



# *Driving*

technological innovation

Annual Report 2009

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HAY UN  
PAQUETE  
**TELMEX**  
PARA TI



TELMEX is a corporation made up of Teléfonos de México, S.A.B. de C.V. and subsidiaries that provides telecommunications services in Mexico. The company's service coverage comprises the operation of the nation's most complete local and long distance networks. Additionally, TELMEX offers services like connectivity, Internet access, co-location, web hosting and interconnection services to other telecommunications operators.

More information about TELMEX can be accessed on the Internet at [www.telmex.com](http://www.telmex.com)



# Highlights

[In millions of Mexican pesos, unless otherwise indicated]\*

	2009	2008	2007	2006	2005
<b>Financial</b>					
Total revenues	<b>119,100</b>	124,105	130,768	129,755	131,449
Voice services	<b>82,406</b>	92,657	104,029	105,178	108,639
Data	<b>30,817</b>	25,387	22,280	21,035	19,983
Other	<b>5,877</b>	6,061	4,459	3,542	2,827
Total costs and expenses	<b>84,736</b>	84,362	86,884	83,491	85,210
Costs of sales and services	<b>34,159</b>	32,523	32,364	32,059	32,435
Commercial, administrative and general expenses	<b>20,830</b>	19,863	19,553	19,383	19,111
Interconnection	<b>11,796</b>	14,043	16,542	13,338	13,350
Depreciation and amortization	<b>17,951</b>	17,933	18,425	18,711	20,314
Operating income	<b>34,364</b>	39,743	43,884	46,264	46,239
EBITDA <sup>(1)</sup>	<b>52,315</b>	57,676	62,309	64,975	66,553
Income from continuing operations	<b>20,469</b>	20,177	28,889	27,701	27,263
Assets from continuing operations	<b>178,355</b>	187,125	172,826	188,182	200,793
Debt from continuing operations	<b>102,874</b>	107,055	91,462	90,417	90,197
Stockholders' equity <sup>(2)</sup>	<b>38,321</b>	39,371	42,159	121,321	135,879
<b>Data per share (pesos)</b>					
Earnings per share from continuing operations	<b>1.11</b>	1.07	1.46	1.32	1.19
Nominal dividend paid <sup>(3)</sup>	<b>0.845</b>	0.413	0.440	0.403	0.370
Outstanding shares at year-end (millions)	<b>18,192</b>	18,555	19,360	20,203	22,045

\* The presented financial information from 2005 to 2007 is with purchasing power as of December 2007 and from 2008 and beyond is presented in nominal pesos (see Note 1 II.b to the consolidated financial statements).

<sup>(1)</sup> EBITDA defined as operating income plus depreciation and amortization.


<sup>(2)</sup> The decrease in 2007 was due to the split-up (escisión) of Telmex Internacional.

<sup>(3)</sup> An extraordinary dividend of P. 0.40 Mexican cents per outstanding share was paid in December 2009.

“As we help technology reach everyone in our nation, we contribute to closing the digital divide that separates Mexico from more developed countries. To further that purpose, we have launched the **TELMEX 2010 Driving Technological Innovation** Program, through which we will carry out important actions now and in coming years in order to **increase connectivity to broadband Internet nationwide, drive education and digital culture** and incentivize the development of **information technologies.**”

“These actions are possible thanks to TELMEX’s reliability and world-class technology, along with our highly trained personnel. With these actions **we will strengthen our commitment to lead the future toward a Mexico without limits** and to contribute so that our country fully engages in knowledge technologies.”

Carlos Slim Helú



We will extend and improve broadband Internet connectivity so that within three years, more than half of the population can have Internet access.

# Connectivity

*We will increase the number of public sites with “WiFi Móvil en Infinitum” to reach **3,000** nationwide in 2010.*



***We will multiply Infinitum access speed** while maintaining the quality, continuity and speed consistency that characterize this service.*

*We will play an active role in helping the country reach **12 million** broadband accesses in the next three years.*

# Education and Digital Culture

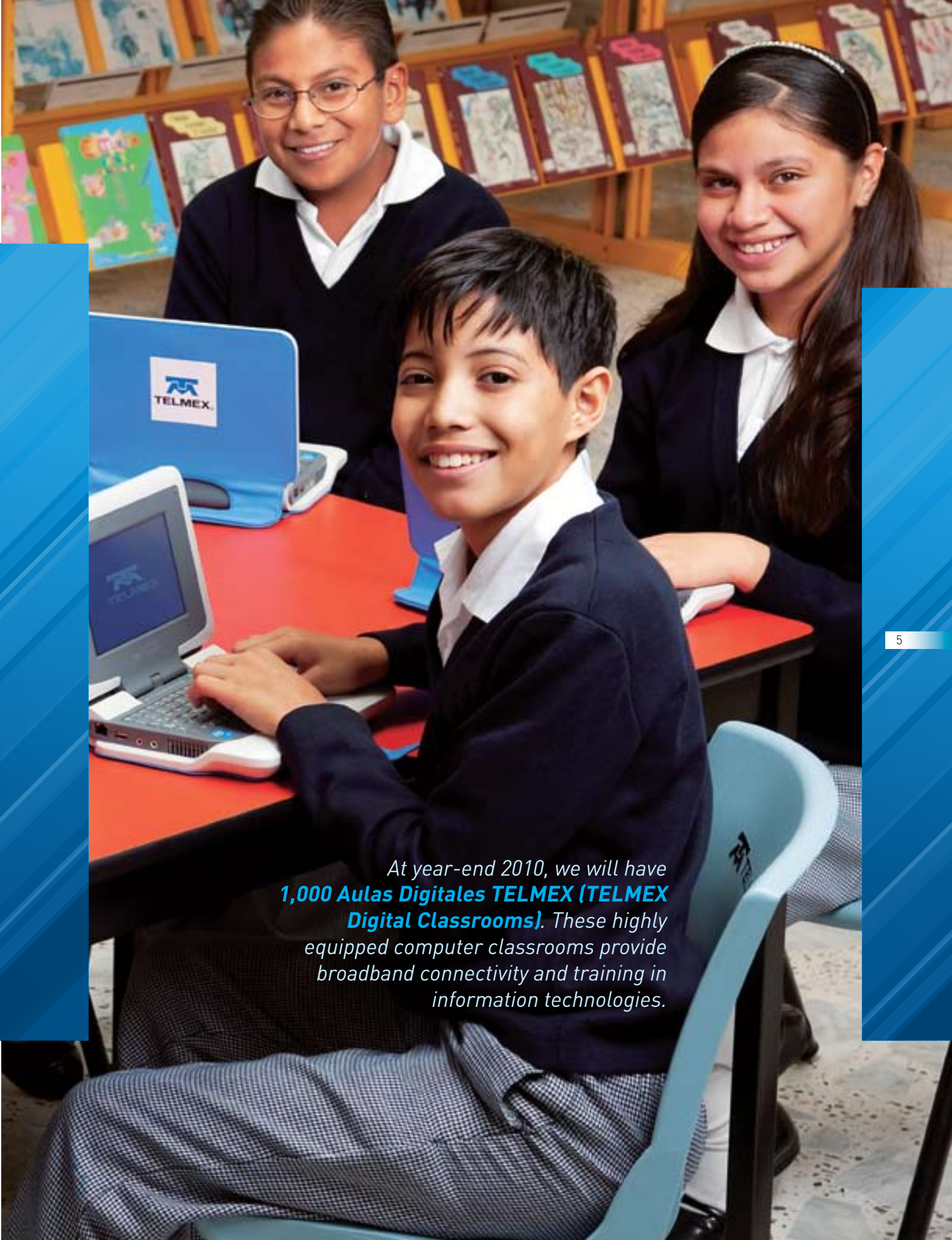
We will provide access to learning and unlimited knowledge to thousands of children through Aulas Digitales TELMEX (TELMEX Digital Classrooms) and Bibliotecas Digitales TELMEX (TELMEX Digital Libraries).

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In 2010, we will grant **50,000 becas digitales (digital scholarships)** to the families of Grupo Carso employees and a total of 225,000 Fundación TELMEX scholarships for outstanding BA, Masters and PhD students.

We will open **3,300 Bibliotecas Digitales TELMEX (TELMEX Digital Libraries)** during 2010, allowing our customers to check out computer equipment at no cost.



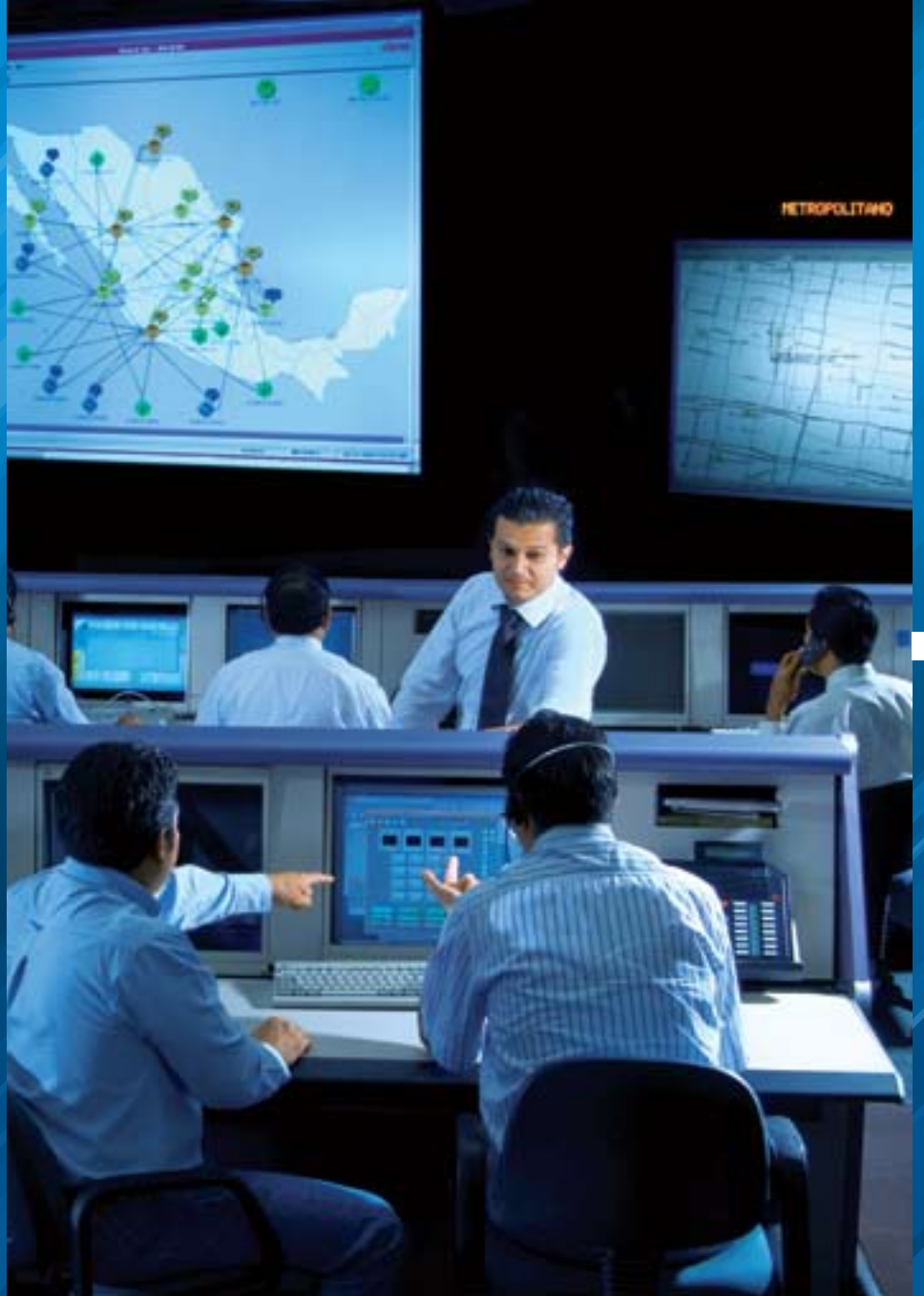
*At year-end 2010, we will have **1,000 Aulas Digitales TELMEX (TELMEX Digital Classrooms)**. These highly equipped computer classrooms provide broadband connectivity and training in information technologies.*



We enhanced our IT market presence through skilled sales efforts that offer solutions for entrepreneurs. An example is the Telepresence service.

# Information Technologies

*We will enhance **information technology services** for companies through data centers and software development centers.*



# Letter to Our Shareholders

For the world's economy, 2009 was one of the most adverse years in recent decades. These economic conditions were the consequence of the global financial crisis that began in the last quarter of 2008 in the real estate market in the United States and broadened in the first half of 2009 into a reduction in global economic activity. Even with the strength of the Mexican banking system, the domestic economy was drawn into this environment. Indeed, the Mexican economy was one of the most seriously affected, with a decline in the GDP growth rate to 6.6% in 2009, which represented the steepest year-over-year decrease since the crisis of 1995. During the fourth quarter of 2009, GDP growth slowed to 2.3%, the fifth consecutive quarter of decreases, highlighted by the second quarter which registered a 10% drop compared with growth in the same quarter of the prior year. The secondary sector had the worst performance of the economy (7.3%), followed by the tertiary (6.6%). These effects became more evident due to significant volatility in the exchange rate in the first quarter of 2009, when it reached 15.3650 pesos per dollar (March 4, 2009), and to the impact of the public health alert derived from the H1N1 virus, which

paralyzed economic activity in several states of the country for two weeks. Among other effects, this situation also contributed to an average decrease of 5.5% in the employment level and a decrease of 25.4% in foreign investment from January to December 2009 compared with 2008.

In contrast to the general decline in economic activity, an economic sector whose growth remained dynamic was telecommunications. The "Índice de Producción del Sector Telecomunicaciones (Telecommunications Sector Production Index) published by COFETEL registered growth of 13.8% in 2009 over the 2008 level of activity.

Related to this scenario, at TELMEX we are implementing measures that allow us to drive the digital culture in the country with the objective of enhancing human capital, which will allow us to improve work options for the population, continue to promote investments in infrastructure and increase the country's competitiveness.

Our company participates in a sector of the economy where more than 600 concessions or licenses have been granted to provide

various telecommunications services. Moreover, during 2009 competition from other operators, including cellular telephony operators, intensified. At year-end, we had 15.882 million lines, more than one-third of which are low-income lines. We operate in more than 23,000 locations nationwide that cover close to 91% of the population. At the end of March 2010, TELMEX had 79.5% of fixed lines in the market, below the average of 85.3% for 35 countries worldwide included in the 2009 Bank of America/Merrill Lynch Global Wireline Matrix.

The October 3, 2006, "Acuerdo de Convergencia" (Convergence Agreement), which was issued by the Federal Government through the Secretaría de Comunicaciones y Transportes (Communications and Transportation Ministry), established the basis and requirements for the convergence of telecommunications networks. TELMEX has met the established conditions of this agreement in a timely manner to provide interconnection, network interoperability and number portability. Nevertheless, to date, the authorities have not issued the corresponding resolutions. Unfortunately, this situation has prevented

*Our Infinitum ADSL services in 2009 reached a total of **6.524 million customers.***

the benefits of technological convergence from reaching all Mexicans through better prices and packaged services and an increase in investments in the country. It should be noted that technological convergence has been implemented in nearly all countries worldwide.

One of our commitments is to increase broadband penetration services to drive the digital culture in the country. Supported by our commercial initiatives and the enhancement of our technological platform, our Infinitum ADSL services in 2009 reached a total of 6.524 million customers, making Mexico one of the countries with the fastest growth rates in the world. The country's average annual growth rate for the last four years has exceeded 70%, considerably above the average of almost 20% among the member countries of the OECD.

This effort has allowed us to increase the value of our services, one example of which is the increase in speed that we offer to our customers. Compared with December 2003, the speed of Internet services has multiplied 100 times from 56 Kbps to more than 5 Megabytes at year-end 2009, the number of customers

has increased more than 36 times and the price per Kbps in packages has decreased 98%. This has been achieved thanks to continuing investments in technology, which have allowed us to improve the quality of our services and improve operating efficiencies.

Additionally, as part of the enrichment of our value proposition for our Infinitum customers, we have made available free wireless Internet access in multiple public access sites in more than 90 cities in the country through WiFi Móvil in Infinitum, as well as Internet access in more than 140,000 public sites worldwide.

In order to increase the value of our commercial offering and expand the benefits for more customers, in 2009 we enhanced our existing packages with features such as international long distance minutes and access to preferential rates for other services. We also introduced new telecommunications service packages that offer valuable discounts for Internet access through broadband and for various voice services. These changes continue to benefit our customers in 2010 since TELMEX decided to decrease the prices of packages

to offset the adverse impact of new taxes that took effect at the start of this year (special telecommunications tax of 3% and the 1% increase in VAT).

In our country the main limitation for broadband growth in homes is the lack of computers. Only 26.8% of Mexican homes have computers, which is below the average of 68.6% among OECD member countries. Moreover, more than 90% of homes with computers already have access to broadband Internet. During 2009 we enhanced our telecommunications service packages by giving our customers the option of acquiring a laptop with payments starting at 100 pesos (VAT included) per month, with installments up to 48 months, and a down payment starting at 949 pesos, depending on the customer's computer choice. The installment program has expanded significantly in the last 10 years. During that period, our company has driven the sale of more than 2.5 million computers, making TELMEX one of the main personal computer retailers in Mexico. The computer sales program also has driven the increase of computer penetration in Mexican homes.

At TELMEX we constantly reiterate our firm commitment to offer

*During 2009, we carried out investments equivalent to 661 million dollars, of which 67.4% was used for projects in the data and connectivity platforms and transmission network. These investments enable us to continue having one of the most **modern and reliable networks in the world.***

our customers products and services at attractive prices and with world-class quality. Proof of this is that we have transferred to our customers the economies derived from operating and technological improvements that have been implemented throughout the years, a fact that is apparent in the February 2010 report of Teligen, the OECD's price consultant. Based on this report, TELMEX's prices are ranked 4th, 4th and 10th in residential low, medium and high consumption, respectively, among countries with the lowest prices. This is the result of TELMEX's commercial policy of reducing prices for close to 20 years in real terms, which in turn has provided our customers with economic benefits derived from the improvements that we have implemented. Additionally, the Massachusetts Institute of Technology (MIT) published a study on February 9, 2010, which confirms that Mexico has some of the lowest telephony rates in the world.

During 2009, we made necessary adjustments to lessen the impact of the nation's challenging economic situation by focusing on growth of broadband services to partially offset the decline in revenues from traditional services. Additionally, we continued implementing initiatives that allowed us to obtain operating

efficiencies and optimize resource use in order to maintain a solid financial position and remain prepared to take advantage of the opportunities that the market presents.

In 2009, revenues totaled 119.100 billion pesos, a decrease of 4.0% compared with 2008, resulting from the increase of 21.4% in revenues from the data business and the decrease of local, long distance and interconnection services of 8.1%, 15.2% and 13.4%, respectively. EBITDA totaled 52.315 billion pesos, 9.3% lower than in 2008, and operating income was 34.364 billion pesos. Net income totaled 20.469 billion pesos, resulting in earnings per share of 1.11 pesos and earnings per ADR of 1.64 dollars.

At year-end 2009, total debt was the equivalent of 7.878 billion dollars, of which 80.8% is long-term and 67.7%, or 5.336 billion dollars, is in foreign currency. With the objective of minimizing the risks from variations in the exchange rate, we had dollar-peso hedges for 4.423 billion dollars. The company's net debt was the equivalent of 6.777 billion dollars.

During 2009, we carried out investments equivalent to 661 million dollars, of which 67.4%

was used for projects in the data and connectivity platforms and transmission network. These investments enable us to continue having one of the most modern and reliable networks in the world. The remaining capital expenditures were used for other operational support projects. Additionally, 4.096 billion pesos were used to repurchase 363 million of the company's own shares. On December 1, 2009, the Ordinary Shareholders' Meeting approved the payment of a special cash dividend of 0.40 Mexican pesos per outstanding share in a single payment, an addition to the declared dividend for the 2009-2010 period of 0.46 Mexican pesos per share in four installments of 0.1150 Mexican pesos each.

