation or emoluments awarded to directors and members of our different committees and approved a capital increase through the issuance of 25,800,000 Series A shares to be held in treasury. The plan was composed of part cash payment and a part stock options. As of December 31, 2013, directors, officers and employees have exercised 19,921,098 Series A Shares, this plan is no longer in effect.

The General Ordinary Shareholders' Meeting held on October 2, 2013, authorized the issuance of 210,000,000 (two hundred ten million) Series "A" common shares to be used in connection with an employee stock option plan, whose participants, characteristics, terms and conditions will be defined by the Company's Corporate Practices Committee.

The management is defining the terms of a new employee incentive plan based on stock of the Company.

#### Director and Officer Indemnification and Limitation on Liability

Our bylaws provide that none of our directors, members of committees of our board of directors or officers hall be liable to us or our stockholders for (1) any action taken or failure to act which was in good faith and was not a violation of a material provision of our bylaws and which was not grossly negligent, willfully malfeasant or knowingly in violation of the Mexican Securities Market Law, (2) if applicable, any action or inaction that is based upon the opinion or advice as to legal matters of legal counsel or as to accounting matters of accountants selected by any of them with reasonable care the competence of which is not the subject of a reasonable doubt and (3) any action or omission that was, to the best knowledge of the board member, committee member or officer, the most adequate choice or where the adverse effects of such action or omission were not foreseeable, in each case based upon the information available at the time of the decision. To the extent a director, committee member or officer is found to have acted in bad faith, with gross negligence or with willful malfeasance in connection with an action or failure to act in good faith which is not a violation of the material provisions of the bylaws, such director, committee member or officer may be liable for damages and losses arising under Mexican law.

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Our bylaws also provide that each director, member of a committee of the board of directors and officer who is made or threatened to be made a party to a proceeding as a result of his or her provision of services to us will be indemnified and held harmless by us to the fullest extent permitted by Mexican law against all expenses and liabilities incurred in connection with service for or on behalf of us. There is doubt as to whether, under Mexican law, this indemnification will be enforceable in respect of the breach of the duty of loyalty. However, in the event that a director, officer or committee member initiated a proceeding, they will only be indemnified in connection with such proceeding if it was authorized by our board of directors.

We may maintain insurance policies under which our directors and certain officers are insured, subject to the limitations of such policies, against certain expenses in connection with the defense of, and certain liabilities which might be imposed as a result of, actions, suits or proceedings to which they are parties by reason of being or having been such directors or officers.

Unless otherwise determined by our board of directors, expenses incurred by any of our directors, members of a committee or officers in defending a proceeding shall be paid by us in advance of such proceeding's final disposition subject to our receipt of an undertaking, in form and substance satisfactory to our board of directors, to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by us.

Persons which are not covered by the foregoing indemnification rights and who are or were our employees or agents, or who are or were serving at our request as employees or agents of another corporation, partnership, joint venture, trust or other enterprise, may also be indemnified to the extent authorized at any time or from time to time by our board of directors. Such expenses related to a proceeding incurred by such other employees and agents may also be paid in advance of a proceeding's final disposition, subject to any terms and conditions on such payment as our board of directors deems appropriate.

# **Authority of the Board of Directors**

The management of our company is entrusted to the board of directors and the chief executive officer. The board of directors sets forth the guidelines and general strategy for the conduct of our business and supervises the execution thereof.

Pursuant to the Mexican Securities Market Law, the board of directors must approve, among other matters:

- our general strategy;
- guidelines for the use of corporate assets;
- on an individual basis, any transactions with related parties, subject to certain limited exceptions;
- unusual or non-recurrent transactions and any transactions that imply the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets or the provision of collateral or guarantees or the assumption of liabilities equal to or exceeding 5% of our consolidated assets;
- the appointment or removal of the chief executive officer;
- · accounting and internal control policies; and
- policies for disclosure of information.

The Mexican Securities Market Law also imposes duties of care and of loyalty on directors.

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# C. Board practices

The members of our board of directors are elected annually at our ordinary general meeting of shareholders. All board members hold the positions for one year and may be reelected. The current members of the board of directors were reelected or appointed at the general annual ordinary shareholders' meeting held on October 2, 2013.

Our executive officers are appointed by the board of directors for an indefinite term and may be removed by the Board at will, provided the corresponding severance payments are made in accordance with Mexican labor law and the applicable labor contract.

Members of the board of directors are not entitled to any benefits upon termination.

According to our board of directors established an audit and corporate practices committee to assist the board of directors to manage our business.

# Audit and Corporate Practices Committee's

Our board of directors has established an audit and corporate practices committee responsible for advising the board on, and overseeing, our financial condition and matters regarding accounting, taxation and release of financial information, as well as to oversee and mitigate the risks of doing business in general and with related parties such as our shareholders, and to supervise the compliance of laws and securities regulations that apply to us. The members of this board was appointed on October 2013.

The charter of our audit and corporate practices committee contains the rules of operation of such committee. Under the charter, the audit and corporate practices committee must be composed of at least three members. Each member of the audit and corporate practices committee (including its president) must be independent under the rules of the Exchange Act and the Mexican Securities Market Law.

The audit committee is comprised by Carlos Muriel Gaxiola (who acts as Chairman of the audit committee), Juan Carlos Braniff and Rodrigo Lebois and the corporate practices committee by Angel Berrondo Romanos (who acts as Chairman of the corporate practices committee), Patricia Ferro Bertolo and Rodrigo Lebois all of whom are independent under the rules of the NYSE, Rule 10A-3 promulgated under the Exchange Act and the Mexican Securities Market Law. If requested, our external independent auditor and certain of our executives, including our chief financial officer, will be required to participate in each meeting, although they are not formal members of the committee.

The audit and corporate practices committee's principal role is to supervise the execution of related party transactions, require the chief executive officer to prepare reports when deemed necessary, supervise the activities of the chief executive officer and provide an annual report to the board of directors.

The mandate of the audit and corporate practices committee is to establish and review procedures and controls to ensure that the financial information we distribute is useful, appropriate, reliable, and accurately reflects our financial position. The mandate of our audit and corporate practices committee includes the following functions, among others:

advise the board of directors with respect to matters assigned to it under the Mexican Securities Market Law, including: (a) our internal control and internal audit guidelines, (b) our accounting policies by referenced to financial reporting standards, (c) our financial statements, (d) the appointment of our external auditors, and (e) transactions that either are outside the ordinary course of our business or, in relation to the results of the immediately preceding fiscal quarter, constitute (i) the acquisition or disposition of assets or (ii) the provision of guaranties or the assumption of liabilities, in each case, equal to or greater than 5% of our consolidated assets;

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evaluate, analyze and supervise the work performed by our external auditors, including (a) review with them our annual and interim financial statements; (b) approve non-audit services provided by them; (c)resolve any disagreements between them and management; and (d) ensure their independence and objectivity;

- discuss our financial statements with the chief financial officer for their preparation and review and issue a recommendation to the board of directors with respect to committee's approval;
- inform the board of directors of the status of the internal control and internal audit system, including any detected irregularities;
- Advise the board of directors with respect to the annual report of our chief financial officer;
- Assist the board of directors in preparation of the report on our principal accounting and financial information policies and criteria;
- Seek the opinion of independent experts and other advisors when required or deemed necessary;
- Investigate possible violations of operational guidelines and policies or of the internal control, internal audit and accounting records system;
- Request periodic meetings with management and any information related to internal control and internal audit;
- Call a shareholders' meeting and request the inclusion of matters it considers appropriate on the agenda;
- Supervise and discuss with the board of directors our internal control system relating to risk management and compliance with applicable laws;
- Ensure the existence of control mechanisms to provide that consistent unaudited financial information is presented to the board of directors;
- Report to the board of directors on any detected significant irregularities and on its activities in general and review and propose amendments to its rules;
- Supervise, review and discuss the audit procedures of our internal audit;
- Receive from our external auditors a report that includes an analysis of: (a) all critical accounting policies utilized by us; (b) all policies and financial reporting standards that differ from those utilized by us and that have been discussed with management, including the implications of using such policies and practices; and (c) any other written communications regarding significant matters between our external auditors and management, including the annual letter to management, in which our external auditors summarize their recommendations regarding our internal controls identified during the audit process;
- Establish procedures for receiving, retaining and addressing complaints regarding accounting, internal controls and audit matters, including procedures for confidential submission of such complaints;
- Review and analyze with management and our external auditors this annual report and the quarterly results presented to the Securities and Exchange Commission, or SEC:
- Oversee the execution of resolutions adopted at shareholders' meetings by the board of directors: and
- Perform any other functions pursuant to its mandate or expressly conferred by the board of directors.

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# D. Employees

See "Item 4. Information on the Company — B. Business Overview — Our Company — Employees."

#### E. Share ownership

Beneficial ownership percentages calculated in the table below are based on 3,135,760,472 shares of Series A common stock issued and outstanding as of March 31, 2014.

	Series A Common Stock			
	Beneficial O	Beneficial Ownership		
Shareholders	Number	Percentage	Underlying CPOs	
Enrique Castillo Sánchez Mejorada (1)	129,318,684	4.12%	118,903,800	
Javier Molinar Horcasitas (1)	129,318,684	4.12%	118,903,800	
Henry Davis Carstens (1)	129,387,618	4.12%	118,967,181	
Paul Davis Carstens (2)	129,387,617	4.12%	118,967,181	
Carlos Muriel Gaxiola	*	*	_	
Alberto Martin Soberon (1)	63,106,034	2.01%	58,023,687	
Juan Carlos Alverde Losada (3)	*	*	_	
Ricardo Amtmann Aguilar (3)	*	*	_	
Arturo Monroy Ballesteros (3)	*	*	_	
Federico Chavez Peon (3)	*	*	_	
Angel Romanos Berrondo (3)	*	*	_	
Juan Carlos Braniff (3)	*	*	_	
All executive officers and directors as a group (22 persons)	580,518,637	18.49%	533,765,649	

<sup>(1)</sup> The shares of Series A common stock are deposited in the administration trust F/ 744949 of Banco Mercantil del Norte, S.A., acting as trustee.

# ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

#### A. Major Shareholders

The following table sets forth information with respect to beneficial ownership of our capital stock, including shares underlying CPOs as March 30, 2014, by each person that is a beneficial owner of 5% or more of our outstanding shares of capital stock, other than any persons described in Item 6E above.

Beneficial ownership percentages calculated in the table below are based on 3,084,038,441 shares of Series A common stock issued and outstanding as of December 31, 2013.

	ies A Common Stock		
	Beneficial O	wnership	Shares
			Underlying
Shareholders	Number	Percentage	CPOs
Trust 744869 of Banco Mercantil del Norte, S.A.(1)	258.775.236	8.25%	258.775.236

<sup>(1)</sup> The beneficiary of the Trust 744869 is Solida Administradora de Portafolios, S.A. de C.V., SOFOM, ER, Grupo Financiero Banorte, an affiliate of Banco Mercantil del Norte, S.A.,

Alternate director.

<sup>(3)</sup> Holders own less than one percent of our Series A common stock.

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In accordance with a report issued by The Bank Of New York, as of March 31, 2013 there were 746,151 ADSs being traded in the NYSE, through —record holders

# Significant Changes in Share Ownership

On September 27, 2013 Maxcom completed a comprehensive plan of recapitalization and a equity tender offer initiated by Ventura, acting through the Trust 1387 held by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, a banking institution organized and existing under the laws of the United Mexican States and other investors. As part of this transaction, the investors advised by Ventura became the major shareholder in the Company.

#### **Differences in Voting Rights**

With respect to any particular class of our securities, the voting rights of our major shareholders, directors and executive officers is not different than the voting rights of other holders of the same class of securities.

#### B. Related party transactions

#### General policy

Our general policy is that we will not, and will not permit our subsidiaries to, enter into any contract or transaction with or for the benefit of any affiliate (other than transactions between us and our subsidiaries), which is not at a price and on other terms at least as favorable to Maxcom or our subsidiaries as those which could be obtained on an arm's-length basis from an unaffiliated third party.

# C. Interests of experts and counsel

Not applicable.

#### ITEM 8. FINANCIAL INFORMATION

#### A. Consolidated statements and other financial information

#### **Financial Statements**

See Item 18.

# Legal Proceedings

See "Item 4. Information on the Company — B. Business Overview — Legal Matters and Administrative Proceedings."

### **Dividend Policy**

See "Item 5. Operating and Financial Review and Prospects — B. Liquidity and capital resources - Dividend policy."

# B. Significant changes

Designation of Guarantor.

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# ITEM 9. THE OFFER AND LISTING

# **Trading Market**

In connection with our initial public offering on October 24, 2007, our American Depositary Shares, or ADSs, each representing seven (7) Ordinary Participation Certificates (CPOs) in Mexico, were listed and commenced trading on October 19, 2007 on New York Stock Exchange under the symbol "MXT" and on the Mexican Stock Exchange under the symbol "MAXCOM CPO".

The table below shows the reported highest and lowest market prices for our CPOs and ADSs on the Mexican Stock Exchange and the New York Stock Exchange for the periods indicated below:

Annual Highs and Lows         Ps.         3.           2014 (through May 12, 2014)         Ps.         3.           2012         4.           2011         6.           2010         12.           2009         12.           Couarterly Highs and Lows:           Trist Quarter         Ps.         3.           Erist Quarter         Ps.         5.           Second Quarter         5.           Fourth Quarter         5.           Fourth Quarter         5.           First Quarter         Ps.         3.           F	Stock Exch pesos per (		New York St (U.S. dollar		
Annual Highs and Lows       Book of the part of th	_	Low	 High	~ P	Low
2014 (through May 12, 2014)       Ps.       3.         2013       5.         2012       4.         2010       12.         2009       12.         Counterly Highs and Lows:         2014:         First Quarter       Ps.       3.         2013:         First Quarter       Ps.       5.         Second Quarter       5.         First Quarter       8.       3.         First Quarter       8.       3.         First Quarter       8.       3.         First Quarter       9s.       3.         First Quarter       9s.       3.         Fourth Quarter       3.         Fourth Quarter       3.       3.         February       9s.       3.         Manuary       Ps.       3.         February       3.         Monthly 2013:         January       Ps.       4.         February       5.         Monthly 2013:       5.         January </th <th></th> <th></th> <th></th> <th></th> <th></th>					
2012       4.2         2010       12.         2009       12.         Quarterly Highs and Lows:         2014:         First Quarter       Ps. 3.3         2013:         First Quarter       Ps. 5.5         Second Quarter       5.6         Fourth Quarter       9. 3.3         Second Quarter       3.         First Quarter       9. 3.         First Quarter       9. 3.         First Quarter       9. 3.         First Quarter       3.         Fourth Quarter       3.         Fourth Quarter       3.         Fourth Quarter       3.         Fourth Quarter       3.         January       Ps. 3.         February       3.         Monthly 2013:         January       Ps. 4.         February         March       5.         April       5.         March       5.         April       5. <td< td=""><td>37 Ps.</td><td>3.15</td><td>\$ 1.86</td><td>\$</td><td>1.64</td></td<>	37 Ps.	3.15	\$ 1.86	\$	1.64
2011       6.         2010       12.         2009       12.         Quarterly Highs and Lows:         2014:         First Quarter       Ps. 3.         Second Quarter         Fourth Quarter       5.         Fourth Quarter       5.         First Quarter       9s. 3.         Second Quarter       3.         First Quarter       4.         Mouth Quarter       3.         Fourth Quarter       5.	71	3.02	3.38		1.40
2010       12.         2009       12.         Quarterly Highs and Lows:       2014:         First Quarter       Ps. 3.3         2013:       First Quarter       Ps. 5.         Fourth Quarter       Ps. 3.         Fourth Quarter       Ps. 3.         Fourth Quarter       Ps. 3.         Fourth Quarter       4.         Monthly 2014:       January       Ps. 3.         February       3.         March       3.         Monthly 2013:       January       Ps. 4.         February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.	29	2.00	2.61		0.88
2009       12.c         Quarterly Highs and Lows:         2014:         First Quarter       Ps.       3.4         2013:         First Quarter       Ps.       5.         Second Quarter       5.       5.         Fourth Quarter       Ps.       3.         Second Quarter       3.       3.       5.         Fourth Quarter       4.       3.         Monthly 2014:       9s.       3.3         January       Ps.       3.3         February       3.       4.         Monthly 2013:       9s.       4.         January       Ps.       4.         February       5.       4.         March       5.       5.         April       5.       5.         March       5.       5.         April       5.       6.         May       4.       4.         July       5.       5.         August       5.       5.         September       5.       5.       5.         October       5.       5.       5.	77	2.38	4.00		1.05
Quarterly Highs and Lows:         2014:         First Quarter       Ps.       3.3         2013:         First Quarter       Ps.       5.5         Second Quarter       5.5         Fourth Quarter       Ps.       3.4         Second Quarter       3.5       3.5         First Quarter       Ps.       3.4         Fourth Quarter       4.2       4.2         Monthly 2014:       9s.       3.4         January       Ps.       3.4         February       3.4         Monthly 2013:       3.4         January       Ps.       4.4         February       5.0         March       5.5         April       5.6         May       4.2         June       4.2         July       5.2         August       5.5         September       5.5         October       5.5	10	5.83	6.58		3.00
2014:         First Quarter       Ps.       3.3         2013:       First Quarter       Ps.       5.         Second Quarter       5.       5.         Fourth Quarter       Ps.       3.         Second Quarter       3.       5.       5.         First Quarter       Ps.       3.         Second Quarter       3.       5.       5.       5.         Hourth Quarter       4.	40	4.20	6.49		1.70
First Quarter       Ps.       3.3         2013:       First Quarter       Ps.       5.5         Second Quarter       5.6       5.7         Fourth Quarter       5.7       5.7         First Quarter       Ps.       3.3         Second Quarter       3.2       3.2         Third Quarter       4.2       4.2         Monthly 2014:       9s.       3.3         February       Ps.       3.4         April       3.4         March       3.5       4.6         April       3.4       4.7         January       Ps.       4.4         February       5.0       4.4         March       5.5       4.5         April       5.5       4.5         March       5.5       5.5         April       5.5       5.5         May       4.2       5.1         July       5.5       5.5         August       5.5       5.5         September       5.5       5.5         October       5.5       5.5					
2013:         First Quarter       5.         Second Quarter       5.         Third Quarter       5.         2012:					
2013:         First Quarter       5.         Second Quarter       5.         Third Quarter       5.         2012:	88 Ps.	2.96	\$ 2.06	\$	1.42
First Quarter       Ps.       5.         Second Quarter       5.         Third Quarter       5.         Fourth Quarter       8.         First Quarter       9s.       3.         Second Quarter       3.         Third Quarter       4.         Monthly 2014:       9s.       3.         January       Ps.       3.         February       3.       4.         Monthly 2013:       3.       4.         January       Ps.       4.         February       5.       4.         March       5.       4.         April       5.       4.         May       4.       5.         May       4.       5.         Mugust       5.       5.         August       5.       5.         October       5.       5.					
Second Quarter       5.6         Third Quarter       5.7         2012:       First Quarter       Ps. 3.8         Second Quarter       3.         Third Quarter       4.0         Monthly Quarter       4.0         Monthly 2014:       January       Ps. 3.9         February       3.0         March       3.4         April       3.4         February       5.0         March       5.0         April       5.0         May       4.2         July       5.0         August       5.2         September       5.0         October       5.5	70 Ps.	3.73	\$ 3.08	\$	1.76
Third Quarter       5.5         Fourth Quarter         First Quarter         First Quarter       3.5         Second Quarter       3.5         Fourth Quarter       4.0         Monthly 2014:         January       Ps. 3.9         February       3.4         April       3.4         Monthly 2013:       5.0         January       Ps. 4.7         February       5.0         March       5.0         April       5.0         May       4.0         June       4.0         July       5.0         August       5.5         September       5.0         October       5.5		3.31	2.80		1.52
2012:         First Quarter       3.3         Second Quarter       3.3         Third Quarter       4.2         Monthly 2014:       9s. 3.9         January       Ps. 3.9         February       3.4         April       3.4         Monthly 2013:       9s. 4.9         January       Ps. 4.9         February       5.0         March       5.2         April       5.3         March       5.4         April       5.5         May       4.5         June       4.5         July       5.5         August       5.5         September       5.5         October       5.5	71	6.68	3.38		1.96
2012:         First Quarter       3.3         Second Quarter       3.3         Third Quarter       4.2         Monthly 2014:       9s. 3.9         January       Ps. 3.9         February       3.4         April       3.4         Monthly 2013:       9s. 4.9         January       Ps. 4.9         February       5.0         March       5.2         April       5.3         March       5.4         April       5.5         May       4.5         June       4.5         July       5.5         August       5.5         September       5.5         October       5.5	54	3.02	2.99		1.40
Second Quarter       3.3         Third Quarter       4.4         Monthly 2014:       98. 3.3         January       Ps. 3.4         February       3.4         March       3.4         April       3.4         Monthly 2013:       98. 4.4         February       5.6         March       5.7         April       5.0         May       4.5         June       4.7         July       5.7         August       5.7         September       5.7         October       5.5					
Third Quarter       3.         Fourth Quarter       4.2         Monthly 2014:       3.         January       Ps. 3.         February       3.         Morch       3.         Monthly 2013:       5.         January       Ps. 4.         February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.	87 Ps.	2.90	\$ 2.07	\$	1.53
Fourth Quarter       4.2         Monthly 2014:       98. 3.3         February       3.4         March       3.4         April       3.4         Monthly 2013:       98. 4.4         February       5.5         March       5.7         April       5.0         May       4.2         June       4.2         July       5.2         August       5.2         September       5.2         October       5.3	30	2.00	1.78		0.88
Monthly 2014:         January       Ps. 3.3         February       3.4         April       3.4         Monthly 2013:       Tebruary         January       Ps. 4.4         February       5.4         March       5.5         April       5.6         May       4.5         June       4.5         July       5.5         August       5.5         September       5.5         October       5.5	18	2.52	1.75		1.13
January       Ps.       3.3         February       3.4         March       3.4         April       3.4         Monthly 2013:       5.         January       Ps.       4.         February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.	29	2.90	2.61		1.37
February       3.4         March       3.4         April       3.4         Monthly 2013:       ***         January       Ps. 4.         February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.					
March       3.4         April       3.4         Monthly 2013:       3.4         January       Ps. 4.4         February       5.6         March       5.7         April       5.6         May       4.7         June       4.7         July       5.7         August       5.7         September       5.7         October       5.7			\$ 2.06	\$	1.42
April       3.4         Monthly 2013:       Ps. 4.4         January       Ps. 4.5         February       5.0         March       5.1         April       5.0         May       4.1         June       4.2         July       5.2         August       5.3         September       5.3         October       5.3		2.99	1.95		1.64
Monthly 2013:       January     Ps. 4.       February     5.       March     5.       April     5.       May     4.       June     4.       July     5.       August     5.       September     5.       October     5.		2.96	1.76		1.47
January       Ps.       4.         February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.	48	3.20	1.86		1.70
February       5.         March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.					
March       5.         April       5.         May       4.         June       4.         July       5.         August       5.         September       5.         October       5.		3.73	\$	\$	1.76
April       5.0         May       4.1         June       4.2         July       5.3         August       5.3         September       5.5         October       5.5		4.40	2.92		2.26
May       4.         June       4.         July       5.         August       5.         September       5.         October       5.	70	4.20	3.08		1.89
June       4.2         July       5.3         August       5.3         September       5.5         October       5.5		3.84	2.80		2.11
July       5         August       5         September       5         October       5		3.74	2.51		2.00
August 5 September 5 October 5		3.31	2.33		1.52
September 5.3 October 5.3		3.68	3.00		1.96
October 5		4.65	3.38		2.41
		4.85	3.02		2.57
		3.02	2.99		1.64
November 3.0		3.18	2.38		1.62
December 3.3	35	3.05	1.80		1.40
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### **Trading on the Mexican Stock Exchange**

The Mexican Stock Exchange, located in Mexico City, is the only stock exchange in Mexico. Operating continuously since 1907, The Mexican Stock Exchange is organized as a corporation with variable capital, or *sociedad anónima bursátil de capital variable*. Securities are traded on the Mexican Stock Exchange from 8:30 am to 3:00 pm Mexico City time, each business day. Since January 1999, all trading on the Mexican Stock Exchange has been conducted electronically. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price or volume volatility. Under current regulations, this system applies to ADSs. However, the Mexican Stock Exchange may take into account any suspension measures that may or may not have been taken by the New York Stock Exchange in respect of the ADSs, and may resolve not to impose a suspension of trading of our shares.

Settlement is effected two trading days after a share transaction on the Mexican Stock Exchange. Deferred settlement even by mutual agreement is not permitted without approval of the CNBV. Most securities traded on the Mexican Stock Exchange are on deposit with S.D. Indeval, Institución para el Deposito de Valores, S.A. de C.V., or Indeval, a privately owned securities depositary that acts as a clearinghouse, depositary and custodian, as well as a settlement, transfer and registration agent for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities.

Although the Mexican Securities Market Law provides for the existence of an over-the-counter market, no such market for securities in Mexico currently exists

#### ITEM 10. ADDITIONAL INFORMATION

#### A. Share capital

Not applicable.

#### B. Memorandum and articles of association

#### General

Maxcom was incorporated on February 28, 1996, under the name "Amaritel, S.A. de C.V." as a variable capital corporation (sociedad anónima de capital variable) established under the laws of Mexico. Maxcom was registered in the Public Registry of Commerce of the Federal District of Mexico under folio no. 210585 on June 11, 1996. Amaritel changed its name to "Maxcom Telecomunicaciones, S.A. de C.V." on February 9, 1999.

Maxcom was formed for the purpose of installing, operating and exploiting a public telecommunications network granted by the Mexican federal government for the provision of local and long-distance telephone services.

Maxcom's corporate purposes are found under Article Two of its bylaws. The duration of Maxcom's existence under our bylaws is indefinite.

The following table sets forth our capital structure as of March 31, 2014:

Class of Shares	Number of Shares	% of Total Capital Structure
Series A common stock	3,138,091,655	100%
Total	3,138,091,655	100%

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### DESCRIPTION OF CAPITAL STOCK

The following information describes our outstanding capital stock and provisions of our bylaws. This description may not contain all of the information that is important to you. To understand them fully, you should read our bylaws, a copy of which is filed with the SEC as an exhibit to the registration statement filed with the SEC on October 17, 2007. The following descriptions are qualified in their entirety by reference to the bylaws and to applicable provisions of Mexican law.

Because we are a variable capital stock corporation, our capital stock must have a fixed portion and may have a variable portion, both of which will be represented by shares of Series A common stock. Our outstanding capital stock consists of 1,528,827 shares of Series A common stock representing the fixed portion of our capital stock and 3,136,562,828 shares of Series A common stock representing the variable portion of our capital stock.

### Changes to Capital Stock

The fixed portion of our capital stock may be increased or decreased by a resolution adopted at a general extraordinary shareholders' meeting and upon amendment of our bylaws. The variable portion of our capital stock may be increased or decreased by a resolution adopted at a general ordinary shareholders' meeting without amending our bylaws. Increases or decreases in the fixed or variable portion of the capital stock must be recorded in our registry of capital variations. New shares (other than then existing treasury shares) cannot be issued unless the then-issued and outstanding shares have been paid in full.

### Registration and Transfer

Our shares of Series A common stock are evidenced by share certificates in registered form. Our shareholders that hold our shares of Series A common stock directly (and not through CPOs) may hold their shares in the form of physical certificates. We maintain a stock registry, and, in accordance with Mexican law, only those holders listed in the stock registry and those holding certificates issued by S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., or Indeval, a privately owned securities depositary that acts as a clearinghouse, depositary, and custodian, as well as a settlement, transfer, and registration agent for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities, the depositary for the CPOs, are recognized as our shareholders. Pursuant to Mexican law, any transfer of our shares effected by the transfer of a physical certificate must be registered in our stock registry to be valid.

#### Shareholders' Meetings

General shareholders' meetings may be general ordinary shareholders' meetings or general extraordinary shareholders' meetings. Shareholders may also hold special meetings for matters affecting a single class of capital stock. Under Mexican law and our bylaws, shareholders' meetings may be called by:

- our board of directors and the president or secretary of the board;
- shareholders representing at least 10% of our outstanding capital stock who request the board of directors or the audit and corporate practices committee to call a shareholders meeting:
- a Mexican court of competent jurisdiction, in the event the board of directors does not comply with a valid request of the shareholders described immediately above;
- the audit and corporate practices committee; and
- any shareholder, provided that no annual ordinary meeting has been held for two consecutive years or the annual shareholders meeting did not to address the matters required to be addressed in an annual shareholders' meeting.

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Calls for shareholders' meetings will be required to be published in any two of the following publications: Reforma newspaper (business section), El Financiero newspaper, the Official Gazette of the Federal District, the Official Gazette of the Federation or in a newspaper of general circulation of our corporate domicile, at least 15 days before the scheduled date of the shareholders' meeting in the case of first calls, and at least 5 days in advance in the case of second and subsequent calls. Calls for shareholders' meetings must set forth the place, date and time of the meeting and the matters to be addressed at the meeting. From the date on which a call is published until the date of the corresponding meeting, we must make available to our shareholders all relevant information at our executive offices. To attend a shareholders' meeting, potential attendees must hold shares of our stock that are registered in their name in the stock registry, present evidence of the deposit of certificates evidencing shares of our stock owned by them with a financial institution or deposit such certificates with our secretary, or present a proxy issued by the CPO trustee, coupled with certificates issued by the custodian of the holder, together with an Indeval certification. See "— Voting Rights," "Description of the CPO Trust" and "Description of American Depositary Shares."

General Ordinary Shareholders' Meetings. General ordinary shareholders' meetings are those called to discuss any issues not reserved for extraordinary meetings. We are required to hold a general ordinary shareholders' meeting at least once a year, during the first four months following the end of our fiscal year, to:

- approve the financial statements for the preceding fiscal year;
- · elect directors;
- discuss and approve the audit and corporate practices committees, the board of directors' and the chief executive officer's annual report;
- determine how to allocate net profits for the preceding year (including, if applicable, the payment of dividends); and
- determine the maximum amount of resources allocated to share repurchases.

In addition, any transaction representing 5% or more of our consolidated assets during any fiscal year must be approved by our shareholders.

Holders of at least 50% of our issued and outstanding voting stock must be present, in person or by proxy, to satisfy the attendance quorum requirements for a general ordinary shareholders' meeting. Assuming a quorum is present, resolutions may be approved by a majority of the voting capital stock represented at a general ordinary shareholders' meeting. If the attendance quorum is not met upon the first call of a general ordinary shareholders' meeting, a subsequent general ordinary shareholders' meeting may be called during which resolutions may be approved by the majority of the capital stock present, regardless of the percentage of outstanding voting stock represented at such meeting.

 ${\it General\ Extraordinary\ Shareholders'\ Meetings.\ General\ extraordinary\ shareholders'\ meetings\ will\ be\ those\ called\ to\ consider:}$ 

- · an extension of our duration or voluntary dissolution;
- an increase or decrease in the fixed portion of our capital stock;
- any change in our corporate purpose or nationality;
- any merger or transformation into another type of company;
- any issuance of preferred stock;
- the redemption of shares with retained earnings;
- any amendments to our bylaws;
- any other matters provided for by law or our bylaws; or

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the cancellation of the registration of our class A common stock or CPOs representing such shares at the Mexican National Securities Registry or any stock exchange (except for automated quotation systems).

Holders of at least 75% of our issued and outstanding voting stock must be present, in person or by proxy, to satisfy the attendance quorum requirements for a general extraordinary shareholders' meeting. If an attendance quorum is not met upon the first call of a general extraordinary shareholders' meeting, a subsequent meeting may be called, at which the attendance quorum requirements will be satisfied if at least 50% of our issued and outstanding voting capital stock is present, whether in person or by proxy. In either case, at a general extraordinary shareholders' meeting, resolutions must be approved by the vote of at least 50% of our issued and outstanding voting capital stock.

Special Shareholders Meetings. A special shareholders' meeting of holders of a single class of our shares may be called if an action is proposed to be taken that may only affect such class. Because we have a single outstanding class of shares, we do not expect to hold special shareholders' meetings. The quorum for a special meeting of shareholders and the vote required to pass a resolution at a special shareholders' meeting are identical to those required for extraordinary meetings of shareholders, except that the calculations are based upon the number of outstanding shares of the class that is the subject of the special meeting of shareholders.

Cumulative Voting. Holders of our class A common stock, or CPOs representing our class A common stock, will not have cumulative voting rights. However, under the Mexican Securities Market Law, at each shareholders' meeting at which nominees for director stand for election, holders of at least 10% of our issued and outstanding voting capital stock are entitled to appoint one member to the board of directors for each 10% of our issued and outstanding voting capital stock held and, if applicable, one alternate member of the board of directors in addition to the directors elected by the majority.

### Voting Rights

Each outstanding share of our Series A common stock is entitled to one vote on all matters submitted to the vote of shareholders. Because of the limitations imposed by Mexico's Foreign Investment Law and the Federal Telecommunications Law, the voting rights of non-Mexicans who hold shares of our Series A common stock directly cannot exceed 49% of the total voting rights and non-Mexican holders of CPOs and ADSs are only entitled to cause the vote of the underlying shares of Series A common stock in limited cases. As a result, the ability of non- Mexican holders of CPOs and ADSs to direct the vote of underlying shares of Series A common stock is limited. See "Description of the CPO Trust — Voting Rights with respect of the underlying shares."

#### Ownership Restrictions

Our bylaws provide that, so long as Mexican law does not allow unrestricted foreign ownership of our capital stock, no transfer of shares of Series A common stock to or acquisition or subscription of shares of Series A common stock by a non-Mexican shall be permitted if such transfer, acquisition or subscription would result in non-Mexicans holding directly in excess of 49% of the total number of shares of Series A common stock not held by the CPO trustee. See "- Other Provisions — Foreign Investment Regulations.'

### Preemptive Rights

Under Mexican law, holders of our Series A common stock have preemptive rights for all share issuances or increases except in the cases noted below. Generally, if we issue additional shares of capital stock, our shareholders will have the right to purchase the number of shares necessary to maintain their existing ownership percentage. Shareholders must exercise their preemptive rights within the time period set forth by our shareholders at the meeting approving the relevant issuance of additional shares. This period must continue for at least 15 days following the publication of notice of the issuance in the Official Gazette of the Federation and in a newspaper of general circulation in our corporate domicile. Under Mexican law, shareholders cannot waive their preemptive rights in advance and preemptive rights may not be represented by an instrument that is negotiable separately from the corresponding share. These preemptive rights do not apply in the case of shares issued in connection with mergers, sales of shares held in our treasury as a result of repurchases of shares conducted on the Mexican Stock Exchange, the issuance of shares held in treasury previously approved by our shareholders for issuance in a public offering in accordance with Article 53 of Mexican Securities Market Law, the issuance of shares upon the conversion of debentures or other similar debt instruments and the issuance of shares to employees, officers and directors pursuant to stock option plans, stock plans, retirement or similar plans.

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### Dividends

Our board of directors must submit our financial statements for the previous fiscal year at our annual general ordinary shareholders' meeting for approval. Once our shareholders approve our financial statements, they must allocate net profits for the previous fiscal year. Under Mexican law and our bylaws, prior to any distribution of dividends, 5% of our net earnings must be allocated to a legal reserve fund, until such legal reserve fund is equal to at least 20% of our paid-in capital stock. Additional amounts may be allocated to other reserve funds as the shareholders may determine, including the amount allocated for the repurchase of shares. The remaining balance, if any, constitutes distributable profits that may be distributed as dividends. Cash dividends on shares not held through Indeval will be paid against delivery of the respective dividend coupon, if any.

#### Redemption

In accordance with our bylaws, shares representing our capital stock are subject to redemption in connection with either a reduction of capital stock or redemption with distributable profits, which in either case must be approved by our shareholders. In connection with a capital reduction, the redemption of shares shall be made *pro rata* among the shareholders, or, if affecting the variable portion of the capital stock, as otherwise determined in the relevant shareholders' meeting, but in no case the redemption price shall be less than the book value of such shares as determined pursuant to our latest balance sheet approved at a general ordinary shareholders' meeting. In the case of redemption with retained earnings, such redemption shall be conducted by means of a tender offer conducted on the Mexican Stock Exchange at prevailing market prices, in accordance with the Mexican Corporations Law, the Mexican Securities Market Law and our bylaws, or *pro rata* among the shareholders.

#### Dissolution or Liquidation

Upon our dissolution or liquidation, our shareholders will appoint one or more liquidators at an extraordinary general shareholders' meeting to wind up our affairs. Subject to the preferences of other classes or series of stock that may be outstanding at the time, all fully paid, issued and outstanding shares of our Series A common stock (whether or not underlying CPOs) will be entitled to participate equally in any liquidating distributions.

#### **Certain Minority Protections**

In accordance with the Mexican Securities Market Law and the Mexican Corporations Law, our bylaws include a number of minority shareholder protections. These minority protections include provisions that permit:

- Holders of at least 5% of our outstanding shares, whether directly or through CPOs or ADSs, are required to initiate action against some or all of our
  directors for violations of their duty of care or duty of loyalty, for our benefit, in an amount equal to the damages or losses caused to us. Actions initiated
  on these grounds have a five year statute of limitations.
- Holders of at least 10% of our outstanding share capital, whether directly or through CPOs or ADSs, are able to:
  - o request a call for a shareholders' meeting;
  - o request that resolutions with respect to any matter on which they were not sufficiently informed be postponed; and
  - o appoint one member of our board of directors and one alternate member of our board of directors except that for non-Mexican holders of CPOs or ADSs this right will only be exercisable if a majority of our directors are appointed by Mexican investors. See "Description of the CPO Trust."

