

TELEFONOS DE MEXICO S A B DE C V

Form 20-F

May 29, 2009

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As filed with the Securities and Exchange Commission on May 29, 2009.

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2008

Commission File Number: 001-32741

Teléfonos de México, S.A.B. de C.V.

(Exact name of registrant as specified in its charter)

Telephones of Mexico

(Translation of registrant's name into English)

United Mexican States

(Jurisdiction of incorporation or organization)

Parque Vía 190, Colonia Cuauhtémoc, 06599 México, D.F., México
(Address of principal executive offices)

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SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 20 Series L Shares, without par value (L Share ADSs)	New York Stock Exchange
Series L Shares, without par value (L Shares)	New York Stock Exchange (for listing purposes only)
American Depositary Shares, each representing 20 Series A Shares, without par value (A Share ADSs)	The NASDAQ Capital Market
Series A Shares, without par value (A Share ADSs)	The NASDAQ Capital Market (for listing purposes only)
8.75% Senior Notes due 2016	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

SECURITIES FOR WHICH THERE IS A REPORTING OBLIGATION PURSUANT TO SECTION 15(d) OF THE ACT: None

The number of outstanding shares of each class of capital or common stock as of December 31, 2008 was:

8,115 million	AA Shares
407 million	A Shares
10,033 million	L Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). N/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-accelerated filer

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Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing: U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports to the SEC on Form 6-K, in our annual report to shareholders, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by our officers, directors or employees to analysts, investors, representatives of the media and others. Examples of such forward-looking statements include:

projections of operating revenues, net income, net income per share, capital expenditures, dividends, capital structure or other financial items or ratios;

statements of our acquisition or divestiture plans;

statements about the impact of our acquisition of businesses;

statements of our plans, objectives or goals relating to competition, regulation and rates;

statements about competition in the business sectors in which we operate;

statements about our future financial performance or the economic performance of Mexico or other countries;

statements about interest rates, currency exchange rates and foreign securities markets;

statements about the availability and cost of external financing for our operations, which have been affected by the stress experienced by the global financial markets;

statements about the future impact of regulations; and

statements of assumptions underlying such statements.

Words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, guideline, should and intended to identify forward-looking statements but are not the exclusive means of identifying them.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under Risk Factors beginning on page 6, include regulatory developments, economic and political conditions, which have been affected by the global economic crisis, competition, customer demand, government policies, inflation rates, exchange rates and technological changes. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

Forward-looking statements speak only as of the date they are made. We do not undertake to update such statements in light of new information or new developments.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

SELECTED FINANCIAL DATA

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the five years in the period ended December 31, 2008, which have been reported on by Mancera, S.C., a Member Practice of Ernst & Young Global, an independent registered public accounting firm. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and notes thereto included elsewhere in this Annual Report.

Our consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards, or Mexican FRS, which differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 18 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us; a reconciliation to U.S. GAAP of net income and total stockholders' equity; and condensed financial statements under U.S. GAAP.

Effect of Inflation Accounting

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Through December 31, 2007, under Bulletin B-10, inflation accounting had extensive effects on the presentation of our financial statements. In our financial information for 2008, inflation adjustments for prior periods have not been removed from stockholders' equity and the re-expressed amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods, as required by Mexican FRS. Financial statements for periods prior to 2008 are presented in constant pesos as of December 31, 2007. See Item 5. *Operating and Financial Review and Prospects* *Effect of Inflation Accounting*.

In December 2007, we transferred our Latin American and yellow pages directory businesses to a new, separate entity, Telmex Internacional, in an *escisión*, or split-up. See Item 4. *Information on the Company History* *The Escisión*. The businesses we transferred to Telmex Internacional are presented as discontinued operations for dates and periods prior to the effective date of the *Escisión*, which was December 26, 2007 under Mexican FRS and June 10, 2008 under U.S. GAAP. See Item 5. *Operating and Financial Review and Prospects* *U.S. GAAP Reconciliation* and Note 2 to our audited consolidated financial statements.

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The figures below have been adjusted to give effect for all periods to the two-for-one stock split that occurred in May 2005.

	Year ended December 31,				
	2008 ⁽⁵⁾	2007	2006	2005	2004
(2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007, except share and per share data)					
Income Statement Data:					
Mexican FRS:					
Operating revenues	P.124,105	P.130,768	P.129,755	P.131,449	P.135,302
Operating costs and expenses	84,362	86,884	83,491	85,210	89,897
Operating income	39,743	43,884	46,264	46,239	45,405
Financing cost, net	9,233	3,349	3,770	5,699	880
Income from continuing operations	20,177	28,889	27,701	27,263	29,103
Income from discontinued operations, net of income tax		7,166	2,615	4,926	2,093
Net income	20,177	36,055	30,316	32,189	31,196
Earnings per share basic ⁽¹⁾	1.07	1.80	1.41	1.35	1.28
Earnings per share from continuing operations basic	1.07	1.46	1.32	1.19	1.22
Earnings per share from discontinued operations basic		0.34	0.09	0.16	0.06
Dividends paid per share ⁽¹⁾⁽²⁾	0.413	0.440	0.403	0.370	0.333
Weighted average number of shares outstanding (millions) basic	18,906	19,766	20,948	22,893	23,906
U.S. GAAP:					
Operating revenues	P.124,105	P.130,768	P.129,755	P.131,449	P.135,302
Operating costs and expenses	85,749	89,983	87,676	89,782	95,184
Operating income	38,356	40,785	42,079	41,667	40,118
Income from continuing operations, net of income tax	19,783	28,985	27,087	26,221	30,147
Income from discontinued operations, net of income tax	2,173	6,848	1,081	3,100	1,320
Net income	22,008	35,375	28,638	29,221	31,497
Earnings per share basic ⁽¹⁾	1.16	1.79	1.37	1.28	1.32
Earnings per share from continuing operations basic	1.05	1.47	1.29	1.14	1.26
Earnings per share from discontinued operations basic	0.11	0.32	0.08	0.14	0.06
Dividends paid per share ⁽¹⁾⁽²⁾	0.413	0.440	0.403	0.370	0.333

(See footnotes on following page)

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	December 31,				
	2008 ⁽⁵⁾	2007	2006	2005	2004
	(2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007, except share and per share data and ratios)				
Balance Sheet Data:					
Mexican FRS:					
Plant, property and equipment, net	P. 112,865	P. 120,649	P. 124,613	P. 130,088	P. 137,677
Total assets from continuing operations	187,125	172,826	188,182	200,793	214,792
Total assets from discontinued operations			107,366	93,980	93,259
Total assets	187,125	172,826	295,548	294,773	308,051
Short-term debt and current portion of long-term debt	22,883	12,282	9,041	14,501	5,275
Long-term debt	84,172	79,180	81,376	75,696	79,393
Total stockholders' equity	39,371	42,159	121,321	135,879	132,785
Capital stock	9,139	9,403	28,011	29,728	31,238
Number of outstanding shares (millions)					
Series AA	8,115	8,115	8,115	8,115	8,127
Series A	407	430	446	479	504
Series L	10,033	10,815	11,642	13,451	15,034
U.S. GAAP:					
Plant, property and equipment, net	P. 115,676	P. 124,825	P. 130,215	P. 136,824	P. 143,150
Total assets from continuing operations	177,033	163,263	183,815	207,272	219,883
Total assets from discontinued operations		132,191	87,807	70,466	69,110
Total assets	177,033	295,454	271,622	277,738	288,993
Short-term debt and current portion of long-term debt	22,883	12,282	9,041	14,501	5,275
Long-term debt	84,172	79,180	81,376	75,696	79,393
Total stockholders' equity	11,268	117,504	97,335	103,921	100,969
Capital stock	9,139	27,231	28,011	29,728	31,238
Other Data:					
Mexican FRS:					
Ratio of earnings to fixed charges ⁽³⁾	4.9	7.1	6.7	7.0	8.3
U.S. GAAP:					
Ratio of earnings to fixed charges ⁽⁴⁾	4.9	7.0	6.7	6.8	8.8

- (1) We have not presented net income or dividends on a per ADS basis. Each L Share ADS represents 20 L Shares, and each A Share ADS represents 20 A Shares. For 2004, we have only presented basic per share data. On a fully diluted basis under Mexican FRS, net income per share in 2004 was P.1.21 from continuing operations, Ps.0.06 from discontinued operations and P.1.27 total, and under U.S. GAAP, net income per share in 2004 was P.1.25 from continuing operations, P.0.06 from discontinued operations and P.1.31 total. On a fully diluted basis, weighted average number of outstanding shares in 2004 was 24,404 million.
- (2) Nominal amounts. For information on dividends paid per share converted into U.S. dollars, see *Item 8. Financial Information Dividends*.
- (3) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges during the period. Fixed charges for this purpose consist of interest expense during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.
- (4) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Fixed charges for this purpose consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.
- (5) Note 1(II)(x) to our audited consolidated financial statements describes new accounting pronouncements under Mexican FRS that came into force in 2008. The pronouncements that became effective on January 1, 2008, were fully implemented in the financial statements included in this Annual Report. These new accounting pronouncements were applied on a prospective basis. As a result, the financial statements of prior years, which are presented for comparative purposes, have not been modified and may not be comparable to our financial statements for 2008.

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The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rate expressed in pesos per U.S. dollar.

Period	High	Low	Average⁽¹⁾	Period End
2004	P. 10.81	P. 11.64	P. 10.29	P. 11.15
2005	10.41	11.41	10.87	10.63
2006	10.43	11.46	10.90	10.80
2007	10.67	11.27	10.84	10.92
2008	9.92	13.94	11.21	13.83
2008:				
December	13.09	13.83	13.42	13.83
2009:				
January	13.33	14.33	13.88	14.33
February	14.09	15.09	14.61	15.09
March	14.02	15.41	14.65	14.21
April	13.05	13.89	13.39	13.80

Sources: The U.S. Federal Reserve Bank of New York and the U.S. Federal Reserve Board.

(1) Average of month-end rates, where applicable.

On May 22, 2009, the exchange rate was P.13.17 to U.S.\$1.00, according to the U.S. Federal Reserve Board.

We pay cash dividends in pesos, and exchange rate fluctuations affect the U.S. dollar amounts received by holders of our American Depositary Shares, or ADSs, on conversion by the depositary of cash dividends on the shares represented by such ADSs. Fluctuations in the exchange rate between the peso and the U.S. dollar affect the U.S. dollar equivalent of the peso price of our shares on the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) and, as a result, can also affect the market price of the ADSs.

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RISK FACTORS

Risks Relating to Our Business Generally

Competition and shifting usage patterns are adversely affecting our revenues and profitability

Our revenues and our profitability have been adversely affected by increasing competition and by changes in how customers use telecommunications services. Our fixed-line network services face increasing competition from other technologies including wireless telephone service, wireless data service, cable television providers that offer telephone service, Voice over Internet Protocol (VoIP) service and others and the substitution of these technologies for fixed-line telephony. This process has adversely affected our traffic volume and our results of operations and will likely continue to do so in the future.

In addition to competition from other technologies, we also have numerous competitors in local service and in long-distance services. Governmental authorities in Mexico continue to grant new licenses and concessions to new market entrants, which results in increased competition.

The Mexican authorities have also adopted regulations to permit cable television providers to provide voice-transmission services to local fixed-line telecommunications operators and data and broadband Internet access services to the Mexican public. As of December 31, 2008, 28 cable television providers, which have been granted a total of 60 concessions, have been authorized to provide local fixed-line voice-transmission service in various cities in Mexico. Regulations have also been adopted to allow us and other local telephone service providers to provide paid television and audio services, but to date we have been unable to obtain authorization to do so.

The effects of competition on our business are highly uncertain and depend on a variety of factors, including economic conditions, regulatory developments, the behavior of our customers and competitors and the effectiveness of measures we take in response to competition. Our ability to compete successfully depends on customer service, marketing and our ability to anticipate and respond to various competitive factors affecting the telecommunications industry, including new services and technologies, changes in consumer preferences, demographic trends, economic conditions and the commercial strategies of our competitors. If we are unable to respond to competition and compensate for declining prices by adding new customers, increasing usage and offering new services, our revenues and profitability could decline.

Regulatory developments could hurt our business by limiting our ability to pursue competitive and profitable strategies

Our business is subject to extensive government regulation, and it can be adversely affected by changes in law, regulation or regulatory policy that limit our ability to modify our business strategy. In particular, the regulatory developments described below could adversely affect us.

The Federal Telecommunications Law (*Ley Federal de Telecomunicaciones*) provides that if a company is determined to have substantial market power in a relevant market, the Communications Ministry (*Secretaría de Comunicaciones y Transportes*) may adopt specific regulations on rates, quality of service and information to be provided by that dominant company. In addition, if a company is determined to have engaged in monopolistic practices, it may be subject to prohibitions or monetary sanctions. The Competition Commission (*Comisión Federal de Competencia*) is conducting seven industry-wide investigations to determine whether any operators possess substantial market power or engage in certain monopolistic practices in certain segments of the Mexican telecommunications market. In

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four of these investigations, preliminary resolutions have concluded that we and our subsidiary Teléfonos del Noroeste, S.A. de C.V., or Telnor, have substantial power in the relevant markets investigated. We have filed objections to these resolutions, and final determinations are pending. The three remaining investigations, relating to monopolistic practices, are in the stage of information collection and analysis, and we cannot predict their outcome. Findings adverse to us in any of the seven investigations may lead to the imposition of regulations, prohibitions or monetary penalties on us.

In February 2009, the Mexican Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*, or Cofetel) published a Fundamental Technical Plan of Interconnection and Inter-operability, which requires operators with the greatest number of access points to provide other operators with access to our network on an unbundled basis that disaggregates the prices for different service elements. We believe this may result in pricing network access at rates below the recovery cost for our infrastructure investments and may have a negative impact on us and the Mexican telecommunications sector in general. We are in the process of evaluating the impact of this Plan on Telmex and our available legal recourse.

Beginning in March 2007, Cofetel issued several resolutions to consolidate 195 local service areas, reducing the number of local service areas (currently 397) in a process that would begin in November 2008 and be completed in 2010. If implemented, we believe this consolidation will have an adverse impact on our revenues from long-distance service.

The current global economic downturn and, in particular, the slowdown of the U.S. and Mexican economies, could have a negative impact on our operating results and financial condition

Our business is influenced by general economic conditions worldwide and in Mexico. Further deterioration in the economic environment could have an adverse effect on demand for some of our products and services. The Mexican economy is experiencing a downturn. In difficult economic conditions our customers may seek to reduce discretionary spending. Under these conditions our business customers may delay purchasing decisions, delay full implementation of service offerings or reduce their use of services. Adverse economic conditions may also lead to an increase in the number of our residential and business customers that are unable to pay for services. If these events were to occur, it could have a material adverse effect on our business and results of operations.

The ongoing uncertainty in global financial markets could adversely affect our financing costs and exposure to our customers and counterparties

The global financial markets continue to be unstable, and many companies have limited access to funding. If access to credit tightens further and borrowing costs rise, our costs could be adversely affected. Difficult financial markets may also adversely affect some of our customers, including other telecommunications carriers that pay us for interconnection and other services. In addition, we enter into derivative transactions with large financial institutions to support our treasury operations, including contracts to hedge our exposure to interest rates and foreign exchange, and we could be adversely affected by severe financial difficulties faced by our counterparties.

Our industry is subject to rapid technological changes, which could adversely affect our ability to compete

The telecommunications industry is subject to rapid technological change. Our future success depends, in part, on our ability to anticipate and adapt in a timely manner to technological changes. We

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expect that new products and technologies will emerge and that existing products and technologies will further develop. These new products and technologies may reduce the prices we can charge for our services or they may be superior to, and render obsolete, the products and services we offer and the technologies we use. They may consequently reduce the revenues generated by our products and services or require investment in new technology. As a result, our most significant competitors in the future may be new entrants to our markets that would not be burdened by an installed base of older equipment.

Developments in the telecommunications sector may result in substantial write-downs of the carrying value of certain of our assets

We review the value of our long-lived assets, where the circumstances require, to assess whether those carrying values can be supported by the future cash flows expected to be derived from those assets. In addition, whenever we consider that our fixed assets, intangible assets or goodwill may be impaired due to changes in the economic, regulatory or business environment, we consider the necessity of performing certain valuation tests, which may result in impairment charges. The recognition of impairments of long-lived tangible and intangible assets could result in a non-cash charge on our income statement, which could adversely affect our results of operations.

A network failure could cause delays or interruptions of service, which could cause us to lose customers and revenues

We will need to continue to provide our users with reliable service over our network. Some of the risks to our network and infrastructure include physical damage to our network, natural disasters such as hurricanes, earthquakes, floods and storms, among others, and other disruptions beyond our control. Although we carry casualty insurance against loss and we have implemented redundancy in our network and installed backup technologies, disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and revenues or incur additional expenses.

We are exposed to currency and interest rate risk on our debt, and we have entered into derivatives contracts to limit these risks

A substantial part of our indebtedness is denominated in U.S. dollars, and we have relatively limited assets and revenues denominated in U.S. dollars. As of December 31, 2008, our U.S. dollar-denominated indebtedness amounted to P.81,698 million. In addition, a substantial part of our indebtedness bears interest at variable rates. As a result, we are exposed to risks from changing currency exchange rates and interest rates.

To offset these risks, we enter into derivative financial instruments with large financial institutions to minimize the impact of fluctuations in exchange rates and variable interest rates on our indebtedness. We have not entered into derivative financial instruments for any other purposes, although we may do so in the future. The types of derivative instruments we have typically entered into in recent periods include cross-currency swaps (in which we generally pay peso amounts based on peso interest rates and receive U.S. dollar amounts based on dollar interest rates), interest-rate swaps (in which we generally pay amounts based on fixed interest rates and receive amounts based on variable interest rates) and forward exchange contracts (in which we generally agree to use pesos to purchase U.S. dollars at a future date).

Our derivative instruments do not provide complete protection against the exchange rate or interest-rate risk of our indebtedness. We may determine that the risks are acceptable or that the protection available through derivative instruments in the market is insufficient or too costly. These determinations depend on many factors, including market conditions, the specific risks in question, and our expectations concerning future market developments. We review and change our derivatives positions regularly, and our hedging policies change from time to time.

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When the financial markets are volatile, as they have been in recent periods, our results of operations may be substantially affected by variations in exchange rates and, to a lesser degree, interest rates. These effects include foreign exchange gain and loss on assets and liabilities denominated in U.S. dollars, fair value gain and loss on derivative instruments, and changes in interest income and interest expense. These effects are much more volatile than our operating performance or our operating cash flows.

We attempt to match the cash flows on our derivative transactions with the cash flows on our indebtedness. The net effects on our reported results in any period are difficult to predict and depend on market conditions and on the specifics of our derivatives positions. For example, in 2008 the peso depreciated against the U.S. dollar by 24.6%. We recognized an exchange loss of P.17,085 million resulting from depreciation of the peso against the dollar, and a net fair value gain of P.14,591 million on currency derivatives. We also recognized higher interest expense, because the effects of lower variable rates and lower average debt were more than offset by the larger amounts paid under our interest-rate swaps.

Our derivative transactions are also subject to the risk that counterparties will default or seek bankruptcy protection. The instability and uncertainty in the financial markets has made it more difficult to assess the risk of counterparties to derivatives contracts. Moreover, in light of the greater volatility in the global securities and exchange markets, there may be fewer financial entities available with which we could continue entering into derivative financial instruments to protect against currency and interest rate risk.

Substantially all our business is in Mexico, so we are affected by adverse economic or political conditions in Mexico

Substantially all of our business operations and assets are located in Mexico. Our financial performance may be affected by general economic, political and social conditions in Mexico. In the past, Mexico has experienced both prolonged periods of weak economic conditions and deterioration in economic conditions that have had a negative impact on our company. Mexico has also experienced high levels of inflation and high domestic interest rates in the past, which significantly lowered the purchasing power of consumers and businesses. If the current Mexican economic downturn continues or worsens or if inflation and interest rates increase significantly, our business, financial condition and results of operations could suffer material adverse consequences because, among other things, demand for telecommunications services may decrease and consumers may find it difficult to pay for the services we offer.

Risks Relating to Our Controlling Shareholder and Capital Structure

We are controlled by one shareholder

A majority of the voting shares of our company (71.5% as of May 13, 2009) is owned by Carso Global Telecom, S.A.B. de C.V., or Carso Global Telecom. Carso Global Telecom has the effective power to designate a majority of the members of our Board of Directors and to determine the outcome of other actions requiring a vote of the shareholders, except in very limited cases that require a vote of the holders of L Shares. Carso Global Telecom is controlled by Carlos Slim Helú and members of his immediate family, who, taken together, own a majority of the common stock of Carso Global Telecom.

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The protections afforded to minority shareholders in Mexico are different from those in the United States

Our bylaws provide that any dispute between us and our shareholders will be governed by Mexican law and that legal actions relating to the execution, interpretation or performance of the bylaws may be brought only in Mexican courts. Under Mexican law, the protections afforded to minority shareholders are different from those in the United States. In particular, the case law concerning fiduciary duties of directors is not well developed, there is no procedure for class actions, there are different procedural requirements for bringing shareholder lawsuits and there are different discovery rules. As a result, it may be more difficult in practice for minority shareholders of Telmex to enforce their rights against us, our directors or our controlling shareholder than it would be for shareholders of a U.S. company.