TELMEX is the main promoter of education, digital culture and information technologies in our country. The company proposed to make 2010 the year of driving technological innovation and a program was implemented with the following objectives and activities:

- Increase connectivity in the country. TELMEX will increase Infinitum's access speed while maintaining the quality, continuity and speed consistency that characterize this service. We also will double

*We will train **1,000 professionals** capable of developing technology solutions geared to the needs of the productive sectors in the first year of operation of the Technological Institute of Telefonos de Mexico IT (INTELMEX IT).*

the number of sites with WiFi Móvil in Infinitum to reach 3,000 nationwide this year, including airports, restaurants, hospitals, public parks, educational institutions and shopping malls, among others.

- Enhance information technologies. Inttelmex IT, the specialized Information Technologies Institute, has begun operations. For 2010 it has the objective of training more than 1,000 professionals in IT applications to innovate and produce solutions that help competitiveness for companies and domestic institutions. This higher education institution is supported by the Secretaría de Educación Pública (Ministry of Education) and endorsed by the Massachusetts Institute of Technology (MIT).
- Support Education and Digital Culture through the operation of 3,300 Bibliotecas Digitales TELMEX (TELMEX Digital Libraries) and 1,000 Aulas Digitales TELMEX (TELMEX Digital Classrooms) at year-end 2010.

TELMEX, aware of the needs of less privileged population segments in our country, has a firm social commitment with Mexicans through the Education and Digital Culture

Program that is carried out in conjunction with Fundación Carlos Slim. With this program, we are helping close the gap that exists in our country regarding education technologies, since the program's main objective is to link low-income children, teachers and parents with state-of-the-art educational practices and tools, supported by our broadband services. At December 31, 2009, this program has benefited 1,163,721 children, teenagers, parents and teachers in 2,342 educational institutions nationwide.

In addition, starting 14 years ago, Fundación TELMEX assumed a commitment with our country and with Mexicans to participate in solving structural problems that Mexico faces. During 2009, through permanent programs in Education, Health, Nutrition, Justice, Culture and Human Development, Fundación TELMEX granted 17,569 scholarships to outstanding students, sponsored 104,273 surgeries and 663 organ and tissue transplants and granted 8,478 bail bonds. To carry out these tasks, Fundación TELMEX has the support of outstanding volunteers, who at year-end 2009 totaled 3,796.

In 2009, Fundación TELMEX distributed approximately 85 tons of humanitarian help in

communities affected by floods and natural disasters, mainly in the states of Baja California Sur, Sonora, Veracruz and Estado de México. At the same time we expedited re-establishing telecommunications services in the affected areas. Additionally, we participated in providing international help for the citizens of Haiti and Chile, countries that were affected by severe earthquakes in 2010.

The goals that we reached during 2009 have been possible thanks to the dedication, commitment and experience of our employees, whose efforts, supported by a world-class technological platform and attractive products and services for our customers, have allowed us to remain the leading telecommunications company in the country. We began 2010 with our commitments to satisfying the telecommunications needs of our customers and continuing to increase the value of the company for our shareholders.

We would like to thank our customers for allowing us to serve them our products, our shareholders for their trust and all who work at TELMEX for their efforts. Thanks to them, we are today a Mexican company that proudly works for all Mexicans.

**Carlos Slim Domit**  
Chairman

**Jaime Chico Pardo**  
Co-Chairman

**Héctor Slim Seade**  
Chief Executive Officer

# Chief Executive Officer's Report

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*As another way of promoting the education and digital culture, the **Digital Libraries** program was installed in our **TELMEX** stores.*

## INTRODUCTION

During 2009, the world economy faced a general decline as a consequence of the financial crisis that began in the United States of America. In the case of Mexico, non-oil exports declined 17.4% compared with the prior year, direct foreign investment decreased 50.7%, remittances fell 15.7% and GDP growth slipped to 6.6%.

In order to face this adverse economic situation and to continue strengthening service levels to meet customer expectations, TELMEX has taken a number of steps to fortify our position. We have given priority to investments that generate revenues, enhanced productivity by simplifying and standardizing ongoing operations, brought greater discipline to expenses, practiced austerity in cost control and incentivized better use of the company's resources. Even as we took these steps, we carefully evaluated and rationalized investments, and assured that the telecommunications platform operates with state-of-the-art technology in order to advance and to cover customers' needs.

## TELMEX 2010 Program – Driving Technological Innovation

Through the TELMEX 2010 program, "Driving Technological

Innovation," the company has implemented important actions for this year and coming years with the purpose of accelerating connectivity in our country, as well as promoting the education and digital culture and developing information technologies.

## Connectivity

- Increase the number of broadband Internet accesses. TELMEX will actively contribute to help the country reach 12 million broadband accesses in the next three years, including all technologies and all providers, with the result that more than half of the population will be able to access the Internet.
- Increase Infinitum's access speed while maintaining the quality, continuity and speed consistency that characterize this service.



*TELMEX Homes and Digital Classrooms have benefited **1,163,721** children, teenagers, parents and teachers **in the country.***

- Double the number of sites with WiFi Móvil in Infinitum to reach 3,000 nationwide this year, including airports, restaurants, hospitals, public parks, educational centers and shopping malls, among others.

#### **Education and Digital Culture**

- Support the Education and Digital Culture through the operation of 3,300 Bibliotecas Digitales TELMEX (TELMEX Digital Libraries), where our customers can check out and borrow computer equipment at no cost.
- Set up 1,000 Aulas Digitales, or Digital Classrooms. These locations come fully equipped with computers and broadband connectivity. They also provide training in Information Technology.

#### **Enhance Information Technologies**

Inttelmex IT, the specialized Information Technologies Institute, has begun operations with the objective of training 1,000 IT professionals. Programs include an IT Master of Business Administration, among others. This higher education institute is supported by Mexico's Education Ministry and endorsed by MIT (Massachusetts Institute of Technology)

#### **Casas and Aulas Digitales TELMEX (TELMEX Homes and Digital Classrooms)**

Casas TELMEX represent a unique concept in integrated educational development. They are located in urban zones with limited economic resources and offer their services free for children, teenagers, teachers and parents. Their 219 workshops emphasize education fundamentals such as mathematics, numeric language and computer skills, universal values and art appreciation. At December 2009, we had 192 sites dedicated to this purpose and we had delivered 104,683 computers in 2,342 educational centers, including schools and TELMEX Homes and Digital Classrooms, benefiting 1,163,721 children, teenagers, parents and teachers in the country.

#### **Bibliotecas Digitales (Digital Libraries)**

This program distributes computers to schools for use at home by children, teachers and parents, in the same fashion that books are loaned in traditional libraries.

As another way of promoting the education and digital culture, the Digital Libraries program was installed in our TELMEX stores, where a customer in need of a computer can borrow one with WiFi Móvil in Infinitum service and easily access the Internet in a number of public places. At the end of 2010,



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we are planning to have 3,300 Bibliotecas Digitales in elementary schools and TELMEX stores.

As part of TELMEX's efforts to promote greater Digital Culture penetration in Mexico, we continue to offer service packages that are designed to satisfy a broad spectrum of customers' telecommunications needs.

In order to maintain the growth and quality of our broadband Internet access, we have focused our investments on increasing the capacity of the transport and access networks. In this manner, we continue to provide efficient and competitively priced broadband Internet access to more Mexicans.

#### RESIDENTIAL MARKET

Broadband has become the essential element in most telecommunications services around the world and is considered

to be the main instrument for delivering Information Technology and Communications (IT) benefits to customers.

As a result of this highly marketable activity and the quality of our service, in 2009 we continued to achieve sustained growth in the number of broadband accesses, increasing from 5.0 million in December 2008 to 6.5 million at the end of 2009, a net gain of 1.5 million accesses or an increase of 30.2% year over year.

In the last four years, Infnitum has made Mexico one of the countries with the highest broadband growth rates, achieving an annual average increase of more than 70%, considerably higher than the average of almost 20% among member countries of the OECD.

In the residential market, in order to fulfill our customers' needs, we offer telecommunications service packages: Todo México sin Límites Package (for 843.50 pesos without taxes and 999 pesos per month, taxes included), which includes local calls and unlimited domestic long distance minutes, as well as unlimited minutes for calls to the United States of America; Paquete Acerques Package (for 505.76 pesos without taxes and 599 pesos per month, taxes included), that now includes 100 free minutes to the United States of America,

*In the last four years, Infnitum has made Mexico one of the countries with the **highest broadband growth rates**, achieving an annual average increase of **more than 70%**.*

We offer **financing for laptops**, an arrangement that involves a down payment of 949 pesos and payments starting at 100 pesos per month, in installments up to 48 months.



and Paquete Conectes Package (for 328.44 pesos without taxes and 389 pesos per month, taxes included). Our packages have the minimum Internet access speed of 1 Mbps, with options that reach up to 5 Mbps.

Additionally, all our Infinitem customers have, with no additional charge in Mexico, access to WiFi Móvil in Infinitem (wireless Internet access) in public hot spots, as well as in 140,000 hot spots worldwide.

The main limitation for higher broadband growth in the country is the lack of computers in Mexican homes. In order to carry out these strategies and make it easier for our customers to access the Digital Culture, we offer financing for laptops. The arrangement involves

a down payment of 949 pesos and payments starting at 100 pesos per month, in installments up to 48 months. This is one reason that TELMEX remains one of the computer sales leaders in Mexico with 2.5 million computers sold since 1999. The computer sales program has helped narrow the digital divide in our country.

In addition, computer sales have been made one of the services provided by our 385 TELMEX Stores, or Tiendas TELMEX, which represent the main point of contact and sales for our customers. At our stores, customers also can get our telecommunications service packages and several products and accessories representing the most advanced technology.

### SMALL AND MEDIUM-SIZED ENTERPRISES (SME) MARKET

During 2009 the telecommunications services package offering (voice services and broadband Internet access) was enhanced for Small and Medium-Sized Enterprises (SME). Today, TELMEX offers packages that fit various business consumption profiles.

As in the residential market, Infinitem package prices remained unchanged for SME customers, in spite of the adverse impact of new taxes that began in 2010 (special telecommunications

*Among small and medium-sized enterprises, Internet Directo Empresarial has been very well accepted, growing 27% compared with 2008.*



tax of 3% and the 1% increase in VAT). This decision supports small and medium-sized enterprises in Mexico as they face a difficult economic situation, demonstrating that TELMEX is their telecommunications partner, not just a service provider.

Among small and medium-sized enterprises, Internet Directo Empresarial has been very well accepted, growing 27% compared with 2008.

In the last quarter of 2009, two new solutions were launched in the market:

My Business Package (Paquete Mi Negocio), for micro and small businesses, offers our Infinitum access service, Internet Web page, local calls, domestic long distance minutes, preferential prices for international long distance, all digital services, the monthly business rent and technical support 24 hours a day, 365 days a year, for only 18 pesos per day.

The second solution, for small businesses with public points of sale, is TELMEX MAS (Secure Management Module or Módulo de Administración Segura) service. It is an integrated solution for equipment at the point of sale (computer, software, and peripherals), service (home delivery, installation and training)

and support (warranty and assistance) for less than 24 pesos per day.

In the second quarter of 2009, Mi Negocio en Línea service was launched. This service includes creating, designing and publishing an Internet Web page quickly and simply, for a monthly price of 99 pesos.

#### **CORPORATE MARKET**

During 2009, we promoted the growth of Virtual Private Networks (VPN) and integrated more value-added services in our portfolio of products and services for corporate customers, increasing our participation in the Information Technology and Communications (IT) market. We enhanced our IT market presence through skilled sales efforts that offer solutions for entrepreneurs and professional consulting in security products and services, Contact Centers, business continuity applications and virtual services, among others. Using strategic alliances with leading companies in the sector, we have assembled one of the best portfolios of solutions and the most competitive offering in the market with a wide range of integrated services and the best coverage.

Some of the new solutions are hosted at our Triara Data Centers, which have earned the highest level



*TELMEX continues to offer **the most advanced and comprehensive range of telecommunications services**, including voice, data, Internet access and **integrated solutions** for all market segments.*

of certification from International Computer Room Expert Associates (ICREA). This certification allows us to guarantee international support and quality levels, with the best technology, capacity, security and infrastructure.

We have developed surveillance systems through centralized applications that offer monitoring, management and control at remote sites.

During 2009, we began to offer integrated services at Contact Centers under a model that allows our customers to sign up for certain services as they need them.

Our management network service allows our customers to remain focused on the main activity of their business while putting their network operation in our hands. Without making big investments in infrastructure and operations, they still have the benefit of the best technology and qualified personnel supporting their business.

#### **STATE-OF-THE-ART TECHNOLOGY IN THE TELECOMMUNICATIONS NETWORK**

TELMEX continues to offer the most advanced and comprehensive range of telecommunications services, including voice, data, Internet access and integrated

solutions for all market segments, from public, rural, and residential telephony services to small and medium-sized businesses to domestic and international corporations.

For new services and applications, we have a central IMS Model (IP Multimedia Subsystem) control platform which allows us to offer multimedia and convergence services to our customers with applications that we have developed or through integrated solutions that consolidate capabilities from industry leaders.

To support new services as well as handle the exponential increase in volume of data traffic generated by customers' emerging usage patterns, TELMEX has begun to deploy transport network technology called Carrier Ethernet. It enables us to build an All IP network that allows us to drive bigger volumes of data traffic, voice and eventually video, maintaining high levels of quality and compatibility.

We offer IP/MPLS services through the Multiprotocol Label Switching convergence platform with high capacity and performance. This platform complements our transport network and allows us to deliver public and private IP services with the highest levels of quality and compatibility, nationwide and internationally.

*In keeping with our commitment to developing telecommunications in Mexico, TELMEX provides telecommunications services to **more than 23,000 communities**, which means that we reach close to **91%** of the population.*

### **Social Telephony**

In keeping with our commitment to developing telecommunications in Mexico, TELMEX provides telecommunications services to more than 23,000 communities, which means that we reach close to 91% of the population. Additionally, in rural communities we enable more than 21 million Mexicans to have voice and data services through telephone agencies, Digital Centers with TELMEX Technology, residential service and public telephony.

Also, TELMEX won the Social Coverage Funds I and II projects, opening the way to provide telecommunications services to 8,582 communities and benefiting more than 6.9 million low-income Mexicans. These services are being developed with CDMA (Code Division Multiple Access) technology in the 450 MHz frequency that has been allocated for these projects. The installations are in process to be completed in some of these communities when the relevant authorities free up the frequencies.

### **Public Telephony**

Basic telecommunications services are available across Mexico as a result of TELMEX's public telephony platform. With our

coverage and distribution network for prepaid cards, the TELMEX offering covers most of Mexico.

TELMEX has 790,138 public telephones in operation, of which 283,261 are telephones that use prepaid cards with Ladatel Chips while 357,440 are shared telephones that use Multifon prepaid cards.

Throughout our history, TELMEX's public telephony has become one of the main elements supporting recovery from natural disasters. In 2009, TELMEX provided timely and free telephone service access through our public telephone mobile units in cases like major storms and related flooding that affected thousands of homes in Mexico.

### **Rural Digital Centers with TELMEX Technology**

TELMEX has always been recognized by constant innovation, continually looking for the best communication service offerings for Mexicans. An example of these innovations is the technological update program that incorporates Internet access in rural communities, transforming TELMEX rural agencies into Rural Digital Centers. These Rural Digital Centers allow remote areas that have lagged in achieving Internet access to connect to the worldwide data network. That ability reduces the digital gap between rural and

*By the end of 2009, we had installed **530 Rural Digital Centers** benefiting more than **500,000** inhabitants.*



urban areas. By the end of 2009, we had installed 530 Rural Digital Centers benefiting more than 500,000 inhabitants.

In order to facilitate access to technology, the company provides financing support for customers to acquire computers, printers and other equipment through the Rural Digital Centers with TELMEX Technology.

#### **Socially Responsible Company**

TELMEX has been recognized as a Socially Responsible Company for the 9th consecutive year and also has been designated one of the 50 companies with the highest Sustainable Social Responsibility in the country. This distinction recognizes our respect for people, ethical business practices, the community and the environment.

#### **Fundación TELMEX**

Ever since its creation 14 years ago, Fundación TELMEX has maintained its commitment to important issues which affect



Mexicans, including: education, health and nutrition, justice, natural disaster support, culture and human development. These are among the issues most closely associated with the deepest social differences in the country. The achievements of Fundación TELMEX to date include 209,043 scholarships granted to college students; 234,712 bicycles given to children who walk more than two hours to get to school; 499,552 orthopedic, general, ophthalmologic and reconstructive surgeries; 6,052 organ and tissue transplants, and 78,518 bail bonds, among other support provided by the Fundación.

During this time, we have assembled solid experience which allows us to operate the programs more efficiently and successfully and apply their benefits to those groups of the population on which we are focused.

These achievements have been reached thanks to 3,750 TELMEX volunteers, who include active and pension personnel and their

*Fundación TELMEX supports eye surgeries to help improve the quality of life for children, senior citizens and other adults. Additionally, it has joined with the Fundación Nacional de Trasplantes (National Transplant Foundation) to provide cornea transplants.*



relatives, all of whom are involved in helping segments of the population with limited resources.

Our Fundación has changed life stories as a result of helping deserving sectors of the population resolve basic problems by reducing gaps in standards of living. To be committed to the main social activities that develop our country is not a job but an honor. Doing these things in a strong and determined manner is the essence of how we deliver value. And looking for new ways to give help is what shapes the personality of Fundación TELMEX.

**Fundación TELMEX**  
**Results from 1996 to 2009**

	2009	1996 / 2009
<b>Education</b>		
Scholarships	17,569	209,043
Computer equipment <sup>1</sup>	104,683	142,266
Bicycles (Help Me Get There Program) <sup>2</sup>	29,787	234,712
<b>Health and nutrition</b>		
Orthopedic, general, ophthalmologic and reconstructive surgeries	104,273	499,552
Organ and tissue transplants	663	6,052
Packages of 1kg. of nutritional candy	1,292,000	9,791,000
Wheelchairs	245	35,125
Best Buddies (number of buddy pairs)	1,140	3,753
<b>Justice</b>		
Bail bonds	8,478	78,518
<b>Natural disasters support</b>		
Tons of humanitarian support	85.16	28,105.83
Water purifying generators (Contingencies supported)	8	51
Drinking water (liters)	144,192	935,878
<b>Public and private institutions support</b>		
Public and private institutions supported	77	1,568
<b>Copa TELMEX</b>		
Soccer Teams (Copa TELMEX)	11,280	114,620



(1) Includes Beca Digital program (2007-2008) and Education and Digital Culture program (2008-2009).  
(2) In collaboration with local and state governments and other institutions.

We have been able to build a **world-class infrastructure**, which has allowed us to provide new telecommunications services to more Mexicans. We have reinvented ourselves by satisfying our customers' needs and successfully facing changes in market conditions, **benefiting our customers and the development of the country.**

## CORPORATE GOVERNANCE PRACTICES

The ethical principles and values that guide TELMEX allow us to realize the potential of our capabilities and carry out our commitment to our customers, our shareholders and society. Our corporate governance practices strengthen the management of the company through:

- More clarity in strategic and operating decisions,
- System-wide control of business processes,
- Clearly defined management and supervisory responsibilities and duties,
- Establishment of independent corporate oversight bodies, and
- Application of corporate best practices.

TELMEX's Board of Directors established Committees of Corporate Practices and Audit to help assure that management operates ethically and in compliance with the company's legal and regulatory frameworks.

Additionally, TELMEX always complies with the requirements of internal control established by entities such as the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV) in Mexico and the Securities and

Exchange Commission (SEC) in the United States. We comply with all of these regulations to improve our internal controls in order to assure the quality and integrity of the financial information presented on a regular basis by the company.