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• Holders, whether directly or through CPOs or ADSs, of 20% of our outstanding share capital to oppose any resolution adopted at a shareholders' meeting and file a petition for a court order to suspend the resolution within 15 days following the adjournment of the meeting at which the action was taken, provided that the challenged resolution violates Mexican law or our bylaws, the opposing shareholders either did not attend the meeting or voted against the challenged resolution, and the opposing shareholders deliver a bond to the court to secure payment of any damages that we may suffer as a result of suspending the resolution in the event that the court ultimately rules against the opposing shareholder.

#### Other Provisions

### Foreign Investment Regulations

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Mexico's Foreign Investment Law and the Federal Telecommunications Law restrict ownership by non-Mexicans of our capital stock. Mexican shareholders must hold at least 51% of the shares of Series A common stock directly and the balance may be held by non-Mexican shareholders. We filed an application with the Mexican Foreign Investment Bureau (*Dirección General de Inversión Extranjera*) to amend our existing authorization to issue up to 95% of our capital stock in the form of neutral investment and received authorization allowing that up to 95% of our capital stock can be owned, subscribed or acquired by a banking institution acting as trustee of a neutral investment trust in accordance with the Foreign Investment Law (which would be the securities underlying the CPOs). The remaining 5% of our capital stock must be represented directly by shares of Series A common stock, of which at least 51% must be owned by Mexican holders. As required by Mexican law, our bylaws provide that no transfer to or acquisition or subscription of shares by a non-Mexican can be made if such transfer, acquisition or subscription would result in non-Mexicans holding in excess of 49% of the total number of shares of Series A common stock not underlying the CPOs. The CPOs issued may be freely subscribed, acquired or owned by Mexicans or non-Mexicans. CPOs shall not be counted for purposes of determining the foreign investment percentage limitations under the Foreign Investment Law and the Federal Telecommunications Law. Non-Mexican investors will hold shares of Series A common stock indirectly through CPOs or ADSs. See "Description of the CPO Trust" and "Description of American Depositary Shares."

#### Purchase of Shares by Us

We will be able to purchase our shares (or CPOs evidencing such shares) through the Mexican Stock Exchange at the prevailing market prices for the shares at the time of purchase. The economic and voting rights corresponding to repurchased shares will not be exercised during the period the shares are owned by us and the shares will not be deemed outstanding for purposes of calculation any quorum or vote at any shareholders meeting. We are not required to create a special reserve for the repurchase of shares and we are not required to obtain the approval of our board of directors to effect share repurchases. However, the maximum amount that may be applied for share repurchases must be approved by our shareholders and our board of directors must appoint an individual or group of individuals for effecting share repurchases. Any share repurchases must be made subject to the provisions of applicable law, including the Mexican Securities Market Law, and carried out, reported and disclosed in the manner specified by the CNBV. If we intend to repurchase shares representing more than 1% of our outstanding share capital at a single trading session, we will be required to inform the public of such intention at least ten minutes before submitting our bid. If we intend to repurchase shares representing 3% or more of our outstanding share capital during a period of twenty trading days, we will be required to conduct a public tender offer for such shares.

### Purchases of Shares by our Subsidiaries

Our subsidiaries or other entities controlled by us may not purchase, directly or indirectly, shares representing our capital stock or shares of companies or entities that are our shareholders.

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### **Conflicts of Interest**

Under Mexican law, any shareholder that votes on a transaction in which its interests conflict with our interests may be liable for damages, but only if the transaction would not have been approved without such shareholder's vote.

In accordance with the duty of loyalty imposed on directors, a member of the board of directors with a conflict of interest must disclose such conflict and abstain from any deliberation or vote in connection therewith. A breach by any member of the board of directors of any such obligations may result in the director being liable for damages and lost profits.

Our amended bylaws will provide that, in connection with any controversy between our shareholders and us, or between our shareholders in connection with any matter related to us, both we and our shareholders must submit to the jurisdiction of the courts of Mexico City, Federal District, Mexico.

In accordance with applicable Mexican law, only when our shareholders approve a change in our corporate purpose, jurisdiction of organization or transformation from one corporate form to another, will any shareholder entitled to vote that voted against these matters have the right to withdraw and receive the book value for its shares as set forth in the last financial statements approved by our shareholders, provided that the shareholder exercises this right within 15 days after the meeting at which the relevant matter was approved.

### Cancellation of Registration in the Mexican National Securities Registry

Pursuant to our bylaws, and as prescribed by the Mexican Securities Market Law, we are required to make a public tender offer for the purchase of stock held by the minority shareholders in the event that the listing of our shares of Series A common stock or CPOs on the Mexican Stock Exchange is cancelled, either by our resolution or by an order of the CNBV. Our controlling shareholders will be secondarily liable for these obligations. A controlling shareholder will be deemed to be a shareholder that holds a majority of our voting stock, if it has the ability to control the outcome of decisions made at a shareholders or board of directors meeting or has the ability to appoint a majority of the members of our board of directors. The price at which the stock must be purchased is the higher of:

- the average quotation price on the Mexican Stock Exchange for the 30 days prior to the date of the offer; or
- the book value, as reflected in the report filed with the CNBV and the Mexican Stock Exchange.

If the tender for cancellation is requested by the CNBV, it must be initiated within 180 days from the date of the request. If requested by us, under the Mexican Securities Market Law, the cancellation must be approved by 95% of our shareholders.

Our board of directors must make a determination with respect to the fairness of the tender offer price, taking into consideration the minority shareholders' interest, and disclose its opinion. The resolution of the board of directors may be accompanied by a fairness opinion issued by an expert selected by our audit and corporate practices committee.

## Elimination of Foreign Ownership Restrictions

The provisions of our bylaws restricting foreign ownership of our capital stock are based upon applicable provisions of the Mexican Foreign Investment Law and Mexican Federal Telecommunications Law which were amended on June 11, 2013 in connection with a reform to Mexican Constitution. Notwithstanding, the foregoing, our bylaws provide that, in circumstances where the restrictions on foreign ownership are eliminated, we will use our best efforts to take any and all actions necessary or advisable to cause the termination of the CPO trust and the distribution of the underlying shares of Series A common stock to the CPO holders including:

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• concurrently with the termination of the CPO trust and distribution of the underlying shares, the registration of the Series A common stock with the Mexican National Securities Registry maintained by the CNBV and, if necessary, the registration of the distribution of such shares under the Securities Act;

- the listing of the shares on the Mexican Stock Exchange;
- those required to modify our bylaws to permit unrestricted foreign ownership and/or control of our capital stock (and the CPOs);
- the preparation of proxy materials for and the solicitation of shareholder, and CPO holder, approval of the termination of CPO trust and any required or advisable amendments to our bylaws; and
- causing all filings, notices, applications and permits related to, and obtaining approvals and authorizations of, such termination and distribution.

The provisions of the CPO trust agreement contain provisions similar to those of our bylaws.

### Forfeiture of Stock

Under our bylaws, the current or future foreign shareholders of Maxcom formally undertake with the Ministry of Foreign Relations (Secretaria de Relaciones Exteriores) to consider themselves as Mexican nationals with respect to the stock of Maxcom that they may acquire or own, as well as with respect to the properties, rights, concessions, securities or interests owned by Maxcom, or the rights and obligations derived from the agreements entered with the Mexican authorities to which Maxcom is a party. The current or future foreign shareholders of Maxcom formally undertake not to invoke the protection of their government, under penalty of forfeiting such shares to the benefit of the Mexican nation.

#### **Duration and Dissolution**

Our corporate existence under our bylaws is indefinite. Pursuant to the Mexican Companies Law and our bylaws, we may be dissolved upon the occurrence, among other things, of any of the following events:

- the impossibility of continuing with our current line of business;
- the resolution of our shareholders at an extraordinary general shareholders' meeting;
- the reduction of the number of our shareholders to fewer than two; and
- the loss of two-thirds of our capital stock.

#### Anti-takeover Provisions

Our bylaws provide that no person or group of persons may acquire (or enter into arrangements to control, possess or exercise rights with respect to) 20% or more of our shares, directly or indirectly, without the prior approval of the board of directors and none of our competitors may acquire 2% or more of our shares, directly or indirectly, without the prior approval of the board of directors. In both cases, the approval of the board of directors must be granted or denied within 90 days after notice of the proposed transaction is given to the board of directors. If our board of directors approves the transaction, the potential purchaser must conduct a tender offer to purchase 100% of our shares on terms approved by our board of directors.

Our board of directors may revoke an approval or approve more than a single offer, in light of competing offers or for other circumstances. Our board of directors may relieve a purchaser from the tender offer obligation at its sole discretion. This restriction will not be applicable to share transfers resulting from inheritance, transfers to affiliates of a shareholder or distributions to equity holders of a shareholder.

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DESCRIPTION OF THE CPO TRUST

The following information describes our outstanding CPOs. This description may not contain all of the information that is important to you. To understand it fully, you should read the CPO trust agreement, a translated copy of which is filed with the SEC as an exhibit to our registration statement filed with the SEC on October 17, 2007.

The following descriptions are qualified in their entirety by reference to the CPO trust agreement and to the applicable provisions of Mexican law.

#### General

CPOs are negotiable instruments issued by a financial institution acting as trustee under Mexican law. For each outstanding CPO, three shares of our Series A common stock will be held by the CPO trustee. The CPOs are listed on the Mexican Stock Exchange. The CPO trust has a maximum term of 50 years. After such period has expired, the CPO trust could either be extended or terminated in accordance with its terms, or substituted by a new CPO trust. If the CPO trust is terminated, the CPOs will cease to be listed on the Mexican Stock Exchange and holders of CPOs and ADSs who are non-Mexicans will not be entitled to hold the underlying shares of Series A common stock directly and will be required to have their interest in the underlying shares of Series A common stock be sold. See "Description of Capital Stock — Other Provisions — Foreign Investment."

The CPO trustee, Nacional Financiera, Sociedad Nacional de Crédito, Institución de Banca de Desarrollo, or NAFIN, will issue the CPOs pursuant to the following agreements:

- the CPO trust agreement between us and the CPO trustee (and persons contributing shares of Series A common stock to the trust from time to time); and
- a CPO trust deed, pursuant to which the CPO trustee will issue CPOs in accordance with the CPO trust agreement.

Under Mexican law and our bylaws, ownership of our capital stock by non-Mexican investors is limited. However, Mexican law and our bylaws permit non-Mexicans to hold our shares indirectly through neutral shares or securities. Because the CPO trust qualifies as a neutral investment trust under the Mexican Foreign Investment Law, ownership of the CPOs by non-Mexican investors is not limited. However, except in certain circumstances, non-Mexican holders of CPOs and holders of ADSs, are limited in the right to cause the CPO trustee to vote the shares of Series A common stock underlying the CPOs or underlying the CPOs underlying their ADSs. See "Voting Rights with Respect to Underlying Shares" below.

#### Authorization

We filed an application with the Mexican Foreign Investment Bureau of the Ministry of Economy (Secretaria de Economia) for the authorization of the terms of the CPO trust for purposes of such CPOs being deemed neutral investment instruments, as contemplated by the Mexican Foreign investment Law and received such authorization on September 28, 2007. The CPO trustee registered the CPO trust deed with the Public Registry of Commerce of Mexico City, Federal District. See "Description of Capital Stock — Other Provisions — Foreign Investment Regulations."

### Voting Rights with Respect to Underlying Shares

Mexican holders of CPOs may instruct the CPO trustee to vote the shares of Series A common stock underlying the CPOs on all matters or obtain a proxy from the CPO trustee to vote the underlying shares. To the extent Mexican holders of CPOs do not obtain a proxy for shares of Series A common stock underlying their CPOs, fail to vote such stock or fail to instruct the CPO trustee how to vote such shares, the CPO trustee will vote such shares in the same manner as the majority of other shares are voted at the meeting.

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Non-Mexican holders of CPOs are not entitled to exercise directly any voting rights with respect to our shares of Series A common stock held by the CPO trustee. Voting rights attributable to shares underlying CPOs held by non-Mexicans are exercisable only by the CPO trustee. Additionally, non-Mexican holders of CPOs are only entitled to instruct the CPO trustee (or in the case of a holder of ADSs, instruct the ADS depositary to instruct the CPO trustee) to exercise the voting rights in respect of the shares of Series A common stock underlying such CPOs in the limited circumstances described below.

Non-Mexican holders of CPOs will be entitled to instruct the CPO trustee (or in the case of a holder of ADSs, instruct the ADS depositary to instruct the CPO trustee) to exercise the voting rights in respect of the shares of Series A common stock underlying such CPOs only on the following matters: (i) a change in our jurisdiction of incorporation, (ii) a transformation of our corporate form, (iii) our dissolution or liquidation, (iv) a merger to which we are a party, if we will not be the surviving company, (v) a delisting of our shares or any security that represent shares of the Company (including the CPOs) from any stock exchange, (vi) an amendment to our bylaws that may adversely affect the rights of the minority shareholders and (vii) for each 10% block of our Series A common stock underlying CPOs held, a non-Mexican holder can instruct the CPO trustee to exercise a right to appoint one director, provided that the election of a majority of our directors was approved by Mexican investors. In such cases, the CPO trustee will vote the shares of Series A common stock underlying CPOs held (directly or through ADSs) by non-Mexicans for which it received timely and proper voting instructions as instructed by the applicable non-Mexican holder. To the extent non-Mexican holders of CPOs fail to instruct the CPO trustee how to vote shares of Series A common stock underlying their CPOs, the CPO trustee will vote shares for which it did not receive timely and proper instruction in the same manner as the majority of the other shares are voted at the meeting. Under no circumstances are the non-Mexican holders of CPOs (directly or through ADSs) entitled to vote the underlying shares of Series A common stock directly or obtain a proxy to

Except in the limited circumstances described above, the CPO trustee is required by the terms of the trust agreement governing the CPO trust to vote shares of Series A common stock underlying the CPOs held by non-Mexicans in the same manner as the majority of the other shares are voted at the meeting

The nationality of a CPO holder will be determined under applicable Mexican law and established by reference to the information provided to the CPO trustee, Indeval and Indeval custodians.

### Deposit and Withdrawal of Shares

Holders of CPOs do not receive physical certificates evidencing their CPOs. However, CPO holders may request certification from their custodian, coupled with a certification from Indeval as to their ownership of CPOs. In connection with the issuance of ADSs, CPOs underlying ADSs will be credited by book-entry transfer to an account maintained with Indeval by BBVA Bancomer, S.A. de C.V., as custodian for the depositary in Mexico.

Except as described below, holders of CPOs may not withdraw the shares of Series A common stock underlying the CPOs, and holders of ADSs may not withdraw the shares of Series A common stock underlying the CPOs underlying the ADSs, until the CPO trust is terminated. However, upon termination of the CPO trust, non- Mexican holders of CPOs must cause the shares of Series A common stock underlying the CPOs to be sold, create a new trust similar to the current CPO trust to deposit the shares of Series A common stock underlying the CPOs or extend the CPO trust, as a means to comply with our bylaws and Mexican foreign ownership laws. The holders of CPOs may withdraw the underlying shares of Series A common stock at any time if our bylaws do not prohibit such withdrawal, we consent to such withdrawal and the provisions regarding foreign investment ownership and voting, as stipulated by the Mexican Foreign Investment Law, are not breached by such withdrawal.

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### Registration and Transfer

CPOs may be held directly through physical certificates in registered form or held in book-entry form. The CPOs may be maintained in book entry form by institutions that have accounts with the S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., or Indeval, a privately owned securities depositary that acts as a clearinghouse, depositary, and custodian, as well as a settlement, transfer, and registration agent for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities. Indeval will be the holder of record for CPOs held in book-entry form. Accounts may be maintained at Indeval by authorized brokers, banks and other financial institutions and entities.

### **Dividends and Other Distributions**

If we declare and pay a dividend or a distribution on our Series A common stock, holders of CPOs will be entitled to receive the dividend or the distribution in proportion to the number of shares of Series A common stock underlying their CPOs. Holders of CPOs would also be entitled to a proportional share of the proceeds from the sale of the shares of Series A common stock held by the CPO trustee upon the termination of the CPO trust agreement, if applicable. According to Mexican law, dividends paid and received in pesos by the CPO trustee, may be paid to the ADS depositary and converted into U.S. dollars for distribution. Also any dividends or other distributions from the CPO trust that CPO holders do not receive or claim within three years will become the property of the Mexican Ministry of Health (Secretaria de Salud).

Cash Dividends and Distributions. The CPO trustee will distribute cash dividends and other cash distributions received in respect of our Series A common stock to holders of CPOs, including those represented by ADSs, in proportion to their holdings, in the same currency in which they were received. The CPO trustee will distribute cash dividends and other cash distributions to the relevant custodian acting for the holder of CPOs.

Stock Dividends. If we distribute our dividends in shares of Series A common stock, dividend shares in respect of shares of Series A common stock will be held in the CPO trust, and the CPO trustee will distribute additional CPOs to holders of CPOs, including those represented by ADSs, in proportion to their holdings. If the CPO deed does not permit additional CPOs to be delivered in an amount sufficient to represent the shares of Series A common stock paid as a dividend, the CPO deed will need to be modified to, or a new CPO deed will need to be entered into that will, permit the delivery of the number of CPOs necessary to represent the shares of Series A common stock issued to the CPO trust as a dividend.

Other Distributions. If the CPO trustee receives a distribution in a form other than cash or additional shares of Series A common stock, the CPO trustee will make the distribution pursuant to the instructions of the technical committee.

### Preemptive Rights

Under Mexican law, our shareholders generally have preemptive rights. If we offer our shareholders the right to subscribe for additional shares of Series A common stock, the CPO trustee will only make these rights available to holders of CPOs if the offer is legal and valid in the CPO holders' country of residence. In this regard, the offer of corresponding rights to holders of the ADS, and any sale of additional corresponding CPOs to holders of ADSs, would require registration under the Securities Act or an exemption there from. We are under no obligation to register such offers or sales under the Securities Act or any other applicable law. Under Mexican law, preemptive rights may not be sold separately from shares. As a result, if the CPO trustee cannot offer preemptive rights or is effectively prohibited from disposing of preemptive rights, CPO holders would not receive the value of these rights, and their equity interest may be diluted.

If we issue new shares of Series A common stock for cash, in accordance with our amended bylaws and the CPO trust, non-Mexican holders of the CPOs and ADSs may not be able to exercise their preemptive rights associated with shares of Series A common stock underlying such CPOs, unless a sufficient number of CPOs may be available for release under our CPO deed or unless we cause the CPO trustee to issue additional CPOs (to the extent possible), by amending the existing CPO deed or entering into a new CPO deed, to permit the non-Mexican holders of CPOs or ADSs to exercise preemptive rights by purchasing and holding newly issued shares of Series A common stock through CPOs. Although we expect to take all measures necessary to maintain sufficient CPOs available to permit non-Mexican holders of CPOs or ADSs to exercise preemptive rights, no assurances can be made that we will be able to do so, particularly because regulatory approvals in Mexico are necessary for the issuances of CPOs. Mexican holders of CPOs may exercise their preemptive rights if we issue new shares of Series A common stock for cash regardless of whether additional CPOs are available for release because they may acquire direct ownership of our Series A common stock, although we would also expect to make CPOs available to such Mexican holders because the CPOs would be the only listed security. To the extent preemptive rights are extended to holders of the CPOs and any of such holder exercise such rights, we will transfer the additional shares of Series A common stock in the CPO trust, and the CPO trustee will deliver additional CPOs to each CPO holder who exercises the preemptive rights.

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### Withdrawal Rights

In accordance with applicable Mexican law, only when our shareholders approve a change in our corporate purpose, jurisdiction of organization or transformation from one corporate form to another, will any CPO holder that did not instruct the CPO trustee to vote the shares of Series A common stock underlying such holder's CPOs in favor of these matters have the right to instruct the CPO trustee to cause the withdrawal of the shares and receive the book value, as set forth in the last financial statements approved by our shareholders, for them. If the CPO trustee exercises this right on behalf of the CPO holder within 15 days after the meeting at which the relevant matter was approved, the shares will be withdrawn and the CPO holder will receive the applicable proceeds.

### **Changes Affecting the CPOs**

As set forth in the CPO trust, the CPO trustee will, pursuant to the instructions of the technical committee, issue additional CPOs or call for the surrender of outstanding CPOs to be exchanged for new CPOs should the following circumstances occur:

• a split or a consolidation of our Series A common stock;

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- a capitalization affecting or redemption of our Series A common stock;
- any other reclassification or restructuring of our Series A common stock; or
- · any merger, consolidation, or spin-off.

The CPO trustee, as instructed by the technical committee, will also decide if any changes or required amendments must be made to the CPO trust agreement and the CPO trust deed. If the CPO deed does not permit additional CPOs to be delivered in an amount sufficient to represent the shares of Series A common stock necessary to reflect the corporate events specified above, the CPO deed will need to be modified to, or a new CPO deed will need to be entered into that will, permit the delivery of the number of CPOs necessary to represent the shares of Series A common stock that reflect any such event. If we consolidate our capital stock in a way that is no longer consistent with the structure of the CPO trust, the CPO trustee, as instructed by the CPO trust's technical committee, will determine how the corpus of the CPO trust should be modified to reflect such consolidation. If we call for a redemption of the shares of Series A common stock held in the CPO trust, the CPO trustee will follow the instructions of the CPO trust's technical committee, and will act pursuant to applicable law, to determine which CPOs will be redeemed, in a number equal to the number of shares of Series A common stock held in the CPO trust called for redemption. The CPO trustee will then pay the holders of the redeemed CPOs their proportional share of the consideration.

### **Administration of the CPO Trust**

The CPO trustee will administer the CPO trust under the direction of a CPO technical committee. Actions taken by the CPO technical committee must be approved by a majority vote of committee members present at any meeting of the committee at which at least a majority of the members are present. The CPO technical committee can also act without a meeting, if it has unanimous consent of its members. Among other matters, the CPO technical committee has the authority to instruct the CPO trustee to increase the maximum number of CPOs that may be issued, appoint a representative to vote the shares of Series A common stock held by the CPO trustee and resolve questions not addressed in the CPO trust.

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#### The Common Representative

We appointed Monex Casa de Bolsa, S.A. de C.V. as the common representative of the holders of CPOs. The duties of the common representative include, among others:

- verification of the due execution and terms of the CPO trust;
- verification of the existence of the shares Series A common stock being held in the CPO trust;
- authentication, by its signature, of the certificates evidencing the CPOs;
- exercise the rights of CPO holders in connection with the payment of any dividend to which they are entitled;
- · undertaking of any other action required to protect the rights, actions or remedies to which they are entitled;
- · calling and presiding over general meetings of CPO holders; and
- execution of decisions adopted at general meetings of CPO holders.

The common representative may ask the CPO trustee for all information and data necessary to satisfy its duties. The CPO holders may, by resolution at a general CPO holders' meeting, revoke the appointment of the common representative, appoint a substitute common representative or instruct the common representative to take certain actions regarding the CPO trust.

## General Meetings of CPO Holders

Under Mexican law, any individual holder or group of holders holding at least 10% of the outstanding CPOs may ask the common representative to call a general meeting of all CPO holders. The request must include the proposed agenda for the meeting. At least ten days before the relevant meeting, the common representative must publish announcements of the CPO general meetings in the Official Gazette of the Federation and in one of the newspapers of its domicile. The announcement must include the meeting's agenda.

In order for CPO holders to attend CPO general meetings, they must request a receipt of deposit from Indeval for their certificates and, if applicable, a certificate from the relevant custodian (coupled with the necessary Indeval certificates) at least two days before the meeting.

At CPO general meetings, CPO holders will have one vote per CPO held. Resolutions must be approved by a holders of a majority of the CPOs present, whether in person or by proxy, at the applicable CPO meeting. A quorum is required at these meetings. For a meeting held upon first notice of the meeting, a quorum is met by holders representing at least a majority of the outstanding CPOs. If no quorum is present on first call, any CPO holders present at a subsequently called CPO general meeting will constitute a quorum. Duly adopted resolutions will bind all CPO holders, including absent and dissenting holders.

Some special matters must be approved by holders at a special CPO general meeting. These matters include the appointment and removal of the common representative and the granting of consents, waivers or grace periods and the amendment of the CPO deed. At these special meetings, holders of at least 75% of the outstanding CPOs must be present to constitute a quorum at the first call. Resolutions with respect to these special matters must be approved by holders of a majority of the CPOs entitled to vote at this meeting. If a quorum is not present, a reconvened special meeting may be called. At this reconvened meeting, holders of a majority of the CPOs present (whether in person or by proxy), regardless of the percentage of outstanding CPOs represented at such meeting, may take action, by majority of holders of CPOs present.

### **Enforcement of Rights of CPO Holders**

CPO holders may individually and directly exercise certain rights by instituting a proceeding in a Mexican court of law. These rights include:

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- the right to cause the CPO trustee to distribute dividends or other distributions it has received;
- the right to cause the common representative to enforce and protect rights of CPO holders; and
- · the right to bring action against the common representative, for civil liabilities in the event of willful misconduct.

#### Termination of the CPO Trust

The CPO trust agreement and the CPOs issued by the CPO trustee there under will expire 50 years after the date of execution of the CPO trust agreement, which is the maximum term permitted by Mexican law. At that time, the CPO trustee, pursuant to the instruction of the CPO trust's Technical Committee, will:

- distribute the shares of Series A common stock underlying CPOs held by Mexican holders of on a pro rata basis; and
- with respect to shares of Series A common stock underlying CPOs held by non-Mexicans, the CPO trustee will:
  - o sell or distribute the applicable shares Series A common stock in the CPO trust, and then distribute the proceeds to CPO holders on a pro rata basis;
  - o extend the period for the CPO trust agreement; or
  - o create a new trust similar to the CPO trust to which it will transfer all of the applicable shares of Series A common stock, so that the non-Mexican holders may be the beneficiaries of economic rights in respect of such shares on a pro rata basis.

#### Fees of the CPO Trustee and the Common Representative

We will pay the fees of the CPO trustee for the administration of the CPO trust and the fees of the common representative.

### DESCRIPTION OF AMERICAN DEPOSITARY SHARES

The following information describes the material terms of the ADS deposit agreement. This description may not contain all of the information that is important to you. To understand it fully, you should read the deposit agreement and the form of American Depository Receipt, a copy of which is filed with the SEC as an exhibit to the registration statement filed with the SEC on October 17, 2007.

#### General

The Bank of New York, as depositary, will register and deliver American Depositary Shares, also referred to as ADSs. Each ADS will represent seven CPOs (or a right to receive seven CPOs) deposited with the Indeval, and credited to an account maintained by BBVA Bancomer, S.A. de C.V. as custodian for the depositary in Mexico. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary's corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The Bank of New York's principal executive office is located at One Wall Street, New York, New York 10286.

ADSs may be held either (A) directly (i) by having an American Depositary Receipt, also referred to as an ADR, which is a certificate evidencing a specific number of ADSs, registered in the name of the holder, or (ii) by holding ADSs in the Direct Registration System, or (B) indirectly through a broker or other financial institution. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section.

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The Direct Registration System, or DRS, is a system administered by the Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We will not treat ADS holders as one of our shareholders and ADS holders will not have shareholder rights under Mexican law and our bylaws. Mexican law governs shareholder rights. The depositary will be the holder of the CPOs underlying the ADSs. The holder of ADSs have certain rights pursuant to a deposit agreement. The deposit agreement among us, the depositary and the ADS holders (including beneficial owners of ADSs) sets forth certain rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADSs.

#### Dividends and Other Distributions

The depositary has agreed to pay to the cash dividends or other distributions it or the custodian receives in respect of the underlying CPOs or other deposited securities, after deducting its fees and expenses described below. ADS holders will receive these distributions in proportion to the number of CPOs their ADSs

Cash Dividends and Distributions. The depositary will convert any cash dividend or other cash distribution we pay on the shares of Series A common stock underlying the applicable CPOs into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADS holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADS holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest. Before making a distribution, the depositary will deduct any withholding taxes or other governmental charges that must be paid. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, ADS holders may lose some or all of the value of the distributions.

Share Dividends and Distributions. The depositary may distribute additional ADSs representing any additional CPOs issued as a result of our issuing a share dividend or free distribution. The depositary will only distribute whole ADSs. It will sell CPOs which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new CPOs. The depositary may sell a portion of the distributed shares sufficient to pay its fees and expenses in connection with that distribution. The depositary may withhold any such delivery of ADSs if it has not received reasonable assurance from us that such distribution does not require registration under the Securities Act of 1933.

Rights to Purchase Additional CPOs. If the CPO trustee offers CPO holders any rights to subscribe for additional CPOs or any other rights, the depositary may make these rights available to holders of ADSs. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it does with cash. Under current Mexican law, preemptive rights with respect to our Series A common stock may not be sold apart from the applicable shares of Series A common stock. The depositary will allow rights that are not distributed or sold to lapse. In that case, ADS holders will receive no value for them. If the depositary makes rights to purchase CPOs available to ADS holders, it will exercise the rights and purchase the CPOs on their behalf. The depositary will then deposit the CPOs and deliver ADSs to the applicable ADS holders. It will only exercise rights if ADS holders pay it the exercise price and any other charges required by the terms of the rights. U.S. securities laws may restrict transfers and cancellation of the ADSs representing CPOs purchased upon exercise of rights. For example, ADS holders may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

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Other Distributions. The depositary will send to ADS holders anything else the CPO trustee distributes on deposited securities by any means it determines to be legal, fair and practical. If the depositary determines that it cannot make the distribution in that manner, the depositary has a choice. It may decide to sell the distributed assets and distribute the net proceeds, in the same way as it does with cash, or it may decide to hold the distributed assets, in which case ADSs will also represent the newly distributed assets. However, the depositary is not required to distribute any securities (other than ADSs) unless it receives satisfactory evidence from us that it is legal to make that distribution. The depositary may sell a portion of the distributed securities or property sufficient to pay its fees and expenses in connection with that distribution.

Unlawful or Impracticable Distributions. The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADS holders. We have no obligation to register ADSs, CPOs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, CPOs, shares, rights or anything else to ADS holders. This means that ADS holders may not receive the distributions we make on our Series A common stock or any value for such distributions if it is illegal or impractical for us to make them available to such ADS holders.

### Deposit, Withdrawal and Cancellation

Issuance of ADS Securities. The depositary will deliver ADSs upon the deposit of CPOs or evidence of rights to receive CPOs with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names requested and will deliver the ADSs at its office to or upon the order of the person or the persons that made the deposit.

Withdrawal of Deposited Securities. ADSs may be surrendered at the depositary's corporate trust office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the CPOs and any other deposited securities underlying the surrendered ADSs to the person surrendering the ADSs or a person designated by them at the office of the custodian or, at the ADS holder's request, risk and expense, the depositary will deliver the deposited securities at its corporate trust office, if feasible.

Interchange between certificated ADSs and uncertificated ADSs. ADRs may be surrendered to the depositary for the purpose of exchanging an ADR for uncertificated ADSs. The depositary will cancel that ADR and will send a statement confirming the ownership of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs, the depositary will execute and deliver to an ADR evidencing those ADSs.

### Voting Rights

Unless the CPO trust agreement is amended to permit non-Mexican owners of CPOs to have unlimited voting rights with respect to the underlying Series A common stock, non-Mexican owners of ADSs will not have the right to instruct the depositary as to how to vote any Series A common stock underlying the ADSs with respect to matters that are not expressly provided in the CPO trust. See "Description of CPO Trust — Voting Rights with Respect to Underlying Shares." Mexican owners who provide evidence reasonably satisfactory to us and the CPO trustee of their status as Mexican nationals or Mexican corporations whose bylaws exclude non-Mexican ownership of their capital stock may instruct the depositary how to vote the Series A common stock underlying their ADS with respect to any matters.

Subject to the limitation described above, ADS holders may instruct the depositary to instruct the CPO trustee to vote the shares of Series A common stock underlying the CPOs that the ADSs represent. The depositary will notify ADS holders of shareholders' meetings and arrange to deliver our voting materials to such ADS holders if we ask it to. The materials will describe the matters to be voted on and explain how ADS holders may instruct the depositary how to vote. For instructions to be valid, the depositary must receive them on or before the date specified by the depositary. The depositary gives no assurance to ADS holders that they will receive the notice required sufficiently prior to the date established by the depositary to ensure that the depositary will be able to vote or give voting instructions with respect to the underlying shares of Series A common stock. The depositary will instruct, as far as practical, subject to Mexican laws and the CPO trust and our bylaws or similar documents, the CPO trustee to vote the underlying shares or other deposited securities as instructed. ADS holders will not be able to directly instruct the CPO trustee as to how to vote the underlying shares unless they withdraw the CPOs. However, ADS holders may not have sufficient notice of a meeting to allow the timely withdrawal of the applicable CPOs.

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#### Right to Deliver Notices to the Company and the Common Representative

If an ADS holder gives a notice to the depositary containing a request for a meeting of holders of CPOs concerning any business of the CPO trust, the depositary will deliver such notice to the common representative. If an ADS holder gives a notice to the depositary containing a request for a meeting of holders of the Series A common stock, exercising the right of a shareholder with respect to the underlying shares or containing a request for the appointment of a director, the depositary will deliver such notice to us. After giving that notice to the common representative or us, as the case may be, the depositary shall have no further duty or liability with respect to the notice received from the ADS holder.

#### Fees and Expenses

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book entry system accounts of participants acting for them. The depositary may generally refuse to provide fee attracting services until its fees for those services are paid.

The Bank of New York, as depositary, has agreed to reimburse us for expenses we incur that are related to the establishment and maintenance of the ADS program, including investor relations expenses and stock market application and listing fees. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not related to the amount of fees the depositary collects from investors.

#### Payment of Taxes

Holders of ADSs are responsible for any taxes or other governmental charges payable on their ADSs or on the deposited securities represented by any ADSs. The depositary may refuse to register any transfer of the ADSs or allow a holder to withdraw the deposited securities represented by the ADSs until such taxes or other charges have been paid. The depositary may deduct the amount of any taxes owed from any payments to ADS holders. It may also sell deposited securities represented by the ADSs, to pay any taxes owed. ADS holders will remain liable for any deficiency if the proceeds of the sale are not enough to pay the taxes owed. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay or distribute to the applicable ADS holder any proceeds, or send to the ADS holder any property, remaining after it has paid the taxes.

### Amendment and Termination

We may agree with the depositary to amend the deposit agreement and the ADRs for any reason without the consent of the ADR holders. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. At the time an amendment becomes effective, ADS holders are considered, by continuing to hold ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

The depositary will terminate the deposit agreement at our direction by mailing notice of termination to the ADS holders then outstanding at least 30 days prior to the date fixed in such notice of termination. The depositary may also terminate the deposit agreement if the depositary has told us and the ADS holders then outstanding that it would like to resign and successor depositary has not been appointed and accepted its appointment within 60 days. In either case, the depositary must notify ADS holders at least 30 days before termination.

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After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property, and deliver CPOs and other deposited securities upon cancellation of ADSs. Six months after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the pro rata benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

### Limits on our Obligations and the Obligations of the Depositary, Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- are not liable for the inability of any holder of ADSs to benefit from any distribution on deposited securities that is not made available to holders of ADSs under the terms of the deposit agreement;
- are not liable for any special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADSs or the deposit agreement on an ADS holders behalf or on behalf of any other person; and
- · may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper person.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

### Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of CPOs, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any CPOs or other deposited securities;
- · satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADSs or register transfers of ADSs generally when the transfer books of the depositary, the CPO trustee or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

### ADS Holders' Right to Receive the CPOs Underlying ADRs

ADS holders have the right to surrender their ADSs and withdraw the underlying CPOs at any time except:

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• when temporary delays arise because: (i) the depositary, the CPO trustee or the Foreign Registrar has closed its transfer books or we have closed our transfer books; (ii) the transfer of CPOs is blocked to permit voting at a shareholders' meeting; or (iii) we are paying a dividend on our Series A common stock or any other security deposited with the CPO trustee;

- if the ADS holder owes money to pay fees, taxes and similar charges; and
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to the ADSs or to the withdrawal of CPOs or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

### Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying CPOs. This is called a pre-release of the ADSs. The depositary may also deliver CPOs upon cancellation of pre-released ADSs (even if the ADSs are surrendered before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying CPOs are delivered to the depositary. The depositary may receive ADSs instead of CPOs to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (a) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the CPOs or ADSs to be deposited; (b) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (c) the depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

### **Direct Registration System**

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by the DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

In connection with and in accordance with the arrangements and procedures relating to DRS/Profile, the parties to the deposit agreement understand that the depositary will not verify, determine or otherwise ascertain that the DTC participant which is claiming to be acting on behalf of an ADS holder in requesting registration of transfer and delivery described in the paragraph above has the actual authority to act on behalf of the ADS holder (notwithstanding any requirements under the Uniform Commercial Code). In the deposit agreement, the parties agree that the depositary's reliance on and compliance with instructions received by the depositary through the DRS/Profile System and in accordance with the deposit agreement, shall not constitute negligence or bad faith on the part of the depositary.

### Shareholder Communications and Inspection of Register of Holders of ADSs

The depositary will make available for inspection at its office all communications that it receives from us as a holder of deposited securities that we make generally available to holders of deposited securities. The depositary will send holders of ADSs copies of those communications if we ask it to. A holder has the right to inspect the register of holders of ADSs, but not for the purpose of contacting those holders about a matter unrelated to our business or the ADSs.