We engage in transactions with related parties that may create the potential for conflicts of interest

We engage in transactions with entities that, like us, are controlled, directly or indirectly, by Carlos Slim Helú and members of his immediate family. These entities include (a) Telmex Internacional, S.A.B. de C.V., or Telmex Internacional, and its subsidiaries, (b) Grupo Carso, S.A.B. de C.V., or Grupo Carso, and its subsidiaries, (c) Grupo Financiero Inbursa, S.A.B. de C.V., or Grupo Financiero Inbursa, and its subsidiaries, (d) América Móvil, S.A.B. de C.V., or América Móvil, and its subsidiaries, and (e) Carso Global Telecom. Our transactions with Telmex Internacional include the completion of international traffic in each other's countries of operation, Telmex Internacional's printing and distribution of our directories and Telmex Internacional's access to our customer database and our billing and collection system in connection with its directories business. Transactions with Grupo Carso include the purchase of network construction services and materials, and transactions with Grupo Financiero Inbursa include financial services and insurance. The largest component of our transactions with América Móvil in terms of amounts paid is interconnection between our respective networks in Mexico. We pay fees for consulting and management services to Carso Global Telecom and AT&T International (one of our principal shareholders), and have agreements with AT&T International that provide for the completion of calls in our respective countries of operation.

We may also make investments jointly with related parties, sell our investments to related parties and buy investments from related parties. We pursued joint investments with América Móvil to acquire equity interests in Compañía Anónima Nacional Teléfonos de Venezuela in 2006 and Olimpia, an Italian company that owns 18% of the total capital of Telecom Italia in 2007. Neither of these transactions was completed.

Our transactions with related parties may create the potential for conflicts of interest.

Holders of L Shares and L Share ADSs have limited voting rights

Our bylaws provide that holders of L Shares are not permitted to vote except on such limited matters as the transformation or merger of Telmex or the cancellation of registration of the L Shares with the National Securities Registry (*Registro Nacional de Valores*), managed by the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*), or any stock exchange on which they are listed. If you hold L Shares or L Share ADSs, you will not be able to vote on most matters, including the declaration of dividends, that are subject to a shareholder vote in accordance with our bylaws.

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Holders of ADSs are not entitled to attend shareholders meetings, and they may only vote through the ADS depositary

Under Mexican law, a shareholder is required to deposit its shares with a custodian in order to attend a shareholders meeting. As long as a shareholder holds shares in ADS form, the shareholder will not be able to satisfy this requirement. There can be no assurance that holders of ADSs will receive notice of shareholders meetings from our ADS depositary in sufficient time to enable such holders to return voting instructions to the ADS depositary in a timely manner. In the event that instructions are not received with respect to any shares underlying ADSs, the ADS depositary will, subject to certain limitations, grant a proxy to a person designated by us. In the event that this proxy is not granted, the ADS depositary will vote these shares in the same manner as the majority of the shares of each class for which voting instructions are received.

You may not be entitled to preemptive rights

Under Mexican law, if we issue new shares for cash as part of a capital increase, we generally must grant our shareholders the right to purchase a sufficient number of shares to maintain their existing ownership percentage in Telmex. Rights to purchase shares in these circumstances are known as preemptive rights. Preemptive rights do not arise upon the sale of newly issued shares in a public offering or the resale of shares of capital stock previously repurchased by us.

We may not legally be permitted to allow holders of ADSs or holders of L Shares or A Shares in the United States to exercise any preemptive rights in any future capital increase unless we file a registration statement with the U.S. Securities and Exchange Commission, or SEC, with respect to that future issuance of shares. At the time of any future capital increase, we will evaluate the costs and potential liabilities associated with filing a registration statement with the SEC and any other factors that we consider important to determine whether we will file such a registration statement. We cannot assure you that we will file a registration statement with the SEC to allow holders of ADSs or U.S. holders of L Shares or A Shares to participate in a preemptive rights offering. As a result, the equity interest of such holders in Telmex may be diluted proportionately. In addition, under current Mexican law, it is not practicable for the ADS depositary to sell preemptive rights and distribute the proceeds from such sales to ADS holders.

Our bylaws restrict the acquisition of shares in some circumstances

Our bylaws provide that any acquisition of more than 10% of our capital stock by any person or group of persons acting together requires the approval of our Board of Directors. If you wish to acquire more than 10% of our capital stock, you will not be able to do so without the approval of our Board of Directors.

Our bylaws restrict the ability of non-Mexican shareholders to invoke the protection of their governments with respect to their rights as shareholders

As required by Mexican law, our bylaws provide that non-Mexican shareholders shall be considered as Mexicans in respect of their ownership interests in Telmex and shall be deemed to have agreed not to invoke the protection of their governments in certain circumstances. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but is not deemed to have waived any other rights he may have, including any rights under the U.S. securities laws, with respect to his investment in Telmex. If you invoke such governmental protection in violation of this agreement, your shares could be forfeited to the Mexican government.

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It may be difficult to enforce civil liabilities against us or our directors, officers and controlling persons

Telmex is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, substantially all of our assets and their assets are located in Mexico. As a result, it may be difficult for investors to effect service of process within the United States on such persons or to enforce judgments against them, including in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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Item 4. Information on the Company

GENERAL

Overview

We own and operate a fixed-line telecommunications system in Mexico, where we are the only nationwide provider of fixed-line telephony services. We also provide other telecommunications and telecommunications-related services such as corporate networks, Internet access services, information network management, telephone and computer equipment sales, and interconnection services to other carriers.

We have developed a multi-service network in which close to 94% of our lines have the capacity to provide simultaneous transmission of voice and data through a broadband connection. Our network capability allowed us to increase the number of customers of our broadband Internet access service by 71.3% in 2008 to over five million. At the same time, we are extending our voice and Internet access services to remote areas. Through the e-Mexico II and III programs, in which we participated from 2004 through April 2009, we provided more than 720 million hits in 4,580 communities located in Mexico's 32 states. These programs benefited a total of 2,761 institutions in the education sector, 883 institutions in the health sector and 1,156 other institutions located in the municipal and governmental social development sectors, significantly reducing the digital divide in rural areas. We also participate in the Social Coverage Fund II (*Fondo de Cobertura Social*) that, together with the Social Coverage Fund I, will allow us to provide voice, data and Internet access services to more than 8.7 million people in over 11,000 communities, through 254,000 thousand rural lines. We currently provide these services to 5.7 million people in over 6,800 communities.

In 2008, we continued our efforts to grow voice and data service revenues by offering multiple-service products. In addition, we have made investments to increase our service offerings and to update the telecommunications platform in rural areas where we are the sole telecommunications carrier. We plan to continue expanding our multiple-service offerings in the future and to take advantage of technological advances in order to provide our customers with packages that combine voice, data and video.

We intend to provide paid television and audio services and to expand our multi-service products to include triple play packages, which would include telephone, Internet access and paid television services in a single subscription. However, we have not been able to obtain the regulatory authorization we need to offer television and audio services. A Convergence Agreement (*Acuerdo de Convergencia*), issued in October 2006 by the Communication Ministry, established the requirements that market participants must meet to foster full convergence of telephone, Internet and television services in Mexico. Even though we believe we have met all the requirements, we still do not have authorization to offer television and audio services, and we believe that this situation is negatively affecting the technological development of our country.

Substantially all of our operations are now conducted in Mexico. Our strategy is to increase the value of our lines by capitalizing on our extensive and modern infrastructure and our technical capabilities to provide high-quality services to our customers across Mexico, pursuing growth in the broadband and data businesses, introducing and promoting packaged service offerings combining broadband with voice services at attractive prices, and maintaining our focus on customer service. In Mexico's major population centers, data is a source of growth, and we are well positioned to deliver Internet access and meet the demands of the growing data market. We plan to increase sales of computer equipment at our Telmex stores and increase the Internet penetration rate in Mexico.

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We are a Mexican corporation headquartered in Mexico City, Mexico. Our legal name is Teléfonos de México, S.A.B. de C.V., and we frequently refer to ourselves commercially as Telmex. Our principal executive offices are located at Parque Vía 190, Colonia Cuauhtémoc, 06599 México, D.F., México. Our telephone number at this location is (52) 55 5703-3990. Our website can be accessed at www.telmex.com.

In this Annual Report, we, us or our refers to Teléfonos de México, S.A.B. de C.V. and, where the context requires, its consolidated subsidiaries.

History

We were formed in 1947 under private foreign ownership to acquire the Mexican telephone business of a wholly owned subsidiary of the LM Ericsson group of Sweden. In 1950, we acquired the Mexican telephone business of a wholly owned subsidiary of the International Telephone and Telegraph Company, which operated the only other national telephone network in Mexico at that time. In 1972, the Mexican federal government acquired the majority of our capital stock. In December 1990, the Mexican government sold shares representing voting control of our company. The Mexican government sold the balance of its shares in a series of transactions beginning in May 1991.

In September 2000, we transferred our Mexican wireless business and our foreign operations at the time to América Móvil in an *escisión*, or split-up. Beginning in 2004, we expanded our operations outside Mexico through a series of acquisitions in Brazil, Argentina, Chile, Colombia, Peru, Ecuador and the United States.

The *Escisión*

In December 2007, we transferred our Latin American and yellow pages directory businesses to a new, separate entity, Telmex Internacional, in a second *escisión*, or split-up (the *Escisión*). In an *escisión*, an existing company is divided, creating a new company to which specified assets and liabilities are allocated. The shares of the new company are issued to the shareholders of the existing company, pro rata to their share ownership in the existing company. This procedure differs from the procedure by which a spin-off is typically conducted in the United States, where a parent company distributes to its shareholders shares of a subsidiary.

The *Escisión* was approved by our shareholders on December 21, 2007. The establishment of Telmex Internacional became effective on December 26, 2007. As of the effective date of the *Escisión*, each holder of Telmex shares became the owner of an equal number of Telmex Internacional shares of the corresponding class, and each Telmex ADS represented an equal number of Telmex and Telmex Internacional shares. On June 10, 2008, the shares and ADSs of Telmex Internacional began trading separately from our shares and ADSs on the Mexican Stock Exchange and the New York Stock Exchange.

Table of Contents**Significant Subsidiaries and Investees**

The following table sets forth our significant subsidiaries and investees accounted for using the equity method at December 31, 2008:

Name of Company	Jurisdiction of establishment	Percentage of ownership and voting interest	Description
Subsidiaries			
Integración de Servicios TMX, S.A. de C.V.	Mexico	100%	Intermediate holding company.
Alquiladora de Casas, S.A. de C.V.	Mexico	100%	Real estate company owning our facilities.
Compañía de Teléfonos y Bienes Raíces, S.A. de C.V.	Mexico	100%	Real estate company owning our facilities.
Consorcio Red Uno, S.A. de C.V.	Mexico	100%	Supplier of telecommunications network integration services and information systems.
Teléfonos del Noroeste, S.A. de C.V.	Mexico	100%	Fixed-line public network concessionaire for the state of Baja California Norte and the San Luis Rio Colorado region of the state of Sonora.
Uninet, S.A. de C.V.	Mexico	100%	Provider of corporate networks and Internet access services to Telmex and corporate customers.
Telmex USA, L.L.C.	Delaware	100%	Authorized long-distance service re-seller, provider of prepaid telephone cards and payment collection services for lines in Mexico (installation and monthly rental), and authorized by the FCC to provide facility-based long-distance services, data transmission and cross-border data transit services.
Affiliated companies			
Grupo Telvista S.A. de C.V.	Mexico	45%	Provider of telemarketing services in the United States and Mexico.
2Wire, Inc.	California	13%	Broadband network equipment and service provider for residential and small-business customers.

Table of Contents**OPERATIONS**

At March 31, 2009, we had 17.5 million local fixed lines in service in Mexico, down 1.6 % from March 31, 2008.

Of our revenues in 2008, 39.5% was attributable to local service, 19.8% to long-distance service, 15.4% to interconnection, 9.8% to corporate networks, and 10.6% to Internet access services. Other services, including primarily sales of computers, telephones and accessories at Telmex stores and billing and collection services to third parties, accounted for 4.9% of revenues.

Overview

The following table gives selected data on the size and usage of our network:

	December 31,				
	2008	2007	2006	2005	2004
Lines in service (thousands)	17,589	17,800	18,251	18,375	17,172
Internet access accounts (thousands)	5,217	3,320	2,660	2,116	1,741
Billed line equivalents for data transmission (thousands)	4,016	2,715	2,330	2,011	1,517
Lines in service per employee	413.8	401.8	402.0	399.6	371.2
Domestic long-distance call minutes for the year (millions)	19,687	18,275	18,108	17,853	16,700
International long-distance call minutes for the year (millions) ⁽¹⁾	8,733	9,531	8,997	7,131	6,297
Total local calls (millions)	22,583	24,892	26,575	26,680	26,782
Prepaid telephone service cards sold (millions)	120	187	230	258	273

(1) Includes incoming and outgoing traffic.

Local Service

We are a nationwide provider of local telephone service in Mexico. We provide local telephone service to approximately 23 thousand communities throughout Mexico. Of all lines in service, 31.3% are in the Mexico City, Monterrey and Guadalajara metropolitan areas, with 21.1% in the Mexico City metropolitan area alone. We provide service to approximately 21.5 thousand communities with fewer than five thousand inhabitants, exceeding our obligations to extend services to rural areas.

Local traffic in 2008 decreased by 9.3% compared to 2007, for a total of 22,583 million calls. The decrease in traffic in 2008 was attributable primarily to competition from mobile phone operators, fixed-line local service providers and cable television providers, the reduction of lines in service, as well as the migration of switched traffic to corporate networks, virtual private networks, VoIP and other alternative service offerings. We expect that further market penetration by alternative service offerings and increasing competition will continue to adversely affect measured service growth.

Our charges for fixed-line local telephone service include (a) installation charges, (b) monthly line rental charges, (c) monthly measured service charges, (d) digital services and (e) charges for other services, such as the transfer of a line to another address and reconnection. Residential customers pay a fixed charge per local call in excess of a monthly allowance of 100 local calls, and commercial customers pay for every local call at the same fixed rate per call. The concession we hold to operate a public network for basic telephone services, or the Concession, permits but does not require us to base our charges on the duration of each call, with a monthly allowance of free calls or call minutes for residential customers. We currently do not charge by duration of invoiced calls in any region, except in the case of prepaid services.

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In order to promote local service among our customers, we have introduced multi-service offers that include unlimited local and domestic long-distance calls. We also have introduced packages that include a certain number of local calls and/or minutes for domestic long-distance. In 2008, we did not increase rates for local telephone service. We have had lower rates in real terms for every year since March 2001.

Domestic Long-distance Service

Our nationwide domestic long-distance transmission network consists of 30.9 thousand kilometers of optical fiber connecting Mexico's major cities, and includes secondary branches and additional transmission rings throughout Mexico designed to avoid network congestion.

Domestic long-distance traffic increased 7.7% in 2008 and 0.9% in 2007, reaching a total of 19,687 million minutes. The growth in domestic long-distance traffic was primarily due to the introduction of multi-service packages that include long-distance minutes and an increase in mobile-to-fixed long-distance traffic, offset by the decrease in traffic delivered by other long-distance carriers to us for completion. The reduced growth in 2007 was primarily due to a decrease in traffic delivered by other long-distance carriers to us for completion, which was more than offset by increase in traffic due to the introduction of the calling party pays system for domestic and international long-distance service in November 2006. Our rates for domestic long-distance service are based on call duration and type of service (direct-dial or operator-assisted) once customers exceed the number of minutes included in their service packages.

We offer a variety of domestic long-distance discount plans that reduce the effective rates paid by our customers based on their total monthly consumption and whether calls were made at peak or off-peak times. We also offer plans that include a certain number of minutes at no extra cost or include unlimited minutes.

In 2008 we did not increase our domestic long-distance rates for domestic calls. This continues our trend of offering lower rates in real terms every year since March 1999.

International Long-distance Service

We are a nationwide provider of international long-distance telecommunications services in Mexico. International long-distance traffic with the United States, Canada, Central America and other countries is carried by a combination of fiber optic network, microwave transmission, satellite systems and submarine cable.

In 2008, incoming international long-distance traffic decreased by 11.1%, for a total of 6,751 million minutes, while outgoing international long-distance traffic increased 2.1% for a total of 1,982 million minutes. We believe international long-distance traffic has been affected by, among other things, the increased use of VoIP technology, which transmits ordinary telephone calls over the Internet. For long-distance calls made through VoIP services, we do not receive the international long-distance service revenues that we would otherwise receive, such as revenues generated from billed minutes and termination fees. International long-distance traffic generated by mobile phone companies also affect our revenues.

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Charges for international long-distance calls are based on call duration, type of service (direct-dial or operator-assisted) and the destination of the call once customers exceed the number of minutes included in their plan. Customers can choose from a variety of discount rate plans.

In 2008, we reduced our rates for international long-distance calls, continuing our trend of offering lower rates in real terms every year since March 1999.

Bilateral agreements with foreign carriers govern the rates we pay to foreign carriers for completing international calls from Mexico and the rates foreign carriers pay us for completing international calls to Mexico. The rates of payment under such agreements are negotiated with each foreign carrier. Settlements among carriers are made on a net basis. Settlement amounts payable to us in respect of calls from the United States to Mexico generally exceed amounts payable by us in respect of calls from Mexico to the United States. As a result, we receive net settlement payments from U.S. carriers. We make net settlement payments to other international carriers taken as a whole.

The international settlement rates that U.S. carriers pay to foreign carriers have been subject to intense downward pressure due to competition and regulatory factors, including initiatives by the U.S. government. Since 1999, there has been a cumulative reduction of 84% in our settlement rates with U.S. carriers. We negotiate settlement rates with U.S. carriers on an annual basis. We are in the process of negotiating new settlement rates with most of the U.S. carriers for the period beginning January 1, 2009. In 2008, we paid U.S.\$0.025 per minute for northbound (Mexico to the United States) calls (compared to U.S.\$0.030 per minute in 2007) and in both 2008 and in 2007 we received an average rate of U.S.\$0.038 per minute for completing international calls originated in the United States.

Interconnection

We provide interconnection services pursuant to which (a) long-distance, local and mobile phone carriers operating in Mexico establish points of interconnection between their networks and our network and (b) we carry calls between the points of interconnection and our customers. When a customer of another carrier calls a local service customer of ours, we complete the call by carrying the call from the point of interconnection to the particular customer, and when a local service customer of ours who has preselected a competing long-distance carrier makes a long-distance call, we carry the call from the customer to the point of interconnection with that other long-distance carrier's network. Excluding the calling party pays system, we have only one rate for interconnecting all categories of carriers and all types of calls. As a result of Mexico's bill and keep system, under which local carriers and cable television providers do not pay interconnection fees to other local carriers, we do not receive an interconnection fee from these calls.

In 2008, interconnection traffic increased by 1.4%, for a total of 46,003 million minutes. We believe that our interconnection revenues have been affected by a practice we call local bypass, in which incoming international calls are routed from domestic long-distance carriers to local lines other than ours and then connected to our local network for termination. Without local bypass, we would receive a domestic termination fee for completing these incoming calls. Although we have requested regulatory intervention to eliminate local bypass, we believe our interconnection revenues will continue to be adversely affected by this practice.

Corporate Networks

Corporate networks consist of the transmission of voice, video and data between two or more end points using private circuits. During 2008, the number of 64 Kbps line equivalents provided by means of corporate networks increased by 47.9% to four million line equivalents. Our principal product offerings for corporate networks are *Ladaenlaces* (Ladalinks) and Multi-service Virtual Private Networks, which allows us to provide different levels of service for voice, data and video applications. We also provide specialized assistance and technical support for these applications.

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We provide network outsourcing services that include maintenance, support and integration of communication networks and information systems.

Internet Access Services

Internet access services connect both business and residential customers to the Internet through either a dial-up or a broadband connection. In 2008, the number of our Internet customers increased to approximately 5.2 million at year-end, an increase of 57.1% compared with 2007.

Our broadband service, Infinitum, allows our customers to use our high-capacity connectivity services with applications such as video-conferencing, file transfer, terminals and e-mail. Infinitum operates over Asymmetric Digital Subscriber Line, or ADSL, technology. In 2008, as a result of improved ADSL service packages and a price reduction that took effect in April 2007, we increased our ADSL customer base by approximately 2.1 million accounts. At year-end 2008, we had over 5.0 million ADSL customer accounts, an increase of 71.3% over 2007. *Prodigy Móvil* (Prodigy Mobile), our high-speed wireless service for residential and business customers, connects users at speeds of up to 512 Kbps within a range of up to 100 meters. At December 31, 2008, we maintained 1,290 public hot spots in over 90 cities in Mexico, providing wireless Internet access to our customers.

We also offer the following dial-up services: (a) our *Prodigy Hogar* plan (Prodigy Home) at a reduced monthly fee, which provides customers with a set amount of time of Internet access, (b) *Tarjeta Multifón* (Multifon Card) function which allows customers who do not otherwise have Internet access to access the Internet with their card on a per minute basis, and (c) Prodigy Roaming, a service that provides traveling customers with a connection in over 3,600 cities in Mexico and in over 780 cities in the United States at local calling rates.

Multi-Service Packages

Consistent with our strategy of retaining our current customers and maximizing the value of residential and business Internet accounts, in 2008 we continued to offer flexible plans permitting Infinitum customers to create their own individualized packages of additional voice services, including a combination of local and long-distance calls.

In March 2008, we introduced a plan that includes a monthly line rental, broadband Internet access, 200 local calls, unlimited minutes of domestic long-distance service, six digital services and special rates for international long-distance calls, for a fixed monthly payment. In June 2008, we launched a plan aimed at low-income residential customers for a lower monthly price that includes a monthly line rental, 100 local calls, 100 domestic long distance minutes, six digital services, and special rates for long-distance calls.