Pursuant to Section 303A.11 of the Listed Company Manual of the New York Stock Exchange (NYSE) and Rule 4350(a) (1) of the NASDAQ Stock Market, Inc. (NASDAQ) Marketplace Rules, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for US companies under the NYSE and NASDAQ listing standards. This description is available on our Web site at [www.telmex.com/explorer/esto/pdf/NYSEDisclosure.pdf](http://www.telmex.com/explorer/esto/pdf/NYSEDisclosure.pdf)

### Final Comments

During the last 20 years, we have been able to build a world-class infrastructure, which has allowed us to provide new telecommunications services to more Mexicans. We have reinvented ourselves by satisfying our customers' needs and successfully facing changes in market conditions, benefiting our customers and the development of the country. Additionally, the technological and operating improvements that we have implemented throughout the years have translated into economic

benefits for our customers, making Mexico one of the countries with the lowest prices in telecommunications services.

As one of the main telecommunications service providers that operate in all of the Mexican Republic, TELMEX has played a key role in advancing the Technology Information Culture in our country. This initiative has contributed to economic and educational developments.

These achievements have been possible through the dedication and experience of the management and employees. Today, as always, all who work at TELMEX are proud to belong to this Company and are committed to our customers, our shareholders and the progress of our country.

**Héctor Slim Seade**  
Chief Executive Officer

# Comments on the **Consolidated Financial Statements**

The following comments should be read along with the consolidated financial statements and their notes included in this Annual Report. Our financial statements have been prepared in conformity with Mexican Financial Reporting Standards. In 2008 those standards no longer required recognition of changes in inflation rates. As a result, 2009 and 2008 financial information is presented in nominal pesos (See Note 1 II.b of the consolidated financial statements).

## Summary

Our total revenues have fallen in recent years due to lower average revenue per local service, interconnection and long distance, partially offset by higher revenues from data services. The proportion of our revenues from voice services (which include local, long distance and interconnection services) declined from 74.7% of total revenues in 2008 to 69.2% in 2009. Revenues from data services were 25.9% of our total revenues in 2009 compared with 20.4% in 2008.

Based on weighted average shares outstanding in each year, majority net income from continuing operations for 2009 was 1.11 pesos per share (1.07 in 2008) and was equivalent to 1.64 dollars per ADR (1.99 in 2008).

## Operating revenues

Local service revenues decreased 8.1% in 2009 to 45.028 billion pesos compared with 48.982 billion pesos in 2008. These results were mainly due to the decrease in billed lines, lower revenues per billed local call and lower local traffic volume as a result of more competition from cellular companies and other telephony providers.

Domestic long distance revenues were 14.143 billion pesos, 10.2% lower in 2009 compared with 2008. This reduction primarily reflected a decrease in the average revenue per minute in spite of growth in domestic long distance traffic. Its increase reflects the availability of packages with telecommunications services that include domestic long distance minutes, promoting volume traffic but decreasing revenue per minute.

International long distance revenues decreased 24.2% in 2009 from a year ago, totaling 6.662 billion pesos. The decrease was mainly caused by a 31.8% decline in billed outgoing traffic. Lower traffic levels reflected Mexico's economic downturn, due in part to adverse economic conditions in the United States of America, our main commercial partner. Another major factor was a

reduction of traffic from mobile operators. Incoming international long distance revenues were 22.8% lower compared with 2008 due to a decrease of 8.6% in incoming traffic and lower average revenue per minute.

Interconnection revenues decreased 13.4% to 16.573 billion pesos in 2009. The decrease was primarily attributable to lower tariffs and to a decrease in traffic from local calling party pays due to higher market penetration by cellular telephony.

In 2009, data service revenues totaled 30.817 billion pesos, an increase of 21.4% compared with the prior year. The increase was the result of a 30.2% gain in broadband Internet access, which reflected the growth of Internet access accounts to 6.5 million at year-end 2009. This increase was partially offset by lower average revenue per Internet access account, higher sales of Virtual Private Networks (VPN) and value-added services for corporate networks customers.

The main elements of the category of other revenues are sales of computers, telecommunications equipment and accessories in TELMEX Stores (Tiendas TELMEX) and billing and collection services

for third parties. Other revenues amounted to 5.877 billion pesos, a year-over-year decrease of 3%. A higher level of computer sales in TELMEX Stores was not enough to offset lower revenues from billing and collection services.

### **Operating costs and expenses**

Cost of sales and services increased 5% in 2009, reaching a total of 34.159 billion pesos, as a result of higher costs related to labor, computer and telecommunication equipment, and corporate customer services.

Commercial, administrative and general expenses totaled 20.830 billion pesos in 2009, 4.9% higher than in 2008, because of an increase in uncollectables, higher labor costs and more sales activities related to broadband services, partially offset by cost control initiatives.

Interconnection costs primarily reflect payments to cellular operators under the calling party pays arrangement. Interconnection costs were 11.796 billion pesos, a decrease of 16% from 2008's total, as a result of lower amounts paid to cellular companies due to the calling party pays service and lower related traffic volume.

Depreciation and amortization charges were 17.951 billion pesos in 2009, similar to the year-earlier amount.

In 2009, operating income was 34.364 billion pesos, decreasing 13.5% compared with the previous year. The operating margin was 28.9%, 3.1 percentage points below 2008 mainly because of lower voice service contributions to total revenues and a higher proportion of data revenues.

The financing cost was 4.314 billion pesos, 53.3% lower than in 2008. This charge was the result of: (i) a net interest charge of 5.411 billion pesos, a decrease of 19.7% compared with the prior year due to a lower average debt balance, (ii) a net exchange gain of 1.097 billion pesos from the exchange rate appreciation of 0.4796 pesos per dollar and 4.423 billion dollars in dollar-peso hedges.

Net income from continuing operations reached a total of 20.469 billion pesos, increasing 1.4% in 2009 compared with 2008, due to lower financing cost charges and income taxes, partially offset by the reduction in voice service revenues. Based on the weighted average number of shares outstanding each year, net

income from continuing operations was 1.11 pesos per share in 2009 compared with 1.07 pesos per share in 2008.

At December 31, 2009, our total debt was 102.874 billion pesos (approximately 7.878 billion dollars) compared with 107.055 billion pesos (approximately 7.908 billion dollars) at December 31, 2008. Of total consolidated debt, 64.8% was in US dollars, 32.3% in Mexican pesos and the remainder in other currencies. Of the outstanding debt, 59.1% carried floating interest rates. That proportion decreases to 50.4% when interest rate swaps are taken into consideration.

In 2009, we issued new debt in US dollars and in Mexican pesos and amortized an amount of 22.052 billion pesos (approximately 1.689 billion dollars). In 2010, 19.769 billion pesos (1.514 billion dollars) of outstanding debt matures and we plan to refinance a portion of that amount with new debt. On January 27, 2010, we amortized the first tranche of domestic senior notes issued in 2005 for 12.294 billion pesos (950 million dollars).

At December 31, 2009, our cross currency swaps covered foreign liabilities for 54.558 billion

pesos (4.178 billion dollars) and forwards for 3.199 billion pesos (245 million dollars) related to dollar-denominated liabilities. Total liabilities denominated in dollars were 66.643 billion pesos (approximately 5.103 billion dollars). At year-end approximately 65.7% of our debt denominated in pesos (21.800 billion pesos) had a floating interest rate. We held interest rate swaps of 23.752 billion pesos which cover risks on floating interest rates in pesos, and cross currency coupon swaps which cover interest payments of 653 million of pesos (50 million dollars).

### **Investments**

Our investments in plant, property and equipment and inventories to operate the telephone plant were 8.998 billion pesos in 2009 and 10.081 billion pesos in 2008. Among 2009 investments, 67.4% was applied to projects in data, connectivity and transport infrastructure, and the remainder to other projects.

### **Dividends paid in cash**

Cash dividends paid were 15.093 billion pesos in 2009 and 7.609 billion pesos in 2008. The dividend paid per share was 0.845 nominal pesos in 2009 and 0.413 nominal pesos in 2008.

### **Resources used to repurchase own shares**

Durante 2009, adquirimos 361.2 millones de acciones de la Serie "L" por 4,074 millones de pesos y Durante 2009, we repurchased 361.2 million Series "L" shares for 4.074 billion pesos and 1.9 million Series "A" shares for 21.7 million pesos. At December 31, 2009, outstanding shares totaled 18.192 billion, comprised of 8.115 billion Series "AA" shares, 395 million Series "A" shares and 9.682 billion Series "L" shares.

# Audit Committee Report

Mexico City, March 24, 2010

**To the Board of Directors of Teléfonos de México, S.A.B. de C.V. (TELMEX)**

The Company's management has the basic responsibility of issuing financial statements based on Mexican Financial Reporting Standards, preparing financial information in a timely manner, and implementing internal control systems. The Audit Committee has reviewed the consolidated audited financial statements of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2009. This review included the analysis and approval of policies, procedures and accounting practices of the Company and its subsidiaries. The accounting policies for the preparation of the Company's financial information proposed and recommended by this Committee to the Board of Directors, have been approved by the Board of Directors.

As a result of the review of the above-mentioned financial statements, which include financial information on the companies controlled by TELMEX, and based on the activities carried out in connection therewith by this Committee and the work performed by the External Auditors and TELMEX's Internal Auditing Area, we conclude that such financial statements reasonably reflect in all material aspects the consolidated financial position of TELMEX and its subsidiaries at December 31, 2009, the results of their operations, changes in stockholders' equity and changes in consolidated cash flow financial position for the year ending as of such date, based on Mexican Financial Reporting Standards.

The Committee evaluated the performance of the External Auditors, who are responsible for expressing an opinion about the reasonableness of the financial statements of the Company and the conformity of such financial statements to Mexican Financial Reporting Standards. The Committee determined that the External Auditing firm retained to review the financial statements of the Company, as well as the External Auditor responsible for such review, meet the necessary professional standards and have the intellectual and economic independence required to perform the tasks entrusted to them.

The Committee has ensured that interim financial information, presented quarterly to the Mexican Stock Exchange and the National Banking and Securities Commission, has been prepared in accordance with the same procedures, criteria and accounting practices used in the preparation of the annual financial information.

Based on the aforesaid reviews and comments, the Committee recommends that the Board of Directors approve the audited consolidated financial statements of TELMEX and subsidiaries as of December 31, 2009, so that they may be included in the Chief Executive Officer's Annual Report on the 2009 fiscal year, which is to be submitted, in due course, for approval at the Shareholders' Meeting.

Additionally, TELMEX has an Internal Auditing Area. The internal control and internal auditing system of the Company and the companies it controls has been reviewed and evaluated by the Audit Committee and, in the Committee's opinion, is sufficient to allow the Company to operate in an effective control environment. The Internal and External Auditors have evaluated, as part of their work program, the effectiveness of the internal control system, as well as the process for issuing financial information for the purpose of auditing the financial statements, and have discussed the results of such evaluation. The External Auditors have provided additional tax services, which were also adequate and satisfactory. The External Auditor's report on the effectiveness of internal controls at December 31, 2009, will be issued in conjunction with the 20-F "Annual Report" to be filed with the Securities and Exchange Commission, without any significant deficiencies or deviations having been reported in the meetings held by this Committee with the External Auditor. The aforesaid system covers the general guidelines approved by the Board of Directors, upon the recommendation by this Committee.

Neither this Committee nor the management of the Company has had any knowledge of non-compliance with the operational and accounting records guidelines

and policies of the Company or of any companies it controls, nor, to its knowledge, have any remarks by shareholders, board members, relevant executives, employees and in general any other third parties, been brought to its attention, regarding accounting, internal controls and other matters relating to the internal or external audit, nor is it aware of any claims made with respect to any actions deemed irregular in the management thereof.

The members of this Committee have been following the resolutions adopted at the Meetings of the Shareholders and the Board of Directors mainly through the reports submitted to, and matters discussed in, the Meetings of the Board of Directors and the Audit Committee itself.

The Committee verified that there are controls in the Company that allow a determination of whether the Company complies with applicable legal and administrative dispositions and reviewed the respective reports regarding litigation and proceedings that in each case could represent a contingency. As a result, the Committee did not detect any significant risk that could result from the current legal situation of the Company and that could have an effect on the Company's financial statements.

Additionally, TELMEX's Audit Committee also submits for consideration by the Board of Directors, for subsequent presentation at the Shareholders' Meeting, the opinion referred to in Article 28, Section IV, paragraph (c) of the Mexican Securities Market Law in connection with the audited consolidated financial statements of TELMEX and its subsidiaries as of December 31, 2009, and the Notes thereto, issued by the External Auditors of the Company, which form an integral part of the report of TELMEX's Chief Executive Officer prescribed by article 44, section XI of the aforesaid Law.

On the other hand, the principal issues that have been discussed by the Audit Committee in regard to its Finance and Planning functions are the following:

- We reviewed the results of the investment programs and liabilities of the Company at year-end 2009. The investments and financing complied with the policies established by the Board and the evaluation regarding its reasonableness was satisfactory.
- We analyzed and evaluated the projected investment and liabilities plan for 2010. Both the projected investments and liabilities fall within the

framework of the policies established by the Board, which policies are also consistent with the strategic plan of the Company. Therefore, the Committee determined that the principal investments and financings for 2010 planned by management are viable and adequate, and that they are also consistent with the Company's strategic plan.

- We also reviewed the figures of the financial statements as of December 31, 2009, compared them with the figures for 2008 and with the 2009 budget, and analyzed the assumptions and financial projections included in the Company's budget for 2010. The Committee determined that these projections are in line with the Company's strategic plan.
- In addition, before we carried out an evaluation, we verified that the strategic position of the Company is consistent with its strategic plan.

We believe that this information should be included in the Annual Report of the Board of Directors to the Shareholders' Meeting at which the 2009 results will be presented, in order to comply with the Securities Market Law and the Code of Best Corporate Practices.

**Rafael Kalach Mizrahi**  
Chairman

# Corporate Practices Committee Report

Mexico City, March 24, 2010

To the Board of Directors of Teléfonos de México, S.A.B. de C.V. (TELMEX)

The principal actions of the Corporate Practices Committee with respect to fiscal year 2009 are the following:

We supervised the application of the policies established by the Board of Directors for the determination of TELMEX's executives' compensation packages, which include fixed compensation comprised of a base salary, monthly payments and various annual payments, as well as in certain cases and accompanied by corresponding evaluations, annual compensation paid in cash as an incentive bonus. Additionally, we analyzed the operation of the Performance Evaluation System applicable to the Company's corporate executives, which we believe is operating in a manner consistent with the policies and guidelines approved by the Board of Directors.

The hiring terms of the Company's high-level executives were reviewed and they comply with the guidelines established by the Board of Directors. The Committee verified that no special payments exist in the event of their separation from the Company

Regarding the relevant executives' performance, this Committee has no comments or reservations.

Transactions with related parties of TELMEX and its subsidiaries during the period of January to December 2009 were approved and such transactions were audited by the firm Mancera, S.C., a member practice of Ernst & Young, TELMEX's external auditors. We reviewed and issued our favorable opinion regarding the following significant operations (which exceed 1% of the value of TELMEX's consolidated assets): Operations with Radiomóvil DIPSA, S.A. de C.V. for telecommunications services and Operations with Carso Infraestructura y Construcción, S.A.B. de C.V. and several subsidiaries for construction and maintenance of energy and air conditioning equipment. The Board of Directors subsequently approved these operations.

We did not receive any request regarding disputes within the meaning of Article 28, item III, Section F of the Mexican Securities Market Law.

In order to carry out our functions, including the preparation of this report, the opinions of relevant executives were heard and taken into consideration at all times, and there was no difference of opinion that needs to be noted.

**Juan Antonio Pérez Simón**  
Chairman

# Consolidated Financial Statements

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# Report of Independent Auditors



Mancera, S.C.

## To the Stockholders of Teléfonos de México, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in conformity with Mexican Financial Reporting Standards. 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 accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teléfonos de México, S.A.B. de C.V. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations, changes in their stockholders' equity and cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

As discussed in Note 1 to the consolidated financial statements, as of January 1, 2008, Teléfonos de México, S.A.B. de C.V. adopted Mexican Financial Reporting Standards B-10, *Effects of Inflation*; D-3, *Employee Benefits*; and B-2, *Statement of Cash Flows*.

Mancera, S.C.  
A Member Practice of  
Ernst & Young Global

A handwritten signature in dark ink, appearing to read 'David Sitt Cofradía', written over a light blue circular stamp.

C.P.C. David Sitt Cofradía

Mexico City, Mexico  
March 9, 2010

# Consolidated Balance Sheets

(In thousands of Mexican pesos, see Note 1 II.b)

	December 31	
	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	P. 14,379,768	P. 6,136,563
Accounts receivable, net (Note 2)	21,113,323	20,808,763
Derivative financial instruments (Note 6)	11,496,359	20,418,889
Inventories for sale, net	1,543,648	1,914,306
Prepaid expenses and others	3,303,275	2,839,702
<b>Total current assets</b>	<b>51,836,373</b>	<b>52,118,223</b>
Plant, property and equipment, net (Note 3)	104,304,749	112,865,377
Inventories for operation of the telephone plant, net	1,647,347	2,668,410
Licenses, net (Note 4)	918,341	1,025,027
Equity investments (Note 5)	1,775,380	1,494,133
Net projected asset (Note 9)	16,430,857	15,485,402
Deferred charges, net	1,442,330	1,468,775
<b>Total assets</b>	<b>P. 178,355,377</b>	<b>P. 187,125,347</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 6)	P. 19,768,894	P. 22,883,092
Accounts payable and accrued liabilities (Note 7)	14,204,188	15,918,106
Taxes payable	2,211,626	783,543
Deferred credits (Note 8)	1,104,175	1,780,115
<b>Total current liabilities</b>	<b>37,288,883</b>	<b>41,364,856</b>
Long-term debt (Note 6)	83,105,454	84,172,355
Labor obligations (Note 9)	4,113,513	4,997,540
Deferred taxes (Note 14)	15,060,058	16,808,391
Deferred credits (Note 8)	466,696	411,106
<b>Total liabilities</b>	<b>140,034,604</b>	<b>147,754,248</b>
Stockholders' equity (Note 13):		
Capital stock	9,020,300	9,138,632
Retained earnings:		
Prior years	7,907,079	7,197,720
Current year	20,468,689	20,176,936
	<b>28,375,768</b>	<b>27,374,656</b>
Accumulated other comprehensive income items	883,225	2,816,625
Controlling interest	38,279,293	39,329,913
Noncontrolling interest	41,480	41,186
<b>Total stockholders' equity</b>	<b>38,320,773</b>	<b>39,371,099</b>
<b>Total liabilities and stockholders' equity</b>	<b>P. 178,355,377</b>	<b>P. 187,125,347</b>

The accompanying notes are an integral part of these financial statements.

# Consolidated Statements of Income

(In thousands of Mexican pesos, except for earnings per share, see Note 1 II.b)

	For the years ended December 31	
	2009	2008
<b>Operating revenues:</b>		
Local service	P. 45,027,811	P. 48,982,383
Long distance service:		
Domestic	14,142,688	15,741,771
International	6,662,102	8,793,262
Interconnection service	16,572,941	19,139,692
Data	30,817,715	25,387,672
Other	5,876,955	6,060,455
	<b>119,100,212</b>	<b>124,105,235</b>
<b>Operating costs and expenses:</b>		
Cost of sales and services	34,158,977	32,522,668
Commercial, administrative and general expenses	20,830,245	19,863,006
Interconnection	11,796,163	14,043,385
Depreciation and amortization (Notes 3 and 4) (includes P.17,152,939 in 2009 and P.16,961,597 in 2008, not included in cost of sales and services)	17,950,768	17,933,207
	<b>84,736,153</b>	<b>84,362,266</b>
<b>Operating income</b>	<b>34,364,059</b>	<b>39,742,969</b>
Other expenses, net (Note 1 II.s)	1,349,680	679,592
Financing cost:		
Interest income	( 711,243)	( 913,462)
Interest expense	6,122,328	7,652,427
Exchange (gain) loss, net	( 1,096,531)	2,493,729
	<b>4,314,554</b>	<b>9,232,694</b>
Equity interest in net income (loss) of affiliates	254,680	( 62,113)
Income before taxes on profits	28,954,505	29,768,570
Provision for income tax (Note 14)	8,485,522	9,591,659
<b>Net income</b>	<b>P. 20,468,983</b>	<b>P. 20,176,911</b>
Distribution of net income:		
Controlling interest	P. 20,468,689	P. 20,176,936
Noncontrolling interest	294	( 25)
	<b>P. 20,468,983</b>	<b>P. 20,176,911</b>
Weighted average number of shares issued and outstanding (millions)	<b>18,383</b>	18,906
<b>Earnings per share</b>	<b>P. 1.11</b>	<b>P. 1.07</b>

The accompanying notes are an integral part of these financial statements.

## Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2009 and 2008

(In thousands of Mexican pesos, except for dividends per share, see Note 1 II.b)

	Capital stock	Retained Legal reserve
Balance at December 31, 2007	P. 9,402,561	P. 1,880,513
Effect of adopting Mexican FRS B-10, net of deferred taxes		
Cumulative effect adjustment for recognition of deferred employee profit sharing, net of deferred taxes		
Appropriation of earnings approved at regular stockholders' meeting held in April 2008:		
Cash dividend declared at P.0.413 per share		
Cash purchase of Company's own shares	( 263,929)	
Comprehensive income:		
Net income for the year		
Other comprehensive income items:		
Changes in fair value of swaps, net of deferred taxes		
Deferred taxes		
Effect of translation of foreign entities		
Comprehensive income		
Balance at December 31, 2008	9,138,632	1,880,513
Appropriation of earnings approved at regular stockholders' meetings held in April and December 2009:		
Cash dividends declared at P.0.445 and P.0.40 per share, respectively		
Cash purchase of Company's own shares	( 118,332)	
Excess of purchase price over book value of entities acquired from companies under common control		
Comprehensive income:		
Net income for the year		
Other comprehensive income items:		
Changes in fair value of swaps, net of deferred taxes		
Effect of translation of foreign entities, net of deferred taxes		
Comprehensive income		
Balance at December 31, 2009 (Note 13)	P. 9,020,300	P. 1,880,513

earnings		Accumulated other comprehensive income items	Controlling interest	Noncontrolling interest	Comprehensive income	Total stockholders' equity
Unappropriated	Total					
P. 109,659,551 ( 79,419,845) ( 4,136,583)	P. 111,540,064 ( 79,419,845) ( 4,136,583)	P. ( 78,822,851) 79,419,845 ( 53,552)	P. 42,119,774  ( 4,190,135)	P. 39,034		P. 42,158,808  ( 4,190,135)
( 7,774,143) ( 12,607,913)	( 7,774,143) ( 12,607,913)		( 7,774,143) ( 12,871,842)			( 7,774,143) ( 12,871,842)
20,176,936	20,176,936		20,176,936	( 25)	P. 20,176,911	20,176,911
( 403,860)	( 403,860)	2,126,088 147,095	2,126,088 ( 403,860) 147,095	2,177	2,126,088 ( 401,683) 147,095 <u>P. 22,048,411</u>	2,126,088 ( 401,683) 147,095
25,494,143	27,374,656	2,816,625	39,329,913	41,186		39,371,099
( 15,447,559) ( 3,976,988)	( 15,447,559) ( 3,976,988)		( 15,447,559) ( 4,095,320)			( 15,447,559) ( 4,095,320)
( 43,030)	( 43,030)		( 43,030)			( 43,030)
20,468,689	20,468,689		20,468,689	294	P. 20,468,983	20,468,983
		( 1,866,847) ( 66,553)	( 1,866,847) ( 66,553)		( 1,866,847) ( 66,553) <u>P. 18,535,583</u>	( 1,866,847) ( 66,553)
<b>P. 26,495,255</b>	<b>P. 28,375,768</b>	<b>P. 883,225</b>	<b>P. 38,279,293</b>	<b>P. 41,480</b>		<b>P. 38,320,773</b>

# Consolidated Statements of Cash Flows

(In thousands of Mexican pesos, see Note 1 II.b)

	For the years ended December 31,	
	2009	2008
<b>Operating activities</b>		
Income before taxes on profits	P. 28,954,505	P. 29,768,570
Add (deduct) items not requiring the use of cash:		
Depreciation	17,828,006	17,815,050
Amortization	120,854	101,702
Allowance for obsolete inventories for operation of the telephone plant	69,669	14,675
Equity interest in net (income) loss of affiliates	( 254,680)	62,113
Gain on valuation of marketable securities		( 36,948)
Net periodic cost of labor obligations	6,646,858	5,742,803
Accrued interest expense	6,122,328	7,652,427
Exchange (gain) loss, net	( 1,232,671)	3,322,871
Other		2,531
	<b>58,254,869</b>	<b>64,445,794</b>
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Marketable securities		760,420
Accounts receivable	( 304,561)	( 1,514,850)
Inventories for sale	370,658	276,804
Prepaid expenses and others	( 463,577)	( 103,370)
Deferred charges	26,445	( 130,599)
(Decrease) increase in:		
Labor obligations:		
Contributions to trust fund	( 5,751,947)	( 4,321,922)
Payments to employees	( 218,816)	( 197,297)
Accounts payable and accrued liabilities	( 2,924,775)	( 2,961,080)
Taxes on profits paid	( 10,649,903)	( 11,711,906)
Taxes payable	2,517,125	493,448
Deferred credits	( 620,350)	869,732
Net cash flows provided by operating activities	<b>40,235,168</b>	<b>45,905,174</b>
<b>Investing activities</b>		
Acquisition of plant, property and equipment	( 10,613,208)	( 11,771,793)
Inventories for operation of the telephone plant	951,394	( 935,503)
Acquisition of licenses	( 14,168)	( 135,271)
(Acquisition) sale of long-term equity investments	( 116,640)	76,207
Other	33,494	40,811
Net cash flows used in investing activities	<b>( 9,759,128)</b>	<b>( 12,725,549)</b>
Cash surplus to be applied to financing activities	<b>30,476,040</b>	<b>33,179,625</b>
<b>Financing activities</b>		
New loans	23,689,235	11,862,831
Repayment of loans	( 24,552,238)	( 15,781,356)
Cash purchase of Company's own shares	( 4,095,320)	( 12,871,842)
Dividends paid	( 15,093,082)	( 7,609,477)
Derivative financial instruments	2,019,050	( 2,291,873)
Interest paid	( 4,200,480)	( 5,049,097)
Net cash flows used in financing activities	<b>( 22,232,835)</b>	<b>( 31,740,814)</b>
Net increase in cash and cash equivalents	<b>8,243,205</b>	<b>1,438,811</b>
Cash and cash equivalents at beginning of year	<b>6,136,563</b>	<b>4,697,752</b>
Cash and cash equivalents at end of year	<b>P. 14,379,768</b>	<b>P. 6,136,563</b>

The accompanying notes are an integral part of these financial statements.

# Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008  
(In thousands of Mexican pesos, see Note 1 II.b)

## 1. Description of the Business and Significant Accounting Policies

### I. Description of the Business

Teléfonos de México, S.A.B. de C.V. and its subsidiaries (collectively “the Company” or “TELMEX”) provide telecommunications services, primarily in Mexico, including domestic and international long distance and local telephone services, data services, the interconnection of subscribers with cellular networks (calling party pays), as well as the interconnection of domestic long distance carriers’, cellular telephone companies’ and local service carriers’ networks with the TELMEX local network. TELMEX also obtains revenues from the sale of telephone equipment and personal computers.

The amended Mexican government concession under which TELMEX operates was signed on August 10, 1990. The concession runs through the year 2026, but it may be renewed for an additional period of fifteen years. Among other significant aspects, the concession stipulates the requirements to provide telephony services and establishes the basis for regulating rates.

The rates to be charged for basic telephone services are subject to a cap determined by the Federal Telecommunications Commission (COFETEL). During the last nine years, TELMEX management decided not to raise its rates for basic services.

TELMEX has concessions in Mexico to operate radio spectrum wave frequency bands to provide fixed wireless telephone services and to operate radio spectrum wave frequency bands for point-to-point and point-to-multipoint microwave communications.

The foreign subsidiary has licenses for use of point-to-point and point-to-multipoint links in the USA.

On January 13, 2010 América Móvil, S.A.B. de C.V. (América Móvil) announced that it will launch an exchange offer to the stockholders of Carso Global Telecom, S.A.B. de C.V. (Carso Global Telecom) (TELMEX’s controlling stockholder), pursuant to which the shares of Carso Global Telecom would be exchanged for shares issued by América Móvil. If Carso Global Telecom’s stockholders tender all their shares, América Móvil would acquire indirectly 59.4% of the outstanding shares of TELMEX and 60.7% of the outstanding shares of Telmex Internacional, S.A.B. de C.V. (Telmex Internacional). América Móvil also announced its intention to launch an offering for the exchange or purchase of all of the Telmex Internacional’s shares that are not already owned by Carso Global Telecom (39.3%).

On March 9, 2010, TELMEX’s Audit Committee and management authorized the issuance of the accompanying consolidated financial statements and these notes as of December 31, 2009 and 2008. These financial statements also must be approved by the Company’s Board of Directors and stockholders at their next meetings.

At December 31, 2009 and 2008, TELMEX’s equity interest in its principal subsidiaries and affiliated companies is as follows:

Company	Country	% equity interest at December 31	
		2009	2008
<b>Subsidiaries:</b>			
Integración de Servicios TMX, S.A. de C.V.	Mexico	100%	100%
Alquiladora de Casas, S.A. de C.V.	Mexico	100%	100%
Cía. de Teléfonos y Bienes Raíces, S.A. de C.V.	Mexico	100%	100%
Consortio Red Uno, S.A. de C.V.	Mexico	100%	100%
Teléfonos del Noroeste, S.A. de C.V.	Mexico	100%	100%
Uninet, S.A. de C.V.	Mexico	100%	100%
Telmex USA, L.L.C.	U.S.A.	100%	100%
<b>Affiliated companies:</b>			
Grupo Telvista, S.A. de C.V.	Mexico	45%	45%
2Wire, Inc.	U.S.A.	13%	13%

### II. Significant Accounting Policies and Practices

The principal accounting policies and practices followed by the Company in the preparation of these consolidated financial statements, in conformity with Mexican Financial Reporting Standards, are described below:

## **a) Consolidation and basis of translation of financial statements of foreign subsidiaries**

### **i) Consolidation and equity method**

The consolidated financial statements include the accounts of Teléfonos de México, S.A.B. de C.V. and those of the subsidiaries over which the Company exercises control. All the companies operate in the telecommunications sector or provide services to companies operating in this sector.

All intercompany balances and transactions have been eliminated in the consolidated financial statements. Noncontrolling interest refers to certain subsidiaries in which the Company does not hold 100% of the shares.

Equity investments in affiliated companies over which the Company exercises significant influence is accounted for using the equity method, which basically consists of recognizing TELMEX's proportional share in the net income or loss and the stockholders' equity of the investee (see Note 5).

The results of operations of the subsidiaries and affiliates were included in TELMEX's financial statements as of the month following their acquisition.

### **ii) Translation of financial statements of foreign subsidiary and affiliate**

Beginning January 1, 2008, the financial statements of the foreign subsidiary and affiliate are either consolidated or accounted for based on the equity method, as the case may be, once the financial statements have been adjusted to conform to Mexican Financial Reporting Standards in the corresponding local currency, and are then translated to the reporting currency. All the assets and liabilities of our foreign subsidiary and affiliate are translated to Mexican pesos at the prevailing exchange rate at year-end. Stockholders' equity accounts are translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. Revenues, costs and expenses are translated at the historical exchange rate. Translation differences are recorded in stockholders' equity in the line item "Effect of translation of foreign entities" under "Accumulated other comprehensive income items."

Through December 31, 2007, the financial statements as reported by the foreign subsidiary were converted to conform to Mexican Financial Reporting Standards, in the local currency, and subsequently re-expressed to constant pesos based on the inflation rate of the country in which the subsidiary operates. Under this method, all assets and liabilities were translated to Mexican pesos at the prevailing exchange rate at year-end. Stockholders' equity accounts were translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. Income statement amounts were translated to Mexican pesos at the prevailing exchange rate at the end of the reporting period. Exchange differences and the monetary position effect resulting from intercompany monetary items were charged or credited to the consolidated statements of income. Translation differences resulting from the conversion process were recorded in stockholders' equity in the line item "Effect of translation of foreign entities" under "Accumulated other comprehensive income items."

## **b) Recognition of the effects of inflation on financial information**

Upon adoption of Mexican FRS B-10, *Effects of Inflation*, which became effective on January 1, 2008, the Company ceased to recognize the effects of inflation in its financial information because it currently operates in a "non-inflationary economic environment".

The financial statements for the years ended December 31, 2009 and 2008 are expressed in nominal pesos, except for those non-monetary items that included inflation effects through December 31, 2007. Subsequent additions are recognized at historical cost.

Capital stock and retained earnings were re-expressed for inflation through December 31, 2007 based on the Mexican National Consumer Price Index (NCPI).

Through December 31, 2007, the deficit from re-expression of stockholders' equity consisted of the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied, which was P.13,924,729, and of the result from holding non-monetary assets, which represents the difference between re-expression by the specific indexation method and re-expression based on the NCPI. At December 31, 2007, this item was included in stockholders' equity under the "Accumulated other comprehensive income items" caption. In conformity with Mexican FRS B-10, since it was not possible to identify the result from holding non-monetary assets with the items giving rise to them, the cumulative result from holding non-monetary assets, together with the initial effect from the adoption of Bulletin B-10, which amounted to P. (79,419,845), net of deferred taxes, were reclassified from accumulated other comprehensive income items to retained earnings in stockholders' equity.

## **c) Recognition of revenues**

Revenues are recognized at the time services are provided. Local service revenues are related to new-line installation charges, monthly service fees, measured usage charges based on the number of calls made, and other service charges to subscribers. Local service revenues also include measured usage charges for prepayment plans, based on the number of minutes.

Revenues from the sale of prepaid telephone service cards are recognized based on an estimate of the usage of time covered by the prepaid card. Revenues from the sale of equipment are recorded when the product is delivered to the customer.

Revenues from domestic and international long distance telephone services are determined on the basis of the duration of the calls and the type of service used, which are billed monthly based on the authorized rates. International long distance and interconnection service revenues also include the revenues earned under agreements with foreign carriers for the use of the Company's facilities in interconnecting international calls. These services are regulated by agreements with these operators, in which the rates to be paid are defined.

Data revenues include revenues from services related to data transmission through private and managed networks and revenues from Internet access.

**d) Use of estimates**

The preparation of financial statements in conformity with Mexican Financial Reporting Standards requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates.

**e) Cash and cash equivalents**

Cash and cash equivalents are represented by time deposits and highly liquid investments in financial institutions with maturities of less than 90 days at the date purchased. Such investments are stated at acquisition cost plus accrued interest, similar to market value.

**f) Derivative financial instruments and hedging activities**

The Company is exposed to interest rate and foreign currency risks, which are mitigated through a controlled risk management program that includes the use of derivative financial instruments. The Company uses primarily cross-currency swaps and when necessary uses foreign currency forwards to offset the short-term risk of exchange rate fluctuations. In order to reduce the risks due to fluctuations in interest rates, the Company utilizes interest-rate swaps, through which it either pays or receives the difference between the net amount of either paying or receiving a fixed interest rate and the cash flow from receiving or paying a floating interest rate, based on a notional amount denominated in Mexican pesos or U.S. dollars. Most of these derivative financial instruments qualify and have been designated as cash flow hedges.

The Company's policy includes: i) formal documentation of all hedging relationships between the hedging instrument and the hedged position; ii) the objectives for risk management; and iii) the strategy for conducting hedging transactions. This process takes into account the relationship between the cash flow of the derivatives with the cash flows of the corresponding assets and liabilities recognized in the balance sheet.

The effectiveness of the Company's derivatives used for hedging purposes is evaluated prior to their designation as hedges, as well as during the hedging period, which is performed at least quarterly based on recognized statistical techniques. Whenever it is determined that a derivative is not highly effective as a hedge or that the derivative ceases to be a highly effective hedge, the Company ceases to apply hedge accounting for the derivative on a prospective basis. During the years ended December 31, 2009 and 2008, there were no gains or losses recognized due to changes in the accounting treatment for hedges.

Derivative financial instruments are recognized in the balance sheet at their fair values, which are obtained from the financial institutions with which the Company has entered into the related agreements. The Company's policy is to verify such fair values against valuations provided by an independent valuation agent contracted by the Company. The effective portion of the cash flow hedge's gain or loss is recognized in "Accumulated other comprehensive income items" in stockholders' equity, while the ineffective portion is recognized in current year earnings. Changes in the fair value of derivatives that do not qualify as hedges are immediately recognized in earnings.

The change in fair value recognized in earnings related to derivatives that are accounted for as hedges is presented in the same income statement caption as the gain or loss of the hedged item.

**g) Allowance for doubtful accounts**

The allowance for doubtful accounts is determined based on the Company's experience, the aging of the balances and general economic trends, as well as an evaluation of accounts receivable in litigation. The allowance for doubtful accounts basically covers the balances of accounts receivable greater than 90 days old.

The risk of uncollectibility of accounts receivable from related parties is evaluated annually based on an examination of each related party's financial situation and the markets in which they operate.

**h) Inventories**

Inventories for sale are valued at average cost, and through December 31, 2007 they were re-expressed based on inflation. The carrying value of inventories is not in excess of their net realizable value.

Inventories for the operation of the telephone plant are valued at average cost, and through December 31, 2007 were re-expressed on the basis of specific indexes. The carrying value of inventories is similar to replacement value, which is not in excess of their market value.

#### **i) Plant, property and equipment**

Through December 31, 1996, plant, property and equipment and construction in process were re-expressed based on the acquisition date and cost, applying the factors derived from the specific indexes determined by the Company and validated by an independent appraiser.

Through December 31, 2007, plant, property and equipment and construction in progress acquired abroad were re-expressed based on the rate of inflation of the respective country of origin and the prevailing exchange rate at the balance sheet date (specific indexation factors). Plant, property and equipment of domestic origin were re-expressed based on the NCPI.

Telephone plant and equipment are depreciated using the straight-line method based on the estimated useful lives of the related assets (see Note 3 b).

The carrying value of plant, property, plant and equipment is reviewed whenever there are indicators of impairment in the carrying value of such assets. Whenever an asset's recovery value, which is the greater of the asset's selling price and its value in use (the present value of future cash flows) is less than the asset's net carrying amount, the difference is recognized as an impairment loss. For the years ended December 31, 2009 and 2008, there were no indicators of impairment in the value of the Company's plant, property and equipment.

The Company has not capitalized any financing costs since it has no significant qualifying assets with prolonged acquisition periods.

#### **j) Leases**

When the risks and benefits inherent to the ownership of the leased asset remain mostly with the lessor, they are classified as operating leases and rent expense is charged to results of operations when incurred.

Lease agreements are recognized as capital leases if (i) the ownership of the leased asset is transferred to the lessee upon termination of the lease; (ii) the agreement includes an option to purchase the asset at a reduced price; (iii) the term of the lease is substantially the same as the remaining useful life of the leased asset; or (iv) the present value of minimum lease payments is substantially the same as the market value of the leased asset, net of any future benefit or residual value.

#### **k) Licenses**

TELMEX records licenses at acquisition cost and, through December 31, 2007, re-expressed them based on the inflation rate of each country. The amortization period is based on the terms of the licenses, which range from 5 to 20 years.

#### **l) Business acquisitions**

Acquisitions of businesses are recorded using the purchase method. The acquisition of noncontrolling interest is considered a transaction between entities under common control and any difference between the purchase price and the carrying value of net assets acquired is recognized as an equity transaction.

#### **m) Accrued liabilities**

Accrued liabilities are recognized whenever (i) the Company has current obligations (legal or assumed) resulting from a past event, (ii) when it is probable the obligation will give rise to a future cash disbursement for its settlement and (iii) the amount of the obligation can be reasonably estimated.

When the effect of the time value of money is significant, the amount of the liability is determined as the present value of the expected future disbursements to settle the obligation. The discount rate applied is determined on a pre-tax basis and reflects current market conditions at the balance sheet date and, where appropriate, the risks specific to the liability. When discounting is used, an increase in the liability is recognized as a finance expense.

Contingent liabilities are recognized only when it is probable they will give rise to a future cash disbursement for their settlement. Also, commitments are only recognized when they will generate a loss.