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### DIVIDEND POLICY

We have not paid any cash dividends in the past and do not expect to pay any cash dividends on our common stock for the foreseeable future. We currently intend to retain any additional future earnings to finance our operations and growth. Any future determination to pay cash dividends on our common stock will be at the discretion of our board of directors and will depend on our earnings, financial condition, operating results, capital requirements and contractual, regulatory and other restrictions on the payment of dividends and other factors our board of directors deems relevant. In addition, we may not pay any dividend unless such dividend is paid from our net profit account and the financial statements including such net profit and the payment of the relevant dividend have been approved by a shareholder resolution.

Mexican law requires that at least 5% of a company's net income each year (after profit sharing and other deductions required by Mexican law) be allocated to a legal reserve fund until such fund reaches an amount equal to at least 20% of its capital stock from time to time (without adjustment for inflation). Our legal reserve fund was Ps.0 million at December 31, 2013.

Mexican companies may pay dividends only out of earnings (including retained earnings after all losses have been absorbed or paid up), only after such allocation to the legal reserve fund if the dividend is paid out of retained earnings and only if shareholders have approved the payment of the dividend. The reserve fund is required to be funded on a stand-alone basis for each company, rather than on a consolidated basis. The level of earnings available for the payment of dividends is determined under MFRS. Our subsidiaries are required to allocate earnings to their respective legal reserve funds prior to paying dividends to Maxcom. We are also required to allocate earnings to our legal reserve fund prior to distributing any dividend payments to our shareholders.

Under provisions of the Mexican Income Tax Law, dividends paid to Foreign Holders with respect to our CPOs and ADSs are currently not subject to any Mexican withholding.

Dividends paid from distributable earnings that have not been subject to corporate income tax are subject to a corporate-level tax (payable by the Company) at a rate of 30% over the grossed up paid dividend. Dividends paid from distributable earnings, after the corporate tax has been paid with respect to these earnings, are not subject to this corporate-level tax at the moment of distribution.

As of December 31, 2013, we had not accumulated distributable earnings that have been subject to the corporate income tax and that could be declared and paid to shareholders free of the corporate level dividend tax. Accordingly, any dividends we pay in excess of this amount will be subject to the corporate level dividend tax, and we may apply such corporate level dividend tax as a credit to our tax liability in the year paid and in the subsequent two years.

In addition, the indenture that governs the terms of our Senior Step-Up Notes due 2020 allows us to pay cash dividends only if we meet the following conditions:

- a minimum consolidated leverage ratio of less than (i) 4.25 to 1.00 on or before December 31, 2013, (ii) 4.00 to 1.00 on or after January 1, 2014 and on or before December 31, 2014 and (iii) 3.50 to 1.00 on or after January 1, 2015.
- no default (as defined in the indenture) must have occurred and be continuing or result from the payment of the cash dividend; and
- the dividend payments together with the aggregate amount of all other restricted payments (as defined in the indenture) do not exceed a certain amount determined in the indenture based on, among other things: (i) the consolidated net income of the company, (ii) the net cash flows from equity offerings, (iii) the lesser of the return on the restricted investments or the original amount of the restricted investment, (iv) the lesser of the fair market value (as defined in the indenture) of the company's investment on a subsidiary after its re-designation as a restricted subsidiary or the original fair value as of the date in which such subsidiary was originally designated as unrestricted subsidiary.

In the event we were to declare dividends, they would be in pesos. In the case of CPOs represented by ADSs, the cash dividends would be paid to the depositary and, subject to the terms of the deposit agreement, converted into and paid in U.S. dollars, net of withholding taxes or other governmental charges that must be paid. Fluctuations in exchange rates would affect the amount of dividends that ADS holders would receive. For a more detailed discussion, see "Description of American Depositary Shares."

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Distributions made by us other than as dividends, including capital reductions, amortization of shares or otherwise, would be subject to taxation in Mexico, with taxes being generally payable by us, as corporate-level taxes. The method of assessing and paying taxes applicable to any such distributions will vary depending on the nature of the distributions.

### C. Material contracts

### Step-Up Senior Notes due 2020

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According to the Plan, on October 11, 2014, Maxcom issued Step-Up Senior Notes due 2020 in an aggregate principal amount of US\$ \$180,353,962, which reflects the amount of the senior notes due 2014 less the amount of senior notes 2014 held in treasury by the Company plus the capitalized interest amount. The Step-Up Senior Notes bear interest (i) from the date of issuance until June 14, 2016, at the annual rate of 6% per annum, (ii) from June 15, 2016 until June 14, 2018, at the annual rate of 7% per annum, and (iii) from June 15, 2018 until the maturity date, at the annual rate of 8% per annum; have a maturity date of June 15, 2020; are secured by the same collateral that secures the senior notes due 2014; and (e) are unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by all of Maxcom's direct and indirect subsidiaries, excluding Fundación Maxcom. A.C. The Step-Up Senior Notes due 2020 are governed by indenture that Maxcom and its subsidiaries entered into with The Deutsche Bank Trust Company Americas, acting as trustee on October 11, 2013. The indenture governing our Step-Up Senior Notes due 2020 contains certain covenants that among other things, limit our ability to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of our subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates.

### **Currency Swap Agreement**

The peso-to-dollar exchange rate may experience significant devaluations in the future. Further declines in the value of the peso relative to the U.S. dollar could adversely affect our ability to meet our U.S. dollar-denominated obligations. In order to diminish the negative effects of a peso devaluation in May 2007, we entered into currency swap transactions with the banks Morgan Stanley A.G. and Merrill Lynch Capital Markets A.G. to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$150 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2008 to December 2010. In December 2009, the company unwound the swap with Morgan Stanley A.G. and entered into a new swap with the same bank that covers the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In March 2010 the company unwound the swap with Merrill Lynch Capital Markets A.G. and entered into a new cross currency swap transaction with Morgan Stanley A.G. that minimize the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In May 2011 we amended the cross currency swap agreements with Morgan Stanley (France), SAS to delete from the agreements the clause authorizing Morgan Stanley to terminate the agreements in case the credit rating of Maxcom continues to decline. In return, Maxcom agreed to deposit U.S.\$1.5 million in a collateral account in Morgan Stanley.

In February 2013 the company unwound the swap with Morgan Stanley (France) SAS. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

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#### **Telefonica Movistar Agreements**

On September 30, 2013, we entered into an agreement with Grupo de Telecomunicaciones Mexicanas, S.A. de C.V., for the exclusive, unrestricted, and indefeasible right to use dark fiber optic property of Maxcom.

On January 30, 2013, we entered into an agreement with Pegaso PCS, S.A. de C.V., for the use of the 23 ghz frequency concession granted to Maxcom.

### **SAP Software License Agreement**

On December 19, 2014, we entered into a software license agreement with SAP Mexico, S.A. de C.V. for the supply, installation and support of a new software in connection among other, the billing system of Maxcom.

### D. Exchange Controls

The peso fluctuates freely against the U.S. dollar. The Mexican Central Bank intervenes occasionally in the market to stabilize the exchange rate. Mexico had an exchange control system from 1982 until November 11, 1991. Under this system, Mexican residents and companies were entitled to purchase, and required to sell, foreign currencies for certain purposes at a controlled rate of exchange that was established daily by the Central Bank of Mexico. Transactions to which the controlled rate applied included payments for virtually all merchandise imports, revenues from virtually all merchandise exports, royalty payments and payments of principal, interest and related expenses with respect to indebtedness to foreign creditors registered with the Mexican government. For all transactions to which the controlled rate did not apply, foreign currencies could also be purchased, if they were available, at the then prevailing domestic free market rate for the type of transaction.

Pursuant to the provisions of North American Free Trade Agreement, or "NAFTA," Mexico remains free to impose foreign exchange controls on investments made in Mexico, including those made by U.S. and Canadian investors.

#### E. Taxation

Certain Material United States Federal Income Tax Considerations IRS Circular 230 Disclosure: To ensure compliance with requirements imposed by the U.S. Internal Revenue Service, we inform you that any tax advice contained in this document (including any attachments) was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under the U.S. Internal Revenue Code. The tax advice contained in this document (including any attachments) was written to support the promotion or marketing of the transaction(s) or matter(s) addressed by the document. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. The following is a general discussion of certain material United States federal income tax considerations to holders of our CPOs and ADSs and our Step-Up Senior Notes due 2020. This discussion is a summary for general information purposes only and does not consider all aspects of U.S. federal income taxation that may be relevant to particular holders in light of their particular investment circumstances or to certain types of holders that are subject to special tax rules, including partnerships, grantor trusts, banks, financial institutions or other "financial services" entities, broker-dealers, insurance companies, tax-exempt organizations, regulated investment companies, real estate investment trusts, retirement plans, individual retirement accounts or other tax-deferred accounts, dealers or brokers in securities or currencies, persons that use or are required to use mark-to-market accounting, persons that hold senior notes, CPOs or ADSs as part of a "straddle," a "hedge," a "conversion transaction," or an "integrated transaction," persons to whom the "constructive sale" or "constructive ownership" rules apply, persons with a functional currency other than the U.S. dollar, investors in partnerships and other pass-through entities, persons that own, or are deemed to own, CPOs or ADSs constituting 10% or more of our voting power, United States persons who hold senior notes, CPOs or ADSs through banks, financial institutions or other entities, or branches thereof, located, organized or resident outside the United States, certain former citizens or permanent residents of the United States and persons subject to the alternative minimum tax. This discussion also does not address any federal non-income tax considerations or any state, local or foreign income or non-income tax considerations to holders. This summary assumes that holders own CPOs, ADSs or senior notes exclusively as "capital assets" within the meaning of Section 1221 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") (generally, property held for investment). This discussion is based on the Code and applicable Treasury Regulations, rulings, administrative pronouncements and decisions as of the date hereof, all of which are subject to change or differing interpretations at any time with possible retroactive effect. The authorities on which this discussion is based are subject to various interpretations, and any views expressed in this discussion are not binding on the U.S. Internal Revenue Service ("IRS") or the courts. No assurance can be given that the IRS will agree with the views expressed in this discussion or that a court will not sustain any challenge by the IRS in the event of litigation.

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For purposes of this discussion, a "U.S. Holder" is a beneficial owner of CPOs, ADSs or senior notes that, for U.S. federal income tax purposes, is (i) a citizen or an individual resident of the United States; (ii) a corporation (or other entity or arrangement treated as a corporation for U.S. federal income tax purposes)created or organized, or treated as created or organized, in or under the laws of the United States, any state thereof, or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust if a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have authority to control all substantial decisions of the trust or if the trust has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

If a partnership (or entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds our CPOs, ADSs or senior notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. In this event, the partner and partnership are urged to consult their tax advisors

### EACH HOLDER IS URGED TO CONSULT ITS TAX ADVISOR REGARDING THE SPECIFIC FEDERAL, STATE, LOCAL AND FOREIGNINCOME AND OTHER TAX CONSIDERATIONS OF HOLDING CPOs, ADSs, OR SENIOR NOTES.

Step-Up Senior Notes due 2020 the following discussion assumes that all payments we make on the senior notes are denominated in U.S. dollars .U.S. Tax Characterization of the Senior Notes. We believe that the senior notes should be treated as debt for U.S. federal income tax purposes, and the following discussion assumes such treatment.

However, no assurance can be given that the IRS will not assert that the senior notes should be treated as equity for U.S. federal income tax purposes. If the senior notes were treated as equity for U.S. federal income tax purposes, the timing, amount and character of income, gain and loss recognized by you could be different. In addition, under certain circumstances we may be obligated to make payments of amounts in excess of stated interest or principal on the senior notes that differ from the payments that were expected to be made as of the date that such senior notes were issued. The fact that we may be obligated to make such payments under certain circumstances may implicate provisions of the Treasury Regulations that relate to "contingent payment debt instruments." According to the Treasury Regulations, the possibility of such payments in excess of stated interest or principal does not cause the senior notes to be considered contingent payment debt instruments if, as of the date the earlier senior notes that were exchanged for the current senior notes pursuant to the exchange offer completed on January 7, 2008 were issued, the likelihood that payments on the senior notes would differ from the payments that were expected to be made was "remote" or if any such difference would be "incidental," as those terms are used in the Treasury Regulations. As of January 7, 2008, we believed that the likelihood that we would be obligated to make any payments that differ from the payments expected to be made as of such date was remote. Therefore, we are not treating, and do not intend to treat, the senior notes as contingent payment debt instruments. Our determination that these contingencies are remote is binding on you unless you disclose a contrary position in the manner required by applicable Treasury regulations. Our determination is not, however, binding on the IRS, and if the IRS were to challenge this determination successfully, the timing, amount and character of income, gain and loss recognized by you could be different. The remainder of this discussion assumes that the senior notes will neither be treated as equity nor as contingent payment debt instruments U.S. Holders of Senior Notes.

### Payments of Interest

The senior notes were not issued with original issue discount. Accordingly, subject to the discussion of "Acquisition Premium" below, a U.S. Holder of senior notes will be taxed on the stated interest on such senior notes at ordinary income rates at the time at which such interest accrues or is received in accordance with such U.S. Holder's regular method of accounting for U.S. federal income tax purposes. As discussed in more detail below, any Mexican tax withheld from a payment to a U.S. Holder under the Mexican withholding tax rules and paid over to the Mexican government will be treated as if the U.S. Holder received the amount withheld and paid such amount to the Mexican government itself, and the U.S. Holder will be required to include the amount withheld in such U.S. Holder's taxable income in the same manner as payments the U.S. Holder receives on the senior notes. Any income that the U.S. Holder recognizes from a payment on a senior note will be treated as foreign-source income.

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#### Sale or Other Taxable Disposition of the Senior Notes

If a U.S. Holder sells or otherwise disposes of senior notes, the U.S. Holder will recognize capital gain or loss equal to the difference between such U.S. Holder's adjusted tax basis in the senior notes and the amount of cash plus the fair market value of any property that the U.S. Holder receives in exchange for the senior notes. This capital gain or loss will constitute long-term capital gain or loss if the U.S. Holder's holding period in the senior notes is more than one year at the time of the sale or other taxable disposition and short-term capital gain or loss if the U.S. Holder's holding period in the senior notes is not more than one year at the time of the sale or other taxable disposition. For this purpose, a U.S. Holder's holding period in a senior note will include the U.S. Holder's holding period in a corresponding senior note that the U.S. Holder exchanged for the relevant senior note in the exchange offer completed on January 7, 2008. Your ability to use any capital loss to offset other income or gain is subject to certain limitations. Gain or loss you recognize in connection with a sale or other taxable disposition of the senior notes will generally be treated as U.S.-source gain or loss. A U.S. Holder that sells a senior note between interest payment dates will be required to treat as ordinary interest income an amount equal to the interest that accrues through the date of sale and has not been previously included in income.

### **Acquisition Premium**

If you acquired senior notes (or, if applicable, senior notes that you exchanged for the relevant senior notes in the exchange offer completed on January 7,2008) for an amount greater than such notes' stated principal amount, you may elect to amortize the premium using the constant yield method over the period from your acquisition date until the notes' stated maturity. The amount amortized in any year will be treated as a reduction of your interest income from the notes.

The election to amortize the premium on a constant yield method, once made, applies to all debt obligations held during or after the taxable year in which the election is made and may not be revoked without the consent of the IRS. If you make this election, you will be required to reduce your basis in the notes to the extent that any amortizable bond premium is applied to offset your interest income on the notes. If you do not make this election, the premium on your notes will not offset your interest income on the notes, and instead the premium on your notes will decrease the gain or increase the loss otherwise recognized on a sale or other taxable disposition of the notes.

#### Market Discount

If you acquired a senior note for an amount less than such note's adjusted issue price, the excess of the note's stated redemption price at maturity over your purchase price will be treated as "market discount." Such market discount, however, will be considered zero if it does not exceed a "de minimis amount" equal to0.25% of the note's stated redemption price at maturity multiplied by the number of complete years to maturity from the date you purchased the senior note.

Under the market discount rules, you will generally be required to treat any partial principal payment on, and any gain realized on the sale or other taxable disposition of, the senior note as ordinary income (generally treated as interest income) to the extent of the market discount which accrued but was not previously included in income during the period you held such senior note. In addition, you may be required to defer the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry such senior note until the note's maturity or your earlier sale or other taxable disposition of the note.

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In general, market discount will be considered to accrue ratably during the period from the date of acquisition to the maturity date of the senior note, unless you make an irrevocable election (on an instrument-by-instrument basis) to accrue market discount under a constant yield method. A note holder may also elect to include market discount on the senior note in income currently as it accrues (under either a ratable or constant yield method), in which case the rules described above regarding the treatment as ordinary income of gain upon the sale or other disposition of the senior note and the deferral of interest deductions will not apply. The election to include market discount in income currently, once made, applies to all market discount obligations acquired by the note holder on or after the first day of the first taxable year to which the election applies, and may not be revoked without the consent of the IRS. Such currently included market discount will increase the note holder's tax basis in the senior note and generally is treated as ordinary interest income for U.S. federal income tax purposes.

### Mexican Withholding Tax

You will be entitled to deduct from your taxable income any Mexican tax withheld from payments of interest on the senior notes unless you choose to claim the benefits of the foreign tax credit rules for any foreign tax (including any foreign tax unrelated to the senior notes) in the taxable year to which the Mexican tax relates. In the latter case, you may not deduct the Mexican tax withheld and you may only claim benefits, if any, under the foreign tax credit rules with respect to

The availability of foreign tax credits is subject to certain conditions and limitations (including minimum holding period requirements), and the rules governing foreign tax credits are very complex. Subject to such conditions and limitations and a U.S. Holder's particular tax circumstances, foreign tax withheld on passive income from foreign sources (including Mexican tax withheld from payments on the senior notes) can be credited against your U.S. federal income tax liability that is attributable to passive income from foreign sources (including income from interest payments on the senior notes), but not against your U.S. federal income tax liability that is attributable to non-passive income from foreign sources or attributable to passive or non-passive income from U.S. sources.

A note holder may be required to provide the IRS with a certified copy of the receipt evidencing payment of the Mexican withholding tax imposed in respect of payments on the senior notes in order to claim a foreign tax credit in respect of such Mexican withholding tax. As discussed above, the rules governing foreign tax credits are very complex. In addition, the Obama administration recently proposed several significant changes to the foreign tax credit rules, which if enacted could change the consequences discussed above. You should consult your tax advisors regarding the rules governing foreign tax credits and the deductibility of foreign taxes.

#### New Legislation

Recently enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay a 3.8% tax on net investment income, including on interest and capital gains, for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation may require certain U.S. Holders who are individuals to report information relating to the holding of senior notes, subject to certain exceptions (including an exception for senior notes held in a custodial account maintained with a U.S. financial institution). U.S. Holders should consult their own tax advisers regarding the effect, if any, of new U.S. federal income tax legislation.

Information Reporting and Backup Withholding A note holder may be subject to information reporting and/or backup withholding with respect to payments on the senior notes or the gross proceeds from a sale or other disposition of the senior notes if, in either case, a payment is made to you within the United States or by a U.S. pay or or U.S. middleman. Backup withholding (currently at a rate of 28%) may apply under certain circumstances if you (i) fail to furnish your social security or other taxpayer identification number ("TIN"), (ii) furnish an incorrect TIN, (iii) fail to report interest or dividends properly, or (iv) fail to provide a certified statement, signed under penalty of perjury, that the TIN provided is correct and that you are not subject to backup withholding. Any amount withheld from a payment under the backup with holding rules is allowable as a credit against (and may entitle you to a refund with respect to) your federal income tax liability, provided that the required information is furnished to the IRS. Certain persons are exempt from backup withholding.

### Non-U.S. Holders of Senior Notes

A Non-U.S. Holder generally will not be subject to U.S. federal income or withholding tax on payments on senior notes or gain realized from the sale or other disposition of senior notes, unless such income or gain is effectively connected with the conduct of a trade or business in the United States by the Non-U.S.

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Holder or, in certain unusual circumstances, the Non-U.S. Holder is present in the United States for 183 days or more during a taxable year in which the Non-U.S.

Holder realizes gain from a sale or other disposition of senior notes and certain other conditions are met.

A Non-U.S. Holder will generally be exempt from information reporting requirements and withholding but may be required to comply with certification and identification procedures in order to obtain these exemptions. If any amount is withheld under the withholding or backup withholding rules of the Code, such amount is not an additional tax, but rather is credited against the holder's U.S. federal income tax liability. Holders are advised to consult their tax advisers to ensure compliance with the procedural requirements to reduce or avoid backup withholding or, if applicable, to file a claim for a refund of withheld amounts in excess of the holder's U.S. federal income tax liability.

### CPOs or ADSs

For U.S. federal income tax purposes, U.S. Holders who own ADSs will be treated as the beneficial owners of the CPOs represented by those ADSs. Based on the nature of the CPO trust and the applicable legal authorities, a U.S. Holder who owns CPOs, or is treated as owning CPOs, should be treated as the beneficial owner of the Series A common stock represented by the CPOs. However, the U.S. federal income tax treatment of U.S. Holders that are beneficial owners of CPOs is not entirely clear. The IRS could assert that they should be treated as owning an interest in an entity or arrangement treated as a foreign trust for U.S. federal income tax purposes. If they were so treated, the U.S. federal income tax consequences to the U.S. Holder should be the same as outlined below; however, the U.S. Holder would also be subject to certain additional tax reporting obligations under the foreign trust rules. If these tax reporting obligations were determined to apply to a U.S. Holder and the U.S. Holder did not comply with them, the U.S. Holder could be subject to substantial penalties.

The discussion below assumes that the representations contained in the CPO trust agreement and the ADS deposit agreement are true and that the obligations in the CPO trust agreement, the ADS deposit agreement and any related agreements will be complied with in accordance with their terms. Otherwise, a holder's ability to credit any foreign taxes withheld with respect to CPOs or ADSs against its U.S. federal income tax liability, as well as a U.S. Holder's ability to claim the reduced tax rate for dividends (as described below) could be affected.

#### U.S. Holders of CPOs or ADSs

Taxation of Dividends and Other Distributions. Subject to the "passive foreign investment company" and "controlled foreign corporation" rules discussed below, distributions of cash or property with respect to the CPOs or ADSs (including the amount of any Mexican taxes withheld on any such distribution, if any) will constitute ordinary dividend income to the extent of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes), which will be includible in your income on the day on which the dividends are received by the CPO trustee (whether the U.S. Holder holds the CPOs directly or by way of an ADS) and will be treated as foreign source dividend income (generally passive income) for foreign tax credit limitation purposes. Any distributions in excess of such earnings and profits will constitute anon taxable return of capital and reduce a U.S. Holder's tax basis in the CPOs or ADSs. To the extent such distributions exceed a U.S. Holder's tax basis in its CPOs or ADSs, such excess will constitute capital gain from the sale or other disposition of the CPOs or ADSs and taxed as described below. Dividends on the CPOs or ADSs will not be eligible for the dividends received deduction allowed to U.S. corporations.

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of the lower rate for dividends paid with respect to the CPOs and ADSs.

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Dividends paid in pesos (including the amount of any Mexican taxes withheld there from, if any) will be includible in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the pesos are received by the CPO trustee, regardless of whether the dividends are converted into U.S. dollars. In addition, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in your income to the date such payment is converted into U.S. dollars will be foreign currency gain or loss and will be treated as ordinary income or loss. Such gain or loss will generally be treated as income from sources within the U.S. You should consult your tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received by the CPO trustee that are converted into U.S. dollars on a date subsequent to such receipt. Dividends received by individuals or other non-corporate taxpayers from U.S. and certain foreign corporations for years 2003 through 2012 are subject to U.S. federal income tax at the long-term capital gains rate (whereas under current law, such dividends received for years after 2012 are subject to U.S. federal income tax at ordinary income rates). Recipients of dividends from foreign corporations will benefit from these reduced rates if the dividends are received from certain "qualified foreign corporations." For this purpose, a qualified foreign corporation means any foreign corporation provided that: (i) the corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a "passive foreign investment company" (as discussed below), (ii) certain holding period requirements are met and (iii) either (A) the corporation is eligible for the benefits of a comprehensive income tax treaty with the U.S. that the IRS has approved for purposes of the qualified dividend rules or (B) the stock with respect to which such dividend was paid is readily tradable on an established securities market in the U.S. The ADSs should be considered to be readily tradable on an established securities market in the U.S. so long as they remain listed on the New York Stock Exchange. However, while not completely clear from doubt, we believe that the CPOs will not be treated as readily tradable on an established securities market in the U.S. Nevertheless, the Secretary of the Treasury has indicated that the U.S.- Mexico Tax Treaty would qualify under the qualified dividend rules, and we expect the Company will qualify for the benefits of such treaty. You should consult your tax advisors concerning the availability

In addition, the Obama administration has proposed several significant changes to the foreign tax credit rules and also proposed to extend the period for which certain dividends are subject to U.S. federal income tax at the long-term capital gains rate, which if enacted could change the consequences discussed above. You should consult your tax advisors concerning the taxation of dividends and concerning the availability of foreign tax credits with respect to any Mexican tax imposed with respect to distributions of cash or property with respect to the CPOs or ADSs.

Sale or Other Disposition of the CPOs or ADSs. Subject to the passive foreign investment company and controlled foreign corporation rules discussed below, upon the sale or other disposition of the CPOs or ADSs, a U.S. Holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and such U.S. Holder's tax basis in such CPOs or ADSs. Gain or loss recognized by a U.S. Holder on such sale or other disposition will be long-term capital gain or loss if, at the time of the sale or other disposition, the CPOs or ADSs have been held for more than one year. Your ability to use any capital loss to offset other income or gain is subject to certain limitations. Deposits and withdrawals of CPOs by U.S. Holders in exchange for ADSs should not result in the realization of gain or loss for U.S. federal income tax purposes.

A U.S. Holder that receives pesos upon a sale or other disposition of the CPOs will realize an amount equal to the U.S. dollar value of the pesos upon the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A U.S. Holder will have a tax basis in the pesos received equal to the U.S. dollar value of the pesos received translated at the same rate the U.S. Holder used to determine the amount realized on its disposal of the CPOs. Any gain or loss realized by a U.S. Holder on a subsequent conversion of the pesos generally will be a U.S. source foreign currency gain or loss and will be treated as ordinary income or loss. U.S. Holders should consult their own independent tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt.

### Passive Foreign Investment Company Considerations

The Company does not expect to be treated as a "passive foreign investment company" (a "PFIC"), for U.S. federal income tax purposes. However, as described below, since PFIC status depends upon the composition of the Company's income and assets and the market value of its assets (including, among others, goodwill and less than 25% owned equity investments) from time to time, no assurance can be provided that the Company will not be considered a PFIC for any taxable year. In addition, the Company's PFIC status for any particular taxable year is not determinable until the close of that taxable year and is an inherently factual determination. If the Company were treated as a PFIC for any taxable year during which a U.S. Holder holds CPOs or ADSs, certain adverse consequences could apply to the U.S. Holder.

A non-U.S. corporation is considered to be a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income (the "income test"), or (ii) at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the "asset test"). The Company will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which its owns, directly or indirectly, more than 25% (by value) of the stock.

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As discussed above, whether the Company is a PFIC is determined on a year-by-year basis. As a result, the Company's PFIC status may change. In particular, because the total value of the Company's assets for purposes of the asset test will be calculated using the market price of the CPOs and ADSs, the Company's PFIC status will depend in large part on the market price of the CPOs and ADSs, which may fluctuate considerably. Accordingly, fluctuations in the market price of the CPOs and ADSs may result in the Company being a PFIC for any year. If the Company is a PFIC for any year during which you hold CPOs or ADSs, the Company generally will continue to be treated, with respect to you, as a PFIC for all succeeding years during which you hold CPOs or ADSs. However, if the Company ceases to be a PFIC, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the CPOs or ADSs, as applicable.

If the Company is a PFIC for any taxable year during which you hold CPOs or ADSs, you will be subject to special tax rules with respect to any "excess distribution" that you receive and any gain you realize from a sale or other disposition (including a pledge) of the CPOs or ADSs unless you make a "mark-to-market" election or a "qualified electing fund" election as discussed below. Unless you make either of these elections, distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the CPOs or ADSs will be treated as an excess distribution. Under special tax rules, (i) any excess distribution or gain will be allocated ratably over your holding period for the ADSs or CPOs, (ii) the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which the Company became a PFIC, will be treated as ordinary income, and (iii) the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year. The tax liability for amounts allocated to years prior to the year of disposition or excess distribution cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the CPOs or ADSs cannot be treated as capital, even if you hold the CPOs or ADSs as capital assets.

If the Company is a PFIC, a U.S. Holder may avoid taxation under the rules described above by making a "qualified electing fund" election to include such U.S. Holder's share of the Company's income on a current basis, provided that the Company furnishes such U.S. Holder annually with certain tax information. In order to avoid taxation under the rules described above, a U.S. Holder must generally make a "qualified electing fund" election for the first taxable year during which the U.S. Holder owns stock of the Company and in which the Company is a PFIC. If the Company concludes that it should be treated as a PFIC for any taxable year, the Company intends to notify each U.S. Holder of such fact. However, there can be no guarantee that the Company will be willing or able to provide the information needed by any U.S. Holder to make a "qualified electing fund" election with respect the CPOs or ADSs. If a U.S. Holder makes a "qualified electing fund" election, such U.S. Holder will be taxable currently on its pro rata share of the Company's ordinary earnings and net capital gains (at ordinary income and capital gain rates, respectively) for each taxable year during which the Company is treated as a PFIC, regardless of whether such U.S. Holder receives distributions, so the U.S. Holder may recognize taxable income without the corresponding receipt of cash from the Company with which to pay the resulting tax obligation. The basis in the CPOs or ADSs held by such U.S. Holder will be increased to reflect taxed but undistributed income. Distributions of income that were previously taxed will result in a corresponding reduction of basis in the CPOs or ADSs, and will not be taxed again as distributions to the U.S. Holder

Alternatively, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock to elect out of the tax treatment discussed above, a U.S. Holder must generally make a mark-to-market election for the first taxable year during which the U.S. Holder owns stock of the Company and in which the Company is a PFIC. If you make a valid mark-to-market election for the CPOs or ADSs, you will include in income each year an amount equal to the excess, if any, of the fair market value of the CPOs or ADSs as of the close of your taxable year over your adjusted basis in such CPOs or ADSs. You are allowed a deduction for the excess, if any, of the adjusted basis of the CPOs or ADSs over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the CPOs or ADSs included in your income for prior taxable years. Amounts included in your income under a mark-to-market election and gain on the actual sale or other disposition of the CPOs or ADSs are treated as ordinary income. Ordinary loss treatment applies to the deductible portion of any mark-to-market loss on the CPOs or ADSs, as well as to any loss realized on the actual sale or disposition of the CPOs or ADSs will be adjusted to reflect any such income or loss amounts. If you make a mark-to-market election, the tax rules that apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the reduced rate on dividends discussed above would not apply.

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The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. The New York Stock Exchange and the Mexican Stock Exchange are both qualified exchanges. The ADSs are listed on the New York Stock Exchange and, consequently, if you are a holder of ADSs and the ADSs remain so listed and are regularly traded, the mark-to-market election would be available to you were the Company to be a PFIC. In addition, the CPOs are listed on the Mexican Stock Exchange and, consequently, if you are a holder of CPOs and the CPOs remain so listed and are regularly traded, the mark-to-market election would be available to you were the Company to be a PFIC.

If you hold CPOs or ADSs in any year in which we are a PFIC, you will be subject to special reporting requirements with respect to distributions received on the CPOs or ADSs and any gain realized on the disposition of the CPOs or ADSs.

You are urged to consult your tax advisors regarding the application of the PFIC rules to your investment in CPOs or ADSs.

### Controlled Foreign Corporation Considerations

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If more than 50% of the voting power of all classes of the Company's capital stock or the total value of the Company's capital stock is owned, directly or indirectly, by "U.S. shareholders," the Company may be treated as a "controlled foreign corporation," or a "CFC," under Subpart F of the Code. For this purpose, the term "U.S. shareholder" has a special meaning and means citizens or residents of the U.S., U.S. domestic partnerships and corporations or estates or trusts other than foreign estates or trusts, each of whom owns 10% or more of the total combined voting power of all classes of the Company's capital stock. The U.S. taxes a "U.S. shareholder" of a CFC currently on its pro rata share of the Subpart F income of the CFC. Such "U.S. shareholder" is generally treated as having received a current distribution out of the CFC's Subpart F income and is also subject to current U.S. tax on its pro rata share of the CFC's earnings invested in U.S. property. In addition, gain from the sale or exchange of stock in a CFC by a U.S. person who is or was a "U.S. shareholder" of the CFC at any time during the five-year period ending with the sale or exchange is treated as ordinary income to the extent of the CFC's earnings and profits attributable to the stock sold or exchanged. If a foreign corporation is both a PFIC and a CFC, the foreign corporation generally will not be treated as a PFIC with respect to "U.S. shareholders" of the CFC.

You should consult your own tax advisor as to the potential application of these rules to you based on your particular circumstances.

#### New Legislation

Recently enacted legislation requires certain U.S. Holders who are individuals, estates or trusts to pay a 3.8% tax on net investment income, including on dividends and capital gains, for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation may require certain U.S. Holders who are individuals to report information relating to the holding of CPOs and ADSs, subject to certain exceptions (including an exception for CPOs and ADSs held in a custodial account maintained with a U.S. financial institution). U.S. Holders should consult their own tax advisers regarding the effect, if any, of new U.S. federal income tax legislation.

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### U.S. Information Reporting and Backup Withholding.

Dividend payments with respect to CPOs or ADSs and proceeds from the sale, exchange or redemption of CPOs or ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding (currently at a rate of 28%). Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding and establishes such exempt status. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

### Non-U.S. Holders of CPOs or ADSs

A Non-U.S. Holder will not be subject to U.S. federal income tax with respect to gain recognized or income realized in connection with the CPOs or ADSs unless (i) in the case of a disposition of the CPOs or ADSs by an individual Non-U.S. Holder, the Non-U.S. Holder is present in the U.S. for 183 days or more in the taxable year, and certain other conditions are met, or (ii) the gain or income resulting from the CPOs or ADSs is effectively connected with a trade or business of the Non-U.S. Holder in the U.S. (and, if a tax treaty applies, is attributable to a U.S. permanent establishment of the Non-U.S. Holder). Non-U.S. Holders should consult their own tax advisors concerning any possible U.S. tax consequences associated with the purchase, ownership, and disposition of the CPOs or

### U.S. Information Reporting and Backup Withholding.

Dividend payments with respect to CPOs or ADSs may be subject to information reporting to the IRS and possible U.S. backup withholding (currently at a rate of 28%) if such dividend payments are treated as made within the U.S. Proceeds from the sale, exchange or redemption of CPOs or ADSs may also be subject to information reporting to the IRS and possible U.S. backup withholding (currently at a rate of 28%) if a Non-U.S. Holder holds or sells the CPOs or ADSs through a U.S., or U.S.-related, broker or financial institution, or through the U.S. office of a non-U.S. broker or financial institution. Backup withholding will not apply, however, to a non-U.S. Holder that establishes an exemption from information reporting and backup withholding by certifying such holder's foreign status on an appropriate IRS Form W-8.

The IRS may make information reported to you and the IRS available under the provisions of an applicable income tax treaty to the tax authorities in the country in which you reside. Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability, if any, provided the required information is timely furnished by you to the IRS. You should consult your own tax advisors regarding the filing of a U.S. tax return for claiming a refund of any such backup withholding.

THE U.S. FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERALINFORMATION PURPOSES ONLY. HOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORSTO DETERMINE THE FEDERAL, STATE AND LOCAL AND NON-U.S. TAX CONSIDERATIONS OFOWNING OUR SENIOR NOTES, OR CPOS, OR ADSs.

### Mexican Income Tax Considerations

The following is a summary of the principal consequences under Mexico's Income Tax Law (Ley del Impuesto sobre la Renta), which we refer to in this section as Law, regulations thereto and rules there under and under the Tax Treaties (as defined below), of the purchase, ownership and disposition of the Step-Up Senior Notes due 2020, CPOs and ADSs by a holder that is not a resident of Mexico for tax purposes and that will not hold the senior notes, CPOs, ADSs or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Mexico (each, a "Foreign Holder")

It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or dispose of the senior notes, CPOs or ADSs by a Foreign Holder. In addition, it does not describe any tax consequences (i) arising under the laws of any taxing jurisdiction other than Mexico, (ii) arising under the laws of any state or municipality within Mexico, or (iii) arising to a holder of the senior notes, CPOs or ADSs that is a resident of Mexico for tax purposes or to a non-resident of Mexico that is holding the senior notes, CPOs or ADSs through a permanent establishment in Mexico for tax purposes, to which the relevant income is attributable.

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This summary is based on the aforementioned laws in effect on January 1, 2013, which are subject to change. Each Foreign Holder should consult its own tax advisor as to the particular Mexican or other tax consequences to such Foreign Holder of purchasing, holding or disposing of the senior notes, CPOs or ADSs, including the applicability and effect of any state, municipal, local or foreign tax laws.

### Mexican Tax Residence

For purposes of Mexican taxation, an individual is a resident of Mexico if he has established his home in Mexico. If the individual also has a home in another country, the individual will be deemed a resident of Mexico for tax purposes when his "center of vital interests" is located in Mexico. For these purposes, the center of vital interests will be deemed to be located in Mexico if, among other considerations, (i) more than 50% of the individual's total income, obtained in a calendar year, qualifies as Mexican source income, or (ii) when the individual's main center of professional activities is located in Mexico. Mexican nationals who file a change of tax residence to a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico, in which his or her income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered Mexican residents for tax purposes during the year of filing of the notice of such residence change and during the following three years. Mexican nationals are deemed Mexican residents for tax purposes unless such nationals can demonstrate otherwise.