Other Products and Services

We provide various telecommunications and telecommunications-related products and services that include sales of computer, telecommunications equipment and accessories, public phones and billing and collection services to third parties.

In November 2008, we entered into several agreements with Dish Mexico and its affiliates, which operate a direct-to-home (DTH) pay television system in Mexico. We are currently providing customary billing and collection services, customer equipment and access to the Telmex retail distribution network. Subject to specified authorizations, we could invest directly in a joint venture with Dish.

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Telmex Stores

We use our network of 385 Telmex stores (*Tiendas Telmex*) to offer our products and services throughout Mexico. In addition to their function as customer service centers, the Telmex stores offer a wide range of computer and telecommunications equipment and accessories, which may be purchased outright or through installment payment plans. The network of Telmex stores serves not only as a focal point for interaction with our current and prospective customers but also as a growing source of revenue. Our computer sales strategy, including store financings of up to 48 months, has substantially helped increase broadband coverage in Mexico.

Billing and Customer Service

Our invoices detail the number and destination of local and long-distance calls made, and charges for other services. On our website (www.telmex.com) our customers can view their statements in detail: SI@NA for corporate customers and Mi Telmex for residential and commercial customers. On our website we provide information about our services, corporate information and access to online transactions such as order services and the payment of invoices.

We provide support to our customers through our customer service centers, call centers and our website. We service our corporate clients through our integrated service plans that can be customized to meet the specific of individual clients. We assign specialized staff to service large corporate clients.

We also offer billing and collection services to other companies through our phone bill. To date, we have more than 980 contracts with companies such as Medicalhome, Socio Águila, Teletón, Telecomunicaciones de México and Dish México.

Public Telephony and Prepaid Phone Cards

We have several programs to meet the need for different kinds of public telephone service in different areas. We had close to 722 thousand fixed-line public telephones in operation at December 31, 2008. In the increasingly competitive market to provide telecommunications services, independent operators have installed public telephones for which we provide access. There were more than 83 thousand independently operated public telephones at December 31, 2008, an increase of 13.8% compared with 2007.

In 2008, we sold 93.2 million prepaid cards under the brand name Ladatel for use in public phones, a decrease of 38.0% from 2007, and 27.0 million prepaid cards under the brand name Multifón for use in public and residential telephones, a decrease of 26.5% from 2007. Revenues from sales of prepaid cards accounted for 2.9% of our consolidated revenues in 2008. In 2008, our revenues from public telephony decreased by 36.4% as a result of intense competition from wireless carriers.

Operations in the United States

Our U.S. subsidiary, Telmex USA LLC, or Telmex USA, holds a facilities-based authorization from the U.S. Federal Communications Commission permitting Telmex USA to install and operate telecommunications facilities in the United States. Telmex USA offers data transmission and cross-border data transit services. Telmex USA is also authorized to resell long-distance services and sell prepaid telephone cards in the United States, and to collect installation and monthly rent payments for telephone lines in Mexico.

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In December 2005, we agreed with Alcatel and AT&T International (one of our principal shareholders) to jointly invest in an aggregate 51% interest in 2Wire, Inc., or 2Wire, a broadband network equipment and service provider for homes and small offices in the United States. Our current interest in 2Wire is 13.0%.

Network

In our extensive and high quality network we offer many advanced services that include voice, data and video transmission, internet access and integrated solutions to all type of customers. These services encompass public, rural and residential telephony; specific solutions for small and medium sized commercial customers; and integrated offers for large domestic and international corporations.

Our local and long-distance fiber optic network consists of more than 107 thousand kilometers, reaches more than 90% of Mexico's population, connects the major cities in Mexico and connects Mexico via submarine cables with 33 other countries. Our network included 17.6 million local fixed lines in service at December 31, 2008, a decrease of 1.2% compared to December 31, 2007, reflecting 1.1 million new and 1.3 million disconnected lines in 2008.

Our network consists of five principal components: (i) an access network, which includes access to end customers via cable, copper, fiber-optic or wireless transmission; (ii) a switch network, which controls communications and services; (iii) a transport network, which transmits information between the nodes of our network; (iv) a convergent network, which allows us to provide integrated services of voice, data and video through a common platform based on IP, and (v) a management network, which allows us to verify the performance of our networks in real time.

Access Network

Our external copper network is capable of supporting conventional telephone services, as well as modern broadband services using different digital technologies such as Digital Subscriber Line, or ADSL, which allows us to use existing telephone lines for Internet access at speeds close to 20 Mbps.

Access by fiber-optic is available to our corporate customers for broadband multi-services. Access by fiber-optic is increasing for our residential customers. At December 31, 2008, we had installed more than 4,000 kilometers of fiber optic based on a model called fiber to the node to phone boxes near our customers, as part of a strategy to increase the bandwidth available for all our customers through the reduction in the length of the external copper network.

Our wireless network is principally used to provide voice, data and Internet access services, based on terrestrial or satellite platforms, to customers who are geographically far from our fiber optic infrastructure.

Switch Network

Voice processing in our network is controlled by digital local and long-distance telephone exchanges employing high levels of redundancy and load sharing to enhance network availability and service quality. We also use an Advanced Intelligent Network platform, which currently can manage more than 50 applications and value-added services with high levels of reliability. Furthermore, this platform is capable of implementing new services and applications throughout our network in a short amount of time.

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Transport Network

Our transport network is fully redundant and is supported by optic rings and equipment using Synchronous Digital Hierarchy, or SDH, and Next Generation SDH technologies, which allow the network to be restored within 50 milliseconds and minimize the risk of signal interruption in the event of a system failure. The Next Generation SDH technology also permits a scalable increase in the required bandwidth.

In order to increase our transmission capacities, we use Dense Wavelength Division Multiplexing, or DWDM, technology which divides the optic fiber signals into multiple wavelengths and allows us to operate our network at speeds of up to 280 Gbps over one optic fiber pair, equivalent to managing almost 3.4 million simultaneous telephone conversations.

We have introduced optical cross-connect technology equipment, which enables the interconnection of signals transported optically, allowing us to connect the signals transmitted by fiber more effectively in the network.

Our digital microwave network serves as a partial backup for the fiber optic network and as a primary means of transmission in rural areas and small towns where fiber optic infrastructure is not economically feasible.

Convergent Network

Part of our core network operates under a *Next Generation Network* architecture that uses a format of switching information packages with the following features: convergence of multimedia services, devices and network infrastructure based on centralized control designed to rapidly deliver new services to our customers; and an integrated service management structure focused on our customers' needs. It allows us to provide voice, data and video services with different levels of service quality in an environment where the functions of control and creation of services are centralized and independent from the type of connection.

All of our IP-based services are offered through a multi-service IP/MPLS platform. IP/MPLS is a high-capacity, high-performance network platform based on service convergence and is designed to complement our transport network, with a feature that allows us to expand our backbone network with routes of up to 10 Gbps, maintain redundant routes and offer national coverage of our IP-based services. The technology used in our network provides the necessary flexibility to offer speeds of access from 64 Kbps to 155 Mbps.

The technological capacity of our IP network permits the differentiation of distinct classes of service through which integrated voice, data and video services can be provided. This feature allows us to efficiently offer a wide variety of services such as Internet access for residential and corporate customers, corporate networks, VoIP, wireless access and multimedia applications. In 2008, our Internet connection capacity reached 340 Gbps.

Management Network

We continuously control and monitor our network's performance and traffic levels and manage the routing of traffic and other network functions through a centralized network management platform that operates 24 hours a day, 365 days a year. This centralized management facilitates geographical expansion of the network, permits faster implementation of network systems and enables us to comply with the Service Level Agreements required by our business customers.

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Competition

We face competition from a large number of market participants using a variety of technologies to address different elements of the demand for telecommunications services. Currently our principal competitors include: holders of long-distance licenses, of which Alestra has made the most important investments in infrastructure and marketing; holders of licenses to provide fixed-line local service, of which Axtel and Maxcom are the largest; cable television operators with licenses to provide telephone and internet services, led by Megacable, Cablevisión and Cablemás; and the mobile telecommunications operators, of which Telcel and Movistar are the largest.

The Mexican telecommunications market is increasingly complex, and the barriers between formerly distinct markets are eroding as a result of regulatory and technological change. While we have a strong share in certain segments of the market, such as switched long-distance service or broadband data connections, our overall share of the telecommunications market is difficult to evaluate. For example, according to Select Estrategia, S.C., a leading market research firm in Mexico, at year-end 2008 we had approximately 17.6 million fixed lines in service in our network, while mobile phone carriers had an estimated combined total of 76.7 million mobile lines in service. At the same date, the other local fixed-line operators, mobile fixed-line operators and cable television providers, together, had approximately 3.3 million fixed lines in service, an increase of 14.0% over the previous year.

We anticipate continued intense competition as mobile phone carriers promote mobile-to-mobile calls and text messages as less expensive alternatives to fixed-to-mobile calls. We also face increasing competition in international and domestic long-distance and local services from VoIP, a technology that transmits ordinary telephone calls over the Internet. More recently, we have begun to face competition in voice services and, to a more significant extent, Internet access services from cable television operators.

REGULATION

Our business is subject to comprehensive regulation and oversight by the Communications Ministry and Cofetel. The Communications Ministry is part of the executive branch of the Mexican federal government, and Cofetel is an agency of the Communications Ministry. Regulation and oversight are governed by the Law of General Means of Communication (*Ley de Vías Generales de Comunicación*, or the General Communications Law), the Federal Telecommunications Law (*Ley Federal de Telecomunicaciones*) and the related Telecommunications Regulations adopted by the Communications Ministry and Cofetel, the Concession and other concessions and licenses granted by the Communications Ministry. We are also subject to the regulations and oversight by the Agency for Consumer Protection (*Procuraduría Federal del Consumidor*) and the Competition Commission.

Set forth below is a summary of certain provisions of the General Communications Law, the Federal Telecommunications Law, the Telecommunications Regulations and our concessions.

General

The General Communications Law, the Federal Telecommunications Law and the Telecommunications Regulations provide the general legal framework for the regulation of telecommunications services in Mexico. The Federal Telecommunications Law replaced most of the provisions of the General Communications Law relating to telephone communications, but those provisions of the General Communications Law not specifically addressed in the Federal Telecommunications Law remain in effect. The Telecommunications Regulations implement particular provisions of the Federal Telecommunications Law, and regulations implementing other provisions of the law are pending. The objectives of the Federal Telecommunications Law are to promote the efficient development of the telecommunications industry, to encourage fair competition in the provision of quality, low-priced services and to assure satisfactory breadth of coverage of the Mexican population.

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Regulatory Oversight

The Communications Ministry is the Mexican federal government agency principally responsible for regulating telecommunications services. Approval from the Communications Ministry is required for any change in our bylaws. It also has broad powers to monitor our compliance with the Concession, and it may revoke our Concession or temporarily seize or expropriate our assets. The Communications Ministry may require us to supply it with such technical, administrative and financial information as it may request.

Cofetel is an independent agency within the Communications Ministry, with five commissioners appointed by the Communications Ministry on behalf of the President of Mexico, one of whom is appointed as chairman. Many of the powers and obligations of the Communications Ministry under the Federal Telecommunications Law and the Telecommunications Regulations have been delegated to Cofetel. We regularly provide reports to Cofetel on our operations, financial performance and other matters. We are also required to publish our annual network expansion program, and we must advise Cofetel of the progress of our expansion program on an annual basis.

Mexican law gives certain rights to the Mexican government in its relations with concessionaires and provides that when the Concession expires we may not sell or transfer any of our assets unless we give the Mexican government a right of first refusal. If the Mexican government declines to exercise its right, our unions also have a right of first refusal. In addition, Mexican law permits the Mexican government to expropriate our assets in certain circumstances.

Concessions

Under the Federal Telecommunications Law and the Telecommunications Regulations, a provider of public telecommunications services must operate under a concession granted by the Communications Ministry. Such a concession may not be transferred or assigned without the approval of the Communications Ministry. A concession to provide public fixed-line local and long-distance services generally has a term of up to 30 years and may be extended for additional 30-year terms. Our Concession was granted in 1976 and amended in August 1990. Currently set to expire in 2026, our concession may be extended for an additional 15-year term. Our subsidiary Telnor holds a separate concession in a region located in two states in northwestern Mexico, which will also expire in 2026 and may be extended for an additional 15-year term thereafter. The material terms of the Telnor concession are essentially the same as the terms of the Concession.

Operators of private networks that do not use electro-magnetic frequencies are not required to obtain a concession to provide private telecommunications services but are required to obtain approval from the Communications Ministry.

In addition to the Concession, we currently hold concessions for the use of frequencies to provide wireless local access and point-to-point and point-to-multipoint transmission, which we obtained from Cofetel through a competitive bidding process. These concessions are granted for a term of up to 20 years and may be extended for additional 20-year terms.

Termination of the Concession

The Concession provides that it will remain in force until 2026 and that we may renew it for an additional 15-year term, subject to additional requirements that the Communications Ministry may impose. Thereafter, it may be renewed for successive 30-year terms as provided under the Federal Telecommunications Law.

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The General Communications Law provides that upon the expiration of the Concession the Mexican government is entitled to purchase our telecommunications assets at a price determined on the basis of an appraisal by a public official, and the Telecommunications Regulations provide that upon expiration of the Concession, the Mexican government has a right of first refusal to acquire our telecommunications assets. However, the General Communications Law also provides that in certain cases, upon expiration of the Concession our telecommunications assets will revert to the Mexican government free of charge. There is substantial doubt as to how these provisions of the General Communications Law and the Telecommunications Regulations would be applied, and accordingly there can be no assurance that upon expiration of the Concession our telecommunications assets would not revert to the Mexican government free of charge.

The General Communications Law, the Federal Telecommunications Law and the Concession include various provisions under which the Concession may be terminated before its scheduled expiration date. Under the General Communications Law and the Federal Telecommunications Law, the Communications Ministry may cause early termination of the Concession in certain cases, including:

Failure to comply with the terms of the Concession;

Interruption of all or a material part of the services provided by us;

Transfer or assignment without the Communications Ministry approval, of the Concession, the rights provided under the Concession or any asset used to provide telephone service;

Violation of the prohibition against ownership of our shares by foreign states;

Violation of the prohibition against any material modification of the nature of our services without prior Communications Ministry approval; and

Breach of certain other obligations under the General Communications Law and the Federal Telecommunications Law.

In addition, the Concession provides for early termination by the Communications Ministry following administrative proceedings in the event of:

Material and continuing violation of any of the conditions set forth in the Concession;

Material failure to meet any of the service expansion requirements under the Concession;

Material failure to meet any of the requirements under the Concession for improvement in the quality of service;

Engagement in any telecommunications business not authorized under the Concession and requiring prior approval of the Communications Ministry;

Following notice and a cure period, failure without just cause to allow other concessionaires to interconnect their telephone networks to our telephone network; or

Our bankruptcy.

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Under the Federal Telecommunications Law, our concessions could be terminated if: (a) the term of any concession expires; (b) we resign our rights under any concession; (c) the Mexican government through the Communications Ministry expropriates any of the concessions; (d) we are liquidated or become bankrupt; or (e) the Communications Ministry revokes any of the concessions.

The General Communications Law provides that in the event of early termination of the Concession for certain specified causes, including violation of the prohibition on ownership of our shares by foreign states, we would forfeit all of our telecommunications assets to the Mexican government. In the event of early termination of the Concession for any other causes, the General Communications Law provides that a portion of our telecommunications assets would revert to the Mexican government free of charge, and that we may be required to dismantle the remaining portion. There is substantial doubt as to whether the provisions of the Concession and the Telecommunications Regulations regarding the consequences of expiration of the Concession would apply to mitigate the provisions of the General Communications Law in the event of early termination.

Our assets and rights under the concessions may also be temporarily seized by the Communications Ministry.

Competition

The Telecommunications Regulations and the Concession contain various provisions designed to foster competition in the provision of telecommunications services. In general, the Communications Ministry is authorized to grant concessions to other parties for the provision of any of the services provided by us under the Concession. There are currently 15 competing long-distance carriers operating in Mexico (including Telmex and Telnor) and concessions have been granted to a total of 50 long-distance companies, all of which also have concessions for international long-distance services.

As of December 31, 2008, there were 28 local fixed-line licensees (including Telmex and Telnor), three of which also hold local wireless licenses (including Telmex), primarily in Mexico City, Guadalajara, Monterrey, Puebla and other large and medium-sized cities. See *Operations Competition*. Concessionaires are not required to operate certain private local telecommunications networks or to provide value-added services, although other authorizations may be required.

With respect to international long-distance services, Cofetel rules cover matters such as the termination of international calls and mechanisms for routing calls into and out of Mexico. Currently, international traffic must be carried by Mexican concessionaires and through authorized international gateways consistent with Cofetel's international long-distance rules.

The Communications Ministry has greatly expanded the ability of cable television operators to compete with us. Since 2003, it has permitted them to provide bidirectional transmission of data. Since 2004, it has permitted them to provide signal-transmission services to local fixed-line operators and data and broadband Internet access services to the public. Since 2006, it has permitted some of them to provide fixed-line local telephone services. See *Regulation Television and Audio Services*.

We also experience competition from unregulated sources. For example, some operators offer VoIP services, although the application of current regulations to these services is unclear.

The competitive environment in the Mexican telecommunications market has been the subject of controversy and of attention from Mexican regulators and from abroad. In the past, the Competition Commission determined that we were a dominant provider of certain telecommunications services and Cofetel adopted specific regulations applicable to us as a dominant carrier. These resolutions and regulations were later held invalid and were nullified by Mexican federal courts. The Competition

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Commission also has repeatedly ruled that we have engaged in certain monopolistic practices. Most, but not all, of these past Competition Commission rulings also have been declared null and void by federal courts or have been withdrawn by the Competition Commission. See *Item 8. Financial Information Legal Proceedings*.

In 2005, Mexico resolved a WTO dispute brought by the United States by adopting regulations authorizing resale of outgoing international and domestic long-distance service, adding to the downward pressure on the rates we charge our customers for our long-distance services.

Regulatory Initiatives Relating to Competition

The Federal Telecommunications Law provides that if a company is determined to have substantial market power in a relevant market, the Communications Ministry may adopt specific regulations on rates, quality of service and information to be provided by the dominant company. In addition, if a company is determined by the Competition Commission to have engaged in monopolistic practices, it may be subject to prohibitions or monetary sanctions.

Between November 2007 and February 2008, the Competition Commission began seven industry-wide investigations to determine whether any operators, including Telmex and certain of its affiliates, possess substantial market power or are engaged in monopolistic practices in certain segments of the Mexican telecommunications market. Four preliminary resolutions have determined that, in the geographic areas covered by our network, Telmex and Telnor have substantial power in the following markets: (i) switched call completion provided to other concessionaires of local and long-distance service; (ii) call origination offered to other concessionaires of long-distance service; (iii) transit offered to concessionaires of long-distance services in the 198 areas of local service that such concessionaires cover; and (iv) 97 wholesale markets for leased private local and long-distance connections, as well as in private international long-distance and private interconnection. Telmex and Telnor have filed objections to these resolutions, and final determinations are pending.

If these proceedings are finally resolved against Telmex, we expect that Cofetel will seek to impose new regulations on our business, and particularly on the prices we charge for services. We cannot predict the form any such regulations will take or their impact on our business, but we believe they would reduce our flexibility and ability to adopt competitive market policies. We also cannot predict the timing of the proposed adoption of any such regulations, or whether we will be able to challenge their implementation.

In the three remaining cases, the Competition Commission is investigating whether Telmex and, in one case, Telnor engaged in monopolistic practices in the following markets: (i) broadband Internet access service for residential customers in Mexico; (ii) interconnection service in fixed networks; and (iii) interurban transport for exchanged long-distance traffic.

Findings adverse to us in any of the seven investigations may lead to the imposition of regulations, prohibitions or monetary penalties on us.

Television and Audio Services

The regulatory framework governing the provision of television and audio services by telecommunications companies and of telecommunications services by television and audio providers has been the subject of an ongoing amendment process since 2003. The outcome of this process and the resulting changes in the regulatory framework may affect our business.

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In 2003, the Communications Ministry expanded the concessions granted to cable television operators to permit them to provide bidirectional transmission of data. In 2004, the Communications Ministry began to permit cable operators to provide signal-transmission services to local fixed-line operators and data and broadband Internet access services to the Mexican public.

In April 2006, the Mexican Congress approved an amendment to the Federal Telecommunications Law and the Federal Radio and Television Law. The amendment allows radio and television broadcasters to provide telecommunications services after complying with certain conditions and makes Cofetel responsible for overseeing all telecommunications services, including those related to broadcasting. In June 2007, the Mexican Supreme Court (*Suprema Corte de Justicia de la Nación*) declared various provisions of the law invalid, including those that would allow radio and television broadcasters to provide telecommunications services without seeking more than a simple authorization and to use their frequencies free of charge, and concluded that such broadcasters would be required to participate in public bidding processes in order to obtain frequencies for use in providing such services.

