

Alestra

Telecommunications

» Industry developments

During 2Q10, the Mexican Government, through the Ministry of Communications and Transportation, conducted an auction for the concession for use of two strands of dark fiber from the electric utility (CFE). A consortium of companies involved in the telecom and media businesses won the concession. While we did not participate in this process, we expect that domestic broadband tariffs will drop as additional transmission capacity will be available.

» Operations

We continued to expand our wide offer of value-added telecom services for business customers (VAS). During 2Q10, VAS totaled 696,000 EOs (equivalent of customer-access circuits providing services), 7% more on a sequential basis, and 24% higher than 2Q09.

On the other hand, our long distance (LD) network handled 428 millions of minutes of use of traffic during 2Q10, 8% less and 24% less than 1Q10 and 2Q09, respectively. These declines show the long-term trends affecting traditional LD traffic, which we have more than offset through expanding our offering of VAS.

» Financial Results

As a result of a focused strategy and the improvement in the Mexican economy, our financial results continued to show positive trends, which are evident in the main line items of our income statement. During 2Q10, our revenues amounted to U.S. \$89 million, 3% higher than the previous quarter and 1% higher when compared to 2Q09. VAS revenue grew 4% sequentially, and 15% when compared to 2Q09, representing 76% of total quarterly revenues, compared to 75% in 1Q10 and 67% in 2Q09. On a cumulative basis, our revenues have grown 4% in the first half of 2010. The main reason behind revenue growth is our ability to expand VAS to more than offset declining LD revenues. Year to date, VAS revenue has grown 14% when compared to the first semester of 2009.

Operating Income amounted to U.S. \$11 million during 2Q10, 4% and 5% higher than the previous quarter and the same year ago period, respectively, and flat on a cumulative basis. The increase in Operating Income has to do with the greater proportion of the more profitable VAS in the total revenue mix. 2Q10 EBITDA amounted to U.S. \$28 million, 3% higher than 1Q10 and 7% higher when compared to 2Q09. On a cumulative basis, our 1H10 EBITDA was 6% higher than 1H09.

» Capital Expenditures and Net Debt

2Q10 capital expenditures amounted to U.S. \$14 million, for a cumulative figure of U.S. \$25 million so far in 2010. Funds were used to support network growth and infrastructure to provide VAS and last-mile access circuits to our customers. At the end of 2Q10, our net debt amounted to U.S. \$200 million, a decrease of U.S. \$7 million when compared to the previous quarter. Financial ratios remained strong with Net Debt to EBITDA of 1.9 times and Interest Coverage of 3.8 times.

(See Tables 19 to 21 in the Appendix for more detailed financial information.)

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Table 19
Revenues

	2Q10	1Q10	2Q09	(% 2Q10 vs.)		YTD '10	YTD '09	Ch. %
				1Q10	2Q09			
Total Revenues								
Ps. Millions	1,126	1,116	1,200	1	(6)	2,243	2,373	(5)
U.S. \$ Millions	89	87	88	3	1	176	170	4
Data, Internet and Local Services (VAS)								
Ps. Millions	851	835	799	2	6	1,686	1,624	4
U.S. \$ Millions	68	65	59	4	15	132	116	14
Long Distance Services								
Ps. Millions	275	281	400	(2)	(31)	557	749	(26)
U.S. \$ Millions	22	22	29	(0)	(26)	44	54	(19)
Data, Internet and Local Services / Total (%)	76	75	67			75	68	

Table 20
Operating Income and EBITDA

	2Q10	1Q10	2Q09	(% 2Q10 vs.)		YTD '10	YTD '09	Ch. %
				1Q10	2Q09			
Operating Income								
Ps. Millions	141	139	145	2	(2)	280	310	(9)
U.S. \$ Millions	11	11	11	4	5	22	22	(1)
EBITDA								
Ps. Millions	355	351	357	1	(1)	706	733	(4)
U.S. \$ Millions	28	27	26	3	7	55	53	6

Table 21
Selected Balance Sheet Information & Financial Ratios (U.S. Million)

	2Q10	1Q10	2Q09	YTD '10	YTD '09
Assets	561	561	489	561	489
Liabilities	364	358	308	364	308
Stockholders' Equity	197	203	181	197	181
Net Debt	200	207	208	200	208
Net Debt/EBITDA*	1.86	1.96	1.83	1.86	1.83
Interest Coverage*	3.8	4.1	5.0	3.8	5.0

* Times; last 12 months

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