#### **n) Labor obligations**

The cost of pension, seniority premium and termination benefits (severance) are recognized periodically during the years of service of personnel, based on actuarial computations made by independent actuaries using the projected unit-credit method (see Note 9).

Actuarial (losses) gains are being amortized over a period of 12 years, which is the estimated average remaining working lifetime of Company employees.

As of January 1, 2008, the Company adopted Mexican FRS D-3 *Employee Benefits*, which replaced Mexican accounting Bulletin D-3, *Labor Obligations*. As a result of the MFRS D-3 adoption, the transition liability for labor obligations and prior service costs at December 31, 2007 are being amortized over a maximum period of 5 years. Prior to December 31, 2007, such amounts were being amortized over the estimated average remaining working lifetime of Company employees (12 years) (see Note 9).

**o) Employee profit sharing**

Current-year and deferred employee profit sharing expense is presented as an ordinary expense in the income statement.

Beginning January 1, 2008, in connection with the adoption of Mexican FRS D-3, the Company recognizes deferred employee profit sharing using the asset and liability method. Under this method, deferred profit sharing is computed by applying the 10% rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes. The Company periodically evaluates the possibility of recovering deferred employee profit sharing assets and, if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized (see Note 9).

**p) Exchange differences**

Transactions in foreign currency are recorded at the prevailing exchange rate on the day of the related transactions. Foreign currency denominated monetary assets and liabilities are valued at the prevailing exchange rate at the balance sheet date. Exchange differences from the transaction date to the time foreign currency denominated monetary assets and liabilities are settled, as well as those arising from the translation of foreign currency denominated balances at the balance sheet date are charged or credited to results of operations.

See Note 10 for the Company's consolidated foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

**q) Comprehensive income**

Comprehensive income consists of current year net income, the effect of translation of the financial statements of foreign entities, the changes in noncontrolling interest, the changes in the fair value of cash flow hedges and the effect of deferred taxes related to these items.

**r) Taxes on profits**

Deferred taxes on profits are recognized using the asset and liability method. Under this method, deferred taxes on profits are recognized on all differences between the financial reporting and tax bases of assets and liabilities, applying the enacted income tax rate effective as of the balance sheet date, or the enacted rate at the balance sheet date that will be in effect when the deferred tax assets and liabilities are expected to be recovered or settled.

The Company periodically evaluates the possibility of recovering deferred tax assets and, if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized.

**s) Statement of income presentation**

Costs and expenses shown in the Company's income statement are presented on a combined basis between their nature and function, in accordance with industry practice since such classification allows for an appropriate evaluation of gross profit and operating margin.

The "Operating income" caption is shown in the income statement since it is an important indicator used for evaluating the Company's operating results.

An analysis of the "Other expenses, net" caption for the years ended December 31, 2009 and 2008 is as follows:

	2009	2008
Employee profit sharing, current	P. 2,217,482	P. 2,548,762
Other income (Note 9)	( 867,802)	( 1,869,170)
Other expenses, net	P. 1,349,680	P. 679,592

**t) Statement of cash flows**

Effective January 1, 2008, Mexican FRS B-2 replaced Mexican accounting Bulletin B-12, *Statement of Changes in Financial Position*. Accordingly, the statement of cash flows substituted the statement of changes in financial position. The main differences between both statements lie in the fact that the statement of cash flows shows the entity's cash inflows and outflows during the period, while the statement of changes in financial position shows the changes in the entity's financial structure. Also, the statement of cash flows presents first income before taxes on profits, followed by cash flows from operating activities, then cash flows from investing activities and finally cash flows from financing activities.

The statement of cash flows for the years ended December 31, 2009 and 2008 were prepared using the indirect method.

**u) Earnings per share**

Earnings per share are determined by dividing the controlling interest in net income by the weighted-average number of shares outstanding during the year. In determining the weighted-average number of shares outstanding during the year, shares repurchased by the Company have been excluded.

## v) Concentration of risk

The main risks associated with the Company's financial instruments are cash flow risk, liquidity risk, market risk and credit risk. The Company performs sensitivity analyses to measure potential losses in its operating results based on a theoretical increase of 100 basis points in interest rates and a 10% change in exchange rates. The Board of Directors approves the risk management policies that are proposed by the Company's management.

Credit risk represents the potential loss from the failure of counterparties to completely comply with their contractual obligations. The Company is also exposed to market risks related to fluctuations in interest rates and exchange rates. In order to reduce the risks related to fluctuations in interest rates and exchange rates, the Company uses derivative financial instruments as hedges against its debt obligations.

Financial instruments which potentially subject the Company to concentrations of credit risk are cash and cash equivalents, trade accounts receivable, and debt and derivative financial instruments. The Company's policy is designed to not restrict its exposure to any one financial institution; therefore, the Company's financial instruments are maintained in different financial institutions located in different geographical areas.

The credit risk in accounts receivable is diversified, because the Company has a broad customer base that is geographically dispersed. The Company continuously evaluates the credit conditions of its customers and does not require collateral to guarantee collection of its accounts receivable. In the event the collection of accounts receivable deteriorates significantly, the Company's results of operations could be adversely affected.

## w) Segments

Segment information is presented based on information used by the Company in its decision-making processes (see Note 15).

Local and long distance segment information varies to the one presented in the consolidated financial statements due to:

- The information that was considered in its elaboration was only the one corresponding to the companies that are directly involved in rendering local and long distance telephone services in Mexico.
- Local service includes: revenues from basic rent, measured service, installation charges, equipment sales and interconnection.
- Long distance service includes: revenues from basic services of domestic and international long distance services; it does not include revenues from rural and public telephony and data services.
- The services being disclosed consider the corresponding attributes for interconnection, billing, collecting, co-location and leased lines.
- Interconnection with cellular operators includes revenues from calling party pays.

## x) Reclassifications

Certain captions shown in the 2008 financial statements as originally issued have been reclassified for uniformity of presentation with the 2009 financial statements.

An analysis is as follows:

	As originally reported 2008	Reclassifications	As reclassified 2008
<b>Assets</b>			
Current assets:			
Prepaid expenses and others <sup>(1)</sup>	P. 2,900,790	P. ( 61,088)	P. 2,839,702
Deferred charges, net <sup>(1)</sup>	1,407,687	61,088	1,468,775
<b>Statement of income</b>			
Operating revenues:			
Corporate networks <sup>(2)</sup>	12,219,402	( 12,219,402)	
Internet <sup>(2)</sup>	13,168,270	( 13,168,270)	
Data <sup>(2)</sup>		25,387,672	25,387,672
<b>Operating costs and expenses:</b>			
Cost of sales and services <sup>(3)</sup>	32,806,088	( 283,420)	32,522,668
Commercial, administrative and general expenses <sup>(4)</sup>	19,831,144	31,862	19,863,006
Interconnection <sup>(3)</sup>	13,759,965	283,420	14,043,385
Depreciation and amortization <sup>(4)</sup>	17,965,069	( 31,862)	17,933,207

<sup>(1)</sup> Reclassification of deferred charges.

<sup>(2)</sup> Reclassification to Data revenues.

<sup>(3)</sup> Reclassification of interconnection.

<sup>(4)</sup> Reclassification of administrative expenses.

## **y) New accounting pronouncements**

i) Following is a discussion of the new accounting pronouncements issued by the Mexican Financial Reporting Standards Research and Development Board (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or "CINIF") that became effective on January 1, 2009 and that affected TELMEX's accounting policies:

### **Mexican FRS B-8, Consolidated and Combined Financial Statements**

In November 2008, the CINIF issued Mexican FRS B-8, which became effective for fiscal years beginning on or after January 1, 2009. Mexican FRS B-8 replaces Mexican accounting Bulletin B-8, *Consolidated and Combined Financial Statements and the Valuation of Long-Term Equity Investments*. Mexican FRS B-8 establishes the overall guidelines for preparing and presenting consolidated or combined financial statements and transfers the guidance related to accounting for long-term equity investments to Mexican FRS C-7.

This standard establishes that to determine the existence of control, the Company must consider any potential voting rights held that could be exercised or converted, regardless of management's intention and ability to exercise them.

Also, unlike Bulletin B-8, this standard requires the financial statements of the consolidating entities to be prepared under the same Mexican FRS, eliminating the possibility to consolidate those entities that do not issue financial statements under Mexican FRS due to an obligation to present their financial statements under specific accounting standards.

This standard includes guidelines for the accounting treatment of special purpose entities and, upon adoption, abolishes the supplementary application of International Financial Reporting Standards SIC 12, *Consolidation – Special Purpose Entities* (SPEs). Mexican FRS B-8 establishes that special purpose entities over which the Company exercises control must be consolidated.

Mexican FRS B-8 establishes that changes in equity interest that do not cause loss of control must be recognized as transactions between stockholders; therefore, any difference between the book value of the equity investment sold or acquired and the value of the consideration paid must be recognized in stockholders' equity.

This standard also establishes that the recognition of push-down adjustments must not be recognized in the financial statements of the subsidiary and provides no transitional guidance in this regard.

### **Mexican FRS C-7, Equity Investments in Affiliates and Other Long-term Equity Investments**

In November 2008, the CINIF issued Mexican FRS C-7, which became effective for fiscal years beginning on or after January 1, 2009. The purpose of this standard is to establish guidelines for the accounting recognition of investments in affiliated companies, as well as for the recognition of any other long-term equity investments through which the reporting entity does not have control, joint control or exercise significant influence.

Unlike Mexican accounting Bulletin B-8, this standard establishes that there is significant influence when 10% or more of the voting shares in an entity that is listed on a stock exchange, or when it holds 25% or more of the voting shares in an entity not listed on a stock exchange. Mexican FRS C-7 also provides the guidelines for determining the existence of significant influence in the case of SPEs.

In identifying the existence of significant influence, both Mexican FRS B-8 and this standard require consideration of any potential voting rights held by the entity that might be exercised or converted, regardless of management's actual intention and financial capacity to exercise such rights.

Investments in an affiliated company or an equity interest in an SPE over which the reporting entity exercises significant influence must be initially recognized at fair value, determined at the time of acquisition, and subsequently by applying the equity method of accounting. To apply the equity method, unlike Mexican accounting Bulletin B-8, the financial statements of the affiliated company must be prepared in conformity with Mexican FRS.

This standard also establishes guidelines for the recognition of losses incurred by affiliated companies, since Mexican accounting Bulletin B-8 did not address this issue.

This standard establishes that the investment in affiliated companies must be tested for impairment when indicators of impairment exist, and modifies Mexican accounting Bulletin C-15, *Impairment in the Value of Long-lived Assets*, by establishing that the impairment of investments in affiliated companies must be presented as part of the caption Equity interest in income of unconsolidated subsidiaries and affiliates.

### **Mexican FRS C-8, Intangible Assets**

Mexican FRS C-8 was issued by the CINIF in December 2008 to replace Mexican accounting Bulletin C-8, Intangible Assets and became effective for fiscal years beginning on or after January 1, 2009.

Unlike Mexican accounting Bulletin C-8, this standard establishes that separability is not the only condition necessary to determine that an intangible asset is identifiable. Mexican FRS C-8 also provides additional guidance on the accounting recognition of intangible assets acquired through exchange transactions and eliminates the presumption that the useful life of an intangible asset could not exceed twenty years. Furthermore, the standard adds the requirement of an accelerated amortization period as a condition for impairment and modifies the definition of pre-operating costs.

Lastly, Mexican FRS C-8 establishes the accounting treatment for disposals of intangible assets resulting from sale, abandonment or exchange.

The adoption of the new accounting standards mentioned above did not have any impact on the Company's financial statements and did not result in a cumulative adjustment to retained earnings at adoption.

ii) The most important new accounting pronouncements that will become effective on January 1, 2010 or 2011, and that could affect the Company's accounting policies, are as follows:

**Mexican FRS C-1, Cash and Cash Equivalents**

Mexican FRS C-1 was issued by the CINIF in November 2009 to replace Mexican accounting Bulletin C-1, Cash, and is effective for fiscal years beginning on or after January 1, 2010. The purpose of this standard is to establish guidelines for the valuation, presentation and disclosure of items comprising the cash and cash equivalents caption in the statement of financial position.

Mexican FRS C-1 establishes that restricted cash is to be presented in the cash and cash equivalents caption in the statement of financial position (under the former standard it was shown separately) and substitutes the term "short-term demand investments" with the new term "liquid demand investments", which, among other characteristics, must be readily convertible to cash and have maturities of no more than three months.

Mexican FRS C-1 also defines the following terms: acquisition costs, cash equivalents, restricted cash and cash equivalents, liquid demand investments, net realization value, nominal value and fair value.

**Mexican FRS B-5, Financial Information by Segment**

In November 2009, the CINIF issued Mexican FRS B-5, which will become effective for fiscal years beginning on or after January 1, 2011. Mexican FRS B-5 will replace Mexican accounting Bulletin B-5.

Mexican FRS B-5 establishes the criteria for identifying the segments to be reported by an entity, as well as the standards for disclosing the financial information of such segments. The standard also contains the requirements applicable to the disclosure of certain information related to the entity as a whole.

The principal changes compared to Mexican accounting Bulletin B-5 are as follows:

- Information to be disclosed; Mexican FRS B-5 is management-focused, since the segment information disclosures it requires refer to the information used by the entity's most-senior business decision makers. Mexican FRS B-5 also requires the disclosure of information related to entity's products, geographic zones, customers and suppliers.
- Business risks; in identifying operating segments, this standard does not require the different areas of the business to be subject to different risks.
- Segments in the pre-operating stage; under Mexican FRS B-5, the different areas of a business in its pre-operating stage can be classified as operating segments.
- Disclosure of financial results; this standard requires disclosure of interest income and expense, as well as the other comprehensive financing items.
- Disclosure of liabilities; Mexican FRS B-5 requires disclosure of the liabilities included in the regular information for the operating segment that is habitually used by the entity's most-senior business decision makers.

The Company expects that these standards will not have a material impact on its financial statements.

## 2. Accounts Receivable

An analysis of accounts receivable at December 31, 2009 and 2008 is as follows:

	2009		2008
Customers	P. 19,112,062	P.	17,761,170
Recoverable taxes	2,316,472		2,061,818
Related parties (Note 12)	894,535		975,362
Net settlement receivables	417,152		478,991
Other	1,994,215		1,916,092
	<b>24,734,436</b>		23,193,433
Less:			
Allowance for doubtful accounts	3,621,113		2,384,670
Total	P. 21,113,323	P.	20,808,763

An analysis of activity in the allowance for doubtful accounts for the years ended December 31, 2009 and 2008 is as follows:

	2009		2008
Beginning balance at January 1	P. 2,384,670	P.	1,725,969
Increase charged to expenses	2,437,296		1,551,988
Charges to allowance	( 1,200,853)	(	893,287)
Ending balance at December 31	P. 3,621,113	P.	2,384,670

## 3. Plant, Property and Equipment

a) An analysis of plant, property and equipment at December 31, 2009 and 2008 is as follows:

	2009		2008
Telephone plant and equipment	P. 315,548,924	P.	314,077,075
Land and buildings	37,128,186		36,987,698
Computer equipment and other assets	49,952,667		47,564,938
	<b>402,629,777</b>		398,629,711
Less:			
Accumulated depreciation	298,734,102		286,221,263
Net	103,895,675		112,408,448
Construction in progress and advances to equipment suppliers	409,074		456,929
Total	P. 104,304,749	P.	112,865,377

Construction in progress refers mainly to projects related to telephone plant, which are scheduled to be completed and transferred to the plant mostly during the first half of 2010.

b) Depreciation of the telephone plant and equipment is calculated at annual rates ranging from 3.3% to 20.0%. The rest of the Company's assets, excluding land, are depreciated at rates ranging from 10% to 33.3%. Depreciation charged to operating costs and expenses was P.17,828,006 in 2009 and P.17,815,050 in 2008.

#### 4. Licenses

An analysis of licenses cost and their amortization at December 31, 2009 and 2008 is as follows:

	2009	2008
Investment	P. 1,777,464	P. 1,763,296
Less:		
Accumulated amortization	859,123	738,269
Net	P. 918,341	P. 1,025,027

An analysis of the changes in 2009 and 2008 is as follows:

	Balance at January 1, 2009	Investment and amortization for the year	Balance at December 31, 2009
Investment	P. 1,763,296	P. 14,168	P. 1,777,464
Accumulated amortization	738,269	120,854	859,123
Net	P. 1,025,027	P. ( 106,686)	P. 918,341

	Balance at January 1, 2008	Investment and amortization for the year	Effect of translation	Balance at December 31, 2008
Investment	P. 1,627,992	P. 135,271	P. 33	P. 1,763,296
Accumulated amortization	636,531	101,703	35	738,269
Net	P. 991,461	P. 33,568	P. ( 2)	P. 1,025,027

The amortization expense of other deferred charges was P.1,908 and P.16,454 for the years ended December 31, 2009 and 2008, respectively.

#### 5. Equity Investments

An analysis of equity investments in affiliates and other companies at December 31, 2009 and 2008, and a brief description of each, is as follows:

	2009	2008
<b>Equity investments in:</b>		
Grupo Telvista, S.A. de C.V.	P. 907,973	P. 726,342
2Wire, Inc.	301,035	276,000
Other affiliates	566,372	491,791
	P. 1,775,380	P. 1,494,133

##### Investments in affiliates

###### Grupo Telvista

TELMEX holds 45% of the capital stock of Grupo Telvista, S.A. de C.V. (Grupo Telvista) which, through its subsidiaries, provides telemarketing services in Mexico and the U.S.A. For the year ended December 31, 2009, TELMEX's equity interest in the net income of Grupo Telvista gave rise to a credit to results of operations of P.195,498 (P.154,795 in 2008) and a charge to stockholders' equity of P.13,867 (credit of P.69,128 in 2008).

###### 2Wire

TELMEX holds 13% of the capital stock of 2Wire, Inc. (2Wire), which is a broadband platform service provider for homes and businesses located in the U.S.A. For the year ended December 31, 2009, TELMEX's equity interest in the results of 2Wire gave rise to a credit to results of operations of P.25,035 (charge of P.266,568 in 2008).

###### Other affiliates

For the year ended December 31, 2009, equity interest in other affiliates represented a net credit to results of operations of P.34,147 (net credit of P.49,660 in 2008) and a charge to stockholders' equity of P.4,427 (credit of P.37,718 in 2008).

## 6. Long-term Debt

Long-term debt consists of the following:

	Weighted-average interest rate at December 31		Maturities from 2010 through	Balance at December 31	
	2009	2008		2009	2008
<i>Debt denominated in foreign currency:</i>					
Senior notes	5.2%	5.1%	2019	P. 29,361,181	P. 23,670,364
Bank loans	0.7%	1.8%	2018	40,074,814	61,013,202
Other	2.0%	2.0%	2022	238,353	271,881
<b>Total debt denominated in foreign currency</b>				<b>69,674,348</b>	<b>84,955,447</b>
<i>Debt denominated in Mexican pesos:</i>					
Senior notes	8.8%	8.8%	2016	4,500,000	4,500,000
Domestic senior notes	6.3%	8.8%	2037	25,900,000	14,800,000
Bank loans	4.8%	8.6%	2010	2,800,000	2,800,000
<b>Total debt denominated in Mexican pesos</b>				<b>33,200,000</b>	<b>22,100,000</b>
<b>Total debt</b>				<b>102,874,348</b>	<b>107,055,447</b>
Less short-term debt and current portion of long-term debt				19,768,894	22,883,092
<b>Long-term debt</b>				<b>P. 83,105,454</b>	<b>P. 84,172,355</b>

The above-mentioned rates are subject to market variances and do not include the effect of the Company's agreement to reimburse certain lenders for Mexican withholding taxes. The Company's weighted-average cost of debt at December 31, 2009 (including interest expense, interest rate swaps, fees and withholding taxes, and excluding exchange rate variances) was approximately 5.9% (6.2% in 2008).