In October 2006, the Communications Ministry adopted regulations that permit paid television and audio concessionaires to provide fixed-line local telephone services and local telephone service providers like us to provide paid television and audio services. These regulations facilitate the convergence of voice, data and video services into one integrated product that could be delivered over a broadband network. The regulations allow concessionaires to provide these new services, subject to certain regulatory steps to be taken by Cofetel. As of December 31, 2008, 28 cable television providers, holding a total of 60 concessions, provide or have been authorized to provide local fixed-line voice-transmission and one fixed-line local service provider offers paid television services. In the case of Telmex, due to certain restrictions on our concession, additional conditions have been imposed, including the implementation of network interoperability, telephone number portability and verification of compliance with existing concession obligations, as well as the adoption of an interconnection framework. Telephone number portability was initiated in July 2008, allowing customers to change their telephone provider and keep their telephone number. We intend to provide television and audio services and we believe we have met all the requirements necessary to do so; however, to date we have been unable to obtain authorization.

We cannot predict the outcome and the effect of the regulatory processes described above, but they could result in the entry of new competitors to our business and could have an adverse effect on our competitive position and results of operations.

Consolidation of Local Service Areas

Beginning in March 2007, Cofetel issued several resolutions to consolidate 195 local service areas, reducing the number of local service areas (currently 397) in a process that would begin in November 2008 and be completed in 2010. We have filed objections to Cofetel's resolutions and, until now, they have not been implemented. If implemented, we believe this consolidation will have an adverse impact on our revenues from long-distance services. See *Item 8. Financial Information - Legal Proceedings*.

Rates

The General Communications Law, the Federal Telecommunications Law and the Telecommunications Regulations provide that the basis for setting the rates charged by a telecommunications concessionaire is set forth in its concession.

Under the Concession, our rates in any period for basic telephone services, including installation, monthly rent, measured local service and long-distance service, are subject to a ceiling

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on the price of a basket of such services weighted to reflect the volume of each service provided by us during the preceding period. There is also a price floor based on our average long-run incremental cost. Within this aggregate price range, we are free to determine the structure of our own rates. We must register our rates with Cofetel before they may take effect.

The price cap varies directly with the Mexican National Consumer Price Index, permitting us to raise nominal rates to keep pace with inflation, subject to consultation with the Communications Ministry. We have not raised our nominal rates since March 2001 for local service and since March 1999 for long-distance service. Under the Concession, the price cap is also adjusted downward periodically to pass on the benefits of our increased productivity to our customers. The Communications Ministry sets a new periodic adjustment for every four-year period to permit us to maintain an internal rate of return equal to our weighted average cost of capital. The Communications Ministry fixed the adjustment per quarter in nominal terms at 0.74% for 2003-2006 and 0.84% for 2007-2010. For services extending beyond basic telephone service, the Federal Telecommunications Law and the Concession permit us, under certain conditions and subject to registration with Cofetel, to set our prices free of rate regulation. These services include data transmission, directory services and services based on digital technology, such as caller ID, call waiting, speed dialing, automatic redialing, three-way conference and call transfer.

Interconnection

We are required under the Federal Telecommunications Law to permit any other long-distance concessionaire to connect to our network in a manner that enables customers to choose the network by which their long-distance calls are carried. Cofetel rules governing the interconnection rights and obligations of local service concessionaires require local service concessionaires to provide interconnection on a nondiscriminatory basis to any other concessionaire.

The Concession provides that other terms of interconnection, including fees, are to be negotiated between us and each other long-distance carrier, and that, in the event the parties are unable to agree, the Communications Ministry imposes the terms. In 2002, we agreed with competing long-distance carriers to set an interconnection rate of U.S.\$0.00975 per minute and per interconnection point. This rate will apply through December 31, 2009.

As of December 31, 2008, we have entered into interconnection agreements with all operators that have requested interconnection services. Nevertheless, in 2008, Cofetel notified us of several resolutions to reduce interconnection and transit rates, and to eliminate resale charges. We have appealed these resolutions and a final determination is pending. We will continue collecting the rates that have been applied since 2002 until these proceedings are concluded.

In Mexico, under the calling party pays system, our fixed-line customers pay us an interconnection charge when they call a mobile telephone, and during 2008 we paid 70.3% of that amount to the mobile phone carrier that completes the call. Historically, this interconnection charge applied only to local calls. In November 2006, however, Cofetel extended the calling party pays charge to domestic and international long-distance calls, while concurrently eliminating the fee that mobile phone carriers charge their customers for receiving long-distance calls from fixed-line and mobile callers.

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In February 2009, Cofetel published a Fundamental Technical Plan of Interconnection and Inter-operability (*Plan Técnico Fundamental de Interconexión e Interoperabilidad*) which requires operators with the greatest number of access points to provide other operators with access to our network on an unbundled basis that disaggregates the prices for different service elements. We believe this may result in pricing network access at rates below the recovery cost for our infrastructure investments and may have a negative impact on us and the Mexican telecommunications sector in general. We are in the process of evaluating the impact of this Plan on Telmex and our available legal recourse.

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The following table sets forth, in constant pesos as of December 31, 2008, our capital expenditures, before retirements, for each year in the three-year period ended December 31, 2008. Like other financial information in this Annual Report, the amounts shown below for capital expenditures reflect only our continuing operations.

	Year ended December 31,		
	2008	2007	2006
	(2008 in millions of pesos, 2007 and 2006 in millions of constant pesos as of December 31, 2007)		
Data, connectivity and transmission network	P. 7,506	P. 7,787	P. 6,104
Internal plant	608	1,444	1,294
Outside plant	851	1,329	3,194
Systems	319	748	801
Other	797	2,132	2,344
Total capital expenditures	P. 10,081	P. 13,440	P. 13,737

Our total capital expenditures decreased by 25.0% in 2008. In 2008, our consolidated capital expenditures totaled P.10.1 billion (U.S.\$879 million). The investments in our data, connectivity and transmission networks represented 74.4% of our consolidated capital expenditures (P.7.5 billion or U.S.\$655 million).

We have budgeted capital expenditures in an amount equivalent to approximately P.8.0 billion (U.S.\$588 million) for the year 2009, of which 72.5% (P.5.8 billion or U.S.\$426.5 million) are budgeted for investments in our data, connectivity and transmission network. Budgeted capital expenditures for 2009 exclude any other investments we may make to acquire other companies. For subsequent years, our capital expenditures will depend on economic and market conditions. Our budgeted capital expenditures are financed through operating cash flows and limited borrowing.

OTHER MATTERS**Investments**

We occasionally make investments and enter into joint ventures in telecommunications-related businesses within and outside Mexico. We also invest in publicly traded equity securities of companies in technology and communications businesses. Our marketable securities are carried at market value, and gains and losses are recognized in our statement of income.

Portugal Telecom

In 2006, we acquired 20.7 million common shares in Portugal Telecom, SGPS S.A., or Portugal Telecom, for P.2,956.8 million (U.S.\$252.3 million). We sold 15.7 million of these shares during 2006 and 2007 and the remaining five million shares in January 2008 for P.3,086.9 million (U.S.\$282.2 million) in the aggregate. We recognized a gain of P.129.7 million as a result of the sale of these shares.

Plant, Property and Equipment

We have transmission facilities, exchanges, outside plant and commercial and administrative offices throughout Mexico. We own most of the locations of our exchanges and offices and lease other locations. We hold a small number of equipment under financial leases, but the aggregate amount of such

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financing is not material to our operations as a whole. We carry casualty insurance against loss or damage to buildings, equipment contained in buildings and outside plant, including our fiber optic network.

We have purchased equipment from a variety of suppliers, and there are sufficient alternative sources of equipment so that interruption of any source would be unlikely to cause a significant disruption to our operations or our investment plan.

The Telmex Foundation

In 1996, we helped create the Telmex Foundation (*Fundación Telmex, A.C.*), a not-for-profit entity active in the areas of education, health, nutrition, justice, culture, sports and natural disaster relief. We do not consolidate the Telmex Foundation in our financial statements.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in this Annual Report. Our consolidated financial statements have been adjusted to treat as discontinued operations the businesses we transferred to Telmex Internacional in the *Escisión* in December 2007. Accordingly, they differ from the financial statements we have previously published. Except where we specify otherwise, the discussion below concerns only our continuing operations and not those we transferred to Telmex Internacional in the *Escisión*.

Our consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards, or Mexican FRS, which differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 18 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us; a reconciliation to U.S. GAAP of net income and total stockholders' equity; and condensed financial statements under U.S. GAAP.

Overview

Our total revenues have fallen in recent years, as declining average revenues from local, interconnection and long-distance service have been only partly offset by increasing revenues from Internet access services, corporate networks and other revenues. In response to competitive market pressures, we have not raised our nominal rates since 2001, and we have given discounts for our services, particularly domestic long-distance. Average revenue per line has also declined, partly because we have added new customers with less disposable income who make less use of their lines and because of the wide range of services included in our packages that implicitly include larger discounts.

Competition and changing technologies have had extensive effects on our financial performance. We expect continued pressure on prices for basic telephone services. In local service, rapid growth in mobile telecommunications has made mobile phone operators the main competitors for local networks. In addition, local and long-distance services face competition from other means of communication such as cable providers, private circuits and the Internet, including VoIP, a technology that transmits ordinary telephone calls over the Internet. On the other hand, the number of our broadband Internet access subscribers (Infinitum ADSL) grew by 71.3% in 2008 and 60.5% in 2007, and we expect that it will continue to grow and to affect usage of other services.

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Our mix of revenues has been changing as a result. Revenues from voice services represented 74.7% of our total revenues in 2008 compared to 79.6% in 2007, while revenues from corporate networks and Internet access services represented 20.5% of our total revenues in 2008 compared to 17.0% in 2007. These changes have also affected our profit margins. In 2008, total revenues decreased by 5.1%, but operating income decreased by 9.4%. Our operating margin decreased to 32.0% in 2008 from 33.6% in 2007, because of the changing mix of our revenues.

We expect that the percentage of our revenues attributable to local and long-distance services will continue to decline as a result of continued pressure on prices and continued migration of customers to mobile and alternative products. We expect our revenues from corporate networks and Internet access services to continue to grow as a percentage of our total revenues as demand for integrated telecommunications solutions among corporate customers and Internet penetration rates among residential customers continue to rise. We expect that the decline in revenues from voice services will be partly offset by an increase in Internet access and corporate networks revenues.

Our future results may be affected significantly by the general economic and financial conditions in Mexico and the United States, including the level of economic growth, exchange rate and interest rate fluctuations and inflation. The current global recessionary environment may further exacerbate the impact of these factors on us. Our performance may also be affected by acquisitions and other investments we may make. Exchange rate variations on our U.S. dollar-denominated indebtedness contribute to the volatility of our financing cost, which we manage through the use of derivative instruments. Exchange loss, net, was P.2,494 million in 2008 and P.643 million in 2007.

Transition to IFRS

Beginning in 2012, Mexican issuers with securities listed on a Mexican securities exchange will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB). Issuers may voluntarily report using IFRS before the change in the reporting standards becomes mandatory.

Effect of Inflation Accounting

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Through December 31, 2007, under Bulletin B-10, inflation accounting had extensive effects on the presentation of our financial statements. In our financial information for 2008, inflation adjustments for prior periods have not been removed from stockholders' equity and the re-expressed amounts for non-monetary assets and liabilities at December 31, 2007 became the accounting basis for those assets and liabilities beginning on January 1, 2008 and for subsequent periods, as required by Mexican FRS. Financial statements for periods prior to 2008 are presented in constant pesos as of December 31, 2007.

Cessation of inflation accounting under Mexican FRS in 2008

Mexican FRS have changed for periods beginning in 2008, and the inflation accounting methods summarized below will no longer apply, unless the economic environment in which we operate qualifies as inflationary for purposes of Mexican FRS. An environment is inflationary if the cumulative inflation rate equals or exceeds an aggregate of 26% over three consecutive years (equivalent to an average of 8% in each year). Based on current forecasts, we do not expect the Mexican economic environment to qualify as inflationary in 2009, but that could change depending on actual economic performance.

As a result, we presented financial statements without the inflationary effects in 2008. In this respect, our financial statements in 2008 are not comparable to those for prior periods. In comparing our results for 2008 to results for prior periods, the most important consequence of no longer recognizing the effects of inflation during 2008, and of related changes in other accounting standards, are as follows:

We no longer recognize a monetary gain and loss attributable to the effects of inflation on our monetary assets and liabilities.

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We ceased to adjust the carrying values of nonmonetary assets for inflation. The re-expressed amounts for nonmonetary assets at December 31, 2007 became the accounting basis for those assets for 2008 and subsequent years.

We ceased to re-express results of prior periods. Financial information for dates and periods prior to 2008 remains expressed in constant pesos as of December 31, 2007.

We ceased to use inflation-adjusted assumptions in determining our employee benefit obligations and instead use nominal discount rates and other assumptions. This change did not have a significant effect on our financial results in 2008.

Recognition of effects of inflation for periods prior to 2008

All our financial statements and other financial information included in this Annual Report recognized effects of inflation in accordance with Mexican FRS through 2007. The main inflation adjustments were as follows:

In general, nonmonetary assets were adjusted for inflation based on the consumer price index of the country in which the assets were located. This includes plant, property and equipment, inventories, and licenses and trademarks. The carrying value of our nonmonetary assets in Mexico was adjusted at the end of each period to reflect Mexican inflation in that period, as measured by the Mexican National Consumer Price Index.

A special rule applied to plant, property and equipment that were imported. Such assets were adjusted for inflation based on the consumer price index of the country of origin, and then converted into pesos using the exchange rate at the balance sheet date. For example, the carrying value of switching equipment purchased in the United States and used in our Mexican operations was adjusted at the end of each period to reflect U.S. inflation in that period and the appreciation or depreciation of the Mexican peso against the U.S. dollar.

Gains and losses in purchasing power that resulted from holding monetary assets and liabilities were recognized in income.

Capital stock, other capital contributions and retained earnings were adjusted for inflation based on the Mexican consumer price index.

Re-expression in constant pesos for periods prior to 2008

Financial statements for periods prior to 2008 have been re-expressed in constant pesos as of December 31, 2007. The re-expression in constant pesos uses a factor that is determined using the Mexican National Consumer Price Index. The re-expression factor is 1.0376 for the financial statements of 2006. The value of the re-expression factor has a significant impact on the comparison between our results of operations for 2007 and for prior years.

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Effects of inflation accounting on U.S. GAAP reconciliation for periods prior to 2008

U.S. GAAP does not ordinarily contemplate the recognition of effects of inflation or the expression of prior-period financial statements. However, in reconciling our net income and stockholders' equity to U.S. GAAP, we have generally not reversed the effect of inflation accounting under Mexican FRS in 2007 and 2006, pursuant to a long-established practice under which Mexican FRS inflation accounting is acceptable in financial statements filed with the SEC, with one exception with respect to the special rule applicable to plant, property and equipment manufactured in a country other than the country in which they are located. Our reconciliation does reverse the effects of that special rule. See Note 18 to our audited consolidated financial statements.

Changes in Mexican FRS

Note 1(II)(x) to our audited consolidated financial statements discusses new accounting pronouncements under Mexican FRS that came into force in 2008 and that will come into force in 2009. The pronouncements that became effective on January 1, 2008, were fully implemented in the financial statements included in this Annual Report. In 2009, other pronouncements might affect certain aspects of our financial statements. The 2008 accounting pronouncements were applied on a prospective basis and prior years' financial statements have not been adjusted. As a result, our financial statements for 2008 may not be comparable to our financial statements of prior years.

The Escisión

In December 2007, we transferred our Latin American and yellow pages directory businesses to a new, separate entity, Telmex Internacional, in an *escisión*, or split-up. See *Item 4, Information on the Company History The Escisión*. The businesses we transferred to Telmex Internacional are presented as discontinued operations for dates and periods prior to the effective date of the *escisión*, which was December 26, 2007 under Mexican FRS and June 10, 2008 under U.S. GAAP. See Note 2 to our audited consolidated financial statements.

Table of Contents**Summary of Operating Income and Net Income**

The table below summarizes our consolidated income statement for the past three years.

	2008		Year ended December 31, 2007		2006	
	(millions of pesos)	(percentage of operating revenues)	(millions of pesos)	(percentage of operating revenues)	(millions of pesos)	(percentage of operating revenues)
	(in millions of pesos in 2008 and in millions of constant pesos as of December 31, 2007 for 2007 and 2006)					
Operating revenues:						
Local service	P. 48,982	39.5%	P. 54,398	41.6%	P. 58,251	44.9%
Domestic long-distance service	15,742	12.7	17,349	13.3	18,324	14.1
International long-distance service	8,793	7.1	9,678	7.4	10,532	8.1
Interconnection service	19,140	15.4	22,604	17.3	18,071	13.9
Corporate networks	12,219	9.8	11,340	8.7	10,877	8.4
Internet access services	13,168	10.6	10,940	8.4	10,158	7.8
Other	6,061	4.9	4,459	3.3	3,542	2.8
Total operating revenues	124,105	100.0	130,768	100.0	129,755	100.0
Operating costs and expenses:						
Cost of sales and services	32,806	26.4	32,364	24.7	32,059	24.7
Commercial, administrative and general	19,831	16.0	19,553	15.0	19,383	15.0
Interconnection	13,760	11.1	16,542	12.6	13,338	10.2
Depreciation and amortization	17,965	14.5	18,425	14.1	18,711	14.4
Total operating costs and expenses	84,362	68.0	86,884	66.4	83,491	64.3
Operating income	39,743	32.0%	43,884	33.6%	46,264	35.7%
Other expenses, net	679		44		2,613	
Financing cost:						
Interest income	(913)		(1,396)		(1,495)	
Interest expense	7,652		6,615		6,952	
Exchange loss, net	2,494		643		1,159	
Monetary gain, net ⁽¹⁾			(2,513)		(2,846)	
	9,233		3,349		3,770	
Equity interest in net (loss) income of affiliates	(62)		17		9	
Income before income tax	29,769		40,508		39,890	
Income tax	9,592		11,619		12,189	
Income from continuing operations	20,177		28,889		27,701	
Income from discontinued operations, net of income tax			7,166		2,615	

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Net income	P. 20,177	P. 36,055	P. 30,316
Distribution of net income:			
Majority interest	P. 20,177	P. 35,485	P. 29,640
Non-controlling interest		570	676
Majority net income per share from continuing operations	P. 1.07	P. 1.46	P. 1.32
Majority net income per share from discontinued operations	P.	P. 0.34	P. 0.09
Majority net income per share	P. 1.07	P. 1.80	P. 1.41

- (1) We do not report monetary gain after 2007, because we are no longer required to present the effects of inflation under Mexican FRS after 2007.

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Revenues

Total revenues in 2008 were P.124,105 million, a decrease of 5.1% from 2007, primarily due to a decline in revenues from local services, the calling party pays system and long-distance services, partly offset by the increase in revenues generated from Internet access services and other revenues (mainly attributable to sales in Telmex stores). The percentage of our revenues attributable to voice services (including local, long-distance and interconnection services) declined from 79.6% in 2007 to 74.7% in 2008, while revenues from corporate networks and Internet access services grew to 20.5% of our revenues in 2008 compared to 17.0% in 2007.

Local Service Revenues

Operating revenues from local service include installation charges for new lines, monthly line rental charges, monthly fees for digital services and monthly measured service charges based on the number of calls. These revenues depend on the number of lines in service, the number of new lines installed and the volume of calls. Measured service charges are due from residential customers only for the number of local calls exceeding a specified monthly allotment. Accordingly, revenues from local service for residential customers do not depend solely on usage volume.

Revenues from local service decreased by 10.0% in 2008 and 6.6% in 2007. The decrease in 2008 was principally due to lower average revenue per local billed call and a reduction in local traffic due to competition from both wireless and other fixed-line service providers. The decrease in 2007 was principally due to a reduction of lines in service, lower average revenue per local bill call in real terms, a decrease in local and public telephony traffic due to competition from both wireless and other fixed-line service providers, and the migration of customers from dial-up to broadband Internet access services.

Domestic Long-distance Revenues

Operating revenues from domestic long-distance service consist of (a) amounts earned from our customers and (b) amounts earned from other telecommunications operators for terminating their domestic long-distance calls made to our customers. The amount of operating revenues from domestic long-distance service depends on rates and traffic volume.

Domestic long-distance revenues decreased by 9.3% in 2008, and by 5.3% in 2007. The decrease in 2008 was primarily because the increase in traffic was not enough to offset the lower average revenue per minute. The decrease in 2007 was primarily due to lower average revenue per minute in real terms, partly offset by higher billed traffic generated by the calling party pays system for domestic long-distance service.

International Long-distance Revenues

Operating revenues from international long-distance service consist of (a) amounts earned from our customers and (b) amounts earned from foreign telecommunications carriers for terminating international calls made to our customers. The amount of operating revenues from international long-distance service depends on the volume of traffic, the rates charged to our customers, the rates charged by each party under agreements with foreign carriers, principally in the United States, and the effects of competition. We report international long-distance revenues gross of the settlement amounts payable to foreign carriers, which are recorded in cost of sales and services. In 2008, settlement payments from foreign carriers represented 2.7% of our consolidated revenues and 38.0% of our international long-distance revenues. Settlement payments under service agreements with foreign carriers are generally denominated in U.S. dollars.

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International long-distance revenues decreased by 9.1% in 2008 and by 8.1% in 2007. The decrease in 2008 was primarily due to lower average revenue per minute and a decline of incoming traffic. Outgoing billed minutes increased by 2.1% and incoming billed minutes decreased by 11.1%.

The decrease in revenue in 2007 was primarily due to lower average revenue per minute in real terms, partly offset by higher billed traffic generated by the calling party pays system for international long-distance service. Outgoing billed minutes grew by 3.4% and incoming billed minutes grew by 6.6%.