A legal entity is a resident of Mexico for tax purposes if it has established the principal management of its business or the place of effective management in Mexico.

#### United States of America/Mexico and Other Tax Treaties

Provisions of the Convention for the Avoidance of Double Taxation and Prevention of Fiscal Evasion between the United States of America and Mexico effective as of January 1, 1994, together with a related Protocol thereto, and a second Protocol effective July 22, 2003, which we refer to collectively as the Tax Treaty, that may affect the taxation of certain Foreign Holders that are United States of America holders of the senior notes, CPOs or ADSs, are summarized below. The United States of America and Mexico have also entered into an agreement that covers the exchange of information with respect to tax matters. Mexico has also entered into treaties for the avoidance of double taxation with around 54 countries, including Germany, Australia, Canada, France, Italy, United Kingdom, Japan, The Netherlands, Switzerland and Singapore, and treaties for the exchange of information with around 50 countries, including Canada, Italy, The Netherlands and Japan, among others.

### Mexican Tax Consequences to Foreign Holders of the Senior Notes

### Taxation of Interest and Principal

Under the Mexican Income Tax Law, payments of interest made by us with respect of the senior notes (including payments of principal in excess of the issue price of such senior notes, which, under Mexican law, are deemed to be interest) to a Foreign Holder will generally be subject to a Mexican withholding tax assessed at a rate of 4.9% (the "Reduced Rate"), provided that:

- the senior notes are placed through banks or brokerage houses in a country with which Mexico has entered into a tax treaty for the avoidance of double taxation that is in force;
- we have delivered notice of the offering of the senior notes to the CNBV pursuant to Article 7 of the Mexican Securities Market Law (Ley del Mercado

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certain periodic information requirements by the Mexican Ministry of Finance (Secretaría de Hacienda y Crédito Público) are complied with.

If these requirements are not satisfied, the applicable withholding tax rate will be 10%.

To date, we have complied with the requirements set forth above and we expect to continue filing the periodic information to the Mexican Ministry of Finance (Secretaría de Hacienda y Crédito Público) and therefore, we expect to continue to withhold Mexican tax from interest payments on the senior notes at the

However, a withholding at the tax rate of 30% will be applicable if the effective beneficiaries of interest payments, whether directly or indirectly, individually or jointly with related parties, of more than 5% of the aggregate amount of such payments under the senior notes are:

- our shareholders who own, directly or indirectly, individually or jointly with related parties, more than 10% of our voting stock; or
- legal entities 20% or more of whose stock is owned, directly or indirectly, individually or jointly with related parties, by us or by persons related to us.

Starting year 2014, the withholding tax rate of 30% previously referred will be increased to 35%, derived from the tax reform bill recently approved.

Payment of interest (including payments of amounts deemed interest) we make with respect of the senior notes to a non-Mexican pension or retirement fund that is a Foreign Holder, will be generally exempt from Mexican withholding taxes, provided that (i) the fund is the effective beneficiary of such interest income, (ii) the fund is duly established pursuant to the laws of its country of residence, (iii) the relevant interest income is exempt from taxation in such country, and (iv) the fund is duly registered with the Mexican Ministry of Finance (Secretaría de Hacienda y Crédito Público) in accordance with rules issued for these purposes.

The registration obligation with the Mexican Ministry of Finance (Secretaría de Hacienda y Crédito Público) for pension and retirement funds is repealed, thus, starting year 2014 the fulfillment of this formal requisite will not be required for the Mexican withholding taxes exemption previously described.

We have agreed, subject to specified exceptions and limitations, to pay additional amounts to Foreign Holders of the senior notes in respect of the Mexican withholding taxes applicable to interest payments and amounts deemed interest under the senior notes.

Holders or beneficial owners of the senior notes may be requested to provide certain information or documentation necessary to enable us to establish the appropriate Mexican withholding tax rate applicable to such holders or beneficial owners. In the event that the specified information or documentation concerning the holder or beneficial owner is requested and is not provided on a timely basis, our obligation to pay additional amounts may be limited. Starting year 2014 this will also be applicable to those foreign banks, financial entities and investment banks that were registered with the Mexican Ministry of Finance (Secretaria de Hacienda y Crédito Público) as of December 31, 2013.

During fiscal year 2013, the Tax Treaty and the other tax treaties had no material effect on the Mexican tax consequences described in this section, this derived that as described above if certain requirements are met, under Mexican law interest payments (including payments of amounts deemed interest) to a Foreign Holder will generally be subject to a Mexican withholding tax at the Reduced Rate. During 2013, such treaties are not expected to have any material effect on the Mexican tax consequences described.

Under the Mexican Income Tax Law, payments of principal made by us in respect of the senior notes to a Foreign Holder will not be subject to a Mexican withholding tax.

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#### Sale or disposition of the senior notes

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Under the Mexican Income Tax Law regulations, gains resulting from the sale or other disposition of the senior notes by a Foreign Holder to another Foreign Holder are not taxable in Mexico. Gains resulting from the sale of the senior 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 Mexican taxes pursuant to the rules described above in respect of interest payments.

#### Other Taxes

A Foreign Holder will not be liable for Mexican estate, gift, inheritance or similar taxes with respect to the purchase, holding or disposition of the senior notes, nor will it be liable for Mexican flat rate business tax (*IETU*) stamp, issue, registration or similar taxes.

Please be aware that the flat rate business tax (IETU) is repealed starting year 2014.

### Mexican Tax Consequences to Foreign Holders of the CPOs and ADSs

### Taxation of Dividends and Other Distributions

Under provisions of the Mexican Income Tax Law, dividends paid to Foreign Holders with respect to our CPOs and ADSs are currently not subject to any Mexican withholding.

Dividends paid from distributable earnings that have not been subject to corporate income tax are subject to a corporate-level tax (payable by the Company) at a rate of 30% over the grossed up paid dividend. Dividends paid from distributable earnings, after the corporate tax has been paid with respect to these earnings, are not subject to this corporate-level tax at the moment of distribution.

Starting year 2014, an additional 10% income tax withholding will be triggered in case of dividend distributions made by us to Foreign Holders, notwithstanding if such dividends are paid from distributable earnings that have already been subject to taxation at the corporate level. The 10% withholding will not apply for dividends paid from distributable earnings as of December, 2013.

The application of the Tax Treaties entered by and between Mexico and other countries is allowed in order to reduce the tax withholding in question.

Distributions made by us other than as dividends, including capital reductions, amortization of shares or otherwise, would be subject to taxation in Mexico, with taxes being generally payable by us, as corporate-level taxes. The method of assessing and paying taxes applicable to any such distributions will vary depending on the nature of the distributions.

### Sale or Disposition of CPOs or ADSs

The sale or other disposition of CPOs or ADSs by a Foreign Holder will not be subject to any Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other stock exchange or securities markets that meet certain characteristics. Sales or other dispositions of our CPOs or ADSs made in other circumstances generally would be subject to Mexican tax at a rate of 25% based on the aggregate amount of the transaction, without any deductions, or, subject to certain requirements applicable to the seller, at a rate of 30% imposed on gains realized from the disposition. Starting year 2014, the 30% tax rate previously referred will be increased to 35%, derived from the tax reform bill recently approved.

A U.S. Holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of CPOs or ADSs in a transaction that is not carried out through the Mexican Stock Exchange or such other exchange or securities markets, provided that such gains are not attributable to a permanent establishment for tax purposes in Mexico, and further provided that the holder did not own, directly or indirectly, 25% or more of our share capital (including ADSs) during the twelve-month period preceding the sale or other disposition. Tax treaties celebrated with other countries provide similar benefits.

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Under the Mexican Income Tax Law currently in force, any person or group of persons that, directly or indirectly, hold 10% or more of our outstanding CPOs or ADSs, shall be obligated to pay Mexican income taxes in respect of a sale of our CPOs or ADSs, even if the sale is carried out through the Mexican Stock Exchange or any other exchange or securities markets, if the sale comprises a block equal to or exceeding 10% of our outstanding CPOs or ADSs, in a single transaction or a series of transactions, during any 24 month period.

Also, in case a person or group of persons who have our control, alienate CPOs or ADSs that represents such control (as it is defined by the Mexican Securities Market Law), in one or successive transactions, during a period of 24 months, shall be obligated to pay Mexican income taxes derived from such transactions, even if the sale is carried out through the Mexican Stock Exchange or any other exchange or securities markets.

Starting year 2014, Mexican brokerage firms are obliged to carry out a 10% income tax withholding on the amount of the gains obtained by Foreign Holders (per transaction) derived from the sale or disposition of CPOs through the Mexican Stock Exchange.

The tax withholding previously referred will not be applicable in case the Foreign Holders evidence to the Mexican brokerage firm, its residency in a country with which Mexico has in force a Tax Treaty and provided that the requirements for the application of such Tax Treaty are met. A U.S. Holder that is eligible to claim the benefits of the Tax Treaty will not be subject to the referred tax withholding.

Other Taxes

A Foreign Holder will not be liable for Mexican estate, Mexican flat rate business tax (*IETU*), gift, inheritance or similar taxes with respect to the purchase, holding or disposition of the CPOs or ADSs, nor will it be liable for Mexican stamp, issue, registration or similar taxes.

As previously mentioned, the flat rate business tax (IETU) is repealed starting year 2014.

#### F. Dividends and paying agents

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Not applicable.

#### G. Statement by experts

Not applicable.

### H. Documents on display

For further information pertaining to us and our CPOs and ADSs, please consult the filings we have made with the SEC. Statements contained in this annual report concerning the contents of any contract or any other document are not necessarily complete. If a contract or document has been filed as an exhibit to any filing we have made with the SEC, we refer you to the copy of the contract or document that has been filed. Each statement in this annual report relating to a contract or document filed as an exhibit to any filing we have made with the SEC is qualified in its entirety by the filed exhibit.

We file reports, including annual reports on Form 20-F, and other information electronically with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make are also available to the public over the Internet at the SEC's website at www.sec.gov and at our website at http://www.Maxcom.com/ir. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this Annual Report.)

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### I. Subsidiary information

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates and currency exchange rates.

### Quantitative and Qualitative Disclosures About Market Risk

The peso-to-dollar exchange rate may experience significant devaluations in the future. Further declines in the value of the peso relative to the U.S. dollar could adversely affect our ability to meet our U.S. dollar-denominated obligations. In order to diminish the negative effects of a peso devaluation in May 2007, we entered into currency swap transactions with the banks Morgan Stanley A.G. and Merrill Lynch Capital Markets A.G. to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$150 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2008 to December 2010. In December 2009, the company unwound the swap with Morgan Stanley A.G. and entered into a new swap with the same bank that covers the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014. The other swap with Merrill Lynch Capital Markets A.G. remained as initially contracted.

In March 2010 the company unwound the swap with Merrill Lynch Capital Markets A.G. and entered into a new cross currency swap transaction with Morgan Stanley A.G. that minimize the exchange rate risk related to the coupon payments with respect to U.S.\$75 million aggregate principal amount of the senior notes due 2014, for payments during the period from June 2010 to December 2014.

In May 2011 we amended the cross currency swap agreements with Morgan Stanley (France), SAS to delete from the agreements the clause authorizing Morgan Stanley to terminate the agreements in case the credit rating of Maxcom continues to decline. In return, Maxcom agreed to deposit U.S.\$1.5 million in a collateral account in Morgan Stanley.

In February 2013 the company unwound the swap with Morgan Stanley (France) SAS. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

At December 31, 2013, an immediate 10% devaluation of the peso relative to the U.S. dollar would have increased our interest expense (related to the interest payments on the U.S.\$175.7 million aggregate principal amount of our Step-Up Senior Notes maturing on June 2020 not covered by the currency swaps) by approximately Ps.11.7 million over a one-year period. In addition, any further decrease in the value of the peso may negatively affect the value of Mexican securities such as ours.

#### **Interest Rate Risk**

At December 31, 2013, the Step-Up Senior Notes due 2020 constituted substantially all of our indebtedness. We did not have variable interest debt outstanding.

### Foreign Exchange Risk

Our primary foreign currency exposure relates to our U.S. dollar-denominated debt. A substantial portion of this debt is incurred to finance U.S. dollar-denominated capital expenditures. The majority of our debt obligations at December 31, 2013 were denominated in U.S. dollars. Therefore, we are exposed to currency exchange rate risks that could significantly affect our ability to meet our obligations. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

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The exchange rate of the peso to the U.S. dollar is a freely-floating rate and the peso has experienced significant devaluations in recent years. Any significant decrease in the value of the peso relative to the U.S. dollar in the near term may have a material adverse effect on our results of operations and financial condition, including our ability to repay or repurchase the notes. At December 31, 2013, an immediate 10% devaluation of the peso relative to the U.S. dollar would have increased our interest expense (related to the interest payments on the U.S.\$175.7 million aggregate principal amount of our Step-Up Senior Notes maturing on June2020 not covered by the currency swaps) by approximately Ps.11.7 million over a one-year period.

To the extent capital expenditures are financed with operating cash flows, we are also exposed to foreign currency fluctuations. Substantially all of our capital expenditures are denominated in U.S. dollars. In addition, our operating lease for our headquarters building is denominated in U.S. dollars.

### ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

#### D. American Depositary Shares

### 3. Fees and Expenses

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

The following table sets forth the applicable fees for various services, transactions and activities related to the ADSs.

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Persons Depositing or Withdrawing CPOs or ADR **Holders Must Pay:** 

U.S.\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

U.S.\$.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to you had been CPOs and the CPOs had been deposited for issuance of ADSs

U.S.\$.02 (or less) per ADS per calendar year

Registration or transfer fees

Expenses of the depositary

#### For:

• Issuance of ADSs, including issuances resulting from a distribution of shares, CPOs or rights or other property

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- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to you
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
- · Depositary services
- Transfer and registration of CPOs on our CPO register to or from the name of the depositary or its agent when you deposit or withdraw CPOs
- Cable, telex and facsimile transmission (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars

### PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

On July 23, 2013, the Company commenced voluntary prepackaged Chapter 11 cases in the U.S. Bankruptcy Court for the District which constituted a default under the indenture governing the Company's then outstanding U.S.\$177.2 million aggregate principal amount of 11% Senior Notes due 2014. On September 10, 2013, the U.S. Bankruptcy Court for the District of Delaware entered an order confirming the Company's plan of reorganization, which was fully consensual. On October 11, 2013, the Company emerged from bankruptcy protection and the Old Notes were cancelled pursuant to the terms of the plan of reorganization.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

### Reclassification of Capital Stock and 2007 Initial Public Offering

On October 24, 2007, we completed an initial public offering of shares of our Series A common stock in the form of Ordinary Participation Certificates (Certificados de Participación Ordinarios or CPOs for its initials in Spanish), including American Depositary Shares, or ADSs, comprised of CPOs. In connection with the initial public offering, each issued and outstanding share of our Series A, Series B and Series N common stock was converted into one new share of Series A common stock. As of September 30, 2007, we had issued and outstanding 17,289,620 shares of Series A common stock, 16,611,595 shares of Series B common stock and 450,455,821 shares of Series N common stock. Upon completion of the reclassification, which took place prior to the closing of our initial public offering, we had 484,357,036 shares of Series A common stock issued and outstanding.

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We issued a total of 355,517,292 shares of Series A common stock, including the primary and secondary portions and the overallotment option, in the initial public offering. During the initial public offering 853,592 options were exercised. Immediately following the closing of our initial public offering, our outstanding capital stock consisted of 789,818,829 shares of Series A common stock, 1,528,827 shares of which represent the fixed portion of our capital stock and 788,290,002 shares of which represent the variable portion of our capital stock. We received U.S.\$244.0 million in net proceeds from the initial public offering. The principal purpose of the initial public offering was to raise capital resources which we intended to use for capital expenditures to further expand our network. The funds obtained from the initial public offering were sufficient to fund working capital, planned capital spending and debt service requirements for the eighteen months following the initial public offering.

On September 27, 2013 Maxcom completed a comprehensive plan of recapitalization and a equity tender offer initiated by Ventura, acting through the Trust 1387 held by Banco Invex, S.A., Institución de Banca Múltiple, Invex Grupo Financiero, a banking institution organized and existing under the laws of the United Mexican States and other investors. As part of this transaction, Ventura investors became the major shareholder in the Company.

As of March 31, 2014, and after the completion of the capital increase approved by the shareholders meeting held on October 2, 2013, the Maxcom capital stock is comprised by 3,135,760,472 Series "A" shares.

#### ITEM 15. CONTROLS AND PROCEDURES

## (a) Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that as of the end of the period covered by this report our disclosure controls and procedures were not effective due to the material weakness described below.

## (b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of Directors, provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of a company's assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of the financial statements in accordance with generally accepted accounting principles, and that a company's receipts and expenditures are being made only in accordance with authorizations of a company's management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of a company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 based on the criteria described in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO issued in 1992). Based on this assessment and those criteria, management has concluded that the Company's internal control over financial reporting as of December 31, 2013 was not effective.

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In connection with our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, as of December 31, 2013 we identified a material weakness in our internal control over financial reporting with respect to certain aspects of our revenue and interconnection processes, specifically in the access controls to our systems, backup procedures and capacity systems and security policies and procedures, which could have a material adverse effect on us. This material weakness effects the ability of management to adequately rely on the auditing and billing reports, particularly related to revenues and interconnection fees.

Planned Remediation Efforts to Address Material Weakness

Our management team is implementing a remediation plan designed to address this material weakness, including utilizing more rigorous access controls procedures to our systems and the establishment of new policies to determine specific users and passwords, backup and incident policies as well as update our security policies and procedures to access the servers. Management will continue to monitor these remedial measures and the effectiveness of our internal controls and procedures and we believe that remediation to this material weakness will be ready by the end of 2014.

(c) Attestation Report of the Independent Registered Public Accounting Firm

Not applicable.

(d) Changes in internal control over financial reporting.

Except as otherwise discussed above, there were no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal controls over financial reporting.

#### ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Carlos Muriel Gaxiola is an audit committee financial expert as defined under the Securities and Exchange Commission guidelines. Mr. Muriel is an independent director of the board. Mr. Muriel is also "independent" in accordance with the NYSE listing standards and applicable SEC rules.

## ITEM 16B. CODE OF ETHICS

Since March 2006, we adopted a code of ethics in compliance of the requirements of the Securities and Exchange Commission that applies to our principal executive officer, principal financial officer, principal accounting officer and other corporate and divisional employees. For further information see Exhibit 11.1.

We will provide a complimentary copy of Maxcom's code of ethics upon request. Written requests for such copies should be directed to Maxcom Telecomunicaciones, S.A.B. de C.V., Avenida Guillermo González Camarena No. 2000, Colonia Santa Fe Centro Ciudad, Mexico, D.F. 01376, attention: Manager, Investor Relations. Telephone requests may be directed to 011-52-55-4770-1170.

If we grant any amendment or waiver of such provisions, we will disclose such waiver on our website, www.Maxcom.com, within five business days of any such amendment or waiver.

## ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered by PricewaterhouseCoopers, S.C. for the fiscal year ended December 31, 2013:

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	Year	Ended December 31 2013 (In millions)
Audit Fees(1)	Ps.	2.3
Audit Related Fees (2)	Ps.	0.0
All Other Fees (3)	Ps.	0.0
Total	Ps.	2.3

The following table sets forth the aggregate fees for professional services rendered by KPMG Cárdenas Dosal, S.C. for the fiscal year ended December 31, 2012:

	Year End	ded December 31
		2012
	<del>(Ir</del>	n millions)
Audit Fees(1)	Ps.	5.4
Audit Related Fees (2)	Ps.	6.2
All Other Fees (3)	Ps.	0.0
Total	Ps.	11.6

- (1) Audit Fees include fees associated with the annual audit of our consolidated financial statements. Audit fees also include fees associated with Securities and Exchange Commission statutory, annual reporting audit requirements and internal control over financial reporting.
- (2) Audit Related Fees are fees that support the auditing and reporting process, but are not directly related to it.
- (3) Other Fees includes fees for advisory and training services.

We have introduced procedures for the review and pre-approval of any services performed by PricewaterhouseCoopers, S.C. The procedures require that all proposed engagements of PricewaterhouseCoopers, S.C. for audit and permitted non-audit services are submitted to our Audit Committee for approval prior to the beginning of any such services.

## ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

## ITEM 16E. PURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On March 24, 2008, by means of resolutions adopted by the General Extraordinary and Ordinary Shareholders Meetings, the shareholders approved the share repurchase regulations, also the shareholders' approved the repurchase of shares in an amount not to exceed Ps.36.2 million (U.S.\$2.7 million) for 2008. The share repurchase program approved on March 24, 2008 is the only share repurchase program in effect.

During the fiscal year ended December 31, 2013 we didn't purchase any CPOs in the BMV, through the Company's stock repurchase program. The detail of the purchases is as follows:

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Period 2011:	Dates	Total number of CPOs purchased		erage price paid per CPO (1)	Total number of CPOs purchased for the repurchase program	Approximate value of CPOs that may yet be purchased under the repurchase program (2)
January	_	_		_	_	_
February	_	_		_	_	_
March	_	_		_	_	_
April	From April 5 to April 11, 2011	413,300	Ps.	5.9044	413,300	Ps. 17.5
May	_			_	_	
June	_	_		_	_	_
July	_	_		_	_	_
August	_	_		_	_	_
September	_	_		_	_	_
October	_	<u> </u>		_	_	_
November	_	_		_	_	_
December	From December 5 to December 5, 2011	25,000	Ps.	3.3500	25,000	Ps. 19.7
2012:						
January	_	_		_	_	_
February	<u> </u>	_		_	_	_
March		_		_	_	_
April	<u> </u>	_		_	_	_
May		_		_	_	_
June	<u> </u>	_		_	_	_
July		_		_	_	_
August		_		_	_	
September		_		_	_	_
October				_		
November	_	_		_	_	_
December				_		
2013:						
January	_	_		_		
February	_	_		_	_	_
March	_	_		_	_	_
April	_	_		_	_	_
May		_		_		
June		_		_	_	_
July	_					
August	—	_		_	_	_
September	_	_		_		_
October	_	_		_	_	_
November		_		_	_	_

- (1) Average price paid is presented in nominal pesos.
- (2) Approximate value of CPOs that may yet be purchased under the repurchase program is presented in millions of nominal pesos.

Since December 6, 2011 the Company has not made any further purchase of CPOs or ADSs. Historically the repurchase program has only traded CPOs. The repurchase program does not have a set date for expiration, but it is limited to the Ps.36.2 million (U.S.\$2.7 million) approved by the shareholders.

## ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

KPMG Cardenas Dosal, S.C. ("KPMG") was previously the principal accountants for Maxcom. On October 28, 2013, that firm was dismissed as principal accountants, and PricewaterhouseCoopers, S.C. ("PWC"), was named and engaged as principal accountants of Maxcom for the year ended December 31, 2013. The decision to change accountants was recommended by the Audit Committee and approved by our Board of Directors on October 28, 2013.

During the two fiscal years ended December 31, 2012, there were no: (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their opinion to the subject matter of the disagreement, or (2) reportable events as that term is defined in Item 16F(a)(1)(v) of Form 20-F.

The audit reports of KPMG on the consolidated financial statements of Maxcom as of and for the years ended December 31, 2012 and 2011 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles, except as follows:

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KPMG's report on the consolidated financial statements of Maxcom as of December 31, 2012 and 2011 and January 1, 2011 and for the years ended December 31, 2012 and 2011, contained a separate paragraph stating that "The accompanying consolidated financial statements have been prepared assuming that the Company will continue operating as a going concern. As discussed in notes 3 and 21 to the consolidated financial statements, the Company has experienced recurring losses, declines in revenues, cash flows and cash balances. Additionally, the Company's ability to fulfill its debt obligations that mature in 2014, including the payment of semi-annual interest payments on such obligations is dependent on obtaining sufficient cash for the outstanding interest payments and on successfully completing the refinancing of the debt obligations. This raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are described in note 3 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty."

A letter from KPMG is attached to this report on Form 20-F.

During the two fiscal years ended December  $3\hat{1}$ , 2012, and any subsequent interim period up to October 28, 2013, we have not consulted with PWC regarding either (i) the application of accounting principles to a specific completed or contemplated transaction; (ii) the type of audit opinion that might be rendered on our financial statements; or (iii) any matter that was either the subject of a disagreement (as described in Item 16F(a)(1)(iv) and the related instructions to such Item of Form 20-F) or a reportable event (as described in Item 16F(a)(1)(v)).

#### ITEM 16G. CORPORATE GOVERNANCE

Pursuant to Section 303A.11 of the Listed Company Manual of the New York Stock Exchange, or the NYSE, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards.

The table below discloses the significant differences between our corporate governance practices and the NYSE standards.

#### **NYSE Standards**

## **Director Independence.** Majority of board of directors must be independent. §303A.01

# **Executive Sessions.** Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03

**Nominating/Corporate Governance Committee.** Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04

#### **Our Corporate Governance Practices**

**Director Independence.** Pursuant to the Mexican Securities Market Law and our bylaws, our shareholders are required to appoint a Board of Directors of no more than 21 members, 25% of whom must be independent. Certain persons are per se non-independent, including insiders, control persons, major suppliers and any relatives of such persons. In accordance with the Mexican Securities Market Law, our shareholders' meeting is required to make a determination as to the independence of our directors, though such determination may be challenged by the CNBV. There is no exemption from the independence requirement for controlled companies.

**Executive Sessions.** Our non-management directors have not held executive sessions without management in the past, and under our bylaws and applicable Mexican law, they are not required to do so.

**Nominating Committee.** We currently do not have, and are not required to have, a nominating committee. However, Mexican law requires us to have one or more committees that oversee the corporate governance function. We have an audit and corporate practices committee which performs corporate governance functions.

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Compensation Committee. Compensation committee of independent directors is required, which must evaluate and approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05

**Audit Committee.** Audit committee satisfying the independence and other requirements of Exchange Act Rule 10A-3 and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07

**Equity Compensation Plans.** Equity compensation plans require shareholder approval, subject to limited exemptions. §§303A.08 & 312.03

Shareholder Approval for Issuance of Securities. Issuances of securities (1) that will result in a change of control of the issuer, (2) that are to a related party or someone closely related to a related party, (3) that have voting power equal to at least 20% of the outstanding common stock voting power before such issuance or (4) that will increase the number of shares of common stock by at least 20% of the number of outstanding shares before such issuance require shareholder approval. §§312.03(b)-(d)

Corporate Governance Guidelines. Listed companies are required to adopt and maintain corporate governance guidelines, addressing, among other things, director qualification standards, director responsibilities, director access to management and independent advisors, management succession and annual performance evaluations of the board. §303A.09

**Code of Business Conduct and Ethics.** A code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. The code must contain compliance standards and procedures that will facilitate the effective operation of the code. §303A.10

**Conflicts of Interest.** Determination of how to review and oversee related party transactions is left to the listed company. The audit committee or comparable body, however, could be considered the forum for such review and oversight. §307.00. Certain issuances of common stock to a related party require shareholder approval. §312.03(b)

**Compensation Committee.** We are not required to have a compensation committee. We have an audit and corporate practices committee, which assists our board of directors in evaluating and compensating our senior executives. All of the members of the audit and corporate practices committee are independent.

Audit Committee. We have an audit and corporate practices committee of three members. Each member of this committee is independent, as independence is defined under the Mexican Securities Market Law, and also meets the independence requirements of Exchange Act Rule 10A-3. Our audit committee operates primarily pursuant to (1) a written charter adopted by our board of directors and (2) Mexican law. For a detailed description of the duties of our audit and corporate practices committee, see "Management — Committees — Audit and Corporate Practices Committee."

**Equity Compensation Plans.** Shareholder approval is required for the adoption and amendment of an equity-compensation plan.

**Shareholder Approval for Issuance of Securities.** Mexican law and our bylaws require us to obtain shareholder approval of the issuance of equity securities. Treasury stock, however, may be issued by the board of directors without shareholder approval.

**Corporate Governance Guidelines** We operate under corporate governance principles that we believe are consistent with the principles of Rule 303A.09, and which are described in the Company's website under "Corporate Governance".

Code of Business Conduct and Ethics. We have adopted a code of ethics, which has been accepted by all of our directors and executive officers and other personnel. We also will post all waivers there from by any of our directors or executive officers on our website. We will provide a complimentary copy of our code of ethics upon request.

Conflicts of Interest. In accordance with Mexican law and our bylaws, the audit and corporate practices committee must provide an opinion regarding any transaction with a related party that is outside of the ordinary course of business, which transactions must also be approved by the board of directors. Pursuant to the Mexican Securities Market Law, our Board of Directors will establish certain guidelines regarding related party transactions that do not require Board approval.

Vintage Filings

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**Solicitation of Proxies.** Solicitation of proxies and provision of proxy materials is required for all meetings of shareholders. Copies of such proxy solicitations are to be provided to NYSE. §§402.00 & 402.04

**Solicitation of Proxies.** We are required under Mexican law to solicit proxies and provide proxy materials for meetings of shareholders. In accordance with Mexican law and our bylaws, we are also required to inform shareholders of all meetings by public notice, which states the requirements for admission to the meeting, provides a mechanism by which shareholders can vote by proxy and makes proxies available. Under the deposit agreement relating to the ADSs, holders of the ADSs receive notices of shareholders' meetings and, where applicable, instructions on how to vote at the shareholders' meeting either in person or through a person having a proxy specifically designated by the shareholder.

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## PART III

## ITEM 17. FINANCIAL STATEMENTS

We have responded to item 18 in lieu of responding to this Item.

## ITEM 18. FINANCIAL STATEMENTS

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## MAXCOM TELECOMUNICACIONES, S. A. B. DE C. V. AND SUBSIDIARIES

Consolidated Financial Statements

As of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011  $\,$ 

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders Maxcom Telecomunicaciones, S. A. B. de C. V.

In our opinion, the accompanying consolidated statement of financial position as of December 31, 2013 and the related consolidated statements of comprehensive income, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Maxcom Telecomunicaciones, S. A. B. de C. V. and its subsidiaries at December 31, 2013, and the results of their operations and their cash flows for the year ended December 31, 2013 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers, S. C.

/s/ C.P.C. José Antonio Quesada Palacios Audit Partner México City, México May 14, 2014

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders Maxcom Telecomunicaciones, S. A. B. de C. V.:

We have audited the accompanying consolidated statements of financial position of Maxcom Telecomunicaciones, S. A. B. de C. V. and subsidiaries (the 'Company') as of December 31, 2012, and the related consolidated statements of loss and comprehensive loss, changes in equity and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Maxcom Telecomunicaciones, S. A. B. de C. V. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG Cardenas Dosal, S. C.