Short-term debt and current portion of long-term debt consist of the following:

	Balance at December 31	
	2009	2008
<i>Short-term debt:</i>		
Domestic senior notes		P. 2,500,000
<i>Current portion of long-term debt:</i>		
Senior notes	P. 12,405,765	
Domestic senior notes		400,000
Bank loans	7,363,129	19,983,092
	<b>19,768,894</b>	<b>20,383,092</b>
<b>Total</b>	<b>P. 19,768,894</b>	<b>P. 22,883,092</b>

### Senior notes:

- In November 2008, TELMEX repaid a bond of P.13,151,147 (U.S.\$1,000 million, nominal amount) that was issued in November 2003 and bore an annual interest of 4.5%, payable semiannually. For the year ended December 31, 2008, interest expense on the bond was P.442,078.
- In the first quarter of 2005, TELMEX issued bonds in the amount of P.21,892,381 (U.S.\$1,750 million) divided into two issuances of P.11,870,243 and P.10,022,138 (U.S.\$950 million and U.S.\$800 million, respectively), the first matures in 2010 and bears an annual interest of 4.75%, and the second matures in 2015 and bears an annual interest of 5.5%. Interest is payable semiannually. For the year ended December 31, 2009, interest expense on these bonds was P.1,274,163 (P.1,025,848 in 2008).

On January 27, 2010, TELMEX repaid the first issuance of the bonds issued in 2005 for P.12,294,140 (U.S.\$950 million).

- On January 26, 2006, TELMEX issued a bond denominated in Mexican pesos abroad in the amount of P.4,500,000 (nominal amount), which matures in 2016 and bears an annual interest of 8.75%. For the year ended December 31, 2009, interest expense on the bond was P.407,708 (P.409,655 in 2008).
- On November 12, 2009, TELMEX issued a bond in the amount of P.6,615,400 (U.S.\$500 million, nominal amount), which matures in 2019 and bears an annual interest of 5.5%, payable semiannually. For the year ended December 31, 2009, interest expense on the bond was P.49,823.

**Syndicated loan:**

In 2004, the Company entered into a syndicated loan, which was restructured in 2005 and 2006 to improve the credit conditions and increase the total loan amount to P.34,531,521 (U.S.\$3,000 million), split into three tranches. The first tranche is for P.14,963,659 (U.S.\$1,300 million) and has a three-year maturity. The second tranche is for P.11,510,507 (U.S.\$1,000 million) and has a five-year maturity. The third tranche is for P.8,057,355 (U.S.\$700 million) with a seven-year maturity. In August 2009, TELMEX repaid the total amount of the first tranche, for which the original maturity was scheduled for October 2009. The balance of these loans at December 31, 2009 is included under bank loans (debt denominated in foreign currency).

On June 30, 2006, TELMEX entered into a syndicated loan agreement in the amount of P.5,986,554 (U.S.\$500 million), split into two tranches in equal amounts of P.2,993,277 (U.S.\$250 million), with maturities of four years and six years, respectively.

Substantially all of the bank loans bear interest equal to the London Inter-Bank Offered Rate (LIBOR) plus a specified margin. For the year ended December 31, 2009, interest expense on these loans was P.556,305 (P.1,425,514 in 2008).

**Domestic senior notes ("Certificados bursátiles"):**

On December 19, 2007, TELMEX obtained authorization from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or "CNBV") for a program to issue long-term domestic senior notes in a total amount of P.10,000,000 (nominal amount). In April 2008, domestic senior notes in the amount of P.1,600,000 were issued. In July 2009, TELMEX placed domestic senior notes in two issuances for a total amount of P.8,000,000.

On September 18, 2009, TELMEX obtained authorization from the CNBV for a dual program to issue short and long-term domestic senior notes in a total amount of P.15,000,000 (nominal amount). In November 2009, TELMEX placed long-term domestic senior notes in two issuances for a total amount of P.6,000,000.

Some domestic senior notes bear fixed-rate interest, while others bear interest equal to a specified margin in respect of the Mexican interbank equilibrium interest rate ("TIE"). For the year ended December 31, 2009, interest expense on long-term domestic senior notes was P.1,194,213 (P.1,004,242 in 2008).

**Restrictions:**

The above-mentioned debt is subject to certain restrictions with respect to maintaining certain financial ratios, as well as restrictions on selling a significant portion of groups of assets, among others. At December 31, 2009, the Company was in compliance with all these requirements.

A portion of the debt is also subject to early maturity or repurchase at the option of the holders in the event of a change in control of the Company, as so defined in each instrument. The definition of change in control varies from instrument to instrument; however, no change in control shall be considered to have occurred as long as Carso Global Telecom or its current stockholders continue to hold the majority of the Company's voting shares.

**Foreign currency debt:**

An analysis of the foreign currency denominated debt at December 31, 2009 is as follows:

	Foreign currency (in thousands)	Exchange rate at December 31, 2009 (in units)	Equivalent in Mexican pesos
U.S. dollar	5,103,362	P. 13.0587	P. 66,643,271
Japanese yen	19,891,200	0.1404	2,792,724
Euro	12,722	18.7353	238,353
Total			P. 69,674,348

Long-term debt maturities at December 31, 2009 are as follows:

Years	Amount
2011	P. 18,857,154
2012	12,343,560
2013	11,560,972
2014	8,164,639
2015 and thereafter	32,179,129
Total	P. 83,105,454

## Hedges:

At December 31, 2009 and 2008, the financial instruments held by the Company are as follows:

Financial instrument	2009		2008	
	Notional	Fair value asset (liability)	Notional	Fair value asset (liability)
	(in millions)	(in millions)	(in millions)	(in millions)
Cross currency swaps	U.S.\$ 4,178	P. 12,226	U.S.\$ 5,451	P. 20,913
Forwards dollar-peso (Note 7)	U.S.\$ 245	( 120)		
Interest-rate swaps in pesos	P. 23,752	( 729)	P. 23,752	( 369)
Interest-rate swaps in dollars			U.S.\$ 100	( 30)
Cross currency coupon swaps	U.S.\$ 50		U.S.\$ 350	( 95)
Total		P. 11,377		P. 20,419

To reduce the risks related to fluctuations in exchange rates and interest rates, the Company uses derivative financial instruments as hedges associated with its debt. The derivative financial instruments principally used by the Company are as follows:

### **Cross currency swaps**

At December 31, 2009, the Company has cross currency swaps that hedge foreign currency denominated liabilities of P.54,557,723 (U.S.\$4,178 million) (P.73,799,967 or U.S.\$5,451 million in 2008). These cross currency swaps hedge the exchange rate and interest rate risks associated with bonds that mature in 2010 and 2015 in the total amount of U.S.\$1,495 million and bank loans that mature from 2010 to 2018 in the total amount of U.S.\$2,683 million. These agreements allow TELMEX to fix the parity of such debt at a weighted-average exchange rate of P.10.5892 per U.S. dollar, as well as establish a fixed interest rate of 7.52% for the bonds maturing in 2010 and 8.57% for the bonds maturing in 2015, and a floating rate equal to the average 28-day TIIE, less a specified margin for the bank loans.

The change in the fair value of these cross currency swaps recognized for the year ended December 31, 2009 was P. 5,682,263 (P. 16,281,874 in 2008).

### **Forwards dollar-peso**

At December 31, 2009, the Company had short-term foreign currency forwards with a notional amount of P.3,199,382 (U.S.\$245 million). At December 31, 2008, the Company had no forward contracts outstanding. For the year ended December 31, 2009, the Company recognized a net charge of P.520,733 (charge of P.1,690,380 in 2008) as part of exchange (gain) loss, net due to changes in the fair value of these forwards.

### **Interest-rate swaps**

At December 31, 2009 and 2008, the Company had interest-rate swaps for an aggregate notional amount of P.23,752,125 to hedge the floating rate risk of its debt in Mexican pesos, fixing such rate at an average of 8.19%. At December 31, 2009, the Company had no interest rate swaps in U.S. dollars. At December 31, 2008, the Company had interest rate swaps in U.S. dollars for an aggregate notional amount of P.1,353,830 (U.S.\$100 million), paying a fixed rate of 4.47% and receiving the three-month LIBOR rate, to cover U.S. dollar denominated debt with a floating interest rate that matured in October 2009.

At December 31, 2009, the Company had cross currency coupon swaps that cover interest payments of P.652,935 (U.S.\$50 million) (P.4,738,405, or U.S.\$350 million, for 2008).

For the year ended December 31, 2009, the Company recognized a net expense for these swaps in interest expense of P.2,056,839 (P. 2,439,778 in 2008).

The Company's derivative financial instruments are acquired in over-the-counter markets, mostly from the same financial institutions with which it has contracted its debt.

Several of the Company's agreements under which it has negotiated its derivative financial instruments require margin calls when the fair value of the derivatives exceeds the Company's existing credit lines of P. 3,787,023 (U.S.\$290 million). At December 31, 2009, 65% of the Company's outstanding derivatives correspond to these types of agreements; however, no margin calls have been required at such date.

## 7. Accounts Payable and Accrued Liabilities

An analysis of accounts payable and accrued liabilities is as follows:

	December 31	
	2009	2008
Suppliers	P. 2,100,036	P. 4,285,331
Employee benefits	2,804,324	3,012,967
Sundry creditors	1,838,250	1,439,394
Related parties (Note 12)	1,602,128	1,993,079
Vacation accrual	1,284,578	1,287,747
Accrual for other contractual employee benefits	1,230,645	1,310,570
Dividend pending payment	1,106,119	899,541
Interest payable	936,550	1,187,525
Derivative financial instruments (Note 6)	119,719	
Other	1,181,839	501,952
	P. 14,204,188	P. 15,918,106

The activity in the main accruals for the years ended December 31, 2009 and 2008 is as follows:

Vacation accrual:

	2009	2008
Beginning balance at January 1	P. 1,287,747	P. 1,256,783
Increase charged to expenses	1,619,979	1,656,930
Payments	( 1,623,148)	( 1,625,966)
Ending balance at December 31	P. 1,284,578	P. 1,287,747

Accrual for other contractual employee benefits:

	2009	2008
Beginning balance at January 1	P. 1,310,570	P. 1,151,700
Increase charged to expenses	3,725,372	3,588,400
Payments	( 3,805,297)	( 3,429,530)
Ending balance at December 31	P. 1,230,645	P. 1,310,570

## 8. Deferred Credits

Deferred credits consist of the following at December 31, 2009 and 2008:

	2009	2008
Short-term:		
Advance billings	P. 1,009,603	P. 1,044,877
Advances from customers	94,572	735,238
	1,104,175	1,780,115
Long-term:		
Advance billings	466,696	411,106
Total	P. 1,570,871	P. 2,191,221

## 9. Labor Obligations

### a) Pensions plans and seniority premiums

The majority of the Company's employees are covered under defined benefits pension plans and seniority premiums. Pension benefits and seniority premiums are determined on the basis of compensation of employees in their final year of employment, their seniority, and their age at the time of retirement.

TELMEX has set up an irrevocable trust fund to finance these labor obligations and has adopted the policy of making annual contributions to such fund, which are deductible for Mexican corporate income tax and employee profit sharing purposes. The most important information related to labor obligations is as follows:

Analysis of net periodic cost:

	2009	2008
Labor cost	P. 4,431,755	P. 4,333,194
Finance cost on defined benefit obligation	15,861,542	14,344,072
Projected return on plan assets	( 17,524,795)	( 15,571,525)
Amortization of past services	69,526	1,344,971
Amortization of variances in actuarial assumptions (1)	2,183,763	201,412
Net periodic cost	P. 5,021,791	P. 4,652,124

(1) Includes P.99,125 in 2008 for the amortization of the initial balance of the actuarial loss, which is presented in the statement of income under the caption "Other expenses, net," in conformity with Mexican FRS D-3.

Analysis of the defined benefit obligation:

	2009	2008
Present value of labor obligations:		
Vested benefit obligation	P. 105,002,007	P. 93,175,620
Non-vested benefit obligation and effect of salary projection	92,330,826	83,007,215
Defined benefit obligation at end of year	P. 197,332,833	P. 176,182,835

Analysis of changes in the defined benefit obligation:

	2009	2008
Defined benefit obligation at beginning of year	P. 176,182,835	P. 159,484,041
Labor cost	4,431,755	4,333,194
Finance cost on defined benefit obligation	15,861,542	14,344,072
Actuarial loss	10,200,996	6,662,976
Benefits paid to employees	( 215,298)	( 194,437)
Payments from trust fund	( 9,128,997)	( 8,447,011)
Defined benefit obligation at end of year	P. 197,332,833	P. 176,182,835

Analysis of changes in plan assets:

	2009	2008
Established fund at beginning of year	P. 145,475,893	P. 156,979,097
Projected return on plan assets	17,524,795	15,571,525
Actuarial gain (loss)	4,371,737	( 22,949,640)
Contributions to trust fund	5,751,947	4,321,922
Payments from trust fund	( 9,128,997)	( 8,447,011)
Established fund at end of year	P. 163,995,375	P. 145,475,893

Analysis of the net projected asset:

	2009	2008
Insufficiency of plan assets for defined benefit obligation	P. ( 33,337,458)	P. ( 30,706,942)
Unamortized actuarial loss	49,515,770	45,870,274
Transition liability	121,815	156,536
Past service cost and changes to plan	130,730	165,534
Net projected asset	P. 16,430,857	P. 15,485,402

In 2009, the net actuarial loss of P.5,829,259 resulted from (i) the effect of a favorable actuarial variance of P.4,371,737 due to the behavior of the plan assets resulting from an increase in the value of investments in shares of companies and in fixed-yield investments due to variances in reference rates, and (ii) an actuarial loss of P.10,200,996, attributable principally to the number of employees who retired was greater than the number estimated at the beginning of the year, and the salary and pension benefits of the retired employees were higher than estimated at the beginning of the year.

In 2008, the actuarial loss of P.29,612,616 resulted from (i) the effect of an unfavorable actuarial variance of P.22,949,640 due to the behavior of the plan assets resulting from a decrease in the value of investments in shares of companies and in fixed-yield investments due to variances in reference rates, and (ii) an actuarial loss of P.6,662,976, attributable principally to the number of employees who retired was greater than the number estimated at the beginning of the year, the Company updating its mortality table, and the mortality rate of retired employees was less than the rate estimated at the beginning of the year.

At December 31, 2009 and 2008, the rates used in the actuarial study are as follows:

	2009 Nominal rates %	2008 Nominal rates %
Discount of labor obligations:		
Long-term average	9.20	9.20
Increase in salaries:		
Long-term average	4.50	4.50

At December 31, 2009 and 2008, 45.9% of plan assets were invested in fixed-yield securities and the remaining 54.1% in variable-yield securities.

#### b) Termination benefits

The most important information related to the liability for termination benefits is as follows:

Analysis of net periodic cost:

	2009	2008
Labor cost	P. 12,630	P. 15,188
Finance cost on defined benefit obligation	12,498	14,599
Amortization of variances in assumptions <sup>(1)</sup>	( 9,867)	( 87,699)
Net periodic cost (gain)	P. 15,261	P. ( 57,912)

<sup>(1)</sup> Includes P.36,206 in 2008 for the amortization of the initial balance of the actuarial gain, which is presented in the statement of income under the caption "Other expenses, net," in conformity with Mexican FRS D-3.

The activity in the termination pay liability is as follows:

	2009	2008
Balance at beginning of year	P. 147,634	P. 208,406
Net periodic cost (gain)	15,261	( 57,912)
Payments	( 3,518)	( 2,860)
Balance at end of year	P. 159,377	P. 147,634

#### c) Employee profit sharing

TELMEX is obligated to pay profit sharing to its employees in Mexico, in addition to their contractual compensation and benefits. For the years ended December 31, 2009 and 2008, employee profit sharing was based on 10% of the Company's taxable income, excluding certain inflation effects and the re-expression of depreciation expense.

The cumulative effect of deferred employee profit sharing at the beginning of 2008 resulting from the adoption of Mexican FRS D-3 was P.5,820,412 and was charged to stockholders' equity. The deferred employee profit sharing gave rise to a credit to stockholders' equity for deferred income tax of P.1,630,277. Accordingly, the net effect of the adoption of Mexican FRS D-3 was a charge to stockholders' equity of P.4,190,135. The 2007 financial statements remained unchanged by the new standard. For the year ended December 31, 2009, the deferred employee profit sharing provision represented a credit to results of operations of P.607,676 (P.1,400,171 in 2008), which was recognized in the statement of income under the caption "Other expenses, net."

At December 31, 2009 and 2008, the Company recognized deferred employee profit sharing on the following temporary items:

	2009	2008
<b>Deferred employee profit sharing assets:</b>		
Allowance for bad debts and slow-moving inventories	P. 310,287	P. 210,874
Advance billings	147,750	184,219
Accrued liabilities	515,522	372,944
Exchange loss on debt	347,123	409,247
	<b>1,320,682</b>	<b>1,177,284</b>
<b>Deferred employee profit sharing liabilities:</b>		
Fixed assets	( 3,437,606)	( 3,842,874)
Inventories	( 4,881)	( 9,139)
Licenses	( 44,852)	( 49,900)
Labor obligations	( 1,609,552)	( 1,538,794)
Prepaid expenses	( 86,043)	( 167,311)
Derivative financial instruments	( 91,884)	( 419,172)
	<b>( 5,274,818)</b>	<b>( 6,027,190)</b>
Deferred employee profit sharing liability, net	P. ( 3,954,136)	P. ( 4,849,906)

## 10. Foreign Currency Position

At December 31, 2009 and 2008, the Company had the following foreign currency denominated assets and liabilities:

	Foreign currency in millions			
	2009	Exchange rate at December 31, 2009	2008	Exchange rate at December 31, 2008
<b>Assets:</b>				
U.S. dollar	669	P. 13.06	183	P. 13.54
<b>Liabilities:</b>				
U.S. dollar	5,205	13.06	6,235	13.54
Japanese yen	19,891	0.14	19,891	0.15
Euro	13	18.74	14	19.14

At March 9, 2010, the applicable exchange rates are as follows:

Foreign currency	Exchange rate
U.S. dollar	P. 12.66
Japanese yen	0.14
Euro	17.16

## 11. Commitments and Contingencies

### Commitments

At December 31, 2009, TELMEX has non-cancelable commitments for the purchase of equipment of P.3,372,975 (P.4,520,320 in 2008), which include P.977,637 (P.798,792 in 2008) for non-cancelable commitments with related parties. Payments made under the related purchase agreements aggregated to P.2,858,996 in 2009 (P.3,173,710 in 2008).

### Contingencies

a) In November 2005, COFETEL issued the guidelines for making changes to local service areas. In April 2006, Teléfonos de México, S.A.B. de C.V. contested the guidelines to modify local service areas via an administrative proceeding that was discarded by the Communications Ministry, and at present it is being litigated before the Third Metropolitan Regional Federal Court of Justice for Tax and Administrative Matters.

In the interim, pursuant to the aforementioned guidelines COFETEL has ordered the consolidation of a package of 70 local service areas and a package of 2 local service areas in March 2007, another package of 125 local service areas in September 2008 and finally the consolidation of 1 local service area in December 2008, each with its own schedule. Teléfonos de México, S.A.B. de C.V. challenged COFETEL's orders through applicable legal procedures.

In November 2009, a resolution of a Federal Court nullified the consolidation of local service areas ordered by COFETEL.

If the guidelines resolution becomes effective, COFETEL may start again procedures to consolidate local service areas.

If such consolidation is implemented, it may have an adverse impact on the Company's long distance revenues.

The Company believes, based on the advice of external lawyers who are handling this matter, that although the Company's arguments are well-founded, there is no certainty that Teléfonos de México, S.A.B. de C.V. will obtain favorable results.

b) Between November 2007 and February 2008, the Federal Commission of Economic Competition (COFECO) initiated seven inquiries to determine whether Teléfonos de México, S.A.B. de C.V. has substantial control or engages in monopolistic practices in certain markets.

Preliminary resolutions in four of these inquiries have been issued, in which COFECO has determined that Teléfonos de México, S.A.B. de C.V. has substantial control in the following markets: (i) termination of public switched traffic; (ii) origination of public switched traffic; (iii) local transit services; and (iv) leasing of lines or circuits. Teléfonos de México, S.A.B. de C.V. expressed its disagreement with the proceedings, contested the preliminary resolutions and submitted evidence against them.