Revenues from Interconnection Service

Revenues from interconnection service represent fees for connection with our network of fixed-to-mobile, mobile-to-fixed and long-distance calls. Calls between fixed and mobile telephones are subject to the calling party pays system, which Cofetel extended in November 2006 to cover long-distance calls as well as local calls. In the case of local and domestic long-distance service, under the calling party pays system, our fixed-line customers pay us an interconnection charge when they call a mobile telephone. Of that amount, we pay a percentage to the mobile carrier that completed the call (70.3% in 2008). For international long-distance services, we pay 100% of the interconnection fee received from the international carrier that originates the call to the mobile phone carrier that completes the call. We recognize the amount paid to us under interconnection revenue, and we recognize the amount we pay under interconnection cost.

Revenues from interconnection service decreased by 15.3% in 2008 and increased by 25.1% in 2007. The decrease in 2008 was primarily due to a decrease of the calling party pays rates and a decline in local and long-distance traffic due to increased market penetration by mobile phone carriers. In 2008, revenues from fixed-to-mobile calls represented 88.2% of interconnection revenues (89.8% in 2007) and revenues from local and long-distance operators represented 8.2% of inter-connection revenue (7.2% in 2007). The balance of interconnection revenues represented payments from mobile phone carriers for mobile-to-fixed calls.

The increase in 2007 was primarily due to a full year of revenues generated by the calling party pays system for domestic and international long-distance services (compared with only two months in 2006), partly offset by an 8.9% decrease of the calling party pays rates for local and long-distance services. In 2007, revenues from fixed-to-mobile calls represented 89.8% of interconnection revenues (86.6% in 2006), revenues from local and long-distance operators represented 7.2% (10.2% in 2006) and the balance of interconnection revenues represented payments from mobile phone carriers for mobile-to-fixed calls. Pursuant to an agreement with all mobile phone operators in Mexico concluded in 2006, the calling party pays rate for local, domestic long-distance and international long-distance services will gradually decline through 2010.

Revenues from Corporate Networks

Revenues from corporate networks mainly consist of revenues from installing and leasing dedicated private lines, revenues from virtual private network services and revenues from sales of value-added services. Revenues from corporate networks increased by 7.8% in 2008 and by 4.3% in 2007. The increase in 2008 and 2007 was caused by an increase in billed line equivalents and higher sales of value-added services, partly offset by a decline in average revenue per billed line equivalent due to improvements in technology.

Revenues from Internet Access Service

Revenues from Internet access service include service fees for broadband Internet and dial-up access. Such revenues increased by 20.4% in 2008 and by 7.7% in 2007. The increase in 2008 was

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principally due to a 71.3% increase in the number of broadband (ADSL) customer accounts, partly offset by lower average revenues per customer account. The increase in 2007 was principally due to a 60.5% increase in the number of our broadband (ADSL) customer accounts, partly offset by a 25.5% reduction in the rates we charge for broadband services that took effect in April 2007. The migration of customers from dial-up to broadband services contributed to the increase in our number of customer accounts through 2007.

Other Revenues

The largest components of other revenues are sales of computers, telephones and accessories at Telmex stores and billing and collection services offered to third parties. Other revenues increased by 35.9% in 2008 and by 25.9% in 2007. The increase in 2008 and 2007 was primarily due to higher sales of computers at Telmex stores. In 2007, the increase was also due to higher sales of telephones and accessories at Telmex stores.

Operating Costs and Expenses

Cost of Sales and Services

Cost of sales and services increased by 1.4% in 2008 and by 1.0% in 2007. The increase in 2008 was due to cost of goods sold attributable to higher sales of computers, higher utilities expenses, and higher expenses for maintenance of corporate customers' networks and our data network. The increase in 2007 was due to costs of goods sold as a consequence of higher sales of computers, telephones and accessories, partly offset by a reduction in maintenance costs and optimization of resource use.

Commercial, Administrative and General Expenses

Commercial, administrative and general expenses increased by 1.4% in 2008 and 0.9% in 2007. The increase in 2008 was primarily due to increased expenses related to sales activities and a higher charge for doubtful accounts, partially offset by lower expenses related to a lower number of prepaid cards sold in 2008. The increase in 2007 was principally due to a higher charge for doubtful accounts related to the disconnection of customers with payment problems, partially offset by lower advertising expenses and lower production costs of prepaid cards.

Interconnection Costs

Interconnection costs include payments to mobile phone carriers under the "calling party pays" system. Interconnection costs decreased by 16.8% in 2008 and increased by 24.0% in 2007. The decrease in 2008 was due to both a decline in the rate paid to mobile phone operators for calls under the "calling party pays" system, and a decline in fixed-to-mobile traffic.

The increase in 2007 was due to a full year of costs generated by the "calling party pays" system for domestic and international long-distance services (compared with only two months in 2006), partly offset by a 13.0% decline in the costs generated by the "calling party pays" system for local and long-distance services.

Depreciation and Amortization

Depreciation and amortization decreased by 2.5% in 2008 and 1.5% in 2007. The decrease in 2008 and 2007 was due to a decrease in the amount of our depreciable assets. Additionally, in 2007, the decrease resulted from lower adjustment in the value of our imported fixed assets compared to 2006, under inflation accounting. According to Mexican FRS applicable through 2007, we adjusted imported fixed assets based on the rate of inflation in the country of origin of the asset and the prevailing exchange rate. Fixed assets acquired in Mexico were adjusted based on the rate of Mexican inflation.

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Operating Income

In 2008, operating income decreased by 9.4%, reflecting a 5.1% decrease in revenues and a 2.9% decrease in operating costs and expenses. Operating margin decreased to 32.0% in 2008 from 33.6% in 2007, as the mix of our revenues continued to shift away from voice services, with voice services representing a lower proportion of revenues and Internet access and corporate networks representing a higher proportion.

In 2007, operating income decreased by 5.1%, reflecting a 0.8% increase in revenues and a 4.1% increase in operating costs and expenses. Operating margin decreased to 33.6% in 2007 from 35.7% in 2006, as the mix of our revenues changed, with a lower proportion of revenues from voice services and a higher proportion of interconnection revenues.

Other Expenses, Net

Other expenses, net, amounted to P.679 million in 2008 and P.44 million in 2007. Other expenses, net, mainly consists of the net amount we are required to recognize under our employee profit sharing obligations. Telmex, like other Mexican companies, is required by law to pay to its employees, in addition to their agreed compensation and benefits, profit sharing in an aggregate amount equal to 10% of our taxable income (calculated without reference to inflation adjustments).

In 2007, other expenses were offset by a gain of P.1,653 million as a result of the favorable resolution of legal proceedings between us and the Mexican tax authorities regarding the deductibility of employee profit sharing amounts we paid in 2004 and 2005. Other expenses in 2007 were also offset by a gain of P.372 million from the sale of marketable securities and a gain of P.188 million from recoveries under our insurance policies, principally in connection with damages caused by hurricanes.

Financing Cost, Net

Under Mexican FRS, financing cost, net reflects interest income, interest expense, foreign exchange gain or loss and, through 2007, the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial proportion of our indebtedness (76.3% at December 31, 2008) is denominated in U.S. dollars, so a variation in the value of the peso against the U.S. dollar affects our foreign exchange gain or loss and interest expense. In 2008, financing cost, net was P.9,233 million compared with P.3,349 million in 2007. The changes in each component were as follows:

Interest income decreased by 34.6% in 2008 and by 6.6% in 2007. The decrease in 2008 and 2007 was due to a lower average level of interest-bearing assets.

Interest expense increased by 15.7% in 2008 and decreased by 4.8% in 2007. The increase in 2008 was primarily due to higher net losses on interest-rate swaps (P.2,283 million in 2008 compared to P.176 million in 2007), offset by a decrease in the average interest rates and a lower average level of debt. The decrease in 2007 was primarily due to lower losses on interest-rate swaps (P.176 million compared to P.1,142 million in 2006) and a decrease in the average interest rates, partially offset by a higher average level of debt.

We recorded a net exchange loss of P.2,494 million in 2008 and of P.643 million in 2007. In 2008, the net exchange loss was due to a loss of P.17,085 million caused by the depreciation of the peso against the U.S. dollar by approximately 24.6% for the year 2008, offset by a net

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gain of P.14,591 million on currency hedging instruments. In 2007, the net exchange loss was due to a net loss of P.621 million on currency derivative instruments and a loss of P.22 million due to the depreciation of the peso against the U.S. dollar during 2007 by approximately 0.2%.

Beginning 2008, we did not recognize the effects of inflation because of a change in Mexican FRS. Through 2007, we recognized a net gain in our monetary position because average monetary liabilities exceeded average monetary assets. The net gain in our monetary position decreased by 11.7% in 2007 compared to 2006. The decrease in 2007 was due to a lower net monetary liability position and a lower inflation rate compared to 2006.

Income Tax

The statutory rate of the Mexican corporate income tax was 28% in 2008 and 2007 and 29% in 2006. The Mexican Income Tax Law was amended in 2004 to decrease gradually the corporate income tax rate to 28% in 2007 and thereafter. Our effective rate of corporate income tax as a percentage of pre-tax profit was 32.2% in 2008, 28.7% in 2007 and 30.5% in 2006. Although after 2007 we no longer recognize the effects of inflation in our financial statements, we do continue to recognize the impact of inflation for tax purposes. This causes our pretax income to be affected by taxable monetary gain on our net monetary liabilities and by higher depreciation due to the application of inflation indexation on our assets. As a result, our taxable income in 2008 was higher than our income under Mexican FRS, and our effective tax rate was higher in 2008 than in 2007. The effective tax rate was lower in 2007 than in 2006 due to the lower statutory corporate income tax rate, partly offset by a decrease in depreciation and comprehensive financing cost for tax purposes.

Income from Continuing Operations, Net

Income from continuing operations, net, decreased by 30.2% in 2008 and increased by 4.3% in 2007. The decrease in 2008 was due to a decline in revenues from voice services and an increase in the financing cost, partly offset by a decrease in income taxes. In 2007, the increase was mainly due to the recognition of a gain recorded under other income, a decrease in the statutory corporate income tax rate and a lower comprehensive financing cost, due to a lower net exchange loss.

Liquidity and Capital Resources

Our principal capital requirements are capital expenditures, dividend payments, share repurchases and the repayment of debt. We have generally met our capital requirements primarily from operating cash flows and some limited borrowing. Cash flows provided by operating activities were P.45,905 million in 2008. This figure is not directly comparable to amounts reported for previous years, when the presentation of a statement of cash flows was not required under Mexican FRS.

We had a working capital surplus from continuing operations of P.10,814 million at December 31, 2008, a deficit (an excess of current liabilities over current assets) of P.1,665 million at December 31, 2007 and a surplus of P.6,111 million in 2006. The deficit in 2007 resulted from the transfer of approximately U.S.\$2 billion to Telmex Internacional in the *Escisión*. See *Item 4. Information on the Company History The Escisión*. We believe that our working capital is sufficient for our present requirements.

Our capital expenditures were P.10,081 million in 2008, P.13,440 million in 2007 and P.13,737 million in 2006. In 2008, we used 74.4% of our capital expenditures for projects in data, connectivity and transmission networks, and the balance for other projects. We expect that our capital expenditures in 2009 will be approximately P.8.0 billion (U.S.\$588 million), excluding expenditures for any acquisitions we may make.

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The amount we spent on share repurchases was P.12,872 million in 2008, P.15,783 million in 2007 and P.24,684 million in 2006. The amount spent on share repurchases is determined from time to time by the Board of Directors taking into account factors including the price of our shares and our capital resources. Our shareholders have given renewed authorization to our officers to make share repurchases, most recently on March 3, 2009. There is no obligation to spend any of the authorized amounts. See *Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers*.

Dividends paid totaled P.7,609 million in 2008, P.8,628 million in 2007 and P.8,665 million in 2006. Our shareholders have approved dividends of P.0.46 per share to be paid in four installments out of 2008 income. We expect to pay an aggregate of approximately P.8,507 million in dividends from June 2009 through March 2010 (based on the number of outstanding shares at March 17, 2009).

In the table below we set forth certain contractual obligations as of December 31, 2008, consisting of debt and purchase obligations, and the period in which the contractual obligations come due. The amount of our long-term debt reported in the table excludes interest and fee payments, which are primarily variable amounts, and does not reflect derivative instruments, which provide for payment flows that vary depending on exchange rates and interest rates. Purchase obligations include capital commitments primarily for equipment supply and maintenance contracts. The table below does not include pension liabilities, deferred taxes or current accounts payable.

	Total	Payments Due by Period (as of December 31, 2008)			2014 and beyond
		2009	2010-2011	2012-2013	
(in millions of pesos)					
Contractual obligations:					
Total debt ⁽¹⁾	P. 107,055	P. 22,883	P. 35,544	P. 20,227	P. 28,401
Purchase obligations	4,520	2,774	1,746		
Total	P. 111,575	P. 25,657	P. 37,290	P. 20,227	P. 28,401

(1) Excludes interest payments, fees and the effect of derivative instruments.

At December 31, 2008, we had total indebtedness of P.107,055 million (approximately U.S.\$7,908 million) compared to total indebtedness of P.91,462 million (approximately U.S.\$8,417 million) at December 31, 2007. In 2008, we incurred additional U.S. dollar and peso-denominated debt and reduced our U.S. dollar-denominated debt when we repaid U.S.\$1,000 million in senior notes at maturity in November 2008. We have P.22,883 million (U.S.\$1,690 million) in debt that will come due in 2009 and plan to refinance part of this amount with new debt.

The major categories of indebtedness are as follows:

U.S. dollar-denominated bank loans. These include two syndicated loan facilities, loans with support from export credit agencies and other loans. Most of our bank facilities bear interest at specified spreads over LIBOR. The weighted average interest rate at December 31, 2008 was approximately 1.8%. We had U.S.\$4,286 million (P.58,028 million) in bank loans outstanding at December 31, 2008. The largest component is the U.S.\$3,000 million facility that we obtained in August 2006. This loan has three tranches: U.S.\$1,300 million maturing in October 2009, U.S.\$1,000 million maturing in 2011, and U.S.\$700 million maturing in 2013. In addition, in June 2006, we obtained a U.S.\$500 million syndicated loan facility divided into two equal tranches maturing in 2010 and 2012.

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Certain of our bank loans contain financial and operating covenants. The most restrictive covenants require us to maintain a consolidated ratio of EBITDA to interest expense of no less than 3.00 to 1.00 and a consolidated ratio of total debt to EBITDA of no more than 3.75 to 1.00 (using terms defined in the credit agreements). Compliance with these covenants has not been a significant constraint on our ability to obtain financing.

Senior notes issued outside Mexico. We had U.S.\$1,748 million (P.23,670 million) and P.4,500 million aggregate principal amounts of senior notes outstanding at December 31, 2008. We have three outstanding series of senior notes issued outside of Mexico:

Maturity	Issuance	Interest	Outstanding Amount (millions)	
January 2010	January/February 2005	4.75%	U.S.\$	950
January 2015	January/February 2005	5.50%	U.S.\$	798
January 2016	January 2006	8.75%	P.	4,500

Peso-denominated senior notes issued in Mexico. We have issued peso-denominated senior notes (*certificados bursátiles*) from time to time in the Mexican market. Some of these notes bear interest at fixed rates and some bear interest at specified spreads below the Mexican interbank equilibrium interest rate (*Tasa de Interés Interbancaria de Equilibrio*). At December 31, 2008, we had P.14,800 million of such notes outstanding, maturing from 2009 to 2037, and the weighted average interest rate was 8.8%.

We also have smaller amounts of other categories of outstanding indebtedness, including peso-denominated loans from Mexican banks and supplier credits for equipment financing. We rely primarily on borrowings in the Mexican and international capital markets and from Mexican and international banks, although if market conditions change, we may seek funding from export credit agencies or other sources. A number of our financing instruments are subject to either acceleration or repurchase at the holder's option if there is a change of control, as defined in the respective instruments. The definitions of change of control vary, but none of them is met so long as Carso Global Telecom or its present controlling shareholders continue to control a majority of our voting stock.

At December 31, 2008, 76.3% of our total consolidated indebtedness was denominated in U.S. dollars, 20.6% was denominated in Mexican pesos and the remainder was denominated in other currencies. Our currency hedging practices are described below.

At December 31, 2008, 63.5% of our debt obligations bore interest at floating rates. The weighted average cost of all borrowed funds at December 31, 2008 (including interest and reimbursement of certain lenders for Mexican taxes withheld, but excluding fees and the effect of interest-rate swaps) was approximately 4.1% (compared to approximately 5.8% at December 31, 2007). The inclusion of fees and the effect of interest-rate swaps in the calculation of weighted average cost of all borrowed funds at December 31, 2008 would increase such cost by 2.1% to approximately 6.2% (compared to approximately 6.9% at December 31, 2007). Such cost does not include the effect of exchange rate variations. We have not pledged any assets as security for our debt.

Derivatives

A substantial part of our indebtedness is denominated in U.S. dollars (76.3% as of December 31, 2008), and we have relatively limited assets and revenues denominated in U.S. dollars. As of December 31, 2008, our U.S. dollar-denominated indebtedness amounted to P.81,698 million. In addition, a substantial part of our indebtedness bears interest at variable rates (63.5% as of December 31, 2008). As a result, we are exposed to risks from changing currency exchange rates and interest rates.

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To offset these risks, we enter into derivative financial instruments with large financial institutions to minimize the impact of fluctuations in exchange rates and variable interest rates on our indebtedness. We have not entered into derivative financial instruments for any other purposes, although we may do so in the future. The types of derivative instruments we have typically entered into in recent periods include cross-currency swaps (in which we generally pay peso amounts based on peso interest rates and receive U.S. dollar amounts based on dollar interest rates), interest-rate swaps (in which we generally pay amounts based on fixed interest rates and receive amounts based on variable interest rates) and forward exchange contracts (in which we generally agree to use pesos to purchase U.S. dollars at a future date).

Our use of derivatives varies from time to time, depending on our judgment about our level of exposure to exchange rate and interest rate risk, and the costs of derivative instruments. The aggregate notional amount of our interest-rate swaps may be greater or less than the principal amount of our debt, and we may discontinue hedging at any time. We review and change our derivatives positions regularly, and our derivatives policies change from time to time. Under Mexican FRS, we account for the derivative instruments on a fair value basis. See Note 8 to our audited consolidated financial statements.

We have engaged in extensive derivatives transactions to reduce our exposure to changes in exchange rates. In the past, we entered into short-term forward exchange contracts, and all of our forward contracts in an amount totaling P.34,332 million matured during 2008. As of December 31, 2008, our cross-currency swaps covered U.S.-dollar liabilities of U.S.\$5,451 million, although the amount of our derivatives position varies substantially from time to time. In 2008, we recognized a net charge of P.1,690 million and a net credit of P.16,282 million in connection with these exchange-rate swaps, which was included in financing cost, net.

We have also engaged in extensive derivatives transactions to reduce our exposure to changes in interest rates. Specifically, we have entered into interest-rate swaps in which we pay interest at a fixed rate and receive interest at a variable rate, on a notional amount in Mexican pesos or U.S. dollars. From time to time, we have also entered into interest-rate swaps in which we pay variable rates and receive fixed rates, as part of the management of our overall position. The general effect of these swaps is to replace an obligation to pay variable-rate interest on our debt with an obligation to pay fixed-rate interest. As of December 31, 2008, the aggregate notional amount of our peso-denominated variable rate to fixed rate interest-rate swaps was P.23,752 million. As of December 31, 2008, the aggregate notional amount of our U.S.-dollar-denominated fixed rate to variable rate interest-rate swaps was P.1,354 million. In 2008, we recognized a net expense of P.2,283 million in connection with these swaps, which was included in financing cost, net.

The aggregate effect of our derivative instruments was a gain of P.12,309 million during 2008, reflected in our financing cost, net. The fair value of our derivative instruments was P.20,419 million as of December 31, 2008.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements of the type that we are required to disclose under Item 5E of Form 20-F.

U.S. GAAP Reconciliation

Under Mexican FRS, the *Escisión* was deemed effective as of December 26, 2007. Under U.S. GAAP, however, the *Escisión* was deemed effective as of June 10, 2008, the date on which the Telmex Internacional share certificates were delivered to our shareholders, and therefore the businesses transferred to Telmex Internacional pursuant to the *Escisión* were included in our consolidated balance sheet as of December 31, 2007 and in our consolidated income statement for part of 2008.

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Net income under U.S. GAAP was P.22,008 million in 2008, P.35,375 million in 2007 and P.28,638 million in 2006. Compared to Mexican FRS, net income under U.S. GAAP was 9.1% higher in 2008, 1.9% lower in 2007 and 5.5% lower in 2006.

There are certain differences between Mexican FRS and U.S. GAAP that affect our net income and stockholders' equity. The most significant effects concern the treatment of the *Escisión* described above and elements of inflation accounting that are determined differently under U.S. GAAP than under Mexican FRS. See *Effect of Inflation Accounting Effects of inflation accounting on U.S. GAAP reconciliation for periods prior to 2008* above.

Other differences that affected net income relate to accounting for costs of pension and seniority premium plans, business combinations, capitalization of interest on assets under construction, deferred profit sharing and the treatment of non-controlling interest. The differences in stockholders' equity under Mexican FRS and U.S. GAAP reflect these same matters. For a discussion of the principal differences between Mexican FRS and U.S. GAAP, see Note 18 to our audited consolidated financial statements.