/s/ Luis A. Carrero Roman Mexico City, Mexico May 15, 2013

Consolidated Statements of Financial Position December 31, 2013 and 2012

## (In thousands of Mexican pesos)

Carrent assets:			December 31,				
Curent assets:         1953,692         \$ 146,516           Cash and cash equivalents (Note 18)         613,175         16,385           Derivative financial instruments (Note 18)         613,175         16,385           Accounts receivable - net (Note 9)         1901         1908           State added as recoverable         1901         10,487           Inventors         16,697         17,512           Perpaid expenses         2,780,951         33,577           Total current assets         2,780,951         33,577           Non-current assets         2         35,690         37,671           Telecommunication network systems and equipment - net (Note 11)         2,836,371         3,854,575           Investment properly - net understance of the control o					2012		
Cash and cash equivalents (Note 18)         146.316           Derivative financial instruments (Note 18)         633.17           Accounts receivable - net (Note 9)         631.07           Value added tare receiverable         119.077           Other sundry debtors         119.077           Inventories         7.305           Prepaid expenses         7.305           Total current assets         2.386.371           Telecommunication network systems and equipment - net (Note 11)         2.385.371           Total current assets         3.50           Telecommunication network systems and equipment - net (Note 11)         8.09           Total recent assets         3.50           Telecommunication network systems and equipment - net (Note 11)         8.09           Deferred income as (Note 10)         8.09           Deferred income as (Note 10)         8.09           Deferred income as (Note 10)         9.00           Total non-current assets         2.075,662           Total assets         2.275,662           Total sets of the system of the sys	<u>Assets</u>						
Cash and cash equivalents (Note 18)         146.316           Derivative financial instruments (Note 18)         633.17           Accounts receivable - net (Note 9)         631.07           Value added tare receiverable         119.077           Other sundry debtors         119.077           Inventories         7.305           Prepaid expenses         7.305           Total current assets         2.386.371           Telecommunication network systems and equipment - net (Note 11)         2.385.371           Total current assets         3.50           Telecommunication network systems and equipment - net (Note 11)         8.09           Total recent assets         3.50           Telecommunication network systems and equipment - net (Note 11)         8.09           Deferred income as (Note 10)         8.09           Deferred income as (Note 10)         8.09           Deferred income as (Note 10)         9.00           Total non-current assets         2.075,662           Total assets         2.275,662           Total sets of the system of the sys							
Derivative financial instruments (Note 18)         - 16,835           Accounts receivable         63,179         61,637           Value added tax recoverable         19,917         107,845           Nother sundry debotres         11,907         107,845           Investories         16,669         17,152           Prepaid expenses         2,780,951         933,577           Total current assets         -         -           Felecommunication network systems and equipment - net (Note 11)         2,848,371         3,854,575           Intensity of the Communication network systems and equipment - net (Note 11)         4,669,80         16,769           Non-current assets         2,780,90         17,671           Christian faminal instruments (Note 18)         10,709         9,202           Total aon-current assets         2,975,662         4,064,041           Total aon-current tabelities         2,975,662         4,064,041           Total assets         5,756,613         3,497,618           Total current tabelities         2,675,662         1,192           Current stabilities         2,675,662         1,192           Current stabilities         2,675,662         2,119           Current problisations under finance leases         4,172         5,488 <td>- 11-1 -</td> <td>ø</td> <td>1.052.602</td> <td>¢.</td> <td>146.516</td>	- 11-1 -	ø	1.052.602	¢.	146.516		
Accounts receivable - net (Note 9)         63,179         61,674           Value added tare, recoverable         119,077         107,845           Other sundry debtors         119,077         107,845           Prepared expenses         7,395         16,047           Total current assets         3,780,915         3,853,575           Total current assets         2,385,371         3,854,575           Telecommunication network systems and equipment - net (Note 11)         8,089         13,636           Deferred account as (Note 10)         8,089         13,636           Deferred income as (Note 10)         8,098         13,639           Deferred income as (Note 10)         8,098         13,636           Deferred income as (Note 10)         9,292         15,756,613         9,793           Deferred income as (Note 10)         9,20         4,064,041           Total non-current assets         2,275,662         4,064,041           Total assets         2,275,661         3,275,661           Total assets         2,275,662         3,249,761           Total assets         2,275,661         3,055,275           Total assets         2,275,662         3,055,275           Total assets         2,275,662         3,055,275		\$	1,953,692	\$			
Value added tax recoverable         50,911         14,988           Inventories         16,967         17,325           Prepaid expenses         2,780,951         33,577           Prepaid expenses         2,780,951         33,577           Non-current assets         2         38,63,71         38,45,455           Telecommunication network systems and equipment - net (Note 11)         2,836,371         38,45,455           Intestiment properly - net         35,609         37,671           Intestiment properly - net         36,009         37,671           Derivation and Note 10)         8,109         38,609           Derivation and a Note 10)         10,709         2,525           Derivation for a next of minical instruments (Note 18)         10,709         3,525           Total non-current assets         2,975,662         4,064,041           Total system of the assets         2,575,662         3,497,046           Total system of the assets of Note 1,000         2,000         2,000           Total contract installities         2,000         2,000           Current installities         1,190         2,000           Current installities         3,100         2,000           Current installities         1,000         2,000 <td></td> <td></td> <td>(22.170</td> <td></td> <td></td>			(22.170				
Other sandry debtors         19,075         17,512           Prepair of expenses         16,067         17,512           Total current assets         2,780,951         933,757           Non-current assets         8         38,457,55           Telecommunication network systems and equipment - net (Note 11)         2,836,371         3,854,575           Investment property - net         35,090         37,671           Intaggible assets - net (Note 12)         84,098         16,262           Defered accome tax (Note 10)         9,79         2,975           Other assets         10,709         9,79           Total anno-current assets         2,975,662         4,064,041           Total assets         2,975,662         4,064,041           Total assets         2,975,662         4,064,041           Current Isabilities         8         2,072,022           Current Isabilities         2         2,000,032           Current isabilities         8         2,000,032           Current isabilities         9         2,000,032           Current isabilities         2         2,000,032           Current isabilities         2         2,000,032           Current isabilities         2         2,000,032							
Perpaid expess   1,50							
Propose (assets)         7,95         16,047           Total current assets         2,780,951         933,757           Non-current assets         3,554,575         1,354,575           Incession metwork systems and equipment - net (Note 11)         2,836,371         3,554,575           Investion from property - net         35,090         37,071           Intangible assets - net (Note 10)         84,098         13,635           Defered income tax (Note 10)         1,070         9,292           Total anneal instruments (Note 18)         1,070         9,292           Total non-current assets         2,975,662         4,064,041           Total assets         5,756,613         5,497,618           Ebablities and Stockholders' Futiv         8         6,00         1,192           Current fishilities         8         6,00         1,292           Current step-up senior notes and senior notes (Note 15)         8         6,00         1,292           Current fishilities         8         6,00         1,292           Current fishilities         2,400         2,152           Current fishilities         4         1,292         4,875           Total current liabilities         1,993,139         2,282,744           Total curren							
Non-current assets							
Non-current assets:	1 repaid expenses		7,393		10,047		
Telesommunication network systems and equipment - net (Note 11)         3,854,575           Intersument property - net         35,690         37,671           Interpolipe assets - net (Note 12)         8,794         9,793           Derivative financial instruments (Note 18)         10,709         9,202           Other assets         2,975,662         4,064,041           Total non-current assets         2,975,662         4,064,041           Total secs         5         5,575,613         9,497,018           Experimental instruments (Note 18)         5         6,000         1,000           Total assets         8         2,575,661         4,040,041           Total secs         8         2,600         1,000           Current security personal foliations under finance leases         4,171         5,488           Current spayable         2,600         2,612           Current spayable         2,400         2,522           Current provisions (Note 13)         6,436         2,152           Current provisions (Note 13)         6,436         2,152           Current provisions (Note 13)         1,900         2,282,74           Installments of obligations under finance leases         4,177         5,173           Non-current liabilities	Total current assets		2,780,951		933,577		
Telesommunication network systems and equipment - net (Note 11)         3,854,575           Intersument property - net         35,690         37,671           Interpolipe assets - net (Note 12)         8,794         9,793           Derivative financial instruments (Note 18)         10,709         9,202           Other assets         2,975,662         4,064,041           Total non-current assets         2,975,662         4,064,041           Total secs         5         5,575,613         9,497,018           Experimental instruments (Note 18)         5         6,000         1,000           Total assets         8         2,575,661         4,040,041           Total secs         8         2,600         1,000           Current security personal foliations under finance leases         4,171         5,488           Current spayable         2,600         2,612           Current spayable         2,400         2,522           Current provisions (Note 13)         6,436         2,152           Current provisions (Note 13)         6,436         2,152           Current provisions (Note 13)         1,900         2,282,74           Installments of obligations under finance leases         4,177         5,173           Non-current liabilities	Non assessed						
Investment property net   156,00   37,671   156,326			2 926 271		2 954 575		
Intemplible assets - net (Note 12)	, , ,						
Deferred income tax (Note 10)         8,794         9,793           Derivative financial instruments (Note 18)         10,709         9,200           Total non-current assets         2,975,662         4,064,041           Total assets         \$ 5,756,613         \$ 4,997,618           Liabilities and Stockholders' Equity         \$ 5,756,613         \$ 4,997,618           Current liabilities         \$ 6,000         \$ 11,20           Current step-up senior notes and senior notes (Note 15)         \$ 6,000         \$ 11,20           Accounts payable         266,793         406,532           Current installments of obligations under finance leases         4,171         5,488           Current provisions (Note 13)         2,400         2,152           Current provisions (Note 13)         60,436            Current provisions (Note 13)         471,422         487,566           Total current liabilities         1,909,139         2,282,774           Non-current liabilities         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current liabilities         1,909,139         2,282,774           Installment sof obligations under finance leases         4,177         5,173							
Derivative financial instruments (Note 18)         15,756           Other assets         10,709         9,920           Total non-current assets         2,975,662         4,064,041           Total assets         \$ 5,756,613         \$ 4,997,618           Liabilities         ************************************							
Other assets         10,709         9,202           Total non-current assets         2,975,662         4,064,041           Total assets         \$ 5,756,613         \$ 4,997,618           Labilities and Stockholders' Equity           Current isabilities           Current labilities         \$ 6,200         \$ 11,920           Accounts payable         266,793         406,532           Current other accounts payable         81,222         39,062           Customer deposits         2,400         2,112           Outer taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current liabilities         471,422         487,566           Non-current liabilities         1909,139         2,822,774           Non-current liabilities         471,72         5,173           Non-current liabilities         4,177         5,173           Non-current liabilities         4,177         5,173           Non-current liabilities         4,177         5,173           Non-current liabilities         4,177         5,173           Non-current liabilities         4,378			0,794				
Total non-current assets         2,975,662         4,064,041           Total assets         \$ 5,756,613         \$ 4,997,618           Labilities and Stockholders' Equity         Current liabilities:           Current liabilities:         Current liabilities:           Current payable         \$ 6,200         \$ 11,220           Accounts payable         \$ 6,600         \$ 12,22         39,065           Current counts payable         \$ 1,221         39,065           Current payable         \$ 1,222         39,065           Current payable         \$ 2,400         2,152           Current payable         \$ 6,436         2,252,742           Current payable         \$ 6,436         2,282,742           Current payable         \$ 6,436         2,282,742           Current payable         \$ 1,909,139         2,282,743           Total current liabilities         \$ 1,909,139         2,282,744			10.700				
Total assets         \$ 5,756.613         \$ 4,997.618           Liabilities and Stockholders' Equity         Current liabilities:           Current liabilities:         Current liabilities:           Current payable         \$ 6,200         \$ 11,920           Accounts payable         \$ 81,222         39,062           Current uncounts payable         \$ 1,920         2,440         2,152           Current payable         \$ 2,400         2,152           Current provisions (Note 13)         \$ 6,036            Current provisions (Note 13)         \$ 471,422         487,566           Non-current liabilities:         \$ 471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         \$ 1,909,139         \$ 2,282,774           Installments of obligations under finance leases         \$ 4,177         \$ 1,73           Non-current step-up senior notes and senior notes (Note 15)         \$ 1,909,139         \$ 2,822,774           Installments of obligations under finance leases         \$ 4,177         \$ 1,73           Non-current step-up senior notes and senior notes (Note 15)         \$ 1,909,139         \$ 2,822,774           Installments of obligations under finance leases         \$ 1,909,139         \$ 2,822,744           Labor obligations under finance le	Office dissers		10,709		9,920		
Liabilities and Stockholders' Equity           Current liabilities:           Current step-up senior notes and senior notes (Note 15)         \$ 6,200         \$ 11,220           Accounts payable         266,793         406,532           Current installments of obligations under finance leases         4,171         5,488           Current carcounts payable         2,400         2,152           Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,990,139         2,822,774           Installments of obligations under finance leases         4,177         5,173           Non-current step-up senior notes and senior notes (Note 15)         1,990,139         2,822,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         2,324           Labor obligations upon retirement (Note 19)         4,378         4,189           Other non-current liabilities (Note 16)         14,905         2,531,300           Total i	Total non-current assets		2,975,662		4,064,041		
Current liabilities:         Current step-up senior notes and senior notes (Note 15)         \$ 6,200         \$ 11,920           Accounts payable         266,793         406,532           Current installments of obligations under finance leases         4,171         5,488           Current other accounts payable         81,222         39,062           Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         2,532           Non-current provisions (Note 13)         2,119,946         2,344,725           Total inon-current liabilities         2,119,946         2,344,725           Total liabilities         2,51,368         2,832,291           Stockholders' equity (Notes 20 and 21):         7,0	Total assets	\$	5,756,613	\$	4,997,618		
Current liabilities:         Current step-up senior notes and senior notes (Note 15)         \$ 6,200         \$ 11,920           Accounts payable         266,793         406,532           Current installments of obligations under finance leases         4,171         5,488           Current other accounts payable         81,222         39,062           Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         2,532           Non-current provisions (Note 13)         2,119,946         2,344,725           Total inon-current liabilities         2,119,946         2,344,725           Total liabilities         2,51,368         2,832,291           Stockholders' equity (Notes 20 and 21):         7,0		<del></del>					
Current step-up senior notes and senior notes (Note 15)         \$ 6,200 \$ 1,1,920           Accounts payable         266,793 406,532           Current installments of obligations under finance leases         4,171 5,488           Current other accounts payable         81,222 39,062           Customer deposits         2,400 2,152           Other taxes payable         50,200 22,412           Current provisions (Note 13)         60,436 -           Total current liabilities         471,422 487,566           Non-current liabilities         1,999,139 2,282,774           Installments of obligations under finance leases         4,177 5,173           Non-current other accounts payable         37,034 23,246           Clabor obligations under finance leases         4,177 5,173           Non-current other accounts payable         37,034 23,246           Other non-current liabilities (Note 16)         149,054 25,532           Non-current provisions (Note 13)         16,164 3,801           Total inon-current liabilities         2,119,946 2,344,725           Total inon-current liabilities         2,591,368 2,332,291           Stockholders' equity (Notes 20 and 21):         2,591,368 2,332,291           Stockholders' equity (Notes 20 and 21):         2,591,368 2,332,329           Total liabilities         7,028,634 4,814,428	<u>Liabilities and Stockholders' Equity</u>						
Accounts payable         266,793         406,532           Current installments of obligations under finance leases         4,171         5,488           Current other accounts payable         81,222         39,062           Customer deposits         50,200         22,412           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current liabilities         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations under finance leases         4,177         5,173           Non-current liabilities (Note 19)         4,378         4,198           Other non-current liabilities (Note 19)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):	Current liabilities:						
Current installments of obligations under finance leases         4,171         5,488           Current other accounts payable         81,222         39,062           Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current liabilities         1,909,139         2,282,774           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         2,531,200           Non-current provisions (Note 13)         16,164         3,801           Total liabilities         2,119,946         2,344,725           Stockholders' equity (Notes 20 and 21):         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         2,000,300,422         2,652,693           Total stockholders' equity         3,165,245         2,165,327	Current step-up senior notes and senior notes (Note 15)	\$	6,200	\$	11,920		
Current other accounts payable         81,222         39,062           Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         25,532           Non-current provisions (Note 13)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Stockholders' equity (Notes 20 and 21):         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         2,052,632         4,814,428           Additional paid-in capital         40,033         3,592           Accumulated losses         3,093,422         2,652,693	Accounts payable				406,532		
Customer deposits         2,400         2,152           Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities           Non-current liabilities:         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current provisions (Note 13)         16,164         3,801           Total non-current provisions (Note 13)         16,164         3,801           Total liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         2,028,634         4,814,428           Additional paid-in capital         40,033         3,592           Accumulated losses         (3,903,422)         (2,652,693)           Total stockholders' equity         3,165,245 <td></td> <td></td> <td></td> <td></td> <td></td>							
Other taxes payable         50,200         22,412           Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         25,532           Non-current provisions (Note 13)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         2         2         2           Capital stock         7,028,634         4,814,428         2           Additional paid-in capital         40,033         3,592           Accumulated losses         (3,903,422)         (2,652,693)           Total stockholders' equity         3,165,245         2,165,327			81,222				
Current provisions (Note 13)         60,436         -           Total current liabilities         471,422         487,566           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         25,532           Non-current provisions (Note 13)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         7,028,634         4,814,428           Capital stock         7,028,634         4,814,428           Additional paid-in capital         40,033         3,592           Accumulated losses         (3,903,422)         (2,652,693)           Total stockholders' equity         3,165,245         2,165,327							
Total current liabilities         471,422         487,566           Non-current liabilities:	Other taxes payable		50,200		22,412		
Total current liabilities         471,422         487,566           Non-current liabilities:	Current provisions (Note 13)		60.436		_		
Non-current liabilities:         1,909,139         2,282,774           Non-current step-up senior notes and senior notes (Note 15)         1,909,139         2,282,774           Installments of obligations under finance leases         4,177         5,173           Non-current other accounts payable         37,034         23,246           Labor obligations upon retirement (Note 19)         4,378         4,198           Other non-current liabilities (Note 16)         149,054         25,532           Non-current provisions (Note 13)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):         7,028,634         4,814,428           Additional paid-in capital         40,033         3,592           Accumulated losses         (3,903,422)         (2,652,693)           Total stockholders' equity         3,165,245         2,165,327							
Non-current step-up senior notes and senior notes (Note 15)       1,909,139       2,282,774         Installments of obligations under finance leases       4,177       5,173         Non-current other accounts payable       37,034       23,246         Labor obligations upon retirement (Note 19)       4,378       4,198         Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Total liabilities       2,591,368       2,832,291         Stockholders' equity (Notes 20 and 21):       2         Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Total current liabilities		471,422		487,566		
Installments of obligations under finance leases       4,177       5,173         Non-current other accounts payable       37,034       23,246         Labor obligations upon retirement (Note 19)       4,378       4,198         Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Total liabilities       2,591,368       2,832,291         Stockholders' equity (Notes 20 and 21):       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Non-current liabilities:						
Installments of obligations under finance leases       4,177       5,173         Non-current other accounts payable       37,034       23,246         Labor obligations upon retirement (Note 19)       4,378       4,198         Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Total liabilities       2,591,368       2,832,291         Stockholders' equity (Notes 20 and 21):       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Non-current step-up senior notes and senior notes (Note 15)		1.909.139		2,282,774		
Non-current other accounts payable       37,034       23,246         Labor obligations upon retirement (Note 19)       4,378       4,198         Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Total liabilities       2,591,368       2,832,291         Stockholders' equity (Notes 20 and 21):       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Installments of obligations under finance leases		4.177		5.173		
Labor obligations upon retirement (Note 19)       4,378       4,198         Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Stockholders' equity (Notes 20 and 21):       2         Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Non-current other accounts payable						
Other non-current liabilities (Note 16)       149,054       25,532         Non-current provisions (Note 13)       16,164       3,801         Total non-current liabilities       2,119,946       2,344,725         Total liabilities       2,591,368       2,832,291         Stockholders' equity (Notes 20 and 21):       7,028,634       4,814,428         Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327							
Non-current provisions (Note 13)         16,164         3,801           Total non-current liabilities         2,119,946         2,344,725           Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):							
Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):							
Total liabilities         2,591,368         2,832,291           Stockholders' equity (Notes 20 and 21):	Total non-current liabilities		2 119 946		2 344 725		
Stockholders' equity (Notes 20 and 21):         Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327			2,117,710		2,311,723		
Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Total liabilities		2,591,368		2,832,291		
Capital stock       7,028,634       4,814,428         Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327	Stockholders' equity (Notes 20 and 21):						
Additional paid-in capital       40,033       3,592         Accumulated losses       (3,903,422)       (2,652,693)         Total stockholders' equity       3,165,245       2,165,327			7.028.634		4.814.428		
Accumulated losses         (3,903,422)         (2,652,693)           Total stockholders' equity         3,165,245         2,165,327							
Total stockholders' equity 3,165,245 2,165,327					(2,652,693)		
	Tadal eta alda alda and a succession		2.165.245				
Total liabilities and stockholders' equity \( \frac{\\$}{2} \) 5,756,613 \( \\$ \) 4,997,618	1 otal stocknolders/ equity		3,165,245		2,165,327		
	Total liabilities and stockholders' equity	\$	5,756,613	\$	4,997,618		

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Consolidated Statements of Comprehensive Income December 31, 2013, 2012 and 2011

(In thousands of Mexican pesos, except share data)

	2013			2012		2011
Revenue - net (Note 7)	\$	2,504,968	\$	2,201,252	\$	2,375,941
Operating costs and expenses: Network operating costs (Note 22)		2,289,060		1,371,354		1,418,852
Selling, general and administrative expenses (Note 22) Other expenses (Note 22)		907,904 540,035		716,908 177,178		815,604 131,890
Total operating costs and expenses		3,736,999		2,265,440		2,366,346
Operating loss		(1,232,031)		(64,188)		9,595
Finance cost net (Note 23)		(270,248)		(379,891)		(540,370)
Finance income net (Note 23)	_	266,855		323,551	_	2,748
Finance cost-net (Note 23)		(3,393)		(56,340)	_	(537,622)
Loss before income tax		(1,235,424)		(120,528)		(528,027)
Income tax expense (benefit) (Note 10)		15,305		15,560	_	(14,890)
Net loss for the year		(1,250,729)		(136,088)		(513,137)
Other comprehensive income	_	<u>-</u>			_	
Total comprehensive loss for the year	<u>\$</u>	(1,250,729)	\$	(136,088)	\$	(513,137)
Loss and comprehensive loss per share (Note 24):		(1.11)		(0.17)		(0, (5)
Basic loss per common share (pesos) Diluted loss per common share (pesos)	_	(1.11) (1.11)	_	(0.17) (0.17)	_	(0.65) (0.63)
Weighted average basic shares (thousands) Weighted average diluted shares (thousands)		1,127,528 1,127,528		789,819 799,013		789,819 812,882

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

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Consolidated Statements of Changes in Stockholders' Equity December 31, 2013 and 2012

## (In thousands of Mexican pesos)

	 Capital stock	 Additional paid-in capital		Accumulated losses	_	Repurchase of shares	st	Total cockholders' equity
Balances as of January 1, 2011	\$ 4,814,428	\$ 813,135	\$	(2,820,522)	\$	(1,062)	\$	2,805,979
Stock option plan (Note 21)	-	3,919		-				3,919
Repurchase of shares						1,062		1,062
Total comprehensive loss for the year	 -	-	_	(513,137)				(513,137)
Balances as of December 31, 2011	4,814,428	817,054		(3,333,659)		-		2,297,823
Reclassification of additional paid-in capital (Note 20)	-	(817,054)		817,054				-
Stock option plan (Note 21)	-	3,592		-				3,592
Total comprehensive loss for the year	 -	-		(136,088)				(136,088)
Balances as of December 31, 2012	4,814,428	3,592		(2,652,693)		-		2,165,327
Increase in capital stock (Note 20)	2,214,206	-		-		-		2,214,206
Equity subscription rights		34,629						34,629
Stock option plan (Note 21)	-	1,812		-				1,812
Total comprehensive loss for the year	 -	-		(1,250,729)		-		(1,250,729)
Balances as of December 31, 2013	\$ 7,028,634	\$ 40,033	\$	(3,903,422)	\$		\$	3,165,245

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

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Consolidated Statements of Cash Flows December 31, 2013, 2012 and 2011

## (In thousands of Mexican pesos)

		2013	2012	2011
Cash flow from operating activities				
Loss before income taxes	\$	(1,235,424)	\$ (120,528)	\$ (528,027)
Adjustments for:	•	(, , )	, ( -,)	(
Depreciation and amortization		601,521	576,565	668,655
Loss on disposal of telecommunications network systems and equipment				
and intangible assets		277,479	59,625	72,477
Foreign exchange (gain) loss not realized		(88,903)	(207,596)	319,573
Gain on repurchase of senior notes Gain on extinguishment debt		(249 515)	(97,845)	-
Interest expense		(248,515) 214,336	300,941	297,497
Derivative financial instruments		9,341	49,500	(95,174)
Cost of stock option plan		1,812	3,592	3,919
Labor obligations upon retirement		180	1,713	794
Other non-cash		72,799	· -	-
Impairment		578,257	-	-
Impairment of accounts receivables		129,301	65,824	153,888
Subtotal		312,184	631,791	893,602
Changes in working capital:				
Accounts receivable		(175,785)	(44,387)	(106,021)
Value added tax recoverable		(36,313)	38,886	77,911
Other sundry debtors		16,747	(26,539)	21,483
Inventory		815	(8,488)	14,814
Prepaid expenses		8,652	9,062	13,419
Accounts payable Customer deposits		(149,342) 248	190,759 101	(130,521) (107)
Other taxes payable		35,737	(8,627)	(19,501)
Income taxes paid		(22,255)	(2,452)	1,667
Other accounts payable		179,469	(8,680)	(8,724)
Other liabilities		(789)	988	(6,006)
Net cash generated from operating activities		169,368	772,414	752,016
Cash flows from investing activities				
		(207.524)	(502.200)	(410, (20)
Capital expenditures		(386,524)	(583,390)	(419,630)
Proceeds from sale of telecommunications network systems and equipment		1,680	2,354	2,395
Net cash used in investing activities		(384,844)	(581,096)	(417,418)
Cash flows from financing activities				
Increase in capital stock		2,192,306	-	-
Interest paid		(164,804)	(260,625)	(295,830)
Derivative financial Instrument		22,800		
Repurchase of senior notes		(27,270)	(182,302)	(20,979)
Proceeds from finance lease (finance lease payments)		(3,464)	1,545	2,505
Repurchase of shares		<u> </u>		1,062
Net cash used in financing activities		2,019,568	(441,382)	(313,242)
Net increase (decrease) in cash and equivalents		1,804,092	(248,376)	15,998
Cash and cash equivalents exchange loss (gain)		3,084	(1,688)	5,358
Cash and cash equivalents:				
At beginning of year		146,516	396,580	375,224
At end of year	\$	1,953,692	\$ 146,516	\$ 396,580

The accompanying notes are an integral part of these consolidated financial statements. Non-cash transactions:

The main non-cash transactions in 2013 included the acquisition of assets under lease agreements (Note 11) and the conversion of debt into equity (Note 15). The principal non-cash transactions in 2012 and 2011 included the acquisition of assets under lease agreements (Note 11).

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Notes to Consolidated Financial Statements December 31, 2013, 2012 and 2011

(In thousands of Mexican pesos, except exchange rates and loss per share)

#### **Note 1 - Entity incorporation:**

Maxcom Telecomunicaciones, S. A. B. de C. V. and Subsidiaries ("Maxcom", the "Company" or the "Group"), is a Mexican Limited Liability Public stock Corporation with variable capital incorporated on February 28, 1996. The Company is engaged in the construction and operation of a telecommunications network, voice over IP, local, national and international long-distance telephone services, public telephone, data transfer services, internet, pay TV, virtual private network services and other value-added services, within Mexico. The Company also provides mobile telephone services as a virtual mobile network operator. The Company began its commercial operations in May 1999.

Pursuant to the resolutions adopted by the stockholders at the General Extraordinary and Ordinary Shareholders Meetings held on September 13, 2007, and by virtue of the public offering of shares carried out by the Company in Mexico and abroad, Maxcom was denominated as a publicly listed stock company with variable capital ("sociedad anónima bursátil de capital variable" or "S. A. B. de C. V."). The shares of the Company are listed and traded in the form of "Certificados de Participación Ordinarios" or "CPO's" on the Mexican Stock Exchange or "BMV" and in the form of "American Depositary Shares" or "ADS", on the "New York Stock Exchange" or "NYSE". The Company is subject to the applicable provisions of the Business Corporations Law and to the stock exchange regulations under the Stock Exchange Laws in Mexico and the United States of America, as well as the supervision of the National Banking and Securities Commission in Mexico ("Comisión Nacional Bancaria y de Valores" or "CNBV") and the U. S. Securities and Exchange Commission in the United States of America ("SEC"). Upon the terms of such resolutions, the by-laws of the Company were amended in their entirety to conform them to the Stock Exchange Act ("Ley del Mercado de Valores") and ancillary regulations.

Maxcom is domiciled in Guillermo González Camarena St. # 2000, C.P. 01210, México, D.F.

## **Note 2 - Significant Events:**

## Recapitalization and debt restructuring

The Company experienced recurring losses, declines in revenues, cash flows, and cash balances and its ability to fulfill its debt obligations that mature in 2014 raised substantial doubt of its ability to continue as a going concern.

On December 4, 2012, Maxcom entered into a recapitalization agreement pursuant to which it would conduct an exchange offer for its outstanding senior notes (the "Debt Exchange Offer") and concurrently Ventura Capital Privado, S.A. de C.V. ("Ventura") would conduct a tender offer for Maxcom's outstanding equity securities (the "Tender Offer") and make a capital contribution to Maxcom (the "Capital Contribution"). The Tender Offer and Capital Contribution were conditioned on, among other things, the success of the Debt Exchange Offer. The Debt Exchange Offer was extended three times and expired on April 24, 2013 without the conditions to the offer having been satisfied and, as a result, Maxcom did not receive the Capital Contribution.

The Company made three unsuccessful attempts of tender offer to restructure change in ownership and recapitalization.

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On July 23, 2013, Maxcom filed for a voluntary prepackaged Chapter 11 case in the U.S. Bankruptcy Court for the District of Delaware to implement a recapitalization plan and debt restructuring. Through the recapitalization plan, Ventura agreed to purchase the equity interest to the former holders and fund new capital to Maxcom through an equity tender offer and a capital contribution.

On September 10, 2013 the Company received the confirmation of the plan of reorganization and debt restructuring under section 1129 of the bankruptcy code.

On October 4, 2013, Ventura contributed \$653 million in cash and purchased the outstanding equity interest of Bank of America. As of that date, Ventura owned 69.9% equity shares in Maxcom.

On October 11, 2013 the Company's, prepackaged Chapter 11 plan of reorganization became effective and Maxcom emerged from Chapter 11, 79 days after voluntarily filing for bankruptcy protection.

The Company incurred expenses for an amount of \$212,017 recognized in the statement of comprehensive income.

#### Telecom Reform

Effective June 12, 2013 the Mexican Congress enacted an amendment to the Mexican Constitution in connection with the telecommunications and broadcasting (radio and television) industries. This amendment to the Mexican Constitution (articles 6, 7, 27, 28, 73, 78, 94 and 105) is aiming to strengthen competition and providing the telecommunications authorities, the new Federal Telecommunications Institute or IFT, with broader capacities to regulate the telecommunication and broadcasting industries.

The enacted bill provides for a number of measures that include eliminating the limit on foreign investment in the telecommunications industry (including satellite operations), raising the limit on foreign investment in the broadcasting industry to 49%.

Additionally, the enacted bill provides for the issuing of two new broadcasting licenses to be awarded by public auction.

"Must carry" and "must offer" obligations for television companies were also included in the new bill.

## Note 3 - Concessions, frequency rights and interconnection agreements:

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## Concessions:

On December 20, 1996, Maxcom were awarded with a local and long-distance telephony concession. On February 3, 1997, the Mexican Ministry of Communications and Transportation ("Secretaria de Comunicaciones y Transportes" or "SCT") awarded the Company a concession to install and operate a public telecommunications network in Mexico (the "concession"). This concession is not exclusive. The initial term of the concession is 30 years and includes certain renewal rights. Subsequently, on December 7, 1999, September 27, 2001 and December 2, 2004, the Company received amendments to the initial terms and conditions of the concession.

The concession grants the Company the right to provide local, national and international long-distance telephone services, data transfer services and other value-added services in any part of the Republic of Mexico and, under the last amendment dated December 2, 2004, certain obligations were set forth for the Company, as described in Note 21c.

On August 4, 2006, the SCT granted Maxcom a concession to provide cable television services and audio in the city of Puebla. Shortly thereafter, the SCT issued the Convergence Regulations, under which different types of telecommunications service providers are authorized to provide certain services in addition to those included under the original concessions.

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On January 17, 2007, the Mexican Federal Telecommunications Commission ("Comisión Federal de Telecomunicaciones" or "COFETEL") authorized Maxcom to provide mobile virtual network operator ("MVNO") services, based on its 1996 concession. This authorization allows Maxcom to provide mobile telephone services throughout Mexico using its own brand, acquiring capacity from other concessionaires of this service in Mexico. As a result of this authorization, Maxcom is the first, and thus far, the only telecommunications concessionaire to offer quadruple-play services (voice, video, data and cellular) on an extensive basis under its own brand name. The terms of the cable television and restricted radio concession and the MVNO authorization match the thirty-year term (expiring in 2026) of the concession granted in 1996 and impose no further obligations, including minimum coverage or investment additional commitments.

#### Frequency rights:

On October 3, 1997, the Mexican Federal Government through the SCT granted the Company ten frequency right concessions (the "frequency rights") to use and exploit different bands of the radio-electric spectrum and to establish point-to-point and point-to-multi-point microwave links; seven are nationwide point-to-point and three are regional point-to multipoint microwave concessions. The frequency rights became effective on February 28, 1998, and shall remain in effect until 2018, see Note 12.

In accordance with the terms of these frequency rights concessions, the Company must provide to the SCT a guarantee on its operations in the form of a surety bond and renew it every year, see Note 21d.

#### Convergence agreement:

On October 2, 2006, the Mexican Federal Government, through the SCT, issued a non-binding agreement for the rendering of services in convergence, which is known as "Agreement of Convergence of Fixed Services of Local Telephone and Restricted Audio and/or Television that are provided through Wired and Wireless Public Networks" ("Convergence Agreement").

The convergence agreement allows certain concessionaires of services of telecommunications to provide other services not included in the original concessions that were granted to them. The suppliers of cable television will now be able to provide the service of internet and telephone. Also the telephone operators, like Maxcom, will now be able to provide restricted services of audio and/or video. On October 13, 2006, Maxcom notified the SCT its compliance and voluntary adhesion to the Convergence Agreement and, therefore, the SCT authorized to provide the restricted services of audio and video besides to the previously authorized as a part of the original concessions of the public telecommunications network.

## Interconnection agreements:

On January 22, 1999, the Company entered into a contract to provide local interconnection services (the "local interconnection agreement") with Teléfonos de México, S. A. B. de C. V. ("Telmex"), whereby the parties agree to render interconnection services to finish local traffic in the other party's network.

Likewise, the Company subscribed an interconnection agreement to handle Maxcom's long distance traffic towards Telmex's local network and Telmex's long distance traffic towards Maxcom's local network.

The Company has negotiated the signing of various amending agreements to the local interconnection agreement with Telmex, to extend the original term of the local interconnection contract, irrespective of the fact that the contract provides that the interconnection between the two companies is carried out based on the clause of "continuous application". This clause sets forth that upon termination of the first period, the original terms and conditions of the contract will continue in full force and effect until the parties sign a new contract to continue interconnecting their networks. This contract has had yearly updates up until now.

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During 2003 and 2002, the Company entered into various interconnection agreements with other local and long distance carriers and mobile phone companies, as well as agreements which allow the Company to render public telephone services through the capacity acquired from mobile networks.

#### **Note 4 - Basis of preparation:**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board ("IASB"). IFRS comprises: i) International Financial Reporting Standards ("IFRS"); ii) International Accounting Standards ("IFRS"); IFRS Interpretations Committee ("IFRIC") Interpretations; and iv) Standards Interpretations Committee ("SIC") Interpretations.

As required by regulations issued by the Mexican Banking and Securities Commission ("Comisión Nacional Bancaria y de Valores") for listed companies in Mexico, beginning on January 1, 2012, the Group discontinued using Mexican Financial Reporting Standards ("Mexican FRS") as issued by the Mexican Financial Reporting Standards Board ("Consejo Mexicano de Normas de Información Financiera" or "CINIF") and began using IFRS.

In accordance with the General Corporation Law and the Company's bylaws, the stockholders are empowered to authorized modify the consolidated financial statements after issuance.

The accompanying consolidated financial statements were authorized for issuance on April 30, 2014, by Mr. Enrique Ibarra Anaya, Maxcom's Chief Executive Officer, and consequently do not reflect events after this date.

## (a) Basis of measurement:

The consolidated financial statements have been prepared on the historical convention, as modified by the revaluation of derivative financial instruments that are measured at fair value through profit or loss at the end of each reporting period.

## (b) Functional and presentation currency:

These consolidated financial statements are presented in Mexican pesos, which is the Company's functional currency. All financial information presented in Mexican pesos has been rounded to the nearest thousands, except when otherwise indicated.

## (c) Use of estimates and judgments:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those that will apply to the first annual IFRS financial statements.

#### Judgments:

The key judgments made in applying accounting policies that have the most significant effect on the amounts recognized in these consolidated financial statements are as follows:

## Concession and frequency rights renewal:

Under Mexican Law, Maxcom is subject to renewal of their concession and frequency rights, according to the requirements established by the SCT. The continuity of the business is subject to the renewal of the concession and frequency rights. The expiration dates are as follows:

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Concession / Frequency rights	Expiration date
Public telecommunications network in Mexico	2027
Cable television and restricted radio	2026
Frequency rights	2018

## Installation cost:

The Company amortize the installation cost over the period in which the service is provided. Once the customer terminates the service, the Company does not consider any additional value related to the installation cost. The Company perform impairment reviews related to determine the average customer life and came to the conclusion that is five years (Note 11).

#### ii Use of estimates:

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the future are as follows:

#### Derivative financial instruments:

The fair value of derivative financial instruments that are not traded in an active market (over-the-counter derivatives) is determined by using valuation techniques.

The Company uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

#### Useful lives:

As described in Notes 5(e) and (f) below, the Company reviews its depreciation and amortization methods and estimates of useful lives and residual values of long-lived assets (including telephone network systems and equipment and intangibles and frequency rights) each annual reporting date and adjusts them if appropriate.

On 2013, the Company change the useful life of the line installation cost for residential customer from twenty year to five years. This change was generated by the new telecom reform.

## Valuation of long-lived assets:

For impairment testing, assets are grouped into cash generating units (CGU), i.e., the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets. Since the Company provides bundled services and the network and certain intangibles are common across many services, Management has determined that such assets should be tested for impairment at the level of the whole economic entity.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Key assumptions used in the calculation of recoverable amounts are the discount rate and the asset's residual values

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As of December 31, 2013, based on the Company's impairment testing, an additional impairment loss was recognized (see Note 11).

## Impairment sensitivity analysis:

The Company test telecommunication network and equipment for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. When any indicator of impairment is identified, an impairment test is performed based on each cash-generating unit (CGU). The CGUs identify by the Company are pay TV, public telephone (PT) and other services (OS). The carrying values of these CGUs are compared to their recoverable amount, which is the higher of value in use and fair value less costs to sell. On October, 2013, according to the business plan of the Company's new management, the CGUs pay TV and public telephone are not considered strategic, and recognized an impairment loss of \$578,257 as of December 31, 2013.

The impairment analysis were performed with a discount rate of 11.71%. An increase in the discount rate to 15% or a decrease in the discount rate to 10% would not have a significant impact on the impairment analysis.

#### Utilization of tax losses:

The Company does not recognize a deferred tax asset arising from unused tax losses or tax credits due to the uncertainty the Company and its subsidiaries will have sufficient taxable temporary differences or convincing other evidence that sufficient taxable profit will be available against which the unused tax losses can be utilized by the Company.

## Allowance of doubtful accounts receivable:

The allowance for doubtful accounts represents the estimate of losses resulting from the failure or inability of our customers to make required payments. Determining the allowance for doubtful accounts receivable requires significant estimates. The Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions suggest changes from historical trends. Management considers the estimate to be sufficient to cover the potential risk of impairment; however, actual results may differ from the estimates resulting in a material adjustment to the carrying amounts of the accounts receivable within the next financial year.

## Estimates related to revenues from installation services:

When the installation expenses are charged to our residential customers, the related revenues are recognized when installation is complete. No installation expenses are charged to our commercial clients and such costs are capitalized and amortized on a straight line basis for a period of 5 years. Installation costs capitalized are expensed once the relationship with the customer is terminated. In 2013, the company change the useful life of the line installation cost for residential customer from twenty year to five years. This change was generated by the new telecom reform with important changes in the infrastructure lease from the predominant agent. The 2013 impact for the change in the useful life was for Ps.57.1 million. Every change of 1 year in the useful life represent approximately Ps.12.7 million on annual basis (Note 11).

## Note 5 - Significant accounting policies:

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to all the years presented unless otherwise stated.

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## (a) Basis of consolidation:

## Subsidiaries:

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

#### Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

The consolidated financial statements include the accounts of Maxcom and its subsidiaries of which it controls and has almost 100% of the voting shares:

Subsidiary company	% 2013 and 2012	Activity
Asesores Telcoop, S. A. de C. V. (i) (iv)	99.9	Business advisory services
Celmax Móvil, S. A. de C. V. (i)	99.0	Telecommunication services
Corporativo en Telecomunicaciones, S. A. de C. V.	99.9	Technical personnel services
Fundación Maxcom, A. C. (i)	99.9	Non-for-profit foundation
Maxcom Servicios Administrativos, S. A. de C. V.	99.9	Administrative personnel services
Maxcom SF, S. A. de C. V. (iv)	99.9	Financial services
Maxcom TV, S. A. de C. V. (i)	99.9	Cable television services
Maxcom USA, Inc. (i)	100.0	International telecommunications
		services
Servicios MSF, S. A. de C. V. (iii)	99.9	Administrative personnel services
Outsourcing Operadora de Personal, S. A. de C. V. (iv)	99.9	Technical personnel services
Sierra Comunicaciones Globales, S. A. de C. V.	99.9	Infrastructure leasing
Sierra USA Communications, Inc. (ii)	100.0	International telecommunication
·		services
TECBTC Estrategias de Promoción, S. A. de C. V. (iv)	99.9	Technical personnel services
Telereunión, S. A. de C. V. (ii)	99.9	Long distance and infrastructure
•		leasing
Telscape de México, S. A. de C. V. (ii)	99.9	Real estate services

These companies are in pre-operating stage.

<sup>(</sup>ii) These companies were formerly part of VAC Group (former owner statements of Telereunion Group), which together and hereinafter are referred to as "Grupo Telereunión"

<sup>(</sup>iii) Subsidiary established in 2011.

Subsidiaries of Maxcom Servicios Administrativos, S. A. de C. V.

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## (b) Foreign currency transactions:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Foreign exchange gains and losses are presented in the statement of comprehensive income within finance cost, net.

#### (c) Financial instruments:

#### Financial assets:

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognized initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies non-derivative financial assets into the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

## Cash and cash equivalents:

Cash and cash equivalents comprise cash balances, call deposits and overnight government instruments with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments

#### Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

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## Financial assets at fair value through profit or loss:

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

#### ii. Financial liabilities:

#### Trade payables:

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

#### Borrowings:

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

## Borrowing costs:

Specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### Compound financial instruments:

Compound financial instruments issued by the Group comprise foreign-currency denominated convertible-notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value. However, as these instruments are denominated in a currency different from the functional currency of Maxcom, they failed the "fixed for fixed" requirement and the whole instrument in classified as financial liability.

The liability component of the compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The embedded derivative liability component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs were allocated to the liability component.

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Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The embedded derivative liability is subsequently measured at fair value through profit or loss, upon conversion or expiry when it is derecognized.