In the four inquiries indicated above, COFECO has already confirmed its resolutions, and Teléfonos de México, S.A.B. de C.V. filed the corresponding recourses, which COFECO denied. Against these resolutions, Teléfonos de México, S.A.B. de C.V. filed for constitutional protection ("amparo") which is still pending. If these resolutions prevail, COFETEL could impose specific obligations on tariffs, quality of service and information in these markets.

In the three remaining proceedings, COFECO is investigating to determine if Teléfonos de México, S.A.B. de C.V. engaged in monopolistic practices in the following markets: (i) broad-band Internet market for domestic residential customers; (ii) fixed-network interconnection services markets; and (iii) inter-urban transport for switched long distance traffic services market. These proceedings are currently in the stage of requesting information.

Notwithstanding the fact that the arguments of Teléfonos de México, S.A.B. de C.V. are considered to be well founded, the Company's external lawyers handling the above-mentioned cases consider that there is no certainty that the Company will obtain favorable results.

c) The Mexican Social Security Institute (IMSS) audited Teléfonos de México, S.A.B. de C.V. for the period from 1997 to 2001. As a result of the audit, IMSS determined that Teléfonos de México, S.A.B. de C.V. owed approximately P.330,000 (historical amount) as of July 2, 2003 in past due obligations, fines, surcharges, re-expression for inflation and interest. Teléfonos de México, S.A.B. de C.V. filed an appeal to nullify these findings and related assessment with the Federal Court of Justice for Tax and Administrative Matters. In accordance with Mexican law, by means of a trust fund established with a banking institution, the Company guaranteed payment of the tax assessment in the amount of P.568,869 through July 19, 2010. The regional metropolitan court declared the resolution to be null, but the administrative authorities filed an appeal. In October 2009, Teléfonos de México, S.A.B. de C.V. obtained favorable results through a final resolution that nullifies the schedule of rate payments; therefore the Company commenced proceedings to liquidate the trust fund that was guaranteeing the payment of this contingency, which was finalized on January 22, 2010, at which time the Company recognized the gain on settlement of this contingency.

On January 22, 2010, Teléfonos de México, S.A.B. de C.V. was entitled to a refund equivalent to the amount set up as guaranteed payment.

Since tax credits did not take effect and Teléfonos de México, S.A.B. de C.V. obtained reimbursement for the guaranteed payment, this matter was resolved and concluded with favorable results.

d) In accordance with Mexican law, Teléfonos de México, S.A.B. de C.V. shall be severally liable for all of the obligations transferred to Telmex Internacional, S.A.B. de C.V. as a result of the split-up, for a three-year period, with respect to the terms of the split-up agreement approved by the stockholders of Teléfonos de México, S.A.B. de C.V. on December 21, 2007. This responsibility, however, does not apply to obligations with those creditors who have given their express consent relieving Teléfonos de México, S.A.B. de C.V. from these liabilities and consenting to the split-up.

e) On February 10, 2009, COFETEL published the Fundamental Technical Interconnection and Interoperability Plan in the Official Gazette. Such plan could have a negative impact on Teléfonos de México, S.A.B. de C.V. and on the telecommunications sector in general, since it establishes additional obligations to concessionaries.

Teléfonos de México, S.A.B. de C.V. has filed for constitutional protection (“amparo”) against this plan, providing all necessary arguments to demonstrate illegality and unconstitutionality of such plan.

Notwithstanding the fact that the arguments of Teléfonos de México, S.A.B. de C.V. are considered to be well founded, the Company’s external lawyers handling the above-mentioned cases consider that there is no certainty that the Company will obtain favorable results.

## 12. Related Parties

a) An analysis of balances due from/to related parties at December 31, 2009 and 2008 is provided below. All the companies are considered affiliates since TELMEX's primary stockholders are also either direct or indirect stockholders of the related parties:

	December 31	
	2009	2008
<b>Accounts receivable:</b>		
Alestra, S. de R.L. de C.V.	P. 454,762	P. 114,625
Sercotel, S.A. de C.V.	193,316	262,732
AT&T Inc.	87,885	218,718
Anuncios en Directorios, S.A. de C.V.	27,662	28,477
Controladora de Servicios de Telecomunicaciones, S.A. de C.V.	18,235	29,628
Sears Roebuck de México, S.A. de C.V.	14,231	27,893
Sanborn Hermanos, S.A.	6,397	62,837
Banco Inbursa, S.A.	4,256	89,267
Sección Amarilla USA, L.L.C.	54	20,768
Other	87,737	120,417
	<b>P. 894,535</b>	<b>P. 975,362</b>
<b>Accounts payable:</b>		
Radiomóvil Dipsa, S.A. de C.V.	P. 1,027,048	P. 1,000,739
Inversora Bursátil, S.A.	127,472	121,383
Eidon Software, S.A. de C.V.	103,738	
Microm, S.A. de C.V.	65,349	119,631
Grupo Financiero Inbursa, S.A.B. de C.V.	50,695	46,710
Conductores Mexicanos Eléctricos y de Telecomunicaciones, S.A. de C.V.	34,161	6,538
PC Industrial, S.A. de C.V.	29,614	69,950
Carso Infraestructura y Construcción, S.A.B de C.V.	25,459	208,559
Sinergia Soluciones Integrales de Energía, S.A. de C.V.	23,629	17,283
2Wire, Inc.		190,266
Sigmatao Factory, S.A. de C.V.		27,002
Other	114,963	185,018
	<b>P. 1,602,128</b>	<b>P. 1,993,079</b>

b) For the years ended December 31, 2009 and 2008, the Company had the following transactions with related parties:

	2009	2008
<b>Investment and expenses:</b>		
Construction services, purchase of materials, inventories and fixed assets <sup>(1)</sup>	P. 2,163,205	P. 3,958,756
Insurance premiums, fees for administrative and operating services, security trading and others <sup>(2)</sup>	3,318,218	3,389,572
Calling Party Pays interconnection fees and other telecommunication services <sup>(3)</sup>	7,944,362	9,959,288
Cost of termination of international calls <sup>(6)</sup>	715,780	685,100
<b>Revenues:</b>		
Sale of materials and other services <sup>(4)</sup>	1,879,051	2,091,927
Sale of long distance and other telecommunications services <sup>(5)</sup>	5,727,833	6,211,439
Revenues from termination of international calls <sup>(6)</sup>	1,074,419	2,428,631

<sup>(1)</sup> Includes P.1,591,531 in 2009 (P.2,190,819 in 2008) for network construction services and purchase of construction materials from subsidiaries of Grupo Carso, S.A.B. de C.V. (Carso Group), which is an entity under common control with Carso Global Telecom. Also includes P.453,348 in 2009 (P.1,652,662 in 2008) for the purchase of equipment for broadband platform services from 2Wire.

<sup>(2)</sup> Includes P.571,338 in 2009 (P.563,331 in 2008) for network maintenance services from subsidiaries of Carso Group; P.714,242 in 2009 (P.632,970 in 2008) for software services received from subsidiaries of Telmex Internacional; P.327,500 in 2009 (P.805,703 in 2008) for the production and distribution of white pages telephone directories and advertising in the yellow pages with subsidiaries of Telmex Internacional; P.482,598 in 2009 (P.392,170 in 2008) for insurance premiums with Seguros Inbursa, S.A. (Seguros), which, in turn, places most of this amount in reinsurance with third parties; P.208,942 in 2009 (P.222,963 in 2008) for telemarketing services with Grupo Telvista; P.40,602 in 2009 (P.71,668 in 2008) for security trading fees with Inversora Bursátil, S.A. (Inversora); and P.335,975 in 2009 (P.243,999 in 2008) for fees paid for administrative and operating services to AT&T Mexico, Inc. and Carso Global Telecom. Telmex Internacional, Seguros, Grupo Telvista and Inversora are entities under common control with Carso Global Telecom. AT&T Inc. is a noncontrolling stockholder of the Company.

<sup>(3)</sup> Includes P.7,944,083 in 2009 (P.9,959,018 in 2008) for interconnection expenses under the "Calling Party Pays" program for outgoing calls from fixed line telephones to cellular telephones paid to subsidiaries of América Móvil. América Móvil is an entity under common control with Carso Global Telecom.

<sup>(4)</sup> Includes P.47,462 in 2009 (P.84,654 in 2008) for the sale of materials and other services rendered to subsidiaries of Carso Group; P.230,397 in 2009 (P.206,634 in 2008) for billing and collection services rendered to subsidiaries of Grupo Financiero Inbursa, S.A.B. de C.V. (Inbursa); P.301,440 in 2009 (P.753,600 in 2008) for the use and updating of the telephone directory customer database, as well as P.373,648 in 2009 (P.411,956 in 2008) for billing, collection, administrative services and others rendered to subsidiaries of Telmex Internacional; and P.494,785 (P.451,686 in 2008) for property leases and other services rendered to subsidiaries of América Móvil. Inbursa is an entity under common control with Carso Global Telecom.

<sup>(5)</sup> Includes P.4,397,574 in 2009 (P.5,072,839 in 2008) for revenues invoiced to a subsidiary of América Móvil for the rental of private circuits and long distance services.

<sup>(6)</sup> Includes costs and revenues with companies of AT&T Inc. and with subsidiaries of América Móvil and Telmex Internacional.

c) An analysis of employee benefits granted to the Company's key management or directors is as follows:

	2009	2008
Short- and long-term direct benefits	P. 51,371	P. 41,636
Post-retirement benefits	3,154	3,060
Total	P. 54,525	P. 44,696

### 13. Stockholders' Equity

a) At December 31, 2009, capital stock is represented by 18,192 million shares issued and outstanding with no par value, representing the Company's fixed capital (18,555 million in 2008). An analysis is as follows:

	2009		2008	
8,115 million Series "AA" common shares	P.	5,569,721	P.	5,569,721
395 million Series "A" common shares (407 million in 2008)		317,792		327,734
9,682 million Series "L" shares with limited voting rights (10,033 in 2008)		3,132,787		3,241,177
<b>Total</b>	<b>P.</b>	<b>9,020,300</b>	<b>P.</b>	<b>9,138,632</b>

At December 31, 2009 and 2008, the historical value of the Company's capital stock was P.78,545 and P.80,113, respectively.

An analysis of the changes in 2009 and 2008 is as follows:

	Capital stock <sup>(1)</sup>					
	Series "AA"		Series "A"		Series "L"	
	Number	Amount	Number	Amount	Number	Amount
Balance at						
January 1, 2008	8,115	P. 5,569,721	430	P. 345,936	10,815	P. 3,486,904
Cash purchase of						
Company's own shares			( 9)	( 6,934)	( 796)	( 256,995)
Conversion of shares			( 14)	( 11,268)	14	11,268
Balance at						
December 31, 2008	8,115	5,569,721	407	327,734	10,033	3,241,177
Cash purchase of Company's						
own shares			( 2)	( 1,551)	( 361)	( 116,781)
Conversion of shares			( 10)	( 8,391)	10	8,391
Balance at						
December 31, 2009	<b>8,115</b>	<b>P. 5,569,721</b>	<b>395</b>	<b>P. 317,792</b>	<b>9,682</b>	<b>P. 3,132,787</b>

<sup>(1)</sup> Number of shares in millions

The Company's capital stock must be represented by (i) no less than 20% of Series "AA" common shares, which may be subscribed and acquired only by Mexican investors, and at all times must represent at least 51% of the common shares of total capital stock; (ii) Series "A" common shares, which may be freely subscribed, that must not exceed more than 19.6% of capital stock and no more than 49% of the common shares of total capital stock; (iii) both Series "AA" and "A" shares combined may not represent more than 51% of capital stock; and (iv) Series "L" shares, which have limited voting rights and may be freely subscribed, in a percentage when combined with the Series "A" shares may not exceed 80% of capital stock.

#### Voting rights

Each ordinary share of the Series "AA" and "A" entitles the holder to one vote at the general stockholders' meetings. Each Series "L" share entitles the holder to one vote at all stockholders' meetings in which holders of Series "L" shares are authorized to vote. In accordance with the Eighth Clause of the Company's bylaws, holders of Series "L" shares only have the right to vote to designate two directors on the Board of Directors and their corresponding alternate directors, and on the following matters:

- The transformation of TELMEX from one type of entity to another;
- Any merger in which TELMEX is not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of TELMEX (when TELMEX is the surviving entity); and
- Cancellation of the registration of the TELMEX's shares in the securities or special sections of the Mexican National Securities Registry and in any foreign stock exchanges in which they are registered.

In order for the resolutions adopted in extraordinary stockholders' meetings related to any of the matters on which the Series "L" shares are entitled to vote to be validated, the approval by a majority vote of the Series "AA" and Series "A" stockholders will be required.

Under Mexican law, the stockholders of any Series of shares are also entitled to vote as one class on any proposal that could adversely affect the rights of the stockholders of that particular series and the Company's stockholders (including the Series "L" stockholders), which individually or collectively represent 20% or more of all capital stock could judicially oppose any stockholders' resolution with respect to those resolutions for which such stockholders have the right to vote. The determination of whether a matter requires the vote by the holders of Series "L" under such basis would initially be made by the board of directors or by any other party that calls a stockholders' meeting to decide on the resolution. A negative decision would be subject to judicial challenge by any affected stockholder, and a court would ultimately determine the necessity for a class vote. There are no other procedures for determining whether a proposal requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

b) In 1994, the Company initiated a program to purchase its own shares. The cost of the repurchased shares, in the amount that exceeds the portion of capital stock corresponding to the repurchased shares, is charged to retained earnings.

At a regular stockholders' meeting held on March 3, 2009, the stockholders approved an increase of P.10,000,000 in the total authorized nominal amount for the repurchase of the Company's own shares. The remaining amount was P. 340,868, bringing the total maximum amount to be used for this purpose to P.10,340,868.

In 2009, the Company acquired 361.2 million Series "L" shares for P.4,073,625 and 1.9 million Series "A" shares for P.21,695.

In 2008, the Company acquired 796.7 million Series "L" shares for P.12,764,130 and 8.6 million Series "A" shares for P.107,712.

At December 31, 2009 and 2008, the Company had 14,040 (13,998 Series "L" and 42 Series "A") and 13,677 (13,637 Series "L" and 40 Series "A") million treasury shares, respectively.

c) In conformity with the Mexican Corporations Act, at least 5% of net income of the year must be appropriated to increase the legal reserve. This practice must be continued each year until the legal reserve reaches at least 20% of capital stock.

d) At December 31, 2009, *Accumulated other comprehensive income items* include P.748,675 for the effect of the market valuation of swaps designated as cash flow hedges and P.134,550 for the effect of translation of foreign entities, net of deferred taxes. At December 31, 2008, *Accumulated other comprehensive income items* include P.2,615,521 for the effect of the market valuation of swaps designated as cash flow hedges, net of deferred taxes, and P.201,104 for the effect of translation of foreign entities.

e) At a regular meeting held on April 28, 2009, the stockholders agreed to declare a cash dividend of P.0.46 per outstanding share, to be paid in four installments of P.0.1150 each in June, September and December 2009 and in March 2010. In March 2009, the Company paid the fourth installment of P.0.10 per outstanding share, which was authorized at the regular meeting held on April 25, 2008. At a regular meeting held on December 1, 2009, the stockholders agreed to declare an extraordinary cash dividend of P.0.40 per outstanding share, to be paid in a single payment beginning on December 17, 2009.

At a regular meeting held on April 25, 2008, the stockholders agreed to declare a cash dividend of P.0.40 per outstanding share, to be paid in four installments of P.0.10 each in June, September and December 2008 and in March 2009. In March 2008, the Company paid the fourth installment of P.0.1125 per outstanding share, which was authorized at the regular meeting held on April 27, 2007.

The cash dividends paid in 2009 and 2008 were P.15,093,082 and P.7,609,477, respectively.

#### 14. Income Tax and Flat-Rate Business Tax

a) Through December 31, 2009 the corporate income tax rate was 28%. Under the Mexican Tax Reform Law approved on December 7, 2009, the corporate income tax rate will be increased from 28% to 30% for the period from January 1, 2010 through December 31, 2012, and will be scaled back to 29% in 2013, and to 28% in 2014 and future years.

b) On October 1, 2007, the Flat-Rate Business Tax (FRBT) Law was published and became effective as of January 1, 2008.

Beginning January 1, 2008, the FRBT is computed by applying the applicable rate to income determined on the basis of cash flows, which is determined by deducting authorized deductions from all income collected from those activities that are subject to the tax. As established under the Law, certain FRBT credits also may be deducted from the FRBT payable. Under the Law's transitory provisions, the FRBT rate is 16.5% in 2008, 17% in 2009 and 17.5% in 2010 and succeeding years.

When the FRBT base is negative because deductions exceed taxable income, there is no FRBT payable. The amount of the negative base multiplied by the FRBT rate results in a FRBT credit, which may be applied against income tax for the same year or, if applicable, against FRBT payable in the next ten years.

FRBT creditable concepts result mainly from the negative FRBT base to be amortized, salary and social security contribution credits, and credits arising from the deduction of certain assets, such as inventories and fixed assets, during the transition period as of the date on which the FRBT became effective.

FRBT is payable only to the extent it exceeds income tax for the same period. To determine FRBT payable, income tax paid in a given period is first subtracted from the FRBT of the same period.

For the years ended December 31, 2009 and 2008, the Company had no FRBT payable and, based on its tax projections, estimates that it will not be subject to the payment of FRBT in subsequent years.

c) An analysis of the income tax provision is as follows:

	2009	2008
Current year income tax	P. 9,560,860	P. 10,606,003
Deferred tax	( 1,075,338)	( 1,014,344)
Total	P. 8,485,522	P. 9,591,659

A reconciliation of the statutory income tax rate to the effective rate recognized for financial reporting purposes is as follows:

	2009 %	2008 %
Statutory income tax rate	28.0	28.0
Depreciation	( 0.9)	( 3.9)
Social security benefits	1.2	1.1
Monetary gain	2.6	6.0
Tax benefits	( 0.2)	
Other	( 1.4)	1.0
Effective income tax rate	29.3	32.2

At December 31, 2009 and 2008, the Company recognized deferred income taxes on the following temporary differences:

	2009		2008	
<b>Deferred tax assets:</b>				
Allowance for bad debts and slow-moving inventories	P.	877,847	P.	599,582
Tax loss carryforwards		87,365		75,394
Advance billings		435,521		529,417
Accrued liabilities		1,492,471		1,084,274
Employee profit sharing		1,728,654		2,071,573
		<b>4,621,858</b>		<b>4,360,240</b>
<b>Deferred tax liabilities:</b>				
Fixed assets		( 14,357,100)		( 15,386,755)
Inventories		( 13,667)		( 25,589)
Licenses		( 118,903)		( 132,936)
Labor obligations		( 4,566,155)		( 4,304,012)
Prepaid expenses		( 300,552)		( 189,628)
Derivative financial instruments		( 272,538)		( 1,129,711)
Effect of translation of foreign entities		( 53,001)		
		<b>( 19,681,916)</b>		<b>( 21,168,631)</b>
Deferred tax liability, net	P.	<b>( 15,060,058)</b>	P.	<b>( 16,808,391)</b>

d) At December 31, 2009, the balance of the re-expressed contributed capital account (CUCA) and the net tax profit account (CUFIN) was P.11,491,546 and P.12,912,070, respectively. These amounts correspond to Teléfonos de México, S.A.B. de C.V. on an individual basis.

## 15. Segments

TELMEX primarily operates in two segments: local and long distance telephone service. The local telephone service segment corresponds principally to local fixed-line wired service, including interconnection service. The long distance service segment includes domestic and international service. Other segments include long distance calls made from public and rural telephones, data services and other services. Additional information related to the Company's operations is provided in Note 1. The following summary shows the most important segment information, which has been prepared on a consistent basis:

	(Amounts in millions of Mexican pesos)				
	Local service	Long distance	Other segments	Adjustments	Consolidated total
December 31, 2009					
Revenues:					
External revenues	P. 65,158	P. 22,543	P. 31,399		P. 119,100
Intersegment revenues	11,722		929	P. ( 12,651)	
Depreciation and amortization	9,818	1,788	6,345		17,951
Operating income	17,846	2,537	13,981		34,364
Segment assets	260,597	35,094	108,995		404,686
December 31, 2008					
Revenues:					
External revenues	P. 70,801	P. 27,454	P. 25,850		P. 124,105
Intersegment revenues	10,600		993	P. ( 11,593)	
Depreciation and amortization	11,260	2,211	4,462		17,933
Operating income	19,552	6,169	14,022		39,743
Segment assets	284,502	53,932	63,321		401,755

Inter-segmental transactions are reported based on terms offered to third parties. Employee profit sharing, other expenses, financing cost, equity interest in net income of affiliates and the income tax provision are not allocated to each segment, because they are handled at the corporate level.