Use of Estimates in Certain Accounting Policies

In preparing our financial statements, we make estimates concerning a variety of matters. Some of these matters are highly uncertain, and our estimates involve judgments we make based on the information available to us. In the discussion below, we have identified several of these matters for which our financial presentation would be materially affected if either (a) we used different estimates that we could reasonably have used or (b) in the future we change our estimates in response to changes that are reasonably likely to occur.

The discussion addresses only those estimates that we consider most important based on the degree of uncertainty and the likelihood of a material impact if we used a different estimate. There are many other areas in which we use estimates about uncertain matters, but the reasonably likely effect of changed or different estimates is not material to our financial presentation.

Estimated Useful Lives of Plant, Property and Equipment

We estimate the useful lives of particular classes of plant, property and equipment in order to determine the amount of depreciation expense to be recorded in each period. Depreciation expense is a significant element of our costs, amounting in 2008 to P.17,815 million, or 21.1% of our operating costs and expenses, under Mexican FRS, and P.18,895 million, or 22.0% of our operating costs and expenses, under U.S. GAAP. See Notes 5 and 18 to our audited consolidated financial statements.

The estimates were based on historical experience with similar assets, anticipated technological changes and other factors, taking into account the practices of other telecommunications companies. We review estimated useful lives when we consider it necessary to determine whether they should be changed, and at times we have changed them for particular classes of assets. We may shorten the estimated useful life of an asset class in response to technological changes, changes in the market or other developments. This results in increased depreciation expense, and in some cases it can result in our recognizing an impairment charge to reflect a write-down in value. The same kind of developments can also lead us to lengthen the useful life of an asset class, resulting in reduced depreciation expense.

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Employee Pensions and Seniority Premiums

We recognize liabilities on our balance sheet and expenses in our income statement to reflect our obligations to pay employees under defined benefit retirement and seniority premium plans. The amounts we recognize are determined on an actuarial basis that involves many estimates and accounts for post-retirement and termination benefits in accordance with Mexican FRS. In 2008, we recognized net period cost relating to these obligations of P.4,652 million under Mexican FRS and P.3,813 million under U.S. GAAP.

We use estimates in four specific areas that have a significant effect on these amounts: (a) the discount rates that we use to calculate the present value of our future obligations, (b) the rate of increase in salaries that we assume we will observe in future years, (c) the rate of return we assume our pension fund will achieve on its investments and (d) the expected rate of inflation. The assumptions we have applied are identified in Note 11 (Mexican FRS) and Note 18 (U.S. GAAP) to our audited consolidated financial statements. These estimates are based on our historical experience, on current conditions in the financial markets and on our judgments about the future development of our salary costs and the financial markets. We review the estimates each year, and if we change them, our reported expense for pension costs may increase or decrease. In 2008, we began using nominal rates instead of real rates in preparing these estimates as a result of the cessation of inflation accounting under Mexican FRS.

Our liability for future pensions and seniority premiums is also affected by our estimate of the number of retired employees, and our pension fund is affected by the estimated rate of return on investments. Actual results may vary from these estimates. In 2008, the actuarial loss of P.29,613 million was due to (i) a decrease of P.22,950 million in value of plan assets invested in equity securities and fixed income instruments, and (ii) an actuarial loss of P.6,663 million attributable to higher than estimated retirement rates among our personnel, adjustments to our mortality table and longer life spans among retired personnel.

As of December 31, 2008, 45.9% of fund assets consisted of peso-denominated fixed-income securities and 54.1% consisted of variable-income securities of Mexican companies. The fund has experienced volatile returns on its investments in equity securities, which resulted in net losses on plan assets in prior years.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts based on our estimates of losses we may experience because our customers or other telecommunications carriers do not pay the amounts they owe us. At December 31, 2008, the amount of the allowance was P.2,385 million. For our customers, we perform a statistical analysis based on our past experience, current delinquencies and economic trends. For carriers, we make individual estimates that may reflect our evaluation of pending disputes over amounts owed. Our allowance mainly consists of accounts that are over 90 days delinquent. Our allowance could prove insufficient if our statistical analysis of our customer receivables is inadequate, or if one or more carriers refuse or are unable to pay us. See Note 4 to our audited consolidated financial statements.

Revenues from Prepaid Telephone Cards

We recognize revenues from the sale of our prepaid telephone service cards based on our estimate of the usage of time covered by the prepaid card. We estimate the period for usage of prepaid telephone cards in accordance with available statistics that reflect the total usage of cards and the total amounts sold. The cards do not have an expiration date.

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The prepaid telephone card contains a data chip that tracks the number of units of service the card can provide. Each time the card is used, the telephone equipment records the number of units used and reduces the number of available units on the chip. When the number of available units in the chip is reduced to zero, it ceases to function. We track the aggregate number of units sold and the aggregate number of units used, but we do not track the number of units used on a card-by-card basis.

Impairment of Long-Lived Assets

We have large amounts of long-lived assets on our balance sheet. Under Mexican FRS and U.S. GAAP, we are required to test long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable for plant, property and equipment and licenses. Impairment testing for goodwill is required to be performed on an annual basis. At December 31, 2008, these include plant, property and equipment (P.112,865 million, net of accumulated depreciation), licenses (P.1,025 million, net of accumulated amortization) and goodwill (P.276 million, including our investment in subsidiaries). To estimate the fair value of long-lived assets, we typically make various assumptions about the future prospects for the business that the asset relates to, consider market factors specific to that business and estimate future cash flows to be generated by that business. Based on these assumptions and estimates, and guidance provided by Mexican FRS and U.S. GAAP relating to the impairment of long-lived assets, we determine whether we need to take an impairment charge to reduce the net carrying value of the asset stated on our balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

During 2008 and 2007 we did not recognize any impairment of long-lived assets.

Fair Value of Derivatives

Under Mexican FRS (Bulletin C-10, *Instrumentos Financieros Derivados y Operaciones de Cobertura* (Derivative Financial Instruments and Hedging Activities)) and U.S. GAAP (SFAS 133), we are required to recognize all derivatives as either assets or liabilities on our balance sheet and measure those instruments at fair value. Accounting for derivative transactions allows us to obtain the fair values from the financial institutions with whom we enter into these transactions. We verify these fair values and use them as the basis for recognition of the derivative instruments in our financial statements. The fair value of derivative financial instruments is based on estimated settlement costs or quoted market prices supported by confirmations of these values received from the counterparties to these financial instruments and by determinations of independent third parties applying technical models based on statistical and market data. Changes in the fair value of derivative financial instruments are recorded each year in net income or as a component of cumulative other comprehensive income, based on the type of hedging instrument and the effectiveness of the hedge.

Item 6. Directors, Senior Management and Employees

Directors

Management of our business is vested in the Board of Directors and the chief executive officer. Our bylaws provide for the Board of Directors to consist of a maximum of 21 directors and up to an equal number of alternate directors. A majority of the directors and a majority of the alternate directors must be Mexican nationals and elected by Mexican shareholders. Each alternate director may attend meetings of the Board of Directors and vote in the absence of a corresponding director.

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Directors are elected by a majority of the holders of the AA Shares and A Shares voting together, provided that any holder or group of holders of 10% of the total AA Shares and A Shares is entitled to name one of such directors and one of such alternate directors, and two directors and two alternate directors are elected by a majority vote of the holders of L Shares. Directors and alternate directors are elected at each annual ordinary general meeting of shareholders and each annual special meeting of holders of L Shares. Pursuant to our bylaws and Mexican law, at least 25% of our directors must qualify as independent, as determined by our shareholders at their annual ordinary general meeting pursuant to the Mexican Securities Market Law (*Ley del Mercado de Valores*). In order to have a quorum for a meeting of the Board of Directors, a majority of those present must be Mexican nationals.

Each of Carso Global Telecom and AT&T International has agreed to vote for the directors and alternate directors named by the other in accordance with their respective share ownership.

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Our bylaws provide that the members of the Board of Directors are appointed for terms of one year and may be reelected. The names and positions of the current 14 members of our Board of Directors elected at the annual ordinary general meeting of our shareholders held on April 28, 2009, their dates of birth and information on their principal business activities outside Telmex are as follows:

Carlos Slim Domit Chairman; chairman of the executive committee	Born:	1967
	First elected:	1995
	Term expires:	2010
	Principal occupation and other directorships:	Chairman of the board of directors of Teléfonos de México, S.A.B. de C.V.; Chairman of the board of directors of Grupo Carso, S.A.B. de C.V., Grupo Sanborns, S.A. de C.V. and U.S. Commercial Corp., S.A.B. de C.V.; Vice Chairman of the board of directors of Carso Global Telecom, S.A.B. de C.V.
	Business experience:	Chief Executive Officer of Sanborn Hermanos, S.A.
Jaime Chico Pardo Co-Chairman; member of the executive committee	Born:	1950
	First elected:	1991
	Term expires:	2010
	Principal occupation:	Co-Chairman of the board of directors of Teléfonos de México, S.A.B. de C.V.; Co-Chairman of the board of directors of IDEAL (Impulsora del Desarrollo y el Empleo en América Latina)
	Other principal directorships:	Member of the board of directors of América Móvil, S.A.B. de C.V., Carso Global Telecom, S.A.B. de C.V., Grupo Carso, S.A.B. de C.V. and Honeywell International
	Business experience:	Chief Executive Officer of Teléfonos de México, S.A. de C.V.; Chief Executive Officer of Grupo ConduMex, S.A. de C.V.; Chairman of Corporación Industrial Llantera (Euzkadi General Tire de México)
Antonio Cosío Ariño Director; member of the audit committee; alternate member of the executive committee	Born:	1935
	First elected:	1991
	Term expires:	2010
	Principal occupation:	Chief Executive Officer of Cía. Industrial de Tepeji del Río, S.A. de C.V. and Tejidos Puente Sierra, S.A de C.V.

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	Other directorships:	Chairman of the board of directors of Bodegas de Santo Tomás, S.A. de C.V. and Grupo Hotelero Brisas, S.A. de C.V.; member of the board of directors of Grupo Sanborns, S.A. de C.V., Grupo Carso, S.A.B. de C.V., Grupo Financiero Inbursa, S.A.B. de C.V. and Grupo Financiero Banamex-Accival, S.A. de C.V.
Amparo Espinosa Rugarcía Director	Born:	1941
	First elected:	1991
	Term expires:	2010
	Principal occupation:	Chief Executive Officer of Documentación y Estudios de Mujeres, A.C.
	Business experience:	Newspaper columnist; speaker at various domestic and international events
Élmer Franco Macías Director	Born:	1940
	First elected:	1991
	Term expires:	2010
	Principal occupation:	Chief Executive Officer and member of the board of directors of Infra, S.A. de C.V.
	Other directorships:	Member of the board of directors of Corporativo Infra, S.A. de C.V., Electrodo Infra, S.A. de C.V., Envases de Aceros, S.A. de C.V., Corporacion Infra, S.A. de C.V. and Conglomerado Industrial y Metaloides and Banco Nacional de México, S.A.
	Business experience:	Various positions at Grupo Infra since 1958
José Kuri Harfush Director; member of the audit committee	Born:	1949
	First elected:	1995
	Term expires:	2010
	Principal occupation:	Chief Executive Officer of Productos Dorel, S.A. de C.V. and Janel, S.A. de C.V.
	Other directorships:	Member of the board of directors of Banco Inbursa, Cigarros La Tabacalera Mexicana, Seguros Inbursa, Grupo Financiero Inbursa, S.A.B. de C.V., Grupo Carso, S.A.B. de C.V., Inbursa Sociedad de Inversión de Capitales, Sanborn Hermanos, S.A., Sears Roebuck de México, S.A. de C.V., América Telecom, S.A. de C.V., Carso Global Telecom, S.A.B. de C.V. and Minera Tayahua
Ángel Losada Moreno Director	Born:	1955
	First elected:	1991
	Term expires:	2010

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	Principal occupation:	Chairman of the board of directors and Chief Executive Officer of Grupo Gigante, S.A.B. de C.V.
	Other directorships:	Chairman of the board of directors of Office Depot de México, S.A. de C.V.; member of the board of directors of Grupo Financiero Banamex Accival, S.A. de C.V.
	Business experience:	President of the Advisory Board of the National Association of Autoservice and Department Stores (ANTAD); member of the Board of Directors of Chamber of Commerce of Mexico City, Casa de Bolsa Inverlat, S.A., Seguros de América, S.A. and Food Market Institute.
Juan Antonio Pérez Simón Vice Chairman; chairman of the corporate practices committee; member of the executive committee	Born:	1941
	First elected:	1991
	Term expires:	2010
	Principal occupation and other directorships:	Chairman of the board of directors and member of the executive committee of Sanborn Hermanos, S.A.; member of the board of directors of Grupo Carso, S.A.B. de C.V., Grupo Financiero Inbursa, S.A.B. de C.V., Carso Global Telecom, S.A.B. de C.V., Cigarros La Tabacalera Mexicana, and Sears Roebuck de México, S.A. de C.V.
Marco Antonio Slim Domit Director	Born:	1968
	First elected:	1995
	Term expires:	2010
	Principal occupation:	Chairman of the board of directors and Chief Executive Officer of Grupo Financiero Inbursa, S.A.B. de C.V.
	Other directorships:	Member of the board of directors of Grupo Carso, S.A.B. de C.V., Carso Global Telecom, S.A.B. de C.V. and Grupo Sanborns, S.A. de C.V.
	Business experience:	Various positions in the financial and commercial area at Grupo Financiero Inbursa, S.A.B. de C.V.
Héctor Slim Seade Director; alternate member of the executive committee	Born:	1963
	First elected:	2007
	Term expires:	2010
	Principal occupation:	Chief Executive Officer of Teléfonos de México, S.A.B. de C.V.
	Other directorships:	Member of the board of directors of Grupo Financiero Inbursa, S.A.B. de C.V.

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	Business experience:	Director of Operational Support of Teléfonos de México, S.A.B. de C.V.; Chief Executive Officer of Fianzas Guardiania Inbursa; Administrative Officer of Banco Inbursa.
Michael J. Viola Director; member of the executive committee	Born:	1954
	First elected:	2009
	Term expires:	2010
	Principal occupation:	Senior Vice President-Finance of AT&T, Inc.
	Business experience:	Various positions at AT&T, Inc. since 2000
Larry I. Boyle Director; alternate member of the executive committee	Born:	1957
	First elected:	2006
	Term expires:	2010
	Principal occupation:	Chief Financial Officer of AT&T Mexico, Inc.
	Business experience:	Various positions at AT&T, Inc. since 1985
Rafael Moisés Kalach Mizrahi Director; chairman of the audit committee	Born:	1946
	First elected:	1995
	Term expires:	2010
	Principal occupation:	Chairman of the board of directors and Chief Executive Officer of Grupo Kaltex, S.A. de C.V., Chairman of the board of directors of Coltejer, S.A. de C.V., Chairman of the board of directors of Grupo Carso, S.A.B. de C.V., Sears Roebuck, S.A. de C.V.
	Other directorships:	Member of the board of directors of Grupo Carso, S.A.B. de C.V., Sears Roebuck, S.A. de C.V.
	Business experience:	Member of the board of directors of Banco Nacional de México and Bursamex Casa de Bolsa.
Ricardo Martín Bringas Director	Born:	1960
	First elected:	1998
	Term expires:	2010
	Principal occupation:	Chief Executive Officer of Organización Soriana, S.A.B. de C.V.
	Other directorships:	Member of the board of directors of Banco HSBC México, S.A., Grupo Financiero Banamex Accival, S.A. de C.V., Grupo Financiero Banorte, S.A.B. de C.V. and ING de México; member of Consejo Mexicano de Hombres de Negocios, A.C.
	Business experience:	Various positions in the management and financial area at various companies, including Organización Soriana, La Ciudad de París and Restaurantes Martin s.

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The alternate directors elected at the annual ordinary general meeting of our shareholders held on April 28, 2009, each of whom serves a one-year term, are as follows:

	First Elected Director or Alternate Director
Patrick Slim Domit	1999
José Humberto Gutiérrez-Olvera Zubizarreta	1996
Antonio Cosío Pando	2002
Marcos Franco Hernaiz	2009
Eduardo Tricio Haro	2005
Jaime Alverde Goya	1993
Eduardo Valdés Acra	2000
Jorge A. Chapa Salazar	2002
Jorge C. Esteve Recolons	2004

The Secretary of the Board of Directors is Sergio F. Medina Noriega.

Of our directors and alternate directors, Marcos Franco Hernaiz is the nephew of Élmér Franco Macías; Antonio Cosío Pando is the son of Antonio Cosío Ariño; Carlos Slim Domit, Marco Antonio Slim Domit and Patrick Slim Domit are sons of Carlos Slim Helú; and Héctor Slim Seade is the nephew of Carlos Slim Helú.

Executive Committee

Our bylaws provide that the executive committee may generally exercise the powers of the Board of Directors. The Board of Directors is also required to consult the executive committee before deciding on certain matters set forth in the bylaws, and the executive committee must provide its views within 10 calendar days following a request from the Board of Directors.

The executive committee is elected from among the directors and alternate directors by a majority vote of the AA Shares and A Shares voting together. Under an agreement entered into in December 2000 between Carso Global Telecom and AT&T International, the executive committee consists of four members. The majority of its members must be of Mexican nationality and elected by Mexican shareholders. Carso Global Telecom and AT&T International have agreed to vote for three members named by Carso Global Telecom and one member named by AT&T International. The current members of the executive committee are Carlos Slim Domit, Juan Antonio Pérez Simón and Jaime Chico Pardo, all nominated by Carso Global Telecom and elected by various other Mexican investors, and Michael J. Viola, named upon nomination by AT&T International. The current alternate members of the executive committee are José Humberto Gutiérrez-Olvera Zubizarreta, Héctor Slim Seade and Antonio Cosío Ariño, all nominated by Carso Global Telecom and elected by various other Mexican investors, and Larry I. Boyle, named upon nomination by AT&T International. The current members and alternate members of the executive committee were appointed at the annual ordinary general meeting of shareholders held on April 28, 2009.

Audit Committee

The audit committee consists of Rafael Kalach M. (the audit committee's chairman, appointed at the annual ordinary general meeting of shareholders held on April 28, 2009), Antonio Cosío Ariño and José Kuri Harfush, all three of whom are directors. Each member of the audit committee qualifies as independent, as determined by our shareholders at their annual ordinary general meeting pursuant to the Mexican Securities Market Law, and also meets the independence requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act. *See Item 16A. Audit Committee Financial Expert.* The audit committee operates under a written charter approved by our Board of Directors.

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The mandate of the audit committee is to oversee that proper procedures and controls have been established and ensure that the financial information is useful, proper, reliable and accurately reflects our financial position. The mandate of our audit committee includes the following functions, among others:

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

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

discuss our financial statements with the persons responsible for their preparation and review and issue a recommendation to the Board of Directors with respect to committee's approval thereof;

inform the Board of Directors of the status of our internal control and internal audit system, including any detected irregularities;

prepare the opinion required by the Mexican Securities Market Law with respect to the annual report of our chief executive officer and submit it to our Board of Directors, for subsequent presentation at the shareholders' meeting;

assist the Board of Directors in the preparation of the reports required by the Mexican Securities Market Law regarding our principal accounting and financial information policies and criteria, and the Board of Directors' activities and operations;

seek the opinion of independent experts and other advisors when required or deemed necessary;

investigate possible violations of operational guidelines and policies or of the internal control, internal audit and accounting records system by examining the documentation, records and other evidence deemed necessary;

request periodic meetings with management and any information related to our internal control and internal audit;

call a shareholders' meeting and request the inclusion of matters it considers appropriate on the agenda;

report to the Board of Directors on any detected significant irregularities and on its activities in general, propose corrective actions, and conduct an annual self-evaluation;

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receive from our external auditors a report that includes an analysis of: (a) all critical accounting policies utilized by us; (b) all policies and financial reporting standards that differ from those utilized by us and that have been discussed with management, including the implications of using such policies and practices; and (c) any other written communications regarding significant matters between our external auditors and management, including the annual letter to management, in which our external auditors summarize their recommendations regarding our internal controls and the non-adjusted differences in inventory identified during the audit process;

establish procedures for receiving, retaining and addressing complaints regarding our accounting, internal control and audit matters, including procedures for confidential submission of such complaints;

set aside times during meetings for discussions and deliberations, and establish a schedule for meeting with the head of our internal audit department and with our external auditors, without the presence of the chief executive officer and other executive officers;

review and analyze with management and our external auditors this Annual Report and the quarterly financial results presented to the SEC;

oversee that the chief executive officer executes the resolutions adopted by our shareholders or by the Board of Directors;

oversee the establishment of mechanisms and internal controls that allow to verify that our actions and operations comply with applicable rules, as well as implement methodologies that allow review of the fulfillment of the foregoing function;

assist the Board of Directors in monitoring the principal risks to which we are exposed, as identified on the basis of the information presented by the committees of our Board of Directors, our chief executive officer and our External Auditors, as well as in monitoring our accounting, internal control, internal audit, records, archive and information systems;

inform the Board of Directors of the activities performed by the audit committee; and

perform any other functions pursuant to its mandate or expressly conferred by our shareholders or the Board of Directors.

The audit committee has reviewed this Annual Report, as well as our consolidated financial statements and notes thereto included elsewhere in this Annual Report, and recommended that such financial statements be included herein.