Borrowings and embedded derivative liability are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

## (d) Share capital

## Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity, net of tax from the proceeds.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of tax, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for repurchase shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

## (e) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency exposures.

Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value. When a derivative financial instrument is not designated in a qualifying hedge, all changes in its fair value are recognized immediately in profit or loss.

To mitigate exposure to Peso/U.S. Dollar foreign exchange fluctuation risks, the Company uses derivative financial instruments such as cross currency swaps.

For accounting purposes, these derivative instruments, although intended for hedging purposes from an economic perspective, have been designated as trading instruments as they do not comply with all the requirements to qualify for hedge accounting. Derivative gains or losses are shown in the statement of comprehensive income and statement of cash flows as either operating or financing items depending on the nature of the item being economically hedged. In particular, the interest rate and cross currency swaps are presented within the finance cost line and within financing activities, in the statement of comprehensive income and statement of cash flows, respectively.

#### (f) Inventories

Inventories consist of material used to install telephone lines and network build-out, and are measured at the lower of cost and net realizable value. Cost is determined using the average cost formula, and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

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Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

## (g) Telecommunication network systems and equipment - Net

#### Recognition and measurement

Items of telecommunication network systems and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The Company constructs certain of its own network systems and related facilities. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

When parts of an item of telecommunications network systems and equipment have different useful lives, they are accounted for as separate items (major components) of telecommunications network systems and equipment.

The gain or loss on disposal of an item of telecommunications network systems and equipment is determined by comparing the proceeds from disposal with the corresponding carrying amount, and is recognized net within other income/expenses in the statement of comprehensive income.

Maintenance and minor repair costs are charged to results as incurred; replacement and improvement costs are capitalized. The cost and related allowances of assets sold or retired are removed from the accounts, and any resulting profit or loss is reflected in the statement of results of operations, in other expenses.

All the installation cost is capitalized. Only when the installation expenses are charged to our residential customers, the Installation costs is expensed up to the amount charge. The useful life of the line installation cost for residential customer is five years because it is the average tenure of our customers. Installation costs capitalized are expensed once the relationship with the customer is terminated. No installation expenses are charged to our commercial clients and such costs are capitalized and amortized on a straight line basis for a period of 5 years.

## Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred, including the costs of the day-to-day servicing of systems and equipment.

#### iii. Depreciation

Depreciation is based on the cost of an asset less its residual value

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Depreciation is calculated using the straight-line method to allocate the cost over the estimated useful lives of each component of an item of telecommunications network systems and equipment. Leased assets and leasehold improvements are depreciated at the lesser of its useful life or contract term. If it is reasonably certain that the Company will obtain ownership, the leased assets are depreciated over contract term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Estimated
	useful
	life (years)
·	
Telecommunications network and equipment	Between 23 and 24
Public telephone equipment	8
Leasehold improvements and outside plant	Between 2 and 20
Radio equipment	30
Line installation cost	5
Electronic equipment	25
Computer equipment	5
Transportation equipment	4
Office furniture	10
Other	10
Engineering equipment	10

Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

## (h) Investment property

Investment property is land and a building which are owned and held to earn rental income under operating leases, and which is not occupied by the companies in the consolidated Group. Investment properties are stated in the balance sheet at their acquisition cost.

## (i) Intangible assets

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and impairment losses.

As previously mentioned (Note 3), the SCT awarded the Company, at no cost; a concession to install and operate a public telecommunications network for a 30-year period. The concession and the related grant were initially recognized at their nominal amount, therefore, they have no recorded value for financial reporting purposes and they are only disclosed in a note to these consolidated financial statements.

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Frequency rights are recorded at their acquisition cost.

## i. Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, is recognized in the statement of comprehensive income.

#### ii. Amortization

Amortization is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Heeful

	Osciai
	life (years)
Infrastructure rights	30 and 15
Software licenses	3.3
Frequency rights	20*

<sup>\*</sup> Amortization of frequency rights is amortized over the term of the frequency rights.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### (i) Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

Leases of transportation equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

#### (k) Impairment

## i. Non- derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security.

#### Loans and receivables

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The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the statement of comprehensive income and reflected in an estimate account against loans and receivables. When a subsequent event (e.g. repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Company records an estimate in the amount of 90% of accounts receivable with balances due over 90 but less than 119 days old, and of 100% of accounts receivable due over 120 days old, except when there is a collection agreement with a client. In such cases, the allowance amount is 30% with balances due over 90 days if there is not a settlement negotiated with the client. Accounts handed over to the Company's legal collection services are reserved up to a 100%, or less depending on the success rate indicated by the internal counsel handling the account.

#### ii Non-financial assets

Telecommunications network systems and equipment and intangible assets subject to depreciation and amortization, respectively, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of nonfinancial assets are reviewed for possible reversal at each reporting date.

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## (l) Employee benefits

## i. Seniority Premium

A defined contribution plan is a plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the separate entity does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss in the period in which they arise.

Past-service costs are recognized immediately in income.

## ii. Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

#### iii. Profit-sharing and bonus plans

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Company's stockholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

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#### (m) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost in the statement of comprehensive income.

#### (n) Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amount receivable for services provided. The Company recognizes revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity, as described below:

- Sale of telephone equipment to clients is recognized at the time of delivery of said equipment and the risk and rewards are transferred to the customer. Revenues from services are recognized as rendered.
- Revenues from public telephone services are recognized based on the cash collected which is the same time when services are rendered.
- Revenues from interconnection services are recognized on accrual basis. The Company entered into local interconnection agreements with various telephone companies under the "bill and keep" compensatory clause. In accordance with these agreements, if the imbalance between local calls originated from the other telephone concessionaire and completed by Maxcom, and the calls originated from Maxcom and completed by the other telephone company over the course of one month do not exceed an established percentage of 5%, there will be no payment of an interconnection rate charge to the user for interconnection services. However, if the imbalance exceeds that percentage in a particular month, the Company or the telephone concessionaire is subject to a charge per minute. During the years 2013, 2012 and 2011, the imbalance did not exceed 5%.

The Company has interconnection agreements for long-distance and mobile services with other concessionary telephone companies. However, they do not include the clause of the "bill and keep" compensatory agreement.

- Revenues from pay television services are recognized as rendered.
- Revenues from mobile telephone services are recognized when the service is provided or minutes expire.
- For mobile telephone revenues the Company evaluates the revenue recognition of multiple-element arrangements evaluating the time and manner in which revenues for the different accounting units should be recognized. For the Company the separated accounting units are the sale of mobile telephone equipment which is recognized at fair value at the moment of delivery to the customer; and mobile services which are recognized as the service is provided.
- Customer contracts that include both equipment and bundled services (voice, data, pay TV or mobile services) are evaluated to determine whether the components are separable. Revenue from bundled services is recognized in the month in which the services are provided. The sale of the equipment is not separable from the sale of the services; the services cannot be obtained independently from the purchase of the equipment. Therefore, the bundled services
- Revenues from lease of transmission capacity through the fiber optic ring are recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying value of the leased asset and are recognized on the same basis as the lease revenues. The transactions are therefore recorded as operating lease agreements. The contracted sales price is mainly paid in advance and sales that are not recognized in income are recorded as deferred revenues in non-current other accounts payable and current other accounts payable, respectively, in the statement of financial position.

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#### (o) Finance income and finance costs

Finance income comprises interest income on funds invested and fair value gains on financial assets at fair value through profit or loss. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions and fair value losses on financial assets at fair value through profit or loss.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

## (p) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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## (q) Earnings per share

The Company presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary stockholders of the Company by the weighted average number of ordinary shares outstanding during the period, less treasury shares. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary stockholders and the weighted average number of ordinary shares outstanding, adjusted for own shares held, for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

#### (r) Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components and which is reviewed regularly by the Company's CEO to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available. The Company has determined that it has one operating segment: Telecommunications. The segment offers different service products to its customers based on the type of market, divided as follows: residential, commercial, public telephone, wholesale and others. The financial information reviewed by the chief operating decision maker includes revenue by market, but operating expenses and assets are reported on a combined basis for the entire operating unit. The Company also divided its operating segment in the following geographical destinations: Metropolitan Area, Central-South, and North (all within Mexico).

#### (s) Share-based payment

The fair value of share-based payment awards is calculated using an option pricing model. In accordance with IFRS 2 Share-based Payment, the resulting cost is charged as employee costs to the income statement over the vesting period of the relevant award. This charge is amended to take into account changes in the number of equity instruments expected to vest as a consequence of the changes in expectation as to the attainment of any performance-related conditions. No changes to the charge are made when the expected or actual level of awards vesting differs from the original estimate due to non-attainment of market conditions. Cancelled awards were deemed to have vested upon cancellation.

#### Note 6 - Financial risk management:

#### Overview:

The Company's activities expose it to a variety of financial risks: credit risk; liquidity risk and market risk.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

#### Risk management framework:

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established the management and the Audit Committee as responsible for developing and monitoring the Company's risk management practices. The Audit committee reports regularly to the Board of Directors on its activities.

The Company's risk management practices are established to identify and analyze the risks faced by the Company, to monitor risks. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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The Audit Committee oversees how management monitors compliance with the Company's risk management practices and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

#### Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment in securities.

#### Accounts receivable:

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Company provides its services to a vast array of customers, thus avoiding dependency on any single customer; therefore, there is no concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company research on the credit behavior of its customers. This information is supplied by independent rating agencies ("Buró de Crédito" or "Círculo de Crédito") where available and, if not available, the Company uses other publicly available financial information and its own trading records to rate its major customers. Where appropriate, guarantees are required in the form of deposits (customer deposits). The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management and the Audit Committee.

As described in Note 5(h), the Company recognizes impairment of receivables through an allowance for doubtful accounts which is further detailed in Note 9.

## Impairment losses:

Aging of trade receivables at the reporting date:

		December 31, 2013			December 31, 2012		
	_	Gross	Impairment		Gross	Impairment	
Not past due	\$	500,048	-	\$	456,543	-	
Past due 0-90 days		81,610	-		108,241	-	
Past due 91-120 days		-	-		-	-	
More than 121 days		205,297	153,778		635,880	585,990	
	\$	786,955	153,778	\$	1,200,664	585,990	

See in Note 9 the movement in the allowance for doubtful accounts.

## Investments:

The Company limits its exposure to credit risk by investing only in overnight government instruments and only with trustworthy banks. Management does not expect any counterparty to fail to meet its obligations.

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## Liquidity risk:

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

The Company monitors cash flow requirements and optimizing its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The following are the maturities as of December 31, 2013 and 2012 including estimated interest payments:

As of December 31, 2013:	Less than 1 year	From 1 year to 2 years	More than 3 years	Total
Step-up Senior Notes	-	-	2,297,253	2,297,253
Fixed annual interest rate of 11% from January 1 to October 6,2013, 6% from October 7, 2013 to June 14, 2016, 7% from June 15, 2016 to June 14, 2018 and 8% from June 15, 2018 to June 15, 2020, payable semiannually	137,835	137,835	752,478	1,028,148
Accounts payable	266,750	43	-	266,793
Current other accounts payable	27,447		-	27,447
Customer deposits	2,400		-	2,400
Finance lease	4,935	4,890	-	9,825
Non-current other accounts payable		37,034	-	37,034
Other non-current liabilities		149,054	-	149,054
As of December 31, 2012:	Less than 1 year	From 1 year to 2 years	More than 3 years	Total
As of December 31, 2012: Senior Notes				Total 2,282,774
·	1 year	to 2 years	3 years	
Senior Notes	1 year	to 2 years 2,282,774	3 years	2,282,774
Senior Notes Fixed annual interest rate of 11%, payable semiannually	1 year - 253,464	2,282,774 253,464	3 years	2,282,774 506,928
Senior Notes  Fixed annual interest rate of 11%, payable semiannually  Accounts payable	1 year - 253,464 407,498	2,282,774 253,464	3 years	2,282,774 506,928 408,250
Senior Notes  Fixed annual interest rate of 11%, payable semiannually  Accounts payable  Current other accounts payable	253,464 407,498 39,062	2,282,774 253,464	3 years	2,282,774 506,928 408,250 39,062
Senior Notes  Fixed annual interest rate of 11%, payable semiannually  Accounts payable  Current other accounts payable  Customer deposits	253,464 407,498 39,062	2,282,774 253,464 737	3 years	2,282,774 506,928 408,250 39,062 2,152
Senior Notes  Fixed annual interest rate of 11%, payable semiannually  Accounts payable  Current other accounts payable  Customer deposits  Non-current other accounts payable	253,464 407,498 39,062	2,282,774 253,464 737	3 years	2,282,774 506,928 408,250 39,062 2,152 23,246

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## Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Group buys and sells derivatives, and also incurs financial liabilities, in order to manage market risks. All such transactions are carried out within the guidelines set by Management Board and the Audit Committee.

#### Currency risk:

The Company entered into currency swap transactions with Morgan Stanley (France), SAS to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$150 million aggregate principal amount of our senior notes. All currency swap transactions were canceled in advance in February 2013, with an amount of \$9.341 recorded in finance cost in the statement of comprehensive income.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Company's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances. Note 15 provide the details on the foreign currency position of the Company as of the date of the statements of financial position.

#### Sensitivity analysis

A strengthening of the US Dollar against the Mexican peso at December 31, 2013 and 2012 would have increased loss by the amount shown below. This analysis is based on a 10% foreign currency exchange rate increase on the Senior Notes liability at the carrying amount of U.S. \$180.4 and \$177.1 million, respectively. The analysis assumes that all other variables, in particular interest rates, remain constant.

		December 31			
		2013		2012	
US Dollar (10% strengthening)	Loss	\$ 235,840	\$	230,410	

## Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The senior notes due 2020 constitute substantially all of the Company's indebtedness and bear interests at a fixed rate, see Note 14.

For presentation purposes, an increase of 100 basis points in the curve of the credit rating of the reporting date would have decreased by \$3,954,380 the fair value of debt and a decrease of 100 basis points would have increased by \$4,201,762 for 2013. For 2012 an increase of 100 basis points would have decreased by \$2,854,348 and a decrease of 100 basis points would have increased by \$3,007,455 the fair value of the debt.

#### Sensitivity analysis

Until 2012, the Company manages the market risk (interest rate risk and currency risk) of the derivative financial instrument in its position through the use of value at risk (VaR). VaR is a technique that produces estimates of the potential negative change in the market value of a portfolio over a specified time horizon at a given confidence level. The VaR methodology used by Maxcom is a parametric model with a 99% confidence level and one-day time horizon. The table below sets out the VaR for Maxcom regarding the financial derivatives held in position as of:

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Month end	Level	Fair value Va		Value at risk @99%	
December 2012	2	\$	32,141	\$	5,844

VaR results presented above imply that Maxcom would expect to incur a loss in December, 2012 of \$5,844, under normal market conditions with a 99% confidence level. Such VaR measure has limitations that are described as follows:

- 1. Historical data may not provide the best estimate of the joint distribution of risk factor changes in the future and may fail to capture the risk of possible extreme adverse market movements which have not occurred in the historical window used in the calculations.
- 2. VaR using a 99% confidence level does not reflect the extent of potential losses beyond that percentile. Even within the model used there is a one percent probability that losses would exceed the VaR.
- 3. VaR using a one-day time horizon does not fully capture the market risk of positions that cannot be liquidated or hedged within one day.
- 4. These limitations and the nature of the VaR measure mean that Maxcom can neither guarantee that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than once in 20 business days.
- 5. The Company considers that under current market conditions the VaR measure reported represents reasonably the risk exposure of its derivatives portfolio.

The characteristics of the cross currency swaps acquired since 2011 by Maxcom match perfectly the characteristics of the primary position (senior notes bearing interest at a fixed annual rate of 11%,), thus a 100% effectiveness of the hedge is expected notwithstanding with the stress scenario or sensitivity test used, due to the fact that any change in fair value or the Cross Currency Swap will offset the change in fair value for the primary position.

The market risk factors that affect the fair value of the financial derivatives are MXN Rate TIIE, USD Rate LIBOR and FX Rate MXN/USD.

### Capital management:

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of capital stock, additional paid-in capital, accumulated losses and repurchase of shares.

From time to time the Company purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Company's share option program. Buy and sell decisions are made on a specific transaction basis by the General Management Director; the Company does not have a defined share buy-back plan.

There were no changes in the Group's approach to capital management for the year ended December 31, 2013. The Group's strategy was to maintain the gearing ratio within 5% to 15%.

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The gearing ratios at December 31, 2013 and 2012 were as follows:

		December 31,
	2013	2012
Total Step-up Senior Notes and Senior Notes	\$ 1,90	09,139 \$ 2,282,774
Less: cash and cash equivalents	1,99	53,692 146,516
Net debt	(4	44,553) 2,136,258
Total stockholders' equity	\$ 3,10	<u>\$ 2,165,327</u>
Gearing ratio		(1)% 99%

### Fair value of financial instruments carried at amortized cost:

Except as detailed in the following table, the management considers that the carrying amounts of current financial assets and liabilities recognized in the consolidated financial statements for the years ended December 31, 2013 and 2012, approximate their fair values.

	December 31, 2013			December 31, 2012				
		Carrying	Fair		Carrying	Fair		
	Level	amount	value	Level	amount	value		
Step-up senior notes, senior notes and accrued interest	2	1,915,339	2,022,827	2	2,294,694	1,556,773		
Other non-current liabilities (Note 16)		204,336	213,614					

The fair values of financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

There were no transfers between levels during the year.

### Determination of fair value:

A number of the Company's accounting policies and disclosures require the determination of fair value, for financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

# Financial instruments carried at amortized cost:

The fair value of financial instruments carried at amortized cost is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

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### **Derivatives**

The fair value of the cross currency swaps is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

#### Share-based payment transactions

The fair value of the employee share options and the share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

# Fair value hierarchy:

The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### Financial instruments in level 2:

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- · Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Note that all of the resulting fair value estimates are included in Level 2 except for certain forward foreign exchange contracts explained below.

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		Loans and Receivables	Assets as fair value through profit or loss	13	_	Total
Assets as per balance sheet:						
Cash and cash equivalents	\$	1,953,692	\$	-	\$	1,953,692
Accounts receivable		786,955		-		786,955
Other sundry debtors		119,077		_		119,077
Total	\$	2,859,724	\$	_	\$	2,859,724
	1	Financial iabilities at amortized cost	December 31, 201 Liabilities at fair value through profit or loss	13		Total
Liabilities as per balance sheet:						
Accounts payable	\$	266,793	\$	-	\$	266,793
Current other accounts payable		81,222		-		81,222
Customer deposits		2,400		-		2,400
Non-current other accounts payable		37,034		-		37,034
Other non-current liabilities		149,054		-		149,054
Step-up senior notes		1,915,339		-		1,915,339
Vendor financing		8,348				8,348
Total	\$	2,460,190	\$	_	\$	2,460,190

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			Decem	ber 31, 2012		
		Financial assets at fair value Loans and through pro receivables or loss		ssets at ir value ugh profit	Total	
Assets as per balance sheet:						
Cash and cash equivalents	\$	146,516	\$	-	\$	146,516
Derivative financial instruments		-		32,141		32,141
Accounts receivable		1,200,664		-		1,200,664
				_		<u> </u>
Total	\$	1,347,180	\$	32,141	\$	1,379,321
			Decem	ber 31, 2012		
	F	inancial		bilities at		
		bilities at		ir value		
	aı	nortized	thro	ugh profit		
		cost		or loss		Total
Liabilities as per balance sheet:						
Accounts payable	\$	406,532	\$	-	\$	406,532
Current other accounts payable		39,062		-		39,062
Customer deposits		2,152		-		2,152
Non-current other accounts payable		23,246		-		23,246
Other non-current liabilities		25,532		-		25,532
Derivative financial instruments		-		-		-
Senior notes		2,294,694				2,294,694
Total	\$	2,791,218	\$	-	\$	2,791,218

# **Note 7 - Operating segments:**

The Company operates in the telecommunication business sector and has only one reportable segment. The segment offers different service products to its customers based on the type of market divided as follows: residential, commercial, public telephone, wholesale and others. However, most of the infrastructure is commonly used by the different services products in all markets and equally specific telecommunications services, such as local service, long distance and "calling party pays" (CPP) that can be provided in one or more markets. Therefore, discrete financial information is not available because there is no measure of segment profit or loss by each of these markets. The financial information reviewed by our chief operating decision maker includes revenue by market, but operating expenses and assets are reported on a combined basis for the entire operating unit.

# Information about products and services:

The revenue is divided for the years ended December 31, 2013, 2012 and 2011 as shown below:

Markets		2013		2012		2011
	•	0.60.022	٨	1 000 505	Φ.	224662
Residential	\$	968,033	\$	1,003,507	\$	994,663
Commercial		643,637		632,027		606,964
Public telephone		146,199		174,887		232,794
Wholesale		729,160		374,124		526,876
Others		17,939		16,707		14,644
Total revenue	\$	2,504,968	\$	2,201,252	\$	2,375,941

Each of the above markets is comprised of homogeneous customers.

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# Information about geographical areas:

The information by geographical location (all within Mexico) including revenue, total assets, and additions of the telephone network, systems and equipment is as follows:

	M	etropolitan area <sup>(1)</sup>		Central- south <sup>(2)</sup>		North <sup>(3)</sup>		Total
Period for the year ended December 31, 2013:								
Local	\$	1,134,291	\$	669,564	\$	16,681	\$	1,820,536
Long distance		448,768		137,833		31,459		618,060
Rent of dedicated links		225		-		-		225
Sale of equipment to customers		2,502		2,682		3		5,187
Capacity leasing		60,960		<u> </u>		<u> </u>		60,960
Total revenue	\$	1,646,746	\$	810,079	\$	48,143	\$	2,504,968
Total assets as of December 31, 2013	\$	4,755,046	\$	674,090	\$	327,477	\$	5,756,613
Acquisition of telecommunications network systems and equipment and intangible assets for the year ended December 31, 2013	<u>\$</u>	408,038	\$	1,494	\$	2,104	\$	411,636
	M	etropolitan area		Central- south		North		Total
Period for the year ended December 31, 2012:								
Local	\$	1,084,411	\$	616,197	\$	9,958	\$	1,710,566
Long distance		201,492		186,833		46,480		434,805
Rent of dedicated links		208		-		-		208
Sale of equipment to customers		12,886		2,023		3		14,912
Capacity leasing		40,761		<u>-</u>		-		40,761
Total revenue	\$	1,339,758	\$	805,053	\$	56,441	\$	2,201,252
Total assets as of December 31, 2012	\$	3,532,318	\$	1,057,631	\$	407,669	\$	4,997,618
Acquisition of telecommunications network systems	Ψ	3,332,310	Ψ	1,037,031	Ψ	107,002	Ψ	1,227,010
and equipment for the year ended December 31, 2012	\$	576,391	\$	2,910	\$	4,089	\$	583,390
	M	etropolitan area	_	Central- south		North		Total
Period for the year ended December 31, 2011:								
Local	\$	1,278,055	\$	651,898	\$	34,587	\$	1,964,540
Long distance		208,406		138,967		24,089		371,462
Rent of dedicated links		233		-		-		233
Sale of equipment to customers		2,460		1,572		11		4,043
Capacity leasing		35,663		<u>-</u>		<u>-</u>		35,663
Total revenue	Φ.	1.504.015	Ф	502 425	Φ.	50.605	Ф	2 275 041
Total revenue	<u>\$</u>	1,524,817	\$	792,437	\$	58,687	\$	2,375,941
Total assets as of December 31, 2011	\$	3,934,072	\$	1,076,125	\$	398,032	<u>\$</u>	5,408,229
Acquisition of telecommunications network systems and								
equipment for the year ended December 31, 2011	\$	328,269	\$	75,710	\$	15,651	<u>\$</u>	419,630
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- (1)Includes Mexico City and Metropolitan Area
- (2)Includes some cities in the States of Puebla, Querétaro and San Luis Potosí
- (3)Cities in the State of Monterrey

# Information about major customers

There is no single external customer for whom its revenues amount to 10% or more of a Company's revenues.

# Note 8 - Cash and cash equivalents:

		December 31,
	2013	2012
Cash equivalents		34,112     \$ 71,940       59,580     74,576
Total	\$ 1,95	53,692 \$ 146,516

# Note 9 - Accounts receivable:

		December 31,			
	_	2013		2012	
Accounts receivable	\$	786,955	\$	1,200,664	
Allowance for doubtful accounts		(153,776)		(585,990)	
Total current assets	\$	633,179	\$	614,674	

The credit period is generally 25 days from the date of the invoice. Certain customers are granted extended credit periods up to 3 months.

Trade receivables disclosed above include amounts (see below for aged analysis) that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful accounts because there has not been a significant change in credit quality and the amounts are still considered recoverable.

Age of receivables that are past due but not impaired

	Decem	ber 31,
	2013	2012
60-90 days	<u>\$ 32,728</u>	\$ 45,229
Average age (days)	75	75

Movement in the allowance for doubtful accounts

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	 December 31,					
	 2013		2012		2011	
Balance at beginning of the year	\$ 585,990	\$	504,570	\$	316,018	
Charged to cost and expenses	157,280		81,420		188,552	
Deductions	(589,492)		-		-	
Balance at end of year	\$ 153,778	\$	585,990	\$	504,570	

According with the Account receivable procedure, the accounts with more than 210 outstanding days where applied against the bad debt reserve. No additional collection is expected. As of December 31, 2013, were applied \$589,492.

# Credit quality of financial assets

					ecember 31,
		2013	0/0	2012	<u>%</u>
(a) Current	\$	560,078	89%	\$ 509,	900 83%
(b) From 0 to 30 outstanding days		20,627	3%	20,	155 4%
(c) From 31 to 60 outstanding days		14,746	2%	39,	390 6%
(d) From 61 to 90 outstanding days		37,728	6%	45,	2297%
T 1	Ф	(22.170	1000/	Φ (1.4	(74 1000/
Total	\$	633,179	100%	\$ 614,	574

<sup>(</sup>a) Minimum credit risk

 $<sup>^{(</sup>d)}$  High credit risk 22% success recovery

	2013	2012
Cash and cash equivalents:	Amount	Amount
BBB BBB+	1,548,142	13,354
BBB+	405,550	133,162
Total	1,953,692	146,516

# Note 10 - Income taxes:

(a) Total income tax expense for the years ended December 31, 2013 and 2012 are as follow:

	 2013		2012		2011
Current income tax	\$ 14,306	\$	11,952	\$	11,726
Deferred income tax	 999		3,608		(26,616)
	\$ 15,305	<u>\$</u>	15,560	<u>\$</u>	(14,890)

<sup>(</sup>b) Low credit risk with 29% success recovery

<sup>(</sup>c) Medium credit risk with 22% success recovery

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(b) The analysis of deferred tax assets and liabilities is as follows:

					20	13	2012
Deferred tax assets							
Deferred tax assets to be recovered after more Deferred tax assets to be recovered within 12 r					\$	6,787 \$ 2,007	19,024 1,259
						8,794	20,283
Deferred tax liabilities							
Deferred tax liability to be recovered after mor Deferred tax liability to be recovered within 12						-	10,490
						_	10,490
Deferred tax asset - net					\$	8,794 \$	9,793
Deferred that about the					Ψ	<u>σ,γνι</u> <u>ψ</u>	7,775
The gross movement on the deferred income ta	x account is as fo	llow:					
					20	013	2012
At January 1,					\$	9,793 \$	13,401
Income tax charge						(999)	(3,608)
A4 December 21					¢	0.704 ¢	0.702
At December 31,					\$	8,794 \$	9,793
			Employee benefits	Provisions	Prepaid expenses	Advance payments	Total
At January 1, 2013			\$ 1,259	19,024	(4,814)	(5,676)	
Income tax charge			748	(12,237)	4,814	5,676	(999
At December 31, 2013			\$ 2,007	6,787			\$ 8,794
	_	Employee benefits	Provisions	Prepaid expenses	Advance payments	Derivative financial instrument	Total
At January 1, 2012	\$	5 746	25,763	(7,533)	(5,386)	(189)	\$ 13,401
At January 1, 2012 Income tax charge	3	513	(6,739)	2,719	(290)	189	(3,608)
At December 31, 2012	\$		19,024	(4,814)	(5,676)	-	9,793

# (c) Recognized deferred tax assets and liabilities

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities, at December 31, 2013 and 2012 are presented below:

8,794

9,793

Net deferred tax asset, recorded in the statements of financial position

Deferred tax assets: Employee benefits 2,007 1,259 Provisions 19,024 6,787 Deferred tax assets 8,794 20,283 Deferred tax liabilities: Prepaid expenses 4,814 Advance payments 5,676 Deferred tax liabilities 10,490

Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences can be utilized. In assessing the recoverability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. The deferred tax not recognized comes from:

	 2013	 2012
Tax loss carry forwards	\$ 398,252	\$ 417,191
Fixed assets	796,854	442,445
Reserve for bad debt	61,465	155,234
Provisions	 (139,292)	(180,229)
Deferred tax assets	\$ 1,117,278	\$ 834,640

As of December 31, 2013, the Company had accumulated tax loss carry forwards of \$1,327,552 which will expire as follows:

Year of loss	A	mount	Year of expiration
2004	\$	88,891	2014
2005 2006		11,510 89,571	2015 2016
2007		284,932	2017
2008 2010		536,398 3,892	2018 2020
2011		206,427	2021
2012 2013		3 105,928	2022 2023
	<u>\$ 1</u>	,327,552	

# (d) Tax reform impacts

On December 11, 2013, the Mexican Congress enacted a news Tax Reform, which became effective as of January 1, 2014. Among the tax reforms approved, the following impact to the Company:

- General provisions: The Income Tax Law includes changes to the tax rate (30% for 2014), to authorized deductions, to as the moments for income recognition or deductions, as well as changes in some regimes.

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- Employee benefits: Worker remunerations that represent an exempt item of income for the employee, such as fringe benefits, employees' savings and loan funds, severance payments, annual bonus, overtime, vacation premium, Sunday premium and exempt portion of PTU, may only be deducted to 47% or 53%. The tax reform also states that the deduction for contributions to pension and retirement funds' will be limited to 47% or 53% of the contribution made during the year.

- Flat Rate Business Tax Law and Cash Deposit Tax Law: These laws are repealed, and transition provisions are established to secure the rights and obligations acquired during the effective term of the law.
- VAT: The 16% rate is standardized throughout the country, by eliminating the 11% rate applicable to the border zone.

# (e) Reconciliation of effective tax rate:

	<u>201</u>	\$	<u>201</u>	\$	<u>2011</u>	\$
Loss before income tax		\$(1,235,424)		\$ (120,528)		\$ (528,027)
Total income tax expense	20/	15 205	120/	15.560	(2)0/	(14.000)
(benefit)	2%	15,305	13%	15,560	(3)%	(14,890)
Income tax expense (benefit) using the Company's domestic tax rate	(30)%	(370,627)	(30)%	(36,158)	30%	(158,408)
Employee Statutory Profit Sharing	-	-	1%	1,054	(1)%	1,504
Inflationary effect	4%	50,642	(5)%	(6,597)	7%	(7,739)
Non-deductible expenses	2%	25,301	24%	28,677	20%	37,457
Non-deductible employee benefits	1%	2,330			5%	104,844
Unrecognized deferred tax assets	24%	282,638	(30)%		-	28,083
Tax loss carryforwards that expired	-	-	53%	63,557	(4)%	-
Other	1%	25,021	1%	983	(1)%	(20,631)
		\$ 15,305	13%	\$ 15,560	(3)%	<u>\$ (14,890)</u>
	F 30					

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# Note 11 - Telecommunications network systems and equipment - net:

Telephone network systems and equipment consist of:

	Line installation cost	Telecommuni- cations network and equipment	Public telephone equipment	Computer equipment	Enginee- ring equipment	Radio equipment	Transpor- tation equipment	Electronic equipment	Leasehold improve- ments and outside plant	Office furniture	Other	CIP	Total
Cost													
Balance at January 2012		4,528,420	657,963	266,639	22,121	520,979	60,791	259,877	1,568,229	51,413	34,940	65,636	8,880,730
Transfers	67,602	215,671	48,445	3,168	787	8,415	2,676	-	30,220	663	1,089	(378,736)	-
Additions	-	88,618		-	-	-	-	-	-	-	-	378,736	467,354
Disposals	(5,304)	(51,069)	(62,358)	(2,075)	-	-	(3,401)	-	-	-	-	-	(124,207)
Balance at 31													
December 2012	906,020	4,781,640	644,050	267,732	22,908	529,394	60,066	259,877	1,598,448	52,077	36,029	65,636	9,223,877
Transfers	97,934	109,448	31,235	13,140	4	6,157	3,602	· -	7,576	842	3,603	(273,540)	· · · -
Additions	7,276	(123)	-	16	-	-	-	-	1,271	-	(3,514)	353,862	358,789
Disposals	(151,732)	(545,906)	(78,598)	(203,262)	-	(333)	(5,488)	(259,877)	(13,845)	(26,572)	-	(34,101)	(1,319,713)
Balance at 31													
December 2013	\$ 859,498	4,345,060	596,687	77,626	22,912	535,218	58,180		1,593,450	26,347	36,118	111,856	8,262,952

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Leasehold improve-Telecommuni-Line installation Public Transpor-tation ments and outside cations network and Enginee-ring Radio Office Computer Electronic telephone cost equipment equipment equipment equipment equipment plant furniture Other Total Accumulated depreciation and impairment losses Balance at January 1, 2012 Depreciation charge Disposals (2,960,861) (221,083) (237,259) (43,640) (375,576) (71,266) (15,576) (851) (247,095) (10,249) (48,811) (5,962) (257,053) (137) (20,028) (2,408) (4,964,075) (467,455) 62,228 (214,689) (25,073) (556,987) (83,624) (30,138) (3,162) 14 22,184 34,977 1,953 3,100 Balance at December 31, 2012 Additions Disposals Impairment (3,159,761) (245,753) 517,155 (412,624) (411,865) (87,598) 40,179 (124,020) (640,611) (100,581) 9,705 (972) (33,300) (3,292) 23,665 (5) (5,369,302) (568,534) 1,089,512 (578,257) (280,885) (96,969) 35,836 (237,809) (16,790) 200,719 (16,427) (1,066) (257,344) (10,327) (51,673) (4,073) 5,063 (257,190) (82) (1,202) (39,352) (583,304) (268,873) Balance at December 31, 2013 (381,370) (3,300,983) (53,880) (17,575) (50,683) (732,459) (12,932) (24,521) (5,426,581) Carrying amounts At January 1, 2012 <u>606,463</u> <u>1,567,558</u> <u>282,387</u> <u>51,950</u> <u>6,545</u> <u>273,883</u> <u>11,981</u> <u>2,824</u> <u>1,011,242</u> <u>21,274</u> 14,912 65,636 3,916,655 At December 31, 2012 625,135 1,621,879 232,185 29,923 6,481 272,049 8,394 2,687 957,837 18,776 13,593 65,636 3,854,575 7,498 111,856 5,337 266,345 860,991 13,414 11,597 2,836,372

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As of December 31, 2013 the Company maintain investment property for \$44,601. The depreciation amount was \$1,981 and \$1,981 for 2013 and 2012 respectively. The accumulated depreciation was \$8,911 and \$6,930 for 2013 and 2012 respectively.

Construction in progress mainly comprises telecommunications network and equipment. As of December 31, 2013 the estimated cost remaining to conclude the construction in progress is \$79,372 and management expects to conclude them before December 31, 2014. During the year 2012 and 2011, the Company capitalized borrowing costs amounting to \$9,444 and \$4,513, respectively. In 2013 the Company did not capitalized borrowing costs. Borrowing costs were capitalized at an average rate of 11%...

As of December 31, 2013 and 2012 the amounts of contractual commitments for the acquisition of Telecommunications network systems and equipment are \$25,615 and \$10,834, respectively.

During the year 2013, the Company changed the useful life of the line installation cost for residential customer from twenty year to five years. This change was generated by the new telecom reform with important changes in the infrastructure lease from the predominant agent. The impact was for Ps.57.1 million pesos. The Company amortized the installation cost over the period in which the service is provided. Once the customer terminates the service, the Company does not consider any additional value related to the installation cost. The Company determine the average residential customer live is five years.

As part of the agreements entered into with the holders of step-up senior notes and senior notes, as mentioned in Note 14, the Company committed all of Maxcom's telephone network systems and equipment as collateral in favor of said bond holders. Although the assets mentioned above have been encumbered in favor of the senior notes holders, the Company can make use of those assets as long as the requirements and conditions established in the instruments that govern issuance of the bonds are met.

The Company entered into financial lease agreements with Autoarrendadora Integral, S. A. de C. V. in pesos for transportation equipment.

The gross amount of fixed assets recognized under leases that are capitalized is comprised as follows:

	December 31,					
	 2013		2012		2011	
Transportation equipment	\$ 2,418	\$	2,740	\$	4,959	
Accumulated depreciation	 (270)		(149)		(367)	
Total	\$ 2,148	\$	2,591	\$	4,592	

### Impairment test

The Company test telecommunication network and equipment for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable.

When any indicator of impairment is identified, an impairment test is performed based on each cash-generating unit (CGU). The CGUs identify by the Company are pay TV, public telephone (PT) and other services (OS). The carrying values of these CGUs are compared to their value in use.

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On October, 2013, according to the business plan of the Company's new management, the CGUs pay TV and public telephone are not considered strategic, and recognized an impairment loss of \$578,257 as of December 31, 2013.