Segment assets include plant, property and equipment (excluding accumulated depreciation), construction in progress and advances to equipment suppliers, and inventories for operation of the telephone plant.

## Proposal to the Stockholders' Meeting\*

(in thousands of Mexican pesos, except for dividends per share, see Note 1 II.b to the consolidated financial statements)

With regards to the dividend payments for the 2009 fiscal year, and according to clause forty-five of Teléfonos de México, S.A.B. de C.V.'s bylaws, the following amounts are available to the stockholders:

Retained earnings of prior years (without including legal reserve)	<b>P. 6,026,566</b>
Plus: Net income for 2009	<b>20,468,689</b>
<hr/>	
Unappropriated retained earnings, according to the balance sheet at December 31, 2009	<b>26,495,255</b>
Less: Separation for the fourth dividend payment in cash to stockholders beginning on March 26, 2010 of P. 0.1150 per share presenting coupon 53, according to the Ordinary Stockholders' Meeting held on April 28, 2009	<b>2,091,952</b>
Less: Earnings applied for the acquisition of Company's own shares in the period from January 1 through March 31, 2010, according to the maximum amount of the Company's resources of P. 10,340,868 <sup>(1)</sup> , approved by the Ordinary Stockholders' Meeting held on March 3, 2009	<b>11,038</b>
<b>Total</b>	<b>P. 24,392,265</b>

It is proposed that the balance of P. 24,392,265 made available to stockholders be allocated as follows:

There will be no increase to the legal reserve, due to the fact that complies with the requirements of the Article 20 of the Mexican Corporation Act

To pay a cash dividend of P. 0.50 per outstanding share, coming from the Net Tax Profit Account, in four equal payments of P. 0.1250 each

**P. 9,095,443 <sup>(2)</sup>**

To the retained earnings account

**15,296,822 <sup>(3)</sup>**

**Total**

**P. 24,392,265**

The corresponding cash dividend payments proposed to the Stockholders' Meeting will be paid starting June 17, 2010, September 23, 2010, December 16, 2010 and March 24, 2011, by presenting coupons 54, 55, 56 and 57, respectively, of the outstanding shares in effect at the time the corresponding payments are made. While the amounts of the dividend are not distributed to stockholders, they will continue in the Company's retained earnings account.

\* Subject to the proceeding updates at the moment the Annual Stockholders' Meeting is held.

<sup>(1)</sup> This figure was reduced by P. 3,530,491 for acquisitions of Company's own shares in the period from March 3, 2009 through March 31, 2010.

<sup>(2)</sup> Estimated amount considering a total of 18,190,885,360 outstanding shares at March 31, 2010.

<sup>(3)</sup> Amount subject to reductions coming from acquisitions of Company's own shares that are part of capital stock, according to applicable resolutions of the Ordinary Stockholders' Meeting held on March 3, 2009, which are still valid.

## Significant Results of Accounting Separation of Local and Long Distance Telephone Services in Mexico

(in millions of Mexican pesos, see Note 1 II.b to the consolidated financial statements)

Based on Condition 7-5 of the Amendments of the Concession Title, the commitment to present the accounting separation of the local and long distance services for 2009 and 2008 is presented below.

Years ended December 31,	Local service		Long distance service	
	2009	2008	2009	2008
<b>Operating revenues:</b>				
Access, rents and measured service	P. 44,641	P. 48,363		
Domestic long distance service			P. 16,259	P. 18,316
International long distance service			6,284	9,138
LADA Interconnection	5,154	4,145		
Interconnection with operators	1,754	1,560		
Interconnection with cellular companies	11,119	12,397		
Other	14,212	14,936		
<b>Total</b>	<b>76,880</b>	<b>81,401</b>	<b>22,543</b>	<b>27,454</b>
<b>Operating costs and expenses:</b>				
Costs of sales and services	24,059	23,444	5,189	5,391
Commercial, administrative and general	17,851	18,605	5,515	5,783
Interconnection	7,306	8,540		
Interconnection to the local network			7,514	7,900
Depreciation and amortization	9,818	11,260	1,788	2,211
<b>Total</b>	<b>59,034</b>	<b>61,849</b>	<b>20,006</b>	<b>21,285</b>
<b>Operating income</b>	<b>P. 17,846</b>	<b>P. 19,552</b>	<b>P. 2,537</b>	<b>P. 6,169</b>
<b>At December 31 of each year</b>				
Assets by segment	P. 260,597	P. 284,502	P. 35,094	P. 53,932
Personnel	34,364	35,505	4,518	4,801

### Notes:

This information varies to the one presented in the consolidated financial statements of this Annual Report due to:

- 1) The information that was considered in its elaboration was only the one corresponding to the companies that are directly involved in rendering local and long distance telephone services in Mexico as follows: Teléfonos de México, S.A.B. de C.V.; Teléfonos del Noroeste, S.A. de C.V.; Compañía de Teléfonos y Bienes Raíces, S.A. de C.V. and Alquiladora de Casas, S.A. de C.V.
- 2) Local service includes: revenues from basic rent, measured service, installation charges, equipment sales and interconnection.
- 3) Long distance service includes: revenues from basic services of domestic and international long distance; it does not include revenues from rural and public telephony and data services.
- 4) The services being disclosed consider the corresponding attributes for interconnection, billing, collecting, co-location and leased lines.
- 5) Interconnection with cellular operators includes revenues from calling party pays.

# Board of Directors

## Board Members Appointed by Common Shares

### **Carlos Slim Domit** *(r, p) (1)*

Chairman of the Board  
Teléfonos de México, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: telecommunications, retailing and construction.

### **Jaime Chico Pardo** *(r) (1)*

Co-Chairman of the Board  
Teléfonos de México, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: telecommunications and automotive.

### **Antonio Cosío Ariño** *(i) (1,2)*

Chief Executive Officer  
Compañía Industrial Tepeji del Río, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: textiles.

### **Amparo Espinosa Rugarcía** *(i)*

Chief Executive Officer  
Documentación y Estudios de Mujeres, A.C.  
Born in Puebla, Pue.  
Experience: human development.

### **Elmer Franco Macías** *(i)*

Chief Executive Officer  
Grupo Infra, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: industrial and medical gas.

### **José Kuri Harfush** *(i) (2)*

Chief Executive Officer  
Janel, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: textiles.

### **Ángel Losada Moreno** *(i)*

Chairman of the Board and  
Chief Executive Officer  
Grupo Gigante, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: retailing.

### **Juan Antonio Pérez Simón** *(i) (1, 3)*

Vice-Chairman of the Board  
Teléfonos de México, S.A.B. de C.V.  
Born in Turanzas, Asturias, Spain.  
Experience: telecommunications and retailing.

### **Marco Antonio Slim Domit** *(r, p)*

Chairman of the Board and  
Chief Executive Officer  
Grupo Financiero Inbursa, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: finance and telecommunications.

### **Héctor Slim Seade** *(r) (1)*

Chief Executive Officer  
Teléfonos de México S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: finance and telecommunications.

### **Michael J. Viola** *(i) (1)*

Senior Vice President - Finance  
AT&T, Inc.  
Born in Bangor, Maine, U.S.A.  
Experience: international finance.

### **Larry I. Boyle** *(i) (1)*

Chief Financial Officer  
AT&T Mexico, Inc.  
Born in Dallas, Texas, U.S.A.  
Experience: finance and telecommunications.

## Board Members Appointed by Series "L"

### **Rafael Moisés Kalach Mizrahi** *(i) (2)*

Chairman of the Board and  
Chief Executive Officer  
Grupo Kaltex, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: textiles.

### **Ricardo Martín Bringas** *(i)*

Chief Executive Officer  
Organización Soriana, S.A.B. de C.V.  
Born in Torreón, Coah.  
Experience: retailing.

## Secretary

### **Sergio F. Medina Noriega**

Legal Director  
Teléfonos de México, S.A.B. de C.V.  
Born in Tenancingo, Edo. de Méx.  
Experience: law.

## Common Shares Alternates

### **Jaime Alverde Goya** *(i) (3)*

Chairman of the Board  
Desarrolladora A & L, S. de R.L. de C.V.  
Born in Mexico, D.F.  
Experience: retailing and real estate.

### **Antonio Cosío Pando** *(i) (3)*

Vice-President  
Compañía Industrial Tepeji del Río, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: textiles.

### **Jorge A. Chapa Salazar** *(r)*

Director  
Grupo Chapa, S.A. de C.V.  
Born in Monterrey, N.L.  
Experience: retailing.

### **Marcos Franco Hernaiz** *(i)*

Board Member  
Grupo Piscimex, S.A. de C.V.  
Born in Mexico, D.F.  
Experience: food.

### **José Humberto Gutiérrez Olvera Zubizarreta** *(r) (1)*

Chief Executive Officer  
Grupo Carso, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: construction, telecommunication and electronics.

### **Patrick Slim Domit** *(r, p)*

Mass Market Director  
Teléfonos de México, S.A.B. de C.V.  
Born in Mexico, D.F.  
Experience: telecommunications.

### **Eduardo Tricio Haro** *(i)*

Chairman of the Board  
Grupo Industrial Lala, S.A. de C.V.  
Born in Torreón, Coah.  
Experience: food and beverages.

### **Eduardo Valdés Acra** *(r)*

Chief Executive Officer  
Inversora Bursátil, S.A. de C.V.  
Born in Toluca, Edo. de Méx.  
Experience: finance.

## Series "L" Alternates

### **Jorge C. Esteve Recolons** *(i)*

Chief Executive Officer  
HSBC Previsión América Latina  
Born in Mexico, D.F.  
Experience: finance.

## Assistant Secretary

### **Rafael Robles Miaja**

Partner  
Bufete Robles Miaja, S.C.  
Born in Mexico, D.F.  
Experience: law.

## Type of Board Member

(i) Independent  
(p) Patrimonial  
(r) Related

(1) Executive  
(2) Audit  
(3) Corporate Practices

# Advisory Board

**Sergio Abraham Mafud** *(Mérida)*

Chief Executive Officer  
San Francisco de Asís, S.A. de C.V.  
Retailing

**Carlos Álvarez Bermejillo** *(Guadalajara)*

Executive President  
Laboratorios PISA, S.C.  
Pharmaceutical

**Luis Aranguren Tréllez** *(Guadalajara)*

Executive President  
Arancia Industrial, S.A. de C.V.  
Processed food

**José Joaquín Arizpe y de la Maza** *(Saltillo)*

Vice-Chairman of the Board  
Grupo Corporativo Arma, S.A. de C.V.  
Beverages

**Carolina Aubanel Riedel** *(Tijuana)*

Chief Executive Officer  
Síntesis Comunicación – Síntesis, TV, S.A. de C.V.  
Media

**Alfonso Barba González** *(Aguascalientes)*

Chairman of the Board  
Barba Apparel International  
Textiles

**Miguel Carlos Barragán Villarreal** *(Monterrey)*

Board Member  
Embotelladoras Arca, S.A. de C.V.  
Beverages

**José Berrondo Mir** *(Querétaro)*

Vice-President of Technologies and Projects  
Mabe S.A. de C.V.  
Consumer appliances

**Marcelo Canales Clariond** *(San Pedro Garza García)*

Chief Executive Officer  
Profesionales en Tesorería, S.A. de C.V.  
Finance

**Luis Germán Cárcoba García** *(Guadalajara)*

Businessman

**Raúl E. Cásares G. Cantón** *(Mérida)*

Chairman of the Board  
Productos Prácticos de Madera, S.A. de C.V.  
Industrial wood

**José Cernicchiaro Maimone** *(Puebla)*

Chairman of the Board  
La Italiana, S.A. de C.V.  
Processed food

**Luis Alberto Chapa González** *(Monterrey)*

Chairman of the Board and Chief Executive Officer  
Grupo Chapa, S.A. de C.V.  
Retailing

**José Antonio Chapur Zahoul** *(Cancún)*

Chief Executive Officer  
Palace Resorts, S.C.  
Tourism

**Antonio Chedraui Obeso** *(Xalapa)*

Chairman of the Board  
Grupo Comercial Chedraui, S.A. de C.V.  
Retailing

**Enrique Coppel Luken** *(Culiacán)*

President  
Coppel Capital  
Retailing

**Alberto Coppel Tirado** *(Los Cabos)*

Director of Corporate Operations  
Pueblo Bonito Oceanfront  
Tourism

**Juan Manuel Díez Francos** *(Río Blanco)*

Chairman of the Board  
Grupo Díez-Fénix, S.A. de C.V.  
Automotive and retailing

**Rómulo Farrera Escudero** *(Tuxtla Gutiérrez)*

Chairman of the Board and Chief Executive Officer  
Grupo Farrera, S.A. de C.V.  
Automotive

**José Ramón Fernández Aguilar** *(Hermosillo)*

Chairman of the Board  
Grupo Empresarial Sonorense, S.A. de C.V.  
Processed food and automotive

**Herman H. Fleishman Cahn** *(Tampico)*

Chairman of the Board and Chief Executive Officer  
Grupo Tampico, S.A.  
Beverages

**Roberto García Navarro** *(San Luis Potosí)*

Chairman of the Board and Chief Executive Officer  
Grupo Canel's, S.A. de C.V.  
Processed food

**Gemma Garciarce Monraz** *(Guadalajara)*

Chief Executive Officer  
Hotel Sheraton Bugambilias  
Resort & Towers  
Tourism

**Roberto González Alcalá** *(San Pedro Garza García)*

Chief Executive Officer  
Gruma de México y Latinoamérica  
Processed food

**Juan José Gutiérrez Ruiz** *(Oaxaca)*

President  
Business Council of Oaxaca  
Beverages

**Luis Lara Armendáriz** *(Chihuahua)*

President and Chief Executive Officer  
American Industries, S.A. de C.V.  
Construction

**Juan Manuel Ley López** *(Culiacán)*

Chairman of the Board  
Grupo Ley, S.A. de C.V.  
Retailing

**Shelby Longoria Kowalski** *(Reynosa)*

Chairman of the Board  
Grupo Inlosa  
Construction, automotive and banking

**Ernesto López de Nigris** *(Saltillo)*

Member of the Board  
Grupo Industrial Saltillo, S.A.B. de C.V.  
Construction and automotive

**Gastón Luken Aguilar** *(Mexicali)*

Member of the Board  
Consultivo del Agua, A.C.  
Banking and environmental protection

**Nicolás Madahuar Cámara** *(Mérida)*

Chairman of the Board  
Optivosa, S.A. de C.V.  
Retailing

**Carlos Maldonado Quiroga** *(Monterrey)*

Chairman of the Board  
Milenium Grupo Hotelero Mexicano, S.A. de C.V.  
Tourism and paper

**Ricardo E. Marcos Touché** *(Torreón)*

Chairman of the Board and Chief Executive Officer  
Grupo Libra, S.A. de C.V.  
Textiles

**Gilberto Marín Quintero** *(Puebla)*

Chairman of the Board and Chief Executive Officer  
Grupo PI Mabe, S.A. de C.V.  
Hygiene products

**Felipe Pablo Martínez Treviño** *(León)*

Chairman of the Board  
Grupo Emyco, S.A. de C.V.  
Footwear

**José O. Menchaca Díaz del Guante** *(Tepic)*

Chief Executive Officer  
Ingenio El Molino, S.A. de C.V.  
Sugarcane industry

**Armando José Millet Molina** *(Cancún)*

Chairman of the Board  
Operadora Corporativa Miró, S.A. de C.V.  
Tourism

**Cuahtémoc Pérez Román** *(Mexicali)*

Chairman of the Board and Chief Executive Officer  
Obras y Desarrollo URBI, S.A. de C.V.  
Construction

**Jaime Rodríguez Silva** *(Monterrey)*

Chairman of the Board  
Grupo Senda Autotransporte, S.A. de C.V.  
Transport

**Manuel Romo Muñoz** *(San Juan de los Lagos)*

Chief Executive Officer  
Proteína Animal, S.A. de C.V.  
Poultry and livestock industry

**Roberto Ruíz Rubio** *(Querétaro)*

Vocal of the Board  
Grupo Fomento Queretano, S.A. de C.V.  
Beverages

**Federico Terrazas Torres** *(Chihuahua)*

Chairman of the Board  
Grupo Cementos de Chihuahua, S.A.B. de C.V.  
Cement industry

**Félix Tonella Luken** *(Hermosillo)*

Chairman of the Board  
Dinisa, S.A. de C.V.  
Construction

**Marcelo Zambrano Lozano** *(San Pedro Garza García)*

Partner and Chief Executive Officer  
Constructora Carza, S.A. de C.V.  
Construction

**Jaime Zorrilla de San Martín Diego** *(Oaxaca)*

Chief Executive Officer  
Procasa, S.A. de C.V.  
Supplier of steel and cement

## Senior Management

### **Héctor Slim Seade**

Chief Executive Officer

### Corporate

#### **Isidoro Ambe Attar**

Corporate Market

#### **Adolfo Cerezo Pérez**

Finance and Administration

#### **José Covarrubias Bravo**

Product Development and  
Telecommunications Operators  
Coordinator

#### **Javier Elguea Solís**

Dean of Inttelmex

#### **Arturo Elías Ayub**

Communication, Institutional  
Relations and Strategic Alliances

#### **María del Consuelo Gómez Colín**

Operational Support

#### **Eduardo J. Gómez Chibli**

Technical and Network Management

#### **Sergio F. Medina Noriega**

Legal

#### **Javier Mondragón Alarcón**

Regulatory and Legal Affairs

#### **Jaime Pérez Gómez**

Human Resources

#### **Patrick Slim Domit**

Mass Market

#### **Andrés R. Vázquez del Mercado**

**Benshimol**

Residential Mass Market

### Divisions

#### **Oscar Aguilar Ramírez**

Metro

#### **Miguel Macías Viveros**

Central

#### **Hiram Ontiveros Medrano**

South

#### **Raymundo Paulín Velasco**

North

#### **José Alfredo Reynoso del Valle**

Northwest

# Shareholder Information

## Headquarters

Parque Vía 190  
Colonia Cuauhtémoc  
Mexico City, C.P. 06599

## Investor Relations

Parque Vía 198, Oficina 701  
Colonia Cuauhtémoc  
Mexico City, C.P. 06599  
Ph: 52 (55) 5222-5462  
ri@telmex.com

## Shareholder Services

Ph: 52 (55) 5222-1083  
Fax 52 (55) 5546-2111

## Independent Auditors

Mancera, S.C., Ernst & Young

## Shares Traded in Mexico

"A": Bolsa Mexicana de Valores  
Symbol: *TELMEX A*  
"L": Bolsa Mexicana de Valores  
Symbol: *TELMEX L*

## Shares Traded in the U.S.

ADS: *NYSE*  
(New York Stock Exchange)  
Symbol: *TMX*  
One ADS represents 20 "L" shares  
ADS: *NASDAQ*  
Symbol: *TFONY*  
One ADS represents 20 "A" shares"

## Transfer and Depository Agent in the U.S.

J.P. Morgan Depository Receipts  
[www.adr.com](http://www.adr.com)

If you own ADR's of Teléfonos de México,  
S. A. B. de C.V., please contact:  
JPMorgan Chase & Co.  
P.O. Box 64504  
St. Paul, MN 55164-0504  
Toll free: 1-800-990-1135  
Direct: (651) 453-2128  
[jpmorgan.adr@wellsfargo.com](mailto:jpmorgan.adr@wellsfargo.com)

## Ticker Symbols

TELMEX: *BMV*  
TMX: *NYSE*  
TFONY: *NASDAQ*  
XTMXL: *LATIBEX*

[www.telmex.com](http://www.telmex.com)





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está contigo