Corporate Practices Committee

The corporate practices committee consists of Juan Antonio Pérez Simón (a director and the corporate practices committee's chairman, appointed at the annual ordinary general meeting of shareholders held on April 28, 2009), Antonio Cosío Pando and Jaime Alverde Goya (both of whom are alternative directors). The corporate practices committee operates under a written charter approved by our Board of Directors.

The mandate of our corporate practices committee includes the following functions, among others:

give an opinion to the Board of Directors with respect to matters assigned to it under the Mexican Securities Market Law, including: (a) the policies and guidelines for the use of our assets, including by related parties; (b) the policies and guidelines applicable to related party transactions; (c) the appointment, election or dismissal and the compensation of the chief executive officer, and the policies relating to the appointment and compensation of senior management; (d) policies for the authorization of loans or guarantees to related parties; and (e) exemptions for directors and members of management to participate in business opportunities that belong to us or to entities over which we have a significant influence;

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seek the opinion of independent experts when required or deemed necessary;

call a shareholders meeting and request the inclusion of matters it considers appropriate on the agenda;

assist the Board of Directors in the preparation of the reports required by the Mexican Securities Market Law regarding our principal accounting and financial information policies and criteria, and the Board of Directors activities and operations; and

perform any other functions pursuant to its mandate or expressly conferred by our shareholders or the Board of Directors.

Executive Officers

The names, responsibilities and prior business experience of our executive officers are as follows:

Héctor Slim Seade Chief Executive Officer	Appointed: Business experience:	2006 Director Operational Support of Teléfonos de México, S.A.B. de C.V.; Chief Executive Officer of Fianzas Guardiania Inbursa; Administrative Officer of Banco Inbursa
Adolfo Cerezo Pérez Chief Financial Officer	Appointed: Business experience:	1991 Various positions in finance at Teléfonos de México, S.A.B. de C.V., including treasurer
Arturo Elías Ayub Communication, Institutional Relations and Strategic Alliances	Appointed: Business experience:	2002 Chief Executive Officer of Sociedad Cadena and various positions at Telmex, including New Services, Regulation and Communication
Javier Mondragón Alarcón Regulation and Legal Affairs	Appointed: Business experience:	1999 General Counsel at Grupo Televisa S.A. de C.V.; executive vice president at Grupo Televisión

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The AA Shares represented 44.0% of the total capital stock and 95.3% of the full voting shares (AA shares and A Shares) as of May 13, 2009. The AA Shares are owned by (1) Carso Global Telecom, (2) AT&T International and (3) various other Mexican investors. Carso Global Telecom holds interests in telecommunications and was created in an Escisión of Grupo Carso in 1996. Carso Global Telecom may be deemed to control us. According to reports of beneficial ownership of our shares filed with the SEC, Carso Global Telecom is controlled by Mr. Carlos Slim Helú and members of his immediate family.

Carso Global Telecom and AT&T International are parties to an agreement entered into in December 2000 providing for certain matters relating to their ownership of AA Shares. Among other things, the agreement subjects certain transfers of AA Shares by either party to a right of first offer in favor of the other party, although the right of first offer does not apply to the conversion of AA Shares to L Shares, as permitted by our bylaws, or the subsequent transfer of L Shares. The agreement also provides for the composition of the Board of Directors and the executive committee (see *Item 6. Directors, Senior Management and Employees Directors* and *Item 6. Directors, Senior Management and Employees Executive Committee*) and for each party to enter into a Management Services Agreement with us (see *Related Party Transactions* below).

The following table identifies owners of five percent or more of any class of our shares as of May 13, 2009, unless otherwise indicated. Except as described below, we are not aware of any holder of five percent or more of any class of our shares. Holders of five percent or more of any class of our shares have the same voting rights with respect to their shares as do holders of less than five percent of the same class.

	AA Shares ⁽¹⁾		A Shares ⁽²⁾		L Shares ⁽³⁾⁽⁴⁾		Percent of voting shares ⁽⁵⁾
	Shares (millions)	Percent of class	Shares (millions)	Percent of class	Shares (millions)	Percent of class	
Carso Global Telecom ⁽⁶⁾	6,000.0	73.9%	92.0	22.8%	4,658.0	46.9%	71.5%
AT&T International ⁽⁶⁾	1,799.5	22.2%					21.1%
Capital Research Global Investment ⁽⁷⁾					586.2	5.9%	

- (1) As of May 13, 2009, there were 8,115 million AA Shares outstanding, representing 95.3% of the total full voting shares (AA Shares and A Shares).
- (2) As of May 13, 2009, there were 402 million A Shares outstanding, representing 4.7% of the total full voting shares (AA Shares and A Shares).
- (3) As of May 13, 2009, there were 9,933 million L Shares outstanding.
- (4) Based on reports of beneficial ownership filed with the SEC, (i) Franklin Resources, Inc. beneficially owned less than 5% of our L Shares as of March 31, 2009 and March 31, 2008, compared to 5.5% as of April 10, 2007, and (ii) Brandes Fund, beneficially owned less than 5% of our L Shares as of March 31, 2009, compared to 7.6% as of June 11, 2008.
- (5) AA Shares and A Shares.
- (6) Holders of AA Shares and A Shares are entitled to convert a portion of these Shares to L Shares, subject to the restrictions set forth in our bylaws. In accordance with Mexican law and our bylaws, AT&T holds its AA Shares through a Mexican trust, pursuant to the terms of which the trustee votes AT&T's AA Shares in the same way as Carso Global Telecom does, other than with respect to the election of the members of our Board of Directors and the Executive Committee. See Item 10. Additional Information Bylaws and Mexican Law.
- (7) As of March 31, 2009. Derived from reports of beneficial ownership of our shares filed with the SEC. For comparability purposes, percent of class is calculated based on the number of L Shares outstanding on May 13, 2009.

The following table sets forth the share ownership, as of May 13, 2009, of our officers and directors who own more than one percent of any class of our capital stock. Carlos Slim Domit, Marco Antonio Slim Domit and Patrick Slim Domit, together with certain other members of Carlos Slim Helú's immediate family, may be deemed to share beneficial ownership of 6,000 million AA Shares, 92.6 million A Shares and 4,845.9 million L Shares held by Carso Global Telecom and other companies that are under common control with us.

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	AA Shares ⁽¹⁾		A Shares ⁽¹⁾		L Shares ⁽¹⁾		Percent of voting shares ⁽²⁾
	Shares (millions)	Percent of class	Shares (millions)	Percent of class	Shares (millions)	Percent of class	
Carlos Slim Domit ⁽³⁾	6,000.0	73.9%	92.6	23.0%	4,855.4	48.9%	71.5%
Marco Antonio Slim Domit ⁽⁴⁾	6,000.0	73.9	92.6	23.0	4,855.4	48.9	71.5
Patrick Slim Domit ⁽⁵⁾	6,000.0	73.9	92.6	23.0	4,856.5	48.9	71.5
Antonio Cosío Ariño ⁽⁶⁾	130.4	1.6					1.5
Antonio Cosío Pando ⁽⁶⁾	130.4	1.6					1.5

- (1) Holders of AA Shares and A Shares are entitled to convert a portion of these Shares to L Shares, subject to the restrictions set forth in our bylaws. See Item 10. Additional Information Bylaws and Mexican Law. Based on reports of beneficial ownership filed with the SEC, as of May 12, 2009, 4,421,688,690 AA Shares and all A Shares of which Carlos Slim Domit, Marco Antonio Slim Domit, Patrick Slim Domit and certain other members of Carlos Slim Helú's immediate family may be deemed to share beneficial ownership could be converted to L Shares.
- (2) AA Shares and A Shares.
- (3) Includes 9,516,264 L Shares owned directly by Carlos Slim Domit.
- (4) Includes 9,516,264 L Shares owned directly by Marco Antonio Slim Domit.
- (5) Includes 10,548,538 L Shares owned directly by Patrick Slim Domit.
- (6) Owned jointly by Antonio Cosío Ariño and Antonio Cosío Pando.

At December 31, 2008, 54.1% of our outstanding L Shares were represented by L Share ADSs, each representing the right to receive 20 L Shares, and 99.1% of the holders of L Share ADSs (11,140 holders, including The Depository Trust Company, or DTC) had registered addresses in the United States. In November 2000, we established a sponsored ADS program for the A Share ADSs. 25.4% of our outstanding A Shares were held in the form of A Share ADSs at December 31, 2008, each representing the right to receive 20 A Shares, and 99.6% of the holders of A Share ADSs (4,062 holders, including The Depository Trust Company) had registered addresses in the United States.

We have no information concerning holders with registered addresses in the United States that hold:

A Shares;

L Shares not represented by ADSs; or

A Share ADSs that are held under the unsponsored A Share ADS programs, which pre-date the establishment of the sponsored program, and have not been exchanged for ADSs issued under such sponsored program. See *Item 9. The Offer and Listing Trading Market*. We purchase our shares on the Mexican Stock Exchange from time to time up to a specified maximum aggregate value authorized by the holders of AA Shares and A Shares and our Board of Directors. In 2008, we purchased 796.7 million L Shares and 8.6 million A Shares, representing 4.2% of the shares outstanding at the beginning of 2008, with an aggregate value of P.12,872 million.

Since January 1, 1997, Carso Global Telecom has purchased A Shares and L Shares on the open market from time to time. In percentage terms, the ownership position of Carso Global Telecom has also increased as a result of our repurchase of our own shares. Carso Global Telecom's percentage ownership of A Shares was 22.6% on December 31, 2008, 21.4% on December 31, 2007 and 20.6% on December 31, 2006. Carso Global Telecom's percentage ownership of L Shares was 46.4% on December 31, 2008, 42.9% on December 31, 2007 and 39.1% on December 31, 2006.

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RELATED PARTY TRANSACTIONS

General

We engage in a variety of transactions in the ordinary course of business with affiliates. Pursuant to Mexican law, our bylaws and applicable internal guidelines, provided that the corporate practices committee of our Board of Directors has opined favorably, our Board of Directors has to vote on whether or not to approve any transaction with a related party (1) the value of which exceeds 1% of our consolidated assets, (2) that is outside the ordinary course of our business or at non-market prices, or (3) that is with employees and is not on the same terms as transactions with any other customers and does not result from employee benefits of general character. A director with an interest in a transaction with a related party is not permitted to vote on its approval.

Our transactions with affiliates include making interconnection payments to América Móvil and to Telmex Internacional, purchasing network construction services and materials from a subsidiary of Grupo Carso and using insurance and bank services from Grupo Financiero Inbursa. In addition, we rent private circuits and provide long-distance services to América Móvil, purchase network construction materials from Grupo Carso and provide certain services to Grupo Carso and Grupo Financiero Inbursa. Grupo Carso and Grupo Financiero Inbursa are under common control with Carso Global Telecom, and several of their directors are also members of our Board of Directors. See *Item 6. Directors, Senior Management and Employees Directors*.

The aggregate amount of our purchases from affiliates was P.17,993 million in 2008, P.22,624 million in 2007 and P.20,479 million in 2006. The aggregate amount of our sales to these affiliates was P.10,732 million in 2008, P.9,306 million in 2007 and P.8,340 million in 2006. We believe that these transactions are at market prices. See Note 14 to our audited consolidated financial statements.

From time to time we make investments together with affiliated companies, sell our investments to affiliates and buy investments from affiliates. Some of these transactions are described below.

We pursued joint investments with América Móvil to acquire equity interests in Compañía Anónima Nacional Teléfonos de Venezuela in 2006 and Olimpia, an Italian company that owns 18% of the total capital of Telecom Italia, in 2007. Neither of these transactions was completed.

In January 2006, together with Alcatel and AT&T International (one of our principal shareholders), we acquired an aggregate 51% interest in the capital stock of 2Wire. Subsequently, we sold an approximate 5.5% in 2Wire to AT&T International, decreasing our ownership to approximately 13.0%.

We own a 45% interest in Grupo Telvista S.A. de C.V. together with América Móvil (45%) and Grupo Financiero Inbursa (10%). We also pay fees to Carso Global Telecom and AT&T International for consulting and management services, pursuant to agreements with each party negotiated on behalf of us by a special committee of directors unaffiliated with any of the parties. We paid both companies an aggregate amount of U.S. \$45.0 million in 2008, U.S.\$47.5 million in 2007 and U.S.\$39.0 million in 2006. In 2008, Telmex Internacional reimbursed us U.S.\$22.5 million of the U.S.\$45.0 million we paid to Carso Global Telecom. The current agreement with Carso Global Telecom was renewed for 2009 on substantially similar terms to the prior agreement. In February 2009, we paid Carso Global Telecom U.S.\$22.5 million for consulting and management services in 2009.

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Our corporate practices committee has established policies governing the use of our corporate aircraft. For security reasons and due to the various activities related to their positions, the corporate practices committee allocates an annual amount of time for personal use free of charge to the honorary chairman, the chairman and the co-chairman of our Board of Directors. Certain executives of our affiliates periodically use our corporate aircraft in accordance with those policies.

Ongoing Transactions with Telmex Internacional

We have a variety of contractual relationships with Telmex Internacional. The terms of our arrangements with Telmex Internacional are generally similar to those on which each company does business with other, unaffiliated parties. These ongoing relationships include the following:

We complete international traffic from Telmex Internacional in Mexico.

Telmex Internacional completes international traffic from us in Brazil, Colombia, Argentina, Chile, Peru and Ecuador.

Telmex Internacional prints our white pages telephone directories.

We provide Telmex Internacional access to our customer database for use in its yellow pages directory business in Mexico and handle the billing and collection of payments from advertisers.

We provide a variety of administrative services to Telmex Internacional, including certain data processing and corporate support and administrative services, generally at cost plus a specified percentage.

Transactions Relating to the *Escisión*

The creation of Telmex Internacional and the transfer of assets and liabilities from Telmex to Telmex Internacional was effected pursuant to the *Escisión* in December 2007. We have not made any representations regarding the value of any of the assets we transferred to Telmex Internacional in the *Escisión*. Telmex Internacional has agreed to indemnify us against any liability, expense, cost or contribution asserted against us that arises out of the assets owned directly or indirectly by Controladora de Servicios de Telecomunicaciones, S.A. de C.V., or Consertel, the subsidiary whose shares were transferred to Telmex Internacional in the *Escisión*. For more information on the *Escisión*, see *Item 4. Information on the Company History*.

In connection with the *Escisión*, we entered into a master transition agreement with Telmex Internacional, or the Master Transition Agreement. Among other things, this agreement provides in general terms as follows:

Telmex Internacional agrees to indemnify us against any loss or expense resulting from the assertion against us of any liabilities or claims that were transferred to Telmex Internacional in the *Escisión* or that relate to the businesses transferred to Telmex Internacional in the *Escisión*.

We agree to indemnify Telmex Internacional against any loss or expense resulting from the assertion against Telmex Internacional of any liabilities or claims that were retained by us in the *Escisión* or that relate to the businesses retained by us in the *Escisión*.

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Each party agrees to provide the other with information required to prepare financial statements, tax returns, regulatory filings or submissions and for other specified purposes.

Each party agrees to maintain the confidentiality of any information concerning the other that it obtained prior to the *Escisión* or that it obtains in connection with the implementation of the *Escisión*.

Each party agrees that it will not take any action that could reasonably be expected to prevent the *Escisión* from qualifying as tax-free under Mexican or U.S. federal tax laws.

Each party releases the other from certain claims arising prior to the *Escisión*. We made no representations concerning the assets transferred directly or indirectly in the *Escisión*.

Transactions between Telmex and América Móvil

América Móvil has a variety of contractual relationships with us and with our subsidiaries. Because both we and América Móvil, the wireless operator that was established in an *escisión* we completed in 2000, provide telecommunications services in the same geographical markets, we have extensive operational relationships. These include interconnection between our respective networks; use by América Móvil of our private circuits; our provision of long-distance service to América Móvil's customers; use of facilities, particularly for the co-location of equipment on premises we own; and use by each of the services provided by the other. These operational relationships are subject to a variety of agreements, which for the most part were in place prior to the *Escisión* and were not significantly modified as a result of the *Escisión*. Many of them are also subject to specific regulations governing all telecommunications operators. Interconnection fees represent the largest component of amounts paid under these agreements. In addition, we distribute América Móvil's handsets and prepaid cards in our stores. The terms of the arrangements with América Móvil are generally similar to those on which each company does business with other, unaffiliated parties.

International Long-distance Settlement with AT&T International

We have agreements with AT&T International, one of our principal shareholders that provide for AT&T International completing our international calls to the United States and for our completing AT&T International's calls from the United States. The rates of payment under these agreements are consistent with the rates agreed with other international carriers.

Item 8. Financial Information

CONSOLIDATED FINANCIAL STATEMENTS

See *Item 18. Financial Statements* and our consolidated financial statements beginning on page F-1.

LEGAL PROCEEDINGS

We are involved in legal proceedings in the ordinary course of our business, none of which is material. In addition, we are in the process of appealing various proceedings brought by our competitors alleging monopolistic practices by us before competition authorities in Mexico.

In response to allegations made by a mobile phone service provider in 1995, the Competition Commission ruled that we engaged in monopolistic practices and undue concentration. We sought review from the Competition Commission, which confirmed the ruling and then appealed the ruling in the

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Mexican courts. After losing this appeal, we sought injunctive relief (*amparo*) and the Competition Commission ruling was declared null and void. The Competition Commission has since appealed this ruling and the proceeding is pending.

The Competition Commission is conducting industry-wide investigations into monopolistic practices and market power in the telecommunications market. See *Item 4. Information on the Company Regulation Regulatory Initiatives Relating to Competition* and Note 18 to our audited consolidated financial statements.

Cofetel has issued resolutions to reduce the number of local service areas. We have filed objections to Cofetel's resolutions and, until now, they have not been implemented. See *Item 4. Information on the Company Regulation Consolidation of Local Service Areas*.

The Mexican Social Security Institute (*Instituto Mexicano del Seguro Social*) conducted an audit of our social security obligations for the period from 1997 through 2001. Following the audit, we were ordered to pay a total of approximately P.330 million consisting of past due obligations, penalties and accrued interest as of July 2, 2003. We have appealed these rulings to the Federal Administration and Taxation Court (*Tribunal Federal de Justicia Fiscal y Administrativa*) and, in accordance with Mexican law, have posted a bond guaranteeing the amount alleged to be owed. Although we believe that the basis for our appeal is well founded, there can be no assurance that we will prevail.

DIVIDENDS

We have paid cash dividends on our shares each year since 1958. The table below sets forth the nominal amount of dividends paid per share in each year indicated, in pesos and translated into U.S. dollars at the exchange rate on each of the respective payment dates. The figures below have been adjusted to give effect to the two-for-one stock split that occurred in May 2005.

Year ended December 31,	Pesos per Share		Dollars per Share	
2008	P.	0.4125	U.S.\$	0.0370
2007		0.4400		0.0402
2006		0.4025		0.0365
2005		0.3700		0.0340
2004		0.3325		0.0294

Since 1998, we have paid dividends quarterly. The dividends from earnings in a given year are determined at the annual meeting of shareholders in April of the following year, and paid in June, September and December of such following year and in March of the year after that. In April 2007, we declared a dividend of P.0.45 per share, which we paid in equal installments of P.0.1125 per share in June 2007, September 2007, December 2007 and March 2008. In April 2008, we declared a dividend of P.0.40 per share, which we paid in equal installments of P.0.10 per share in June 2008, September 2008, December 2008 and March 2009. In April 2009, we declared a dividend of P.0.46 per share, which will be payable in equal installments of P.0.1150 per share in June 2009, September 2009, December 2009 and March 2010.

The declaration, amount and payment of dividends are determined by majority vote of the holders of AA Shares and A Shares, generally on the recommendation of the Board of Directors, and will depend on our results of operations, financial condition, cash requirements, future prospects and other factors deemed relevant by the holders of AA Shares and A Shares. Accordingly, we cannot assure you that we

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will continue to pay dividends or that future dividends will be comparable to historical dividends. Our bylaws do not distinguish among holders of the AA Shares, the A Shares and the L Shares with respect to dividend payments and other distributions.

Table of Contents**Item 9. The Offer and Listing****TRADING MARKET**

The L Share ADSs, each representing 20 L Shares of Telmex, are issued by JPMorgan Chase Bank, N.A., or the Depository, as depository for the L Share ADSs. The L Share ADSs are traded on the New York Stock Exchange and the L Shares are traded on the Mexican Stock Exchange and listed on the *Mercado de Valores Latinoamericano* (Latibex) in Madrid, Spain.

The A Share ADSs, each representing 20 A Shares of Telmex, are issued by the Depository, as depository for the A Share ADSs. The A Shares are traded on the Mexican Stock Exchange, and the A Share ADSs are traded on the NASDAQ Capital Market.

The following table sets forth, for the periods indicated, the reported high and low sales prices for the L Shares on the Mexican Stock Exchange and the reported high and low sales prices for the L Share ADSs on the New York Stock Exchange. Prices have not been restated in constant currency units, but have been adjusted to give effect to the two-for-one stock split that occurred in May 2005. Following the *Escisión* and until June 10, 2008, the L Shares and L Share ADSs of Telmex and Telmex Internacional traded together. On May 27, 2009, the closing price of the L Shares on the Mexican Stock Exchange was P.11.01 and the closing price of the L Share ADSs on the New York Stock Exchange was U.S.\$16.64.

	Mexican Stock Exchange (pesos per L Share)		New York Stock Exchange (U.S. dollars per L Share ADS)	
	High	Low	High	Low
Annual highs and lows				
2008	P. 22.19	P. 10.47	U.S.\$ 42.94	U.S.\$ 15.08
2007	23.29	14.32	43.26	25.89
2006	15.97	10.01	29.35	17.61
2005	13.27	8.92	24.79	16.49
2004	10.81	8.66	19.27	15.06
Quarterly highs and lows				
2009:				
First quarter	P. 14.47	P. 9.50	U.S.\$ 21.24	U.S.\$ 12.54
2008:				
First quarter	20.43	16.96	39.39	30.88
Second quarter	22.19	11.70	42.94	22.01
Third quarter	14.63	11.30	27.18	22.30
Fourth quarter	15.50	10.47	26.14	15.08
2007:				
First quarter	18.63	14.32	33.83	25.89
Second quarter	23.29	18.45	43.26	33.37
Third quarter	22.32	17.07	41.37	30.10
Fourth quarter	21.35	17.16	39.43	32.48
Monthly highs and lows				
2008				
November	P. 12.49	P. 10.50	U.S.\$ 19.41	U.S.\$ 15.08
December	14.98	11.10	22.84	16.14
2009				
January	14.47	11.90	21.24	16.17
February	13.20	10.00	17.85	13.73
March	11.19	9.50	15.21	12.54
April	11.54	10.54	17.29	14.85

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The table below sets forth, for the periods indicated, the reported high and low sales prices for the A Shares on the Mexican Stock Exchange and the high and low bid prices for A Share ADSs published by NASDAQ. Bid prices published by NASDAQ for the A Share ADSs are inter-dealer quotations and may not reflect actual transactions. Prices have not been restated in constant currency units, but have been adjusted to give effect to the two-for-one stock split that occurred in May 2005. Following the *Escisión* and until June 10, 2008, the A Shares and A Share ADSs of Telmex and Telmex Internacional traded together. On May 27, 2009, the closing price of the A Shares on the Mexican Stock Exchange was P.11.00, and the closing price of the A Share ADSs on NASDAQ was U.S.\$16.53.

	Mexican Stock Exchange (pesos per A Share)		NASDAQ (U.S. dollars per A Share ADS)	
	High	Low	High	Low
Annual highs and lows				
2008	P. 22.15	P. 10.50	U.S.\$ 42.99	U.S.\$ 11.95
2007	22.65	14.30	43.14	25.71
2006	15.79	10.30	29.07	17.04
2005	13.25	8.97	24.50	16.40
2004	10.80	8.62	19.25	15.01
Quarterly highs and lows				
2009:				
First quarter	P. 14.20	P. 9.64	U.S.\$ 20.62	U.S.\$ 12.20
2008:				
First quarter	20.20	17.60	38.06	30.01
Second quarter	22.15	11.90	42.99	22.50
Third quarter	14.00	11.90	27.46	11.95
Fourth quarter	14.40	10.50	25.80	14.61
2007:				
First quarter	18.40	14.30	33.81	25.71
Second quarter	22.65	18.60	43.14	33.08
Third quarter	22.10	17.50	41.25	30.06
Fourth quarter	21.21	17.30	39.20	31.04
Monthly highs and lows				
2008				
November	P. 12.00	P. 10.50	U.S.\$ 19.09	U.S.\$ 15.00
December	14.40	11.35	22.50	16.12
2009:				
January	14.20	12.10	20.62	16.11
February	12.40	10.60	17.56	13.39
March	10.57	9.64	15.15	12.20
April	11.25	10.60	18.18	14.11

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TRADING ON THE MEXICAN STOCK EXCHANGE

The Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*), located in Mexico City, is the only stock exchange in Mexico. Founded in 1894 and in continuous operation since 1907, it is organized as a Mexican corporation operating under a concession granted by the Ministry of Finance and Public Credit (SHCP). Trading on the Mexican Stock Exchange takes place through automated systems. Trades in securities listed on the Mexican Stock Exchange can also be effected off the exchange. The Mexican Stock Exchange operates a system of automatic suspension of trading in shares of a particular issuer as a means of controlling excessive price volatility, but under current regulations this system does not apply to securities such as the A Shares or the L Shares that are directly or indirectly (for example, through ADSs) quoted on a stock exchange (including for these purposes NASDAQ) outside Mexico.

Settlement is effected three business days after a share transaction on the Mexican Stock Exchange. Deferred settlement, even by mutual agreement, is not permitted without the approval of the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or the CNBV). Most securities traded on the Mexican Stock Exchange, including those of Telmex, are on deposit with S.D. Indeval, Institución para el Depósito de Valores, S.A. de C.V., a privately owned securities depository that acts as a clearinghouse for Mexican Stock Exchange transactions.

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Item 10. Additional Information

BYLAWS AND MEXICAN LAW

Set forth below is a brief summary of certain significant provisions of our bylaws. This description does not purport to be complete and is qualified by reference to our bylaws, which are filed as an exhibit to this Annual Report. For a description of the provisions of our bylaws relating to our Board of Directors and its committees, see *Item 6. Directors, Senior Management and Employees*.

Organization and Register

Telmex is a *sociedad anónima bursátil de capital variable* organized in Mexico under the Mexican Companies Law (*Ley General de Sociedades Mercantiles*) and the Mexican Securities Market Law. It is registered with the Public Registry of Commerce of Mexico City under the number 5229.

Purpose

Our main corporate purpose is to construct, install, maintain and operate a public telephony and telecommunications network to transmit voice, sound, data, text and images through local and domestic and international long-distance telecommunications services.

Share Capital

Our capital stock comprises Series AA Shares, Series A Shares and Series L Shares, all such shares without par value. All of the outstanding shares are fully paid and non-assessable.

AA Shares and A Shares have full voting rights. Holders of L Shares may vote only in limited circumstances as described under *Voting Rights*. The rights of holders of all series of capital stock are otherwise identical except for limitations on non-Mexican ownership of AA Shares. The AA Shares, which must always represent at least 51% of the combined AA Shares and A Shares, may be owned only by holders that qualify as Mexican investors as defined in the Foreign Investment Law and our bylaws. See *Limitations on Share Ownership*.

Each AA Share or A Share may be exchanged at the option of the holder for one L Share, provided that the AA Shares may never represent less than 20% of our outstanding capital stock or less than 51% of our combined AA Shares and A Shares. As of December 31, 2008, the AA Shares represented 43.7% of our outstanding capital stock and 95.2% of our combined AA Shares and A Shares.

Each L Share is exchangeable at the option of the holder for one AA Share by delivering the L Share certificate to our treasury for cancellation and receiving the corresponding AA Share certificate. The right to exchange is subject to limitations on non-Mexican ownership of AA Shares and to the requirement that the AA Shares and A Shares together may never represent more than 51% of our outstanding capital stock. As of December 31, 2008, the AA Shares and A Shares together represented 45.9% of our outstanding capital stock.

Voting Rights

Each AA Share and A Share entitles the holder thereof to one vote at any meeting of our shareholders. Each L Share entitles the holder to one vote at any meeting at which holders of L Shares are entitled to vote. Holders of L Shares are entitled to vote only to elect two members of the Board of Directors and the corresponding alternate directors and on the following matters:

the transformation of Telmex from one type of company to another;

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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 Telmex on the Mexican National Registry of Securities and any foreign stock exchange on which they are registered.

A resolution on any of the specified matters requires the affirmative vote of both a majority of all outstanding shares and a majority of the AA Shares and the A Shares voting together.

Under Mexican law, holders of shares of any series are also entitled to vote as a class on any action that would affect the rights of holders of shares of such series. Additionally, holders of 20% or more of all outstanding shares would be entitled to request judicial relief against any such action taken without such a vote. The determination whether an action requires a class vote on these grounds would initially be made by the Board of Directors or any other party calling for shareholder action. A negative determination could be subject to judicial challenge by an affected shareholder, and a court would ultimately determine the necessity for a class vote. There are no other procedures for determining whether a proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

Shareholders Meetings

General shareholders meetings may be ordinary meetings or extraordinary meetings. Extraordinary general meetings are those called to consider certain matters specified in Article 182 of the Mexican Companies Law, including, principally, amendments of the bylaws, liquidation, merger and transformation from one type of company to another, as well as to consider the removal of our shares from listing on the Mexican Stock Exchange or any foreign stock exchange. General meetings called to consider other matters are ordinary meetings. The two directors elected by the holders of L Shares are elected at a special meeting of holders of L Shares. All other matters on which holders of L Shares are entitled to vote would be considered at an extraordinary general meeting. Holders of L Shares are not entitled to attend or address meetings of shareholders at which they are not entitled to vote.

A special meeting of the holders of L Shares must be held each year for the election of directors. An ordinary general meeting of the holders of AA Shares and A Shares must be held each year to consider the approval of the financial statements for the preceding fiscal year, to elect directors and to determine the allocation of the profits of the preceding year.

The quorum for an ordinary general meeting of the AA Shares and A Shares is 50% of such shares, and action may be taken by a majority of the shares present. If a quorum is not available, a second meeting may be called at which action may be taken by a majority of the AA Shares and A Shares present, regardless of the number of such shares. Special meetings of holders of L Shares are governed by the same rules applicable to ordinary general meetings of holders of AA Shares and A Shares. The quorum for an extraordinary general meeting at which holders of L Shares may not vote is 75% of the AA shares and A Shares, and the quorum for an extraordinary general meeting at which holders of L Shares are entitled to vote is 75% of the outstanding capital stock. If a quorum is not available in either case, a second meeting may be called and action may be taken, provided a majority of the shares entitled to vote is present. Whether on first or second call, actions at an extraordinary general meeting may be taken by a majority vote of the AA Shares and A Shares outstanding and, on matters which holders of L Shares are entitled to vote, a majority vote of all the capital stock.

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Holders of 20% of our outstanding capital stock may have any shareholder action set aside by filing a complaint with a court of law within 15 days after the close of the meeting at which such action was taken and showing that the challenged action violates Mexican law or our bylaws. In addition, any holder of our capital stock may bring an action at any time within five years challenging any shareholder action. Relief under these provisions is only available to holders:

who were entitled to vote on, or whose rights as shareholders were adversely affected by, the challenged shareholder action; and

whose shares were not represented when the action was taken or, if represented, were voted against it.

Shareholders' meetings may be called by the Board of Directors, its chairman, co-chairman or secretary, by the committees that perform audit and corporate practices functions or their chairmen, or by a court. The Board of Directors or the committees that perform audit and corporate practices functions may be required to call a meeting of shareholders by the holders of 10% of the outstanding capital stock. Notice of meetings must be published in the Official Gazette or a newspaper of general circulation in Mexico City at least 15 days prior to the meeting. In order to attend a meeting, shareholders must deposit their shares with us at our office in Mexico City, with a Mexican or foreign banking institution or with a Mexican exchange broker. If so entitled to attend the meeting, a shareholder may be represented by proxy. The depositary for the L Share ADSs and the A Share ADSs does not satisfy this requirement, so ADS holders are not entitled to attend shareholder meetings. ADS holders must exercise their voting rights through the depositary.

Dividend Rights

At the annual ordinary general meeting of holders of AA Shares and A Shares, the Board of Directors submits our financial statements for the previous fiscal year, together with a report thereon by the Board of Directors, to the holders of AA Shares and A Shares for approval. The holders of AA Shares and A Shares, once they have approved the financial statements, determine the allocation of our net profits for the preceding year. They are required by law to allocate 5% of such net profits to a legal reserve, which is not thereafter available for distribution except as a stock dividend, until the amount of the legal reserve equals 20% of our capital stock. The remainder of net profits is available for distribution.

All shares outstanding at the time a dividend or other distribution is declared are entitled to participate in such dividend or other distribution.

Limitation on Capital Increases

Our bylaws require that any capital increase be represented by new shares of each series in proportion to the number of shares of each series outstanding.

Preemptive Rights

In the event of a capital increase, a holder of existing shares of a given series has a preferential right to subscribe for a sufficient number of shares of the same series to maintain the holder's existing proportionate holdings of shares of that series. Preemptive rights must be exercised within 30 calendar days following the publication of notice of the capital increase in the Official Gazette and a newspaper of general circulation in Mexico City. Under Mexican law, preemptive rights cannot be traded separately from the corresponding shares that give rise to such rights. As a result, there is no trading market for the rights in connection with a capital increase. Holders of ADSs may exercise preemptive rights only through the depositary. We are not required to take steps that may be necessary to make this possible.

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Under the Mexican Securities Market Law, however, if Telmex were to increase its capital stock to effect a public offering of newly issued shares or were to resell any repurchased shares, no preemptive rights would be available to the holders of outstanding shares as a result of the issuance or resale. As of December 31, 2008, Telmex had 13,637 million repurchased L Shares and 40 million repurchased A Shares in its treasury.

Limitations on Share Ownership

Ownership by non-Mexicans of shares of Mexican enterprises in certain economic sectors, including telephone services, is regulated by the Foreign Investment Law and the Regulations thereunder. The National Commission on Foreign Investment is responsible for administration of the Foreign Investment Law and Regulations. In order to comply with restrictions on the percentage of their capital stock that may be owned by non-Mexican investors, Mexican companies typically limit particular classes of their stock to Mexican ownership. Under the Foreign Investment Law, a trust for the benefit of one or more non-Mexican investors may qualify as Mexican if the trust meets certain conditions that will generally ensure that the non-Mexican investors do not determine how the shares are voted.

Non-Mexican investors are not permitted to own more than 49% of the capital stock of a Mexican corporation engaged in the telephone business. Pursuant to a decision of the Foreign Investment Commission dated August 10, 1990, the L Shares of Telmex, because of their limited voting rights, are not taken into account in determining compliance with this restriction and accordingly are not subject to Mexican ownership restrictions. The A Shares are also unrestricted. The AA Shares, however, which must always represent at least 51% of the combined AA Shares and A Shares, may be owned only by holders that qualify as Mexican investors as defined in the Foreign Investment Law and our bylaws. A holder that acquires AA Shares in violation of the restrictions on non-Mexican ownership will have none of the rights of a shareholder with respect to those AA Shares. As a consequence of these limitations, a non-Mexican investor cannot own AA Shares except through a trust that effectively neutralizes the votes of non-Mexican investors.

Pursuant to the Foreign Investment Law and Regulations, we have registered any foreign owner of our shares, and the depositary with respect to the ADSs representing our shares, with the National Registry of Foreign Investment.

In addition, pursuant to the Foreign Investment Law and Regulations, our Mexican shareholders retain the power to determine our administrative control and management.

Foreign states are prohibited under the General Communications Law from directly or indirectly owning shares of Telmex. The Telecommunications Regulations provide, however, that foreign state-owned enterprises organized as separate entities with their own assets may own minority interests in Telmex or any number of shares with limited voting rights. Ownership of A Shares or L Shares by such foreign state-owned companies, or by pension or retirement funds organized for the benefit of employees of state, municipal or other Mexican governmental agencies, is not considered direct or indirect ownership by foreign states for the purposes of the General Communications Law.

Restrictions on Certain Transactions

Our bylaws provide that any acquisition of more than 10% of our issued and outstanding shares, effected in one or more transactions by any person or group of persons acting in concert, requires prior approval by our Board of Directors.

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Restrictions on Deregistration in Mexico

Our shares are registered with the National Registry for Securities, as required under the Mexican Securities Market Law. If we wish to cancel our registration, or if it is cancelled by the CNBV, we will be required to make a public offer to purchase all outstanding shares prior to such cancellation. Unless the CNBV authorizes otherwise, the offer price will be the higher of: (1) the average of the closing price during the previous 30 days on which the shares may have been quoted, or (2) the book value of the shares in accordance with the most recent quarterly report submitted to the CNBV and to the Mexican Stock Exchange. If, after the public offer is concluded, there are still outstanding shares held by the general public, we will be required to create a trust for a period of six months, into which we will be required to contribute funds in an amount sufficient to purchase, at the same price as the offer price, the number of outstanding shares held by the general public. Within the five days prior to the commencement of the public offer, after taking into account the opinion of the audit committee, our Board of Directors must publish its opinion regarding the offer price.

Tender Offer Rules

Our bylaws provide that any purchasers or group of purchasers that obtain or increase a significant participation (*i.e.*, 30% or more) in the capital stock of the company, without conducting a previous public offer in accordance with the Mexican Securities Market Law and applicable rules issued by the CNBV, would not have the right to exercise the corporate rights of their shares, and that the company will not register such shares in the share registry book.

Other Provisions

Variable capital. We are permitted to issue shares constituting fixed and variable capital. All of our outstanding shares of capital stock constitute fixed capital. The issuance of variable-capital shares, unlike the issuance of fixed-capital shares, does not require an amendment of the bylaws, although it does require a majority vote of the AA Shares and the A Shares.

Forfeiture of shares. As required by Mexican law, our bylaws provide that any alien who at the time of incorporation or at any time thereafter acquires an interest or participation in the capital of the corporation shall be considered, by virtue thereof, as Mexican in respect thereof and shall be deemed to have agreed not to invoke the protection of his own government, under penalty, in case of breach of such agreement, of forfeiture to the nation of such interest or participation. Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder, but is not deemed to have waived any other rights he may have, including any rights under the U.S. securities laws, with respect to his investment in Telmex. If the shareholder invokes such governmental protection in violation of this agreement, his shares could be forfeited to the Mexican government. Mexican law requires that such a provision be included in the bylaws of all Mexican corporations unless such bylaws prohibit ownership of shares by non-Mexican persons.

Exclusive jurisdiction. Our bylaws provide that legal actions relating to the execution, interpretation or performance of the bylaws shall be brought only in Mexican federal courts.

Duration. Telmex's existence under the bylaws is 100 years from the date of the public deed in which its incorporation is evidenced.

Purchase of our own shares. We may repurchase our shares on the Mexican Stock Exchange at any time at the then prevailing market price. Any such repurchase must be made in compliance with the

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policies established by the Board of Directors. The shareholders' meeting approves the maximum amount of funds that may be used during the year for the repurchase of shares. The ordinary shareholders' meeting held on March 3, 2009 approved up to an additional P.10.0 billion to be used for share repurchases. Such funds may be used for the repurchase of shares through the Mexican Stock Exchange. The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which we own such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting during such period.

Conflict of interest. Shareholders with conflicting interests with Telmex with respect to a transaction are required to abstain from deliberating and voting on the specific transaction. A shareholder that votes on a specific business transaction in which its interest conflicts with Telmex's may be liable for damages, but only if the transaction would not have been approved without its vote. A determination of conflicting interest would initially be made by the shareholder subject to judicial challenge. Mexican law does not provide extensive guidance on the criteria to be applied in making such a decision.

Appraisal rights. Whenever the shareholders approve a change of corporate purposes, change of nationality of the corporation or transformation from one type of company to another, any shareholder entitled to vote on such change that has voted against it may withdraw from Telmex and receive the book value attributable to its shares, provided it exercises its right within 15 days following the adjournment of the meeting at which the change was approved.

Rights of Shareholders

The protections afforded to minority shareholders under Mexican law are different from those in the United States and many other jurisdictions. The case law concerning fiduciary duties of directors has not been developed and has not been the subject of extensive judicial interpretation in Mexico, unlike many states in the United States where duties of care and loyalty elaborated by judicial decisions help to shape the rights of minority shareholders. Mexican civil procedure does not contemplate class actions, which permit shareholders in U.S. courts to bring actions on behalf of other shareholders. Shareholders cannot challenge corporate action taken at a shareholders' meeting unless they meet certain procedural requirements, as described above under *Shareholders' Meetings*. As a result of these factors, in practice it may be more difficult for our minority shareholders to enforce rights against us or our directors or controlling shareholders than it would be for shareholders of a U.S. company.

Enforceability of Civil Liabilities

Telmex is organized under the laws of Mexico, and most of our directors, officers and controlling persons reside outside the United States. In addition, substantially all of our assets and their assets are located in Mexico. As a result, it may be difficult for investors to effect service of process within the United States on such persons. It may also be difficult to enforce against them, either inside or outside the United States, judgments obtained against them in U.S. courts, or to enforce in U.S. courts judgments obtained against them in courts in jurisdictions outside the United States, in any action based on civil liabilities under the U.S. federal securities laws. There is doubt as to the enforceability against such persons in Mexico, whether in original actions or in actions to enforce judgments of U.S. courts, of liabilities based solely on the U.S. federal securities laws.

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CERTAIN CONTRACTS

We are party to concession agreements that authorize us to provide certain telecommunications services on specific terms. These are described in *Item 4. Information on the Company Regulation*.

Our agreements with related parties are described in *Item 7. Major Shareholders and Related Party Transactions Related Party Transactions*.

EXCHANGE CONTROLS

Mexico has had a free market for foreign exchange since 1991, and the Mexican government has allowed the peso to float freely against the U.S. dollar since December 1994.

TAXATION

The following summary contains a description of certain Mexican federal and U.S. federal income tax consequences of the acquisition, ownership and disposition of our L Shares, A Shares, L Share ADSs, or A Share ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, hold or sell shares or ADSs.

The Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion and a Protocol thereto between the United States and Mexico entered into force on January 1, 1994 and has been amended by an additional protocol that entered into force on July 3, 2003 (together, the Tax Treaty). The United States and Mexico have also entered into an agreement concerning the exchange of information with respect to tax matters.

This discussion does not constitute, and should not be considered as, legal or tax advice to holders. This discussion is for general information purposes only and is based upon the federal tax laws of Mexico (including the Mexican Income Tax Law and the Mexican Federal Tax Code) and the United States as in effect on the date of this Annual Report (including the Tax Treaty), which are subject to change, and such changes may have retroactive effect. Holders of our shares or ADSs should consult their own tax advisers as to the Mexican, U.S. or other tax consequences of the purchase, ownership