The key assumptions used for value-in-use calculations in 2013 are as follows:

	Pay TV	PT
Compound annual growth rate	13.5%	(23)%
Discount rate	11.71%	11.71%

Management determined compound annual volume growth rate for each CGU covering over the three-year forecast period to be a key assumption. The volume of sales in each period is the main driver for revenue and costs. The compound annual volume growth rate is based on past performance and management's expectations of market development. The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

# **Note 12 - Intangible assets:**

Intangible assets are comprised as follows:

				Infrastructure	e rights		
	Frequency rights	Software	Expenses to be amortized	Pipes rights	Fiber rights	Brand rights	Total
Cost Balance at January 1, 2012	94,674	373,680	232,570	27,742	73,279	372	802,318
Additions	94,074	56,036	60,000	27,742	13,219	- 3/2	116,036
D.1. (D. 1. 21.2012	94.674	420.716	202.570	27.265	72.270	372	010.252
Balance at December 31, 2012	94,674	429,716	292,570	27,365	73,279	3/2	918,353
Additions Disposals	-	27,735 (2,114)		-			27,735 (2,114)
Disposais	<del>_</del>	(2,114)		<u> </u>	<u> </u>	<u> </u>	(2,114)
Balance at December 31, 2013	94,674	455,337	292,570	27,742	73,279	372	943,975
			Expenses	Infrastructur			
	Frequency		to be	Pipes	Fiber	Brand	
	rights	Software	amortized	rights	rights	rights	Total
Accumulated amortization and impairment losses							
Balance at January 1, 2012	(67,151)	(293,404)	(266,240)	(19,136)	(28,967)	_	(674,898)
Amortization	(2,972)	(41,185)	(60,000)	(912)	(2,002)	_	(107,071)
Balance at December 31, 2012	(70,123)	(368,318)	(292,570)	(20,048)	(30,969)		(782,027)
Amortization	(6,482)	(19,663)	(2)2,370)	(1,489)	(3,372)	_	(31,007)
Disposals	(0,102)	(46,844)		(1,107)	(3,372)	_	(46,844)
D15p05d15		(40,044)					(40,044)
Balance at December 31, 2013	(76,606)	(434,825)	(292,570)	(21,537)	(34,341)	<u>-</u>	(859,878)
Carrying amounts							
At January 1, 2012	27,523	46,547		8,606	44,313	372	127,361
At January 1, 2012		10,517					127,501
At 31 December 31, 2012	24,551	61,398		7,694	42,311	372	136,326
At 31 December 31, 2013	18,068	20,512		6,205	38,939	372	84,097
			F-43				

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# Note 13 - Provisions:

Short Term Provisions:

	Legal claims (2)	Bonuses (3)	Total
At January 1, 2013	-	-	-
Charged to the income statement:			
- Additional provision	44,715	15,721	60,436
At December 31, 2013	44,715	15,721	60,436
Long Term Provisions:	Retirement obligation (1)	Labor contingencies <sup>(4)</sup>	Total
At January 1, 2013	3,801	-	3,801
			,
Charged to the income statement:			,
Charged to the income statement:  - Additional provision		12,363	12,363

<sup>(1)</sup> Retirement obligation from leasehold and outside plant.

<sup>(2)</sup> Legal claims including commercial contingencies.

<sup>(3)</sup> Profit sharing and bonuses according with the employee compensations program.

<sup>(4)</sup> Applies to labor cases in which there is a high probability of losing the case.

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# Note 14 - Balances and transactions with related parties:

The Group is controlled by the stockholders advised by Ventura Capital Privado, S.A. de C.V. ("Ventura"), which owns 54.1% of the Company's shares. The remaining 45.1% of shares are widely held.

For the years ended December 31, 2013, 2012 and 2011, related party transactions with former stockholders analyzed as follows:

	 2013	2012	_	2011
Expenses paid to:				
GS Comunicación*(1)	\$ 2,485	\$ 2,513	\$	3,417
BBG Wireless* (2)	2,457	504		3,387
Telecomunicaciones Móviles de México, S. A. de C. V.*(3)	1,607	3,648		3,285
Vázquez Eduardo* (4)	838	972		882
Vásquez Gabriel Agustín* (4)	801	806		792
Bank of America, Co.*(5)	-	311		465
Autokam Regiomontana, S. A. de C. V.* (6)	-	80		419
MG Radio* (7)		-		150
Servicios Corporativos VAC* (8)	 _	6		9
				12.00
Total	\$ 8,188	\$ 8,840	\$	12,806

- (\*) As of October 2, 2013, these Companies cease to be related parties.
- $^{(1)}$  Corresponds to payments regarding marketing consulting services.
- (2) Corresponds to cluster construction.
- (3) Corresponds to interest payments and a portion of the capital pertaining to a loan to settle Telereunion's debt with the Comisión Federal de Electricidad
- (4) Corresponds to lease of sites and offices owned by a relative of a Maxcom shareholder.
- (5) Corresponds to expenses related to the debt restructuring and travel expenses related to a risk capital investment fund of Bank of America (Maxcom shareholder).
- (6) Corresponds to costs related to the purchase of vehicles.
- (7) Corresponds to advertising services.
- (8) Corresponds to representation expenses.

The accounts due to and due from balances arising from operations with stockholders as of December 31, 2013 and 2012 were the following:

	2013		2012
<u>Due from:</u>			
	<b>*</b>		
Shareholder Gabriel Vázquez Cartens	\$	1	\$ 1
Difusión Panorámica, S. A. de C. V.		-	14
Total	\$	1	\$ 15
		_	
Due to:			
BBG Wireless	\$ 2	3	\$ 6,555
Telecomunicaciones Móviles de México, S. A. de C. V. <sup>(1)</sup>		-	25,294
GS Comunicación, S. A. de C. V.		-	598
		_	
Total	\$ 2	3	\$ 32,447
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\$ 1,909,139

2,282,774

Accounts payable and receivable from related parties are included within accounts receivable customers and accounts payable, respectively.

(1) On January 5, 2010, Electromecánica de Guadalajara, S. A. de C. V. gave the rights of the loan to Telecomunicaciones Móviles de Mexico, S. A. de C. V.

# Key management personnel compensation

2013		2012		2011		
Short-term employee benefits	\$	51,856	\$	49,180	\$	54,611
Termination benefits		2,697		2,399		2,399
Share-based payments		-		5,383		270
Total	\$	54,553	\$	56,962	\$	57,280
Note 15 - Step-up senior notes and senior notes:  As of December 31, 2013 and 2012, bonds payable were comprised as follows:  Long term:				2013	_	2012
	O-4-1-	7 2012 to				
Step-up Senior Notes maturing on June 15, 2020, bearing interest at a fixed annual rate of 6% from June 14, 2016, 7% from June 15, 2016 to June 14, 2018 and 8% from June 15, 2018 to June 15, 20 interest rate was 10.34%			\$	1,909,139	\$	_
Senior Notes maturing on December 15, 2014, bearing interest at a fixed annual rate of 11%, payal from June 15, 2007. The effective interest rate was 11, 14%	ble sem	iannually as		_		2 282 774

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As of December 31, 2013 and 2012, accrued interest payable on these bonds amounted to \$6,200 and \$11,920, respectively.

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On July 23, 2013, the Company undertook a restructuring by commencing a voluntary case under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. 101–1532, in the United States Bankruptcy Court for the District of Delaware to effect the restructuring as set forth in the plan of reorganization, including the issuance of new step-up senior notes by the Company (commonly known as Chapter 11 prepackaged restructuring).

On September 10, 2013, the U.S. Bankruptcy Court for the District of Delaware confirmed the Company's prepackaged Chapter 11 plan of reorganization (the "Plan"). The only class of creditors entitled to vote, the holders of the Senior Notes issued by the Company due 2014 (the "Old Notes"), overwhelmingly voted in favor of the Plan and no party objected to confirmation of the Plan, see Note 1.

Pursuant to the terms of the Plan, all classes of creditors were unimpaired and their payments were not affected under the Plan, except for the Old Notes claims, which received (1) the step-up senior notes due 2020 (which include the capitalized interest amount for unpaid interest accrued on the Senior Notes from (and including) April 15, 2013 through (and excluding) June 15, 2013, at the rate of 11% per annum), (2) cash in the amount of unpaid interest accrued on the Senior Notes (A) from (and including) December 15, 2012 through (and excluding) April 15, 2013, at the rate of 11% per annum, and (B) from (and including) June 15, 2013 through (and excluding) the effective date of the Plan at the rate of 6% per annum, and (3) rights to purchase equity that is unsubscribed by the Company's current equity holders pursuant to the terms of the Plan.

According to the terms of the Plan, on October 11, 2013, Maxcom issued new Step-up Senior Notes due 2020 (the "Step-Up Senior Notes") in an aggregate principal amount of US\$180,353,962, which reflects the amount of the Old Notes less the amount of Old Notes held in treasury by the Company plus the capitalized interest amount. The Step-Up Senior Notes bear interest (i) from the date of issuance until June 14, 2016, at the annual rate of 6% per annum, (ii) from June 15, 2016 until June 14, 2018, at the annual rate of 7% per annum, and (iii) from June 15, 2018 until the maturity date, at the annual rate of 8% per annum; have a maturity date of June 15, 2020; are secured by the same collateral that secures the Old Notes; and (e) are unconditionally guaranteed, jointly and severally and on a senior unsecured basis, by all of Maxcom's direct and indirect subsidiaries, excluding Fundación Maxcom, A.C. The collateral comprise the item "Telephone Network System and Equipment", including, but are not limited to constructions, transportation equipment and vehicles, computers, information electronic data processing equipment, telecommunications and office furniture and equipment. The guarantee was perfected on October 11, 2013 through a voluntary mortgage set up in order of priority and degree.

Interests paid abroad are subject to income tax withholding at a rate of 4.9%, payable by the holder and interest is payable net. However, the Company assumed the obligation to pay interests free of any charge or tax burden to the holders, absorbing the cost of the retention of withholding taxes.

The Step-Up Senior Notes are governed by indenture that Maxcom and its subsidiaries entered into with The Deutsche Bank Trust Company Americas, acting as trustee, on October 11, 2013. The indenture governing our Step-Up Senior Notes contains certain covenants that among other things, limit the ability of the Company and subsidiaries to incur additional indebtedness and issue preferred stock, pay dividends, make other restricted payments and investments, create liens, incur restrictions on the ability of the Company's subsidiaries to pay dividends or other payments to them, sell assets, merge or consolidate with other entities, and enter into transactions with affiliates. As of December 31, 2013 and 2012, the Company and the guarantors have kept, observed, performed and fulfilled each and every covenant contained in the indenture.

On October 11, 2013 the Company recognized a gain on extinguishment debt of approximately \$205,614 into the finance cost in the Statement of loss and other comprehensive income, as a result of recognized the Step-Up Senior Notes to fair value and the derecognition of the Senior Notes.

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During December 2013, the Company repurchased outstanding Step-Up Senior Notes for an amount of \$27.3 million, equivalent to U.S. \$2.1 million in cash. The difference between the carrying value of \$28.1 million equivalent to U.S. \$2.2 was recognized as a gain of \$0.4 million, equivalent to U.S. \$0.03 million in the statement of comprehensive loss

As of December 31, 2012 the Company repurchased Old Senior Notes for a total amount of \$201 million, equivalents to U.S. \$15.4 million (fair value). The difference between the carrying amount as of December 31, 2012 for an amount of \$299 million equivalents to U.S. \$22.9 million and the purchase price resulted in a gain of \$98 million, equivalent to U.S. \$7.5 million, which was recognized in the consolidated statement of comprehensive loss.

Additionally, on December 31, 2013, the equity purchase right was extinguished. As such, the Company swapped U.S.2.5 million (equivalent to \$23.3 million Pesos) nominal value of Step-up senior notes for 22,655,949 series A common stock shares. For the swap, Maxcom derecognized the senior notes at its carrying value, U.S.\$2.1 million, equivalent to \$27.3 million Pesos, and the embedded derivative liability at its fair value. The difference between these last two items and the shares issued was recognized as paid in capital.

During December 2013, a few of the Step-Up Senior Bond Holders exercised their equity purchase rights, thereby the company exchanged bonds worth \$ 23.3 million pesos (equivalent to US\$ 1.8 million) at carrying value, for 22,655,679 Series A common stock shares (see note 20). The rest of the equity purchase rights held by the remaining Step-Up Senior Bond Holders were extinguished, as the right to convert them had expired in December 2013. As a result of the above events, Maxcom derecognized the associated embedded derivative liability valued at its fair value of \$33.4 million Pesos (equivalent to U.S.2.6 million). The shares issued were recognized as an increase of capital stock and additional paid-in-capital of \$22.1 million pesos (equivalent to U.S.1.7 million dollars) and \$34.6 million Pesos (equivalent to U.S.2.7 million), respectively.

### Note 16 - Other non-current liabilities:

During 2013, Maxcom had a disagreement with Radiomovil Dipsa, S.A. de C.V. (Telcel) regarding the interconnection tariffs charged. On September 3, 2013, Maxcom acknowledge and agreed with Telcel the payment in 30 months. At December 31, 2013, the outstanding amount was recognized in Other non-current liabilities for an amount of \$98,955.

### Note 17 - Foreign currency position:

Figures in this note represent thousands of US dollars.

The Company's foreign-currency position (exclusive of the currency swaps) was as follows:

	Decen	nber 31,
	2013	2012
Assets		
Short-term	\$ 6,344	\$ 5,558
Long-term	<u></u>	2,470
	6,344	8,028
T 1 1 1151		
Liabilities	22.25	4.7.700
Short-term	99,977	15,700
Long-term	157,163	176,107
	257,140	191,807
Net (liabilities) - in dollars	<u>\$ (250,796)</u>	\$ (183,779)
Exchange rate at end of the year (\$1 to the 1.00 dollar)	\$ 13.08	\$ 13.01

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# Note 18 - Derivative financial instruments:

During February 2013, as part of the debt restructuring plan, the Company unwound all cross currency swaps and obtained net proceeds of \$22,800 in cash and recognized a loss of \$9,341, recognized in finance cost. At December 31, 2012 the Company had four swaps with Bank Morgan Stanley, without receiving or settling any amount for such transactions. For all the financial instruments (swaps), the Company paid the computed interests of the notional settled in Mexican pesos on a semiannual basis, and received an interest income generated from the notional settled in dollars. As of December 31, 2012 the swaps totaled a loss for the year of \$49.5million, which was composed of the following derivatives:

Cross currency swaps:

Counterparty	Received Leg	Payment Leg	Maturity	Canceled	ye	ear ended cember 31, 2012	_	Gain for the year ended December 31, 2011
Bank Morgan Stanley SAS	37,500 USD	(478,125) MXN @	December 15, 2014	February, 2013				
	@11% S/A	TIIE 28 + 4.57% S/A			\$	(9,087)	\$	20,778
Bank Morgan Stanley SAS	37,500 USD @11% S/A	(478,125) MXN @ 12.75% S/A	December 15, 2014	February, 2013		(8,134)		21,969
Bank Morgan Stanley SAS	37,500 USD @11% S/A	(474,375) MXN@ TIIE 28 + 4.85% S/A	December 15, 2014	February, 2013		(15,370)		27,028
Bank Morgan Stanley SAS	37,500 USD @11% S/A	(474,375)MXN @ 12.91% S/A	December 15, 2014	February, 2013	\$	(16,909)	\$	25,399
	@11% S/A	12.91% S/A			\$	(49,500)	\$	95,174

For accounting purposes, these derivative instruments, although intended for hedging purposes from an economic perspective, have been designated as trading instruments as they do not comply with all the requirements to qualify for hedge accounting. Changes in the fair value of these derivative instruments are recognized in the statement of operations for the year in which such changes occur, under financing cost.

# Note 19 - Labor obligations upon retirement and personnel expenses:

As of December 31, 2013 and 2012, the Company has direct benefits payable for absences (non-cumulative) amounting to \$706 and \$698, respectively.

The Company has obligations and costs of seniority premiums for employees entitled to receive them and are recognized based on actuarial studies prepared by an independent third party specialist.

		December 31,				
		2013	2012	2011		
Net cost for the period:	_					
Labor cost	\$	1,294	\$ 1,485	\$	529	
Financial cost		269	173		544	
Remeasurements		(1,027)	1,042		(167)	
Settlement effect		(356)	(987)		(112)	
Net cost for the period	<u>\$</u>	180	\$ 1,713	\$	794	

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The following is the determination of liabilities for the benefits of the plans:

	be	Retirement enefits seniority premium
Defined benefit obligation:		
Defined benefit obligation at January 1, 2012	\$	2,485
Current service cost		1,485
Financial cost		173
Remeasurements		1,042
Effects of settlement		(987)
Defined benefit obligation at December 31, 2012	\$	4,198
Current service cost		1,294
Financial cost		269
Remeasurements		(1,027)
Effects of settlement	_	(356)
Defined benefit obligation at December 31, 2013	\$	4,378
	Benefits	
	December 3	31,
	2013	2012
Discount rate reflecting the value of the current obligations	7.50%	6.50%
Compensation increase rate	5.00%	5.00%
Life expectancy (applicable to benefits upon retirement)	35 years	27.8 years
Inflation rate	3.50%	3.47%

# Note 20 - Stockholders' equity:

Capital stock structure -

On April 11, 2002, the Company obtained authorization from the Foreign Investment Bureau ("Dirección General de Inversión Extranjera") to increase its ability to issue limited voting shares up to 95% of its total capital stock. This authorization was endorsed on September 28, 2007, at the Company's public offering.

Restrictions imposed by the Mexican Foreign Investment Law (Ley Federal de Inversion Extranjera) and the Mexican Federal Telecommunications Law (Ley Federal de Telecomunicaciones) in connection with foreign participation in the telecommunication sector were eliminated on June 12, 2013, by a reform to the Mexican Constitution.

On April 20, 2012, by means of resolutions adopted by the General Ordinary Shareholders Meetings, the shareholders approved the reclassification of the additional paid in capital for the amount of \$817,054 million to the accumulated losses of the Company and the corresponding decrease of the accumulative losses.

On October 2, 2013, Maxcom held a General Ordinary Shareholders' Meeting that approved among other things, a capital increase of up to 3,102,540,883 Series "A" Shares. Derived from this capital increase, as of December 31, 2013, 2,276,629,697 Series "A" Shares were subscribed and paid. The remaining Series "A" shares will be kept in the treasury of the Company. Additionally, the General Ordinary Shareholder's Meeting held on October 2, 2013, also approved the issuance of 210,000,000 Series "A" Shares to be kept in the treasury of the Company, so that the Company may perform its obligations from futures stock options plans for directors, executives and employees of the Company.

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The amount that was contributed by the new shareholders and the general public was around of Ps.1,566 million (represented 1,619,700,751 shares Series A common stock. In addition, the chairman of the board approved the assignment of assign another shares, this event contributed with Ps.613 million (represented by 634,273,267 shares Series A common stock). In connection with the terms of the Plan Maxcom offered to holder of its Step-Up Senior Notes equity subscription rights, pursuant to which such holders exchanged U.S.\$2.1 million dollar aggregate principal amount of the Step-Up Senior Notes for 22,655,679 newly issued shares of its Series A common stock (in the form of CPOs and ADRs). The exchanged Step-Up Senior Notes were cancelled.

The capital increase of 2,276,629,697 Series "A" shares mentioned above was subscribed and paid as follows:

- 1,619,700,751 Series "A" Shares on October 2013; 634,273,267 Series "A" Shares during November 2013;
- 22,655,679 Series "A" Shares on December 9, 2013.

As of December 31, 2013 and 2012 the shares fully paid and subscribed representative of the Company's capital stock are nominative, with no par value and were comprised as shown below:

Series and Class of Shares	Capital increase						
	December 31, 2012	Shares - stock soption plan from January to September 2013 (Note 21)	October 2013	November 2013	December 2013	December 31, 2013	
Series "A" Class I (fixed portion)	1,528,827					1,528,827	
Series "A" Class II (variable portion)	788,290,002	19,921,098	1,619,700,751	634,273,267	22,655,679	3,084,840,797	
Subtotal	789,818,829	19,921,098	1,619,700,751	634,273,267	22,655,679	3,086,369,624	
Total authorized shares							
(treasury shares)	25,800,000	(19,921,098)	1,686,961,230	(634,273,267)	(22,655,679)	1,035,911,186	
Total authorized Series "A" shares	815,618,829		3,306,661,981			4,122,280,810	
Capital stock	\$ 4.814.428	\$ 15.076	\$ 1.583.603	\$ 593.626	\$ 21.900	\$ 7.028.634	

On October, 2013, the following movements in the treasury shares are as follows:

Authorized shares	3,102,540,883
Old treasury shares cancellation	(5,878,902)
Capital stock increase (subscribed and paid)	(1,619,700,751)
Stock option plan	210,000,000
Total	1,686,961,230

At the moment of the new recapitalization process, the Company cancelled the authorized outstanding treasury shares for about 5,878,901 shares. All the options in the money related to the employee programs and to the officers and directors programs were exercised before the cancellation.

In the event of a reduction to the capital stock or to the share subscription premium any surplus of the amount reimbursed over the balances of the accounts of contributed capital, a tax equivalent to 30% shall be incurred, when paid in the future. The tax incurred shall be paid by the Company and may be credited against the Income Tax for the fiscal year, or the Income Tax for the two immediately following fiscal years.

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#### Stockholders restrictions -

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock.

In October 2013 the Chamber of Senators and Representatives approved the issuance of a new Law on Income Tax (Income Tax Law) which came into force on January 1, 2014. Among other things, this Act sets a tax of 10% by the profits generated as of 2014 to dividends paid to foreign residents and Mexican individuals, it also states that for the years 2001-2013, the net taxable profit is determined in terms of the Income Tax Law in force in the fiscal year concerned.

Dividends paid are not subject to income tax if paid from the net tax profit account (CUFIN by its Spanish acronym) and, will be taxed at a rate that fluctuates between 4.62% and 7.69% if they are paid from the reinvested vet tax profit account. Any dividends paid in excess of this account will cause a tax equivalent to 42.869% if they are paid on 2014. The current tax is payable by the Company and may be credited against its income tax in the same year or the following two years or in its case against the Flat tax of the period. Dividends paid coming from profits previously taxed by income tax are not subject to tax withholding or additional tax payment.

During periods of 2013 and 2012, the Company didn't distributed dividends.

In the event of a capital reduction, the provisions of the Income Tax Law arrange any excess of Stockholders' equity over capital contributions, is accounted with the same tax treatment as dividends.

As of December 31, 2013 and 2012, the balances of the stockholders' equity tax account (CUCA by its Spanish acronym) were \$6,415,705 and \$6,170,727, respectively.

# Note 21 - Stock based compensation:

On April 20, 2012, by means of resolutions adopted at our General Extraordinary and Ordinary Shareholders Meetings, our shareholders ratified a new executive incentive plan and the compensation or emoluments awarded to directors and members of our different committees and approved a capital increase through the issuance of 25,800,000 Series A shares to be held in treasury. The plan was composed of part cash payment and a part stock options. As of December 31, 2013, directors, officers and employees have exercised 20,926,698 Series A Shares. As of September 30, all in the money options were excercised. No additional options were granted after this date, all the available options not granted were canceled after the restructuring process.

On September, 2011, by means of resolutions adopted by the General Extraordinary and Ordinary Shareholders Meetings, the shareholders ratified the Executive Incentive Program. In this case a portion of the payments is awarded through shares, as described below:

- Incentive Program.
- The yearly incentive goal, which may be given to the Company's officers and employees who are eligible under the scope of the Executive Incentive Program, is to reward management for reach the budgeted EBITDA for 2011, 2012 and 2013 through a variable incentive program short-term (annual) and medium term (three-year).
- The minimum requirement for the incentives to be awarded is 85% of budgeted EBITDA for the company. A lower EBITDA generated no beneficiaries entitled to receive payment of the incentive plan.

It is also necessary to maintain minimum cash and a ratio of EBITDA to Debt at the end of each year. Lower values for the minimum amount of cash or debt ratio higher do not generate bonus payments.

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- c. The amount of the yearly incentive is based on the monthly salary multiplied by a predefined factor.
- d. The yearly incentive is divided into three parts:
  - One part will be awarded through cash.
  - One part will be awarded through stock options in order to receive American Depositary Receipts (ADRs), Ordinary Certification Participates (CPOs) ii. or any other instrument whose underlying values represent Maxcom's capital stock (exercise price \$0.01).
  - One part will be awarded through stock options in order to receive ADR's, CPO's or any other instrument whose underlying values represent iii. Maxcom's capital stock (exercise price average of the last 30 days).

On January, 2010, by means of resolutions adopted by the General Extraordinary and Ordinary Shareholders Meetings, the shareholders compensation awarded to the Directors and Committee members of the Company's different committees. In this case a portion of the payments is awarded through shares, as described

- · Compensation for Directors and Committee members.
- Directors and Committee members will receive each year options to purchase up to \$120 in the form of CPOs, with the exception of the Chairman of the Board who will receive each year options to purchase up to \$240 in the form of CPOs.
- The Chairman of the Committee will receive each year options to purchase up to \$180 in the form of CPOs.

The fair value of options for services rendered was determined using a binomial valuation model applying the Black & Scholes method.

The cost for the years ended December 31, 2013 and 2012 was of \$1,812, and \$3,592, respectively. The compensation cost of the stock option for Directors and options for executives are recognized in shorter periods, because it corresponds to the payment of emoluments and performance bonds and its "fair value" is 0.12

The breakdown of the options granted and their vesting periods for the year ended December 31, 2013 and 2012 are described below:

	December 31, 2013			December 31, 2012				
	New option plans for employees	Options to counselors and executive plans	Total	New option plans for employees	Options to counselors and executive plans	Total		
Options granted past years	16,044,015	6,792,963	22,836,978	3,056,460	9,520,524	12,576,984		
Granted during the year	-	962,400	962,400	15,009,315	2,900,400	17,909,715		
Options exercised in year	(15,122,265)	(4,798,833)	(19,921,098)	(1,886,400)	-	(1,886,400)		
Options cancelled	(921,750)	(2,956,530)	(3,878,280)	(2,021,760)	(5,627,961)	(7,649,721)		
Total options granted		<u> </u>		14,157,615	6,792,963	20,950,578		
					December 3	1,		
				2013		2012		
Options authorized				\$	- \$	38,830,459		
Options granted				Ψ	•	(20,950,578)		
Options granted					<del>_</del>	(20,930,378)		
Options available				\$	- \$	17,879,881		

As of December 31, 2013 and 2012 changes in additional paid-in capital were as follows:

				December 31,		
				2013	_	2012
Stock option plan cost			\$	1,812	\$	3,592
Note 22 - Costs and expenses by nature:						
		2013		2012		2011
Network operating cost:						
Interconnection	\$	936,198	\$	593,101	\$	571,577
Circuit leases		38,263		38,558		54,256
Voice		22,139		24,111		16,594
		996,600		655,770		642,427
Depreciation and amortization		585,789		559,268		648,595
Impairment (note 11)		560,132		-		
Maintenance		48,981		53,359		32,204
Services - energy and water		43,880		37,696		36,445
Sites leases		36,923		36,597		36,735
Other		13,158		18,888		11,509
Disconnection cost		3,597		9,776		10,937
	\$	2,289,060	\$	1,371,354	\$	1,418,852
	<u>*</u>	_,,	<u>-</u>		<u> </u>	
		2013		2012		2011
Selling, general and administrative expenses:						
Wages and salaries	\$	500,034	\$	466,381	\$	500,225
Fees		83,704		69,299		62,591
Allowance for doubtful accounts		129,301		65,824		153,888
Leases		39,790		46,316		38,692
Depreciation and amortization		15,732		17,297		20,060
Impairment (note 11)		18,125		-		-
Services - Energy and water		27,972		22,190		17,537
Others	<u> </u>	93,246		29,601		22,611
	\$	907,904	\$	716,908	\$	815,604
Other expenses:						
Loss in disposal of telephone network systems and						
equipment and intangible assets	\$	277,479	\$	59,625	\$	72,477
Legal contingencies	<b>.</b>	44,715	-	23,999	~	22,732
Debt restructuring charges (note 3)		212,017		5,899		8,129
Labor contingencies (note 13)		12,363		-		•,
		(6,539)		87,655		28,552
Other		(0,557)		01,000		20,332
Other						131,890

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# Note 23 - Finance costs:

	2013	2012	2011
Interest expense:			
- Step-up senior notes (note 15)	\$ (6,200)	\$ -	\$ -
- Senior notes (note 15)	(197,383)	(309,501)	(301,239)
- Other interest	(9,603)	(29,450)	(17,193)
- Finance lease liabilities	(1,151)	(884)	(771)
- Loss on valuation of financial instruments (note 16)	(9,341)	(49,500)	95,174
- Foreign exchange losses	(46,570)	-	(320,854)
Total finance costs	(270,248)	(389,335)	(544,883)
Total finance costs	(223,678)	(389,335)	(224,029)
Less: amounts capitalized on qualifying assets (note 11)	-	9,444	4,513
Finance cost net	(223,678)	(379,891)	(219,516)
Interest income:			
- Interest income on short-term bank deposits	18,340	5,779	2,748
- Gain on extinguishment debt	248,515	-	-
- Gain on repurchase of senior notes (note 15)	-	97,845	-
- Foreign exchange gain	-	219,927	
Finance income net	266,855	323,551	2,748
		·	
Finance income	266,855	103,624	2,748
Net foreign exchange gains (losses)	(46,570)	219,927	(320,854)
Net finance costs	\$ (3,393)	\$ (56,340)	\$ (537,622)

# Note 24 - Earnings per share:

### a. Basic:

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the company and held as treasury shares.

	2013	2012	2011
Net loss and comprehensive loss for the year	\$ (1,250,7	729) \$ (136,088	3) \$ (513,137)
Weighted average basic shares (thousands)	1,127,5	789,819	789,819
Loss and comprehensive loss per share: Basic loss per common share (pesos)	(1.	.11) (0.17)	7) (0.65)

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#### b. Diluted:

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The company has two categories of dilutive potential ordinary shares: convertible debt and share options. The convertible debt is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	 2013	_	2012	 2011	
Net loss and comprehensive loss for the year	\$ (1,250,729)	\$	(136,088)	\$ (513,137)	
Weighted average diluted shares (thousands)	1,127,528	_	799,013	812,882	
Loss and comprehensive loss per share: Diluted loss per common share (pesos)	(1.11)		(0.17)	(0.63)	

In January, 2014, the General Ordinary Shareholders meeting approved a capital stock increase (note 25).

# Note 25 - Commitments and contingencies:

As of December 2013, the Company has the following commitments:

# **Commitments:**

# Operating lease agreements:

The Company maintains operating leases on buildings, sites, poles and office equipment. The Company recorded leasing expenses of \$54,097, \$82,898 and \$81,109 for the years ended December 2013, 2012 and 2011, respectively. In the case of leases of some sites the contracts are agreed in dollars, the remainder are agreed in pesos.

The schedule for estimated future minimum operating lease payments is as follows:

2014	\$ 62,493
2015	53,587
2016	43,218
2017	36,850
2018	8,761

# b. Lease agreement for the building currently housing the Company's corporate offices.

On January 1, 2013, the Company renewed its corporate lease agreement with maturity date on December 31, 2017. The surface leased is 7,586 square meters. The Company recorded a lease expense of \$33,685, \$40,866 and \$38,300 for the years ended December 31, 2013, 2012 and 2011, respectively. These contract are agreed in dollar.

The schedule for estimated future minimum lease agreement is as follows:

2014	\$ 35,450
2015	36,863
2016	38,314
2017	39,831

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### c. Geographic expansion commitment:

The agreement amending the national concession agreement to install and operate a public telecommunications network in Mexico, entered into on December 2, 2004, sets forth a capacity installation program to handle a certain number of lines by the end of 2006, and sets forth a geographic expansion commitment up until 2014.

In order for the concession to remain in effect, the Company is required to comply with the capacity installation and geographic expansion commitment discussed above, among other conditions.

As of the date of issuance of the financial statements, said commitment was fully covered, with no future commitments remaining.

### d. Commitment related to frequency rights:

As of December 31, 2013, the Company complied with its obligation to submit to the SCT the renewal of the surety bonds for the fiscal year 2012, as per the commitments and obligations set forth in the concessions.

- e. Commitment pertaining to the sale of capacity:
  - i. In October 2003, the Company signed a contract for the sale of fiber optic capacity with Axtel, SA de C.V. in the amount of \$36 million, of which \$13.5 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$22.5 million as deferred income generated by the outstanding services provided. The amortization begins in January 2004 when the carrier begins to use the service; the term of this contract is 13 years. December 31, 2013 and 2012, deferred revenue amounted to \$5.2 and \$6.9 million respectively.
  - ii. In November 2007, the Company signed a contract for the sale of fiber optic capacity with Grupo de Telecomunicaciones Mexicanas in the amount of \$23.9 million, of which \$10.3 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$13.6 million as deferred income generated by the outstanding services provided. The amortization begins in October 2008 when the carrier begins to use the service; the term of this contract is 5 years. As of December 31, 2013 has not recognized deferred income and as of December 31, 2012, deferred revenue amounted to \$2 million.
  - iii. In December 2008, the Company signed a contract for the sale of fiber optic capacity with Megacable in the amount of \$36.2 million, of which \$10.5 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$25.6 million as deferred income generated by the outstanding services provided. The amortization begins in April 2009 when the carrier begins to use the service; the term of this contract is 10 years. December 31, 2013 and 2012, deferred revenue amounted to \$13.4 and \$16 million respectively.
  - iv. In September 2009, the Company signed a contract for the sale of fiber optic capacity with Cablevision in the amount of \$8.6 million, of which \$2.3 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$6.3 million as deferred income generated by the outstanding services provided. The amortization begins in November 2009 when the carrier begins to use the service; the term of this contract is 10 years. December 31, 2013 and 2012, deferred revenue amounted to \$3.6 and \$4.2 million respectively.
  - v. In September 2013, the Company signed a contract for the sale of fiber optic capacity with Grupo de Telecomunicaciones Mexicanas in the amount of \$24.9 million, of which \$7.9 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$17 million as deferred income generated by the outstanding services provided by, amortization begins in November 2013 for the period of implementation; the term of this contract is 10 years. December 31, 2013, deferred revenue amounted to \$16.7 million.

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vi. In October 2013, the Company signed a contract for the sale of fiber optic capacity with Cablevision in the amount of \$11.8 million, of which \$7.3 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$4.5 million as deferred income generated by the outstanding services provided. The amortization begins in November 2013 when the carrier begins to use the service; the term of this contract is 10 years. December 31, 2013, deferred revenue amounted to \$4.4 million.

- vii. In June 2004, the Company signed a contract for the sale of fiber optic capacity with Mexico Red de Telecomunicaciones in the amount of \$10.2 million, of which \$ 3.3 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$ 6.9 million as deferred income generated by the outstanding services provided. The amortization begins in June and July 2013 when the carrier begins to use the service; the term of this contract is 9 years. December 31, 2013 and 2012, deferred revenue amounted to \$ 0 and \$ .447 million respectivelyviii In January 2007, the Company signed a contract for the sale of fiber optic capacity with Mexico Red de Telecomunicaciones in the amount of \$ 1.8 million, of which \$ .781 million were recognized at the time of sale as a prepaid for the implementation of infrastructure and \$ 4.5 million as deferred income generated by the outstanding services provided. The amortization begins in January 2007 when the carrier begins to use the service; the term of this contract is 10 years. December 31, 2013 and 2012, deferred revenue amounted to \$ .312 and \$.416 million respectively.
- viii. In January 2007, the Company signed a contract for the sale of fiber optic capacity with Operadora Cable de Occidente in the amount of \$2.1 million, and \$2.1 million as deferred income generated by the outstanding services provided. The amortization begins in January 2007; the term of this contract is 10 years. December 31, 2013 and 2012, deferred revenue amounted to \$0.635 and \$0.846 million respectively.

	Carrier	Amount of sales agreement	Prepaid charge	Revenue to been defer	Defer revenue Decemb 2012	e as of
i.	Axtel, S. A. de C. V.	36.0	13.5	22.5	6.9	5.2
ii.	Grupo de Telecomunicaciones Mexicanas	23.9	10.3	13.6	2.0	-
iii.	Megacable	36.2	10.6	25.6	16.0	13.5
iv.	Cablevision	8.6	2.4	6.3	4.3	3.7
v.	Grupo de Telecomunicaciones Mexicanas	25.0	7.9	17.0	-	16.8
vi.	Cablevision	11.8	7.4	4.5	-	4.4
vii.	Mexico Red de Telecomunicaciones	6.9	2.3	4.6	0.3	-
viii.	Mexico Red de Telecomunicaciones	3.4	1.1	2.3	0.1	-
viii.	Mexico Red de Telecomunicaciones	1.8	0.8	1.0	0.4	0.3
ix.	Operadora Cable de Occidente	2.1	-	2.1	0.8	0.6
	•					
	Total	155.7	56.3	99.5	30.8	44.5

### **Contingencies:**

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

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g. In accordance with Mexican tax law, the tax authorities are entitled to examine transactions carried out during the five years prior to the most recent income tax return filed.

- h. In accordance with the Income Tax Law, companies carrying out transactions with related parties are subject to certain requirements as to the determination of prices, which should be similar to those that would be used in arm's-length transactions.
- i. Should the tax authorities examine the transactions and reject the related-party prices, they could assess additional taxes plus the related inflation adjustment and interest, in addition to penalties of up to 100% of the omitted taxes.
- j. The tax authorities are conducting a direct examination of certain Company operations. At December 31, 2013, this examination is still in progress. Management of the Company and their legal counsel do not anticipate that this examination will result in significant additional assessments.
- k. The company is involved in some legal claims out of the normal course of business. A provision was recognized in the amount \$44,715 and includes: a) commercial claim with the vendor Telred, S.A., and b) professional fees already provided with some law firms related to tax, labor and public telephony matters

# Note 26 - Subsequent events:

# Impact of Foreign Currency Fluctuations

The peso-to-dollar exchange rate may experience significant devaluations in the future. Further declines in the value of the peso relative to the U.S. dollar could adversely affect our ability to meet our U.S. dollar-denominated obligations, including the notes due 2020. In order to diminish the negative effects of a peso devaluation, in January and March 2014, we entered into currency swap transactions with Morgan Stanley (France) SAA to minimize the exchange rate risks related to the coupon payments with respect to U.S.\$99 million aggregate principal amount of the notes due 2020.

#### Capital Stock increase

In connection with the capital increase approved by the General Ordinary Shareholders Meeting dated October 2, 2013, during January 2014 the Chairman of the Board authorized the issuance of 51,722,031 Series "A" shares at a subscription price of \$0.983333 Pesos per share representing a total of \$50,860.

#### Sale of capacity

In January 2014, the Company signed a contract for the sale of the right of capacity use with Pegaso PCS, S.A. de C.V. in the amount of \$134.5 million. The term of this contract is 4.5 years.

#### Telecom Reform

In March the new IFT issued rulings declaring America Movil and Grupo Televisa and certain of the subsidiaries of both companies as preponderant economic agents in the telecommunications and broadcasting industries, respectively and imposing both companies with specific asymmetrical regulations. It is still uncertain to determine the impact of such asymmetrical regulations in the telecommunications and broadcasting industries.

On March 24, 2014, the Mexican President submitted to the Mexican Congress a proposed telecommunications and broadcasting law that will implement the changes to the Mexican Constitution. This bill is under discussion in the Mexican Congress. It is still uncertain to determine the impact of such proposed bill to the telecommunications and broadcasting industries.

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# Note 27 - New accouting principles:

a. New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Company has applied a number of new and revised IFRSs issued by the IASB that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

### Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The Company has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to the IFRS 7, have been applied retrospectively. As the Company does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

# New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011), Separate Financial Statements and IAS 28 (as revised in 2011), Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Company has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is applicable only to separate financial statements of the Company.

The impact of the application of these standards is set out below:

# Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Company.

The application of the IFRS 10 has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

# Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

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The application of the IFRS 12 has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

### IFRS 13, Fair Value Measurement

The Company has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2, Share-based Payment, leasing transactions that are within the scope of IAS 17, Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Company has not made any new

disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

### Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Company has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### IAS 19 Employee Benefits (as revised in 2011)

The Company applied IAS 19 Employee Benefits (as revised in 2011) since January 1, 2011 (date of transition).

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IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognized in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

b. New and revised IFRSs in issue but not yet effective

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The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

IFRS 9, Financial Instruments<sup>3</sup>

Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures<sup>2</sup> Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities<sup>1</sup> Amendments to IAS 32, – Offsetting Financial Assets and Financial Liabilities<sup>1</sup>

- <sup>1</sup> Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
- <sup>2</sup> Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
- 3 Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

### **IFRS 9, Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Company's management anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Company's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

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# Amendments to IFRS 10, IFRS 12 and IAS 27, Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

# Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The Company's management does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Company's consolidated financial statements.

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# MAXCOM TELECOMUNICACIONES, S. A. B. DE C. V. AND SUBSIDIARIES Notes to the Consolidated Financial Statements (Thousands of Mexican pesos — note 5)

	Maxcom	MSA	CTE	OOP	TECBTC	MSF	Maxcom USA	Maxcom TV	Telereunión	Sierra USA	Telscape	SCG	Non Guarantor ATE	MAXCEL	SMSF	Elimination	Consolidated
Balance sheet																	
as of																	
December 31, 2013:																	
Cash and																	
cash																	
equivalents																	
and Current																	
restricted cash	\$ 1,947,869	931	34	348	85	2,128			126	1,788		59	9		315		1,953,692
Accounts	\$ 1,747,007	751	24	540	65	2,120			120	1,700		37			313		1,733,072
receivable -																	
net	633,179	145,491	50,647	28,171	62,864	6,922	68	439	0	4,751	8,398	14,916	44	50	82,308	(405,069)	633,179
Inventory -	16 607				_	0	_		0	0						_	16 607
net Prepaid	16,697	-				U	-		U	U	-		-				16,697
expenses	7,380	_	_	_	_	_	_		0	15	_	_	_	_		0	7,395
Investment in	.,																.,,
subsidiaries	84,305	16,288	6	-	-	-	-	-	-	-	-	-	-	-	-	(100,599)	0
Telephone network																	
system and																	
Equipment																	
net	2,788,956	-	-	-	-	-	-	-	15,028	4,316	20,985	7,086	-	-	-	-	2,836,371
Investement	25.600																25.600
property-net Intangible	35,690	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35,690
assets - net	84,098	_	_	_		_	_	_	_	_	_	_	_	_		_	84,098
Deposits	7,501	-	407	-	-	-	-	-	635	15	0	-	-	-	-	-	8,558
Prepaid																	
expenses	0																0
long term Derivative	U	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	U
financial																	
instruments	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0
Deferred		2.041	416	0.1	200										5.062	2	0.704
taxes Other assets	430,974	2,041 14,587	416 4,291	91 659	380 2,225	0	-	-	41	-	-	-	-		5,863	(280,638)	8,794 172,139
Total assets	\$ 6,036,649	179,338	55,801	29,269	65,554	9,050	68	439	15,830	10,885	29,383	22,061	53	50	88,486	(786,303)	5,756,613
Total abbets	\$ 0,030,047	177,556	33,601	27,207	05,554	7,030		<del></del>	15,650	10,003	27,303	22,001				(780,505)	3,730,013
Total																	
liabilities	\$ 2,922,651	121,759	46,534	17,764	53,757	378	0	879	26,843	0	1,108	2,012	4		80,847	(683,168)	2,591,368
Shareholders'																	
Equity:																	
Capital Stock and																	
Additional																	
Paid- In																	
Capital	7,068,667	66	95	55	53	171,497	127	55	717,462	13,044	97,874	11,308	50	50	50	(1,011,786)	7,068,667
Accumulated	(2.054.660)	57.512	0.172	11 450	11 744	(1/2 025)	(50)	(405)	(700 475)	(2.150)	((0.500)	0.741	(4)		7.500	000 (51	(2.002.422)
deficit Repurchase	(3,954,669)	57,513	9,172	11,450	11,744	(162,825)	(59)	(495)	(728,475)	(2,159)	(69,599)	8,741	(1)		7,589	908,651	(3,903,422)
of shares		_	_	_	_	_	_	_	_	_	_	_	_				0
Total																	
shareholders'																	
equity	3,113,998	57,579	9,267	11,505	11,797	8,672	68	(440)	(11,013)	10,885	28,275	20,049	49	50	7,639	(103,135)	3,165,245
Total liabilities and																	
shareholders																	
- equity	6,036,649	179,338	55,801	29,269	65,554	9,050	68	439	15,830	10,885	29,383	22,061	53	50	88,486	(786,303)	5,756,613

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# MAXCOM TELECOMUNICACIONES, S. A. B. DE C. V. AND SUBSIDIARIES Notes to the Consolidated Financial Statements (Thousands of Mexican pesos — note 5)

	Maxcom	MSA	CTE	OOP	TECBTC	MSF	Maxcom USA	Maxcom TV	Telereunión	USA	Telscape	<u>SCG</u>	Non Guarantor ATE	MAXCEL	SMSF	Elimination	Consolidated
Statements of Comprehensive Income for the year ended December 31, 2013:																	
Revenues	\$ 2,565,114	98,190	84,165	31,965	100,750	-	-	-	30,895	1,195	2,428	2,552	-		254,816	(667,102)	2,504,968
Operating cost and expenses	(2,438,623)	(76,818)	(77,755)	(30,257)	(95,842)	(12)	0	(12)	(28,687)	(1,169)	0	(828)	-		(229,490)	(217,471)	(3,196,964)
Finance cost, net	(3,393)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,393)
Other income	1 201 660	(16.104)	(1.602)	(1.040)	510	(27	0	0	(20	(1.052)	(2)	(2)			(15.722)	(017.001)	540.025
(expenses)		(16,104)	(1,683)	(1,040)	519	637	0		628	(1,052)		(3)			(15,732)	(817,801)	540,035
Taxes	6,722	(16,060)	(2,604)	(471)	(1,160)			0			0		0		(1,732)		(15,305)
Net (loss) income	\$(1,261,849)	(10,792)	2,123	197	4,267	625	0	(12)	2,836	(1,026)	2,425	1,721	0	0	7,862	(1,702,374)	(1,250,729)

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# MAXCOM TELECOMUNICACIONES, S. A. B. DE C. V. AND SUBSIDIARIES Notes to the Consolidated Financial Statements (Thousands of Mexican pesos — note 5)

	Maxcom	MSA	СТЕ	ООР	ТЕСВТС	MSF	Maxcom	Maxcom	Telereunión	Sierra	_Telscape_	SCG	Non Guarantor ATE	MAXCEL SMSF	Elimination (	Consolidated
							USA	TV		USA						
Statement of																
Cash Flows under IFRS																
for																
the Year																
Ended																
December 31,																
2012 :																
Net (loss)																
income the year under																
IFRS	\$ (1,268,574)	5,268	4,727	668	5,427	625	-5	(12)	2,836	(1,026)	2,425	1,721	0	- 9,595	901	(1,235,424)
Depreciation	\$ (1,200,571)	3,200	1,727	000	5,127	023		(12)	2,050	(1,020)	2,120	1,721		,,5,5	,,,,	(1,233,121)
and																
amortization	601,521								19,422	761		813			(20,996)	601,521
Other																
adjustments to reconcile																
net income to																
cash provided																
by operating																
activities	946,087															946,087
Net change in																
working capital	279,034			0		0			22,258	(265)	0	2,534	0			312,184
Resources	279,034								22,236	(203)		2,334				312,104
(used in)																
provided by																
Operating																
activities	(108,617)	849	(258)	(292)	(219)	2,004	3.00	(12)	(22,230)	(124)	(2,425)	(2,534)	0	- 315	276,356	142,816
Resources																
used in financing																
activities	2,019,568	0	0	0	0	0	0	0	0	0	0	0	0	0 0		2,019,568
Resources	2,017,500															2,017,500
(used in)																
provided by																
investing	(201011)															(201011)
activities	(384,844)					0			0		0	0			0	(384,844)
Cash and cash																
equivalents:																
Net increase																
(decrease) in																
cash and cash		0.4-	.a.c					,		.a	_	_	_			1.005.155
equivalents	1,805,141	849	(258)	(292)	(219)	2,004		(12)	28	(389)	0	0	0	- 315	12	1,807,179
Beginning balances	142,728	82	292	640	304	124			98	2,177		59	9	0	0	146,513
Ending	142,720	- 62		040		124			96						0	140,513
balances	\$ 1,947,869	931	34	348	85	2,128			126	1,788	0	59	9	- 315	12	1,953,692

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#### **ITEM 19. EXHIBITS**

- 1.1 Amended and Restated Bylaws (estatutos) of Maxcom Telecomunicaciones, S.A. de C.V. (English translation).
- Senior Note Indenture, dated December 20, 2006, among Maxcom Telecomunicaciones, S.A. de C.V., Maxcom Servicios Administrativos, S.A. de C.V., Outsourcing Operadora de Personal, S.A. de C.V., Técnicos Especializados en Telecomunicaciones, S.A. de C.V., Corporativo en Telecomunicaciones, S.A. de C.V., Maxcom SF, S.A. de C.V., Maxcom TV, S.A. de C.V., Maxcom USA, Inc. and Deutsche Bank Trust Company Americas, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 26, 2007, is incorporated herein by reference.
- First Supplemental Indenture, dated September 5, 2007, among Maxcom, the guarantors a party thereto and Deutsche Bank Trust Company Americas, as trustee, filed as an exhibit to our registration statement on Form F-1/A (No. 333-145800), filed with the SEC on November 1, 2007, is incorporated herein by reference.
- 2.3 \* Second Supplemental Indenture, dated January 25, 2008, among Sierra Comunicaciones Globales, S.A. de C.V., the existing guarantors party thereto and Deutsche Bank Trust Company Americas, as trustee.
- Form of Deposit Agreement among Maxcom, the Depositary named therein and all holders of American Depositary Shares issued there under, filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on October 2, 2007, is incorporated herein by reference.
- 2.5 Form of Registration Rights Agreement by and among Maxcom, Nexus-Maxcom Holdings I, LLC, BASCFC-Maxcom Holding I, LLC, BAS Capital Funding Corporation, BankAmerica Investment Corporation and the other stockholders party thereto, filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on October 2, 2007, is incorporated herein by reference.
- 2.6 Third Amended and Restated Security holders Agreement, dated July 20, 2006, among Maxcom Telecomunicaciones, S.A. de C.V. and certain of its shareholders, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 26, 2007, is incorporated herein by reference.
- 2.7 Third Supplemental Indenture dated as of December 31, 2008, among Telereunion, S.A. de C.V., Telescape, S.A. de C.V., Sierra US Communication, Inc. an each a direct or indirect subsidiary of Maxcom Telecomunicaciones S.A.B. de C.V., a limited liability public stock corporation.
- Fourth Supplemental Indenture dated as of February 23, 2010, among Assesores Telcoop, S.A. de C.V. an indirect subsidiary of Maxcom Telecomunicaciones S.A.B. de C.V., a limited liability public stock corporation.
- 3.1 CPO Trust Agreement effective April 25, 2002 among Maxcom., its shareholders and Banco Nacional de México, S.A., Institución de Banca Múltiple, Grupo Financiero Banamex Accival, as trustee, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on July 1, 2002, is incorporated herein by reference.
- 3.2 CPO Trust Agreement, dated October 17, 2007, among Maxcom Telecomunicaciones, S.A. de C.V., its shareholders and Nacional Financiera, S.N.C. (English translation), filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on October 17, 2007, is incorporated herein by reference.
- CPO Deed, dated October 17, 2007, among Nacional Financiera, S.N.C., Institución de Banca de Desarrollo, Monex Casa de Bolsa, S.A. de C.V., Grupo Financiero Monex and Comisión Nacional Bancaria y de Valores (English translation), filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on October 17, 2007, is incorporated herein by reference.

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- Agreement for the use of infrastructure and installation of fiber optic cable on the highways between Puebla and Mexico, dated August 18, 1998, between Amaritel, S.A. de C.V. (the predecessor of Maxcom Telecomunicaciones, S.A. de C.V.) and Iusatel, S.A. de C.V., filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- Interconnection Agreement for long-distance services, dated January 22, 1999, between Amaritel and Teléfonos de México (Telmex) valid for an initial period of two years between February 1, 1999 and January 1, 2001, and in effect thereafter in accordance with article 42 of the Mexican Telecommunications law, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.3 Local Interconnection Service Agreement, dated November 24, 1998, between Amaritel, S.A. de C.V. and Teléfonos de México, S.A. de C.V., filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.4 Amendment to Local Interconnection Service Agreement, dated February 25, 1999, between Amaritel, S.A. de C.V. and Teléfonos de México, S.A. de C.V., originally entered into on November 24, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.5 Metropolitan Network Capacity Sale Agreement, dated April 28, 2000, between Maxcom Telecomunicaciones, S.A. de C.V. and Metro Net, S.A. de C.V., as amended on December 21, 2000, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 29, 2001, is incorporated herein by reference.
- Telecommunications Service Agreement, dated November 15, 1999, between Maxcom and Teléfonos de México, S.A. de C.V., filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.7 Telecommunications Service Agreement, dated March 9, 1999, between Maxcom and Bestel S.A. de C.V., pursuant to which Bestel will provide long-distance and private call services to Maxcom, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.8 Concession for the installation and operation of telecommunications services granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on December 20, 1996, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.9 Amendment to Concession for the installation and operation of telecommunications services granted to Amaritel by the Secretary of Telecommunications and Transport on December 20, 1996, dated September 8, 1999, extending the coverage of such concession to include various additional municipalities of the State of Mexico, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- Amendment to Concession for the installation and operation of telecommunications services granted to Amaritel by the Secretary of Telecommunications and Transport on December 20, 1996, dated December 7, 1999, authorizing Maxcom to employ whatever technologies it deems appropriate in providing telecommunications services to various municipalities, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.11 Amendment to Annex A and B of Concession for the installation and operation of telecommunications services granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on December 20, 1996, dated September 27, 2001, extending the coverage of such concession to include all of Mexico, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.12 Concession for a public telecommunications network in telecommunications regions 3, 5 and 8 granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on April 29, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.13 Concession for the operation of point-to-multipoint microwave telecommunications services in Region 5 granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on April 23, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.14 Concession for the operation of point-to-multipoint microwave telecommunications services in Region 3 granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on April 23, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.15 Concession for the operation of point-to multipoint microwave telecommunications services in Region 8 granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on April 29, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.16 Concessions for the nationwide operation of point-to-point microwave telecommunications services using five frequency bands in the 56 MHz bandwidth, each granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on June 4, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.17 Concessions for the nationwide operation of point-to-point microwave telecommunications services using two frequency bands in the 100 MHz bandwidth, each granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on June 4, 1998, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- Amendment to Concession for the operation of point-to-multipoint telecommunications services in Regions 3, 5, 8 granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on April 1, 1998, dated October 12, 1999, regarding the start date for the initiation of services, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.19 Amendment to Concession for the installation and operation of telecommunications services granted to Amaritel, S.A. de C.V. by the Secretary of Telecommunications and Transport on December 20, 1996, dated September 24, 1999 eliminating financial restrictions, filed as an exhibit to our registration statement on Form F-4 (No. 333-11910), filed with the SEC on May 5, 2000, is incorporated herein by reference.
- 4.20 Warrant Agreement, dated as of March 17, 2000, between Maxcom Telecomunicaciones, S.A. de C.V. and The Bank of New York, as warrant agent, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 29, 2001, is incorporated herein by reference.
- Dark Fiber Optic Purchase Agreement, dated as of August 13, 2002, between Maxcom Telecomunicaciones, S.A. de C.V. and Bestel S.A. de C.V., filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2003, is incorporated herein by reference.
- 4.22 Transactional Lease Termination Agreement, dated as of May 20, 2003, among Maxcom Telecomunicaciones, S.A. de C.V. and Jacobo Zaga Romano, Jacobo Zaga Buzali, et.al., filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2003, is incorporated herein by reference.





- 4.23 Capacity Sale Agreement, dated as of October 15, 2003, between Maxcom Telecomunicaciones, S.A. de C.V. and Axtel, S.A. de C.V., filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 24, 2004, is incorporated herein by reference.
- 4.24 Credit Agreement, dated April 28, 2004, by and among Banco Santander Mexicano, S.A., Institución de Banca Mútiple Grupo Financiero Santander Serfin, as lenders, and Maxcom, as borrower, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2005, is incorporated herein by reference.
- 4.25 Credit Agreement, dated April 13, 2005, by and among Ixe Banco, S.A., Institución de Banca Mútiple, Ixe Grupo Financiero., as lenders, and Maxcom, as borrower, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2005, is incorporated herein by reference.
- 4.26 Amendment dated August 5, 2004 to Exhibit B of the Master Agreement to Supply Local Interconnection Services, dated February 25, 1999, between Maxcom and Telefonos de México, S.A. de C.V., filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2005, is incorporated herein by reference.
- 4.27 Credit Agreement, dated April 13, 2005, by and among Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero, as lenders, and Maxcom, as borrower, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- 4.28 Credit Agreement, dated October 25, 2005, by and among Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero, as lenders, Maxcom, as borrower and Maxcom SF, S.A. de C.V. as joint and several obligor, and amendment dated December 13, 2005, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- 4.29 Credit Agreement, dated October 21, 2005, by and among Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte, as lenders and Maxcom, as borrower, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- 4.30 Irrevocable Trust Agreement, dated November 21, 2005, by and among Maxcom, as settler, Banco Mercantil del Norte, S.A., Institución de Banca Múltiple, Grupo Financiero Banorte and Ixe Banco, S.A., Institución de Banca Múltiple, Ixe Grupo Financiero, as trust beneficiaries and HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC, Trust Division, as trustees, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- 4.31 Minutes of Maxcom Shareholders Meeting dated August 31, 2005 approving the spin-off, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- Stock Purchase Agreement, dated November 22, 2005, by and among Maxcom and Maxcom SF, S.A. de C.V., as sellers and Tiendas Comercial Mexicana, S.A. de C.V. and Controladora Comercial Mexicana, S.A. de C.V., as buyers, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- Supply and Installation Agreement of Video Through DSL (IPTV) System dated December 15, 2006 by and among Maxcom Telecomunicaciones, S.A. de C.V., Alcatel Bell N.V. and Alcatel México, S.A. de C.V., filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 26, 2007, is incorporated herein by reference.
- 4.34 The First Executive Stock Option Plan, which includes a Trust Agreement, dated May 31, 1999, among Maxcom Telecomunicaciones, S.A. de C.V. and Banco Nacional de México (English translation), filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on September 12, 2007, is incorporated herein by reference.

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- Second Executive Stock Option Plan, dated July 17, 2006 (English translation), filed as an exhibit to our registration statement on Form F-1/A (No. 333-144771), filed with the SEC on September 12, 2007, is incorporated herein by reference.
- 6.1 \* Computation of earnings per share.
- 7.1 \* Computation of ratio of earnings to fixed charges
- 8.1 \* Subsidiaries of the Registrant.
- Maxcom's Code of Ethics adopted March 2006, filed as an exhibit to our annual report on Form 20-F, filed with the SEC on June 30, 2006, is incorporated herein by reference.
- 12.1 \* Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
- 12.2 \* Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 \* Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
- 13.2 \* Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
- \* Filed herewith.

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### GLOSSARY OF TELECOMMUNICATIONS TERMS

ADSL (Asymmetrical Digital Subscriber Line) ADSL is a physical-layer protocol that supports up to 8 Mbps

bandwidth downstream and up to 1 Mbps upstream. The asymmetrical aspect of ADSL technology makes it ideal for Internet browsing, video on demand, and remote LAN access. Users of these applications typically download more information than they send. ADSL also allows simultaneous voice communication by

transmitting data signals outside of the voice frequency range.

Band A range of frequencies between two defined limits.

Bandwidth The relative range of analog frequencies or digital signals that can be passed through a transmission medium,

such as glass fibers, without distortion. The greater the bandwidth, the greater the information carrying

capacity. Bandwidth is measured in Hertz (analog) or Bits Per Second (digital).

Capacity Refers to the ability to transmit voice or data over telecommunications networks

Carrier A licensed provider of telecommunications transmission services by fiber, wire or radio.

Centrex service A business telephone service developed originally by Lucent Technologies which offers private branch

exchange type features directly from the local telephone company central office, such as voicemail, call pick-up

group, abbreviated dialing and multi-line hunting.

Churn Refers to customer line attrition and is measured as the percentage of disconnects from service relative to the

total subscriber base over a given period of time.

Cofetel Comisión Federal de Telecomunicaciones, the Mexican Federal Telecommunications Commission.

Digital Describes a method of storing, processing and transmitting information through the use of distinct electronic or optical pulses that represent the binary digits 0 and 1. Digital transmission/switching technologies employ a

sequence of discrete, distinct pulses to represent information, as opposed to the continuously variable analog

signal.

DSLAM Digital Subscriber Line Access Multiplexer. A technology to concentrate traffic in ADSL implementations

through time division multiplexing at the central office.

E1 A digital telephony format that carries data at the rate of 2.048 Mbps (DS-1 level). E-1 is the European and

Latin American version of North American T-1, though T-1 is 1.544 Mbps.

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Fiber optic technology

Fiber optic systems use laser-generated light to transmit voice, data and video in digital format through ultrathin strands of glass. Fiber optic systems are characterized by large circuit capacity, good sound quality, resistance to external signal interference and direct interface to digital switching equipment and digital microwave systems. A pair of fiber optic strands using advanced transmission technologies is capable of carrying multiple 2.5 or 10 Gbps communication streams. Because optical signals disperse over distance, they must be regenerated/amplified at sites located along the fiber optic cable. Fiber optic systems using earlier generation fiber require frequent intervals between regeneration/amplifier sites. Greater distances between regeneration/amplifier sites afforded by the use of advanced fiber generally translate into substantially lower installation and operating costs and fewer potential points of failure.

Fixed wireless local loop

A wireless local telephony service using the 3.4-3.7 GHz frequency band.

second.

building, plant or geographic area.

FTTH

Fiber-to-the-home, reference to an all fiber-optic public telephone network design, where broadband services are delivered to the customer premises/network interface by fiber optic.

Gbps

Gigabits per second. A measurement of speed for digital signal transmission expressed in billions of bits per second (Gbps).

Gulf region

115 cities and towns in eleven states in eastern Mexico, which includes the cities of Puebla, Tampico, Veracruz, Reynosa, Cancun, Chetumal, Merida, Ciudad del Carmen, Campeche, Coatzacoalcos and Tuxtla Gutiérrez, among others.

Hertz

The unit measuring the frequency with which an alternating electromagnetic signal cycles through the zero-value state between lowest and highest states. One hertz (abbreviated Hz) equals one cycle per second. KHz (kilohertz) stands for thousands of hertz; MHz (megahertz) stands for millions of hertz and GHz (gigahertz) stands for billions of hertz.

ISDN

Integrated Services Digital Network ISDN is an international standard that provides end-to-end digital connectivity to support a wide range of voice, data and video services.

IPTV

Internet Protocol Television is also called Internet Television or TV over IP and it refers to the transmission of

Kbps

television signals through the Internet using Internet Protocol.

Kilobits per second, a measurement of speed for digital signal transmission expressed in thousands of bits per

Lambdas

Lambdas are used as the symbol for wavelength in light wave systems. Fiber optic systems may use multiple wavelengths of light, with each range of wavelengths appearing in a "window," roughly corresponding to a

LAN

color in the visible light spectrum.

Local area network, a private data communications network linking a variety of data devices, such as computer terminals, personal computer terminals, personal computers, all housed in a defined

Microwave technology

Although limited in capacity compared with fiber optic systems, digital microwave systems offer an effective and reliable means of transmitting lower volume and narrower bandwidths of voice, data and video signals over short and intermediate distances. Microwaves are very high frequency radio waves that can be reflected, focused and beamed in a line-of-sight transmission path. As a result of their electro-physical properties, microwaves can be used to transmit signals through the air, with relatively little power. To create a communications circuit, microwave signals are transmitted through a focusing antenna, received by an antenna at the next station in the network, then amplified and retransmitted. Because microwaves disperse as they travel through the air, this transmission process must be repeated at repeater stations, which consist of radio equipment, antennae and back-up power sources, located on average every 30 kilometers along the transmission route.

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Mbps Mega Bits per second. A measurement of speed for digital signal transmission expressed in millions of bits per

second (Mbps).

Multi-line hunting A value-added service that allows for multiple calls to be received with a single telephone number.

PCS Personal Communications Services. PCS has come to represent two things: first, a digital wireless communications service operating over the 1.9 GHz band; and second, more generically, a wireless communications service utilizing a digital network that offers typical features such as voice, video and data

communications service utilizing a digital network that offers typical features such as voice, video and data applications, short messaging, voicemail, caller identification, call conferencing and call forwarding. Generic PCS suppliers promote this service on the ability of its features to be customized, or "bundled," to the needs of

the individual customers.

Point- to-multipoint microwave transmission A transmission using microwave technology by which a single signal goes from one origination point to many

destination points.

Point-to-point microwave transmission A transmission using microwave technology by which a signal goes from one point to another, usually

connected by a dedicated transmission line.

POTS Plain Old Telephone Service. The basic service supplying standard single line telephones, telephone lines and

access to the public switched network.

Revenue Generated Unit (RGU) Represents an individual service subscriber who generates recurrent revenue for the Company.

SCT Secretaría de Comunicaciones y Transportes, the Mexican Ministry of Communications and Transportation.

Switch A device that opens or closes circuits or selects the paths or circuits to be used for transmission of information.

Switching is the process of interconnecting circuits to form a transmission path between users.

Teledensity is a measure of telephony service in a population. It is calculated by dividing the total subscriber base (number of lines in service) by the inhabitants and multiplying by 100. It is generally used as a

base (number of lines in service) by the inhabitants and multiplying by 100. It is generally used as a comparative measure of network development. All teledensity figures are reported in subscribers per 100

inhabitants.

Triple play services Triple play services consist combination of voice, data, and video services offered as a bundled service for a

price that is less than the price of the individual services acquired individually.

VoIP Voice over Internet Protocol services consist in the technology that provides telephone companies with the

ability to carry normal telephony-style voice over an Internet Protocol-based Internet with POTS-like

functionality, reliability, and voice quality.

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VPN Virtual Private Network. A network design offering the appearance and functionality of a dedicated private

A service performed by Internet service providers (also known as ISPs) and Internet access providers (also known as IAPs) consisting in the hosting of outside companies web pages to be displayed on the Internet. Web-hosting

xDSL XDSL is a physical-layer protocol that supports bandwidth downstream and upstream. Date: 05/14/2014 05:57 PM User: Haideh.EttehadiehVintage FilingsProject: v378425 Form Type: 20-FClient: v378425\_MAXCOM TELECOMMUNICATIONS INC\_20-FFile: v378425\_20f.htm Type: 20-F Pg: 226 of 227

### **SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities and Exchange Act of 1934, the registrant certifies that it meets all requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

MAXCOM TELECOMUNICACIONES, S.A.B. DE C.V.

By: /s/ Armando Jorge Rivero Laing Armando Jorge Rivero Laing Chief Financial Officer

DATE: May14, 2014

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### EXHIBIT INDEX

- 6.1 Computation of earnings per share.
- 7.1 Computation of ratio earnings to fixed charges
- 8.1 Subsidiaries of the Registrant.
- 12.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
- 12.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).
- 13.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 13.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 14.1 Letter Dated May 14, 2014 of KPMG Cardenas Dosal S.C. as required by item16F of Form 20-F.

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Exhibit 6.1

Year Ended December 31,

## MAXCOM TELECOMUNICACIONES, S.A.B. de C.V. AND SUBSIDIARIES COMPUTATION OF EARNINGS PER SHARE

	2013	2012
	(thousands of pe amounts, excep	
Weighted average shares (Basic EPS)	1,127,528	789,819
Weighted average shares (Diluted EPS)	1,127,528	799,013
Net (loss) before Income Tax	(1,235,4)	(120,528)
Preferred stock dividend	<u> </u>	
Amount allocated to preferred shareholders	_	_
Net (loss) Income	(1,250.7)	(136,088)
Basic EPS	(1.11)	(0.17)
Diluted EPS	(1.11)	(0.17)

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Exhibit 7.1

## MAXCOM TELECOMUNICACIONES, S.A.B. DE C.V. COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES IN ACCORDANCE WITH IFRS

	Year ended Dec	cember 31,	
	2013	2012	
	(thousands of no for 2011 and 2012 data)	, except ratio	
Income (Loss) Before Income Tax	(1,235,424)	(120,528)	
Determination of the Ratio Fixed charges:	(1,230, 121)	(120,020)	
Interest expense	223,678	295,757	
Interest capitalized during period	<u> </u>	5,184	
Rental expense	24,713	109,319	
Amortization of Debt issuance costs	107,053	_	
Total fixed charges	355,444	410,260	
Earnings:			
Income (loss) from continuing operations	(1,235,424)	(120,528)	
Fixed charges	355,444	410,260	
Amortization of capitalized interest	22,987	26,972	
Less: interest capitalized during period	<del>_</del>	(5,184)	
Total earnings	(856,993)	311,520	
Ratio of Earnings to Fixed Charges	(2.41)	0.76	
Insufficiency (sufficiency)	1,212,437	98,740	

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**EXHIBIT 8.1** 

Subsidiaries	Jurisdiction of Incorporation	Percentage Owned
Direct Subsidiaries		
Corporativo en Telecomunicaciones, S.A. de C.V.	Mexico	*
Maxcom Servicios Administrativos, S.A. de C.V.	Mexico	*
Maxcom SF, S.A. de C.V.	Mexico	*
Maxcom TV, S.A. de C.V.	Mexico	*
Telscape de México, S.A. de C.V.	Mexico	*
Telereunión, S.A. de C.V.	Mexico	*
Sierra Comunicaciones Globales, S.A. de C.V.	Mexico	*
Maxcom U.S.A., Inc.	Delaware	100%
Sierra Communications USA, Inc.	Delaware	100%
Fundación Maxcom, A.C.	Mexico	*
Celmax Móvil, S.A. de C.V.	Mexico	*
Servicios MSF, S.A. de C.V.	Mexico	*
Indirect Subsidiaries		
Outsourcing Operadora de Personal, S.A. de C.V.	Mexico	**
TECBTC Estrategias de Promoción, S.A. de C.V. (formerly "Técnicos Especializados en Telecomunicaciones, S.A. de		
C.V.")	Mexico	**
Asesores Telcoop, S.A. de C.V.	Mexico	**

<sup>\*</sup> Maxcom owns all of the capital stock of its direct subsidiaries, except for one share of each, which share is owned by Corporativo en Telecomunicaciones, S.A. de C.V., in the case of Maxcom Servicios Administrativos, S.A. de C.V., and by Maxcom Servicios Administrativos, S.A. de C.V., in the cases of Corporativo en Telecomunicaciones, S.A. de C.V., Maxcom SF, S.A. de C.V., Maxcom TV, S.A. de C.V., Telscape de México, S.A. de C.V., Sierra Comunicaciones Globales, S.A. de C.V., Telereunión, S.A. de C.V., Fundación Maxcom, A.C. and Celmax Móvil, S.A. de C.V. This organizational structure is due to the fact that Mexican law requires that corporations have a minimum of two shareholders.

<sup>\*\*</sup> For its indirect subsidiaries, Corporativo en Telecomunicaciones, S.A. de C.V. owns one share of each, and the remaining shares are owned by Maxcom Servicios Administrativos, S.A. de C.V.

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**EXHIBIT 12.1** 

#### CERTIFICATION

- I, Enrique Ibarra Anaya, Chief Executive Officer, certify that:
- I have reviewed this annual report on Form 20-F of Maxcom Telecomunicaciones, S.A.B. de C.V.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly represent in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- 4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- 5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

DATE: May 14, 2014

SIGNATURE: /s/ Enrique Ibarra Anaya

TITLE: Chief Executive Officer

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**EXHIBIT 12.2** 

### CERTIFICATION

- I, Armando Jorge Rivero Laing, Chief Financial Officer, certify that:
- 1. I have reviewed this annual report on Form 20-F of Maxcom Telecomunicaciones, S.A.B. de C.V.;
- 2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly represent in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
- 4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
- 5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - to adversely affect the company's ability to record, process, summarize and report financial information; and

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

DATE: May 14, 2014

SIGNATURE: /s/ Armando Jorge Rivero Laing

TITLE: Chief Financial Officer

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**EXHIBIT 13.**1

### CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Maxcom Telecomunicaciones, S.A.B. de C.V. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Enrique Ibarra Anaya, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- 1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATE: May 14, 2014

SIGNATURE: /s/ Enrique Ibarra Anaya

TITLE: Chief Executive Officer

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 20-F. This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: 05/14/2014 05:57 PM User: Haideh.EttehadiehVintage FilingsProject: v378425 Form Type: 20-FClient: v378425\_MAXCOM TELECOMMUNICATIONS INC\_20-FFile: v378425\_ex13-2.htm Type: EX-13.2 Pg: 1 of 1

**EXHIBIT 13.2** 

### CERTIFICATION BY THE CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Maxcom Telecomunicaciones, S.A.B. de C.V. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"),I, Armando Jorge Rivero Laing, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- 1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

DATE: May 14, 2014

SIGNATURE: /s/ Armando Jorge Rivero Laing

TITLE: Chief Financial Officer

This written statement is being furnished to the Securities and Exchange Commission as an exhibit to the Company's Annual Report on Form 20-F. This certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by such Act, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: 05/14/2014 05:57 PM User: Haideh.EttehadiehVintage FilingsProject: v378425 Form Type: 20-FClient: v378425\_MAXCOM TELECOMMUNICATIONS INC\_20-FFile: v378425\_ex14-1.htm Type: EX-14.1 Pg: 1 of 1

**EXHIBIT 14.1** 

May 14, 2014

Securities and Exchange Commission Washington, D.C. 20549

Ladies and Gentlemen:

We were previously principal accountants for Maxcom Telecomunicaciones, S.A.B. de C.V. and subsidiaries ("Maxcom") and, under the date of May 15, 2013, we reported on the consolidated financial statements of Maxcom as of December 31, 2012 and 2011 and January 1, 2011 and for the years ended December 31, 2012 and 2011 (the "Consolidated Financial Statements"). On October 28, 2013, we were dismissed as principal accountants. We have read Maxcom's statements included under Item 16-F of its Form 20-F dated May 14, 2014, and we agree with such statements, except that: we are not in a position to agree or disagree with Maxcom's statement that PWC was not consulted regarding either (i) the application of accounting principles to a specific completed or contemplated transaction; or (ii) the type of audit opinion that might be rendered on Maxcom's Consolidated Financial Statements; or (iii) whether there were any matters that were either the subject of disagreement (as described in Item 16F(a)(1)(iv) and the related instructions to such Item of Form 20-F) or a reportable event (as described in Item 16F(a)(1)(v)).

Very truly yours,

KPMG Cardenas Dosal, S.C.

/s/ Luis A. Carrero Roman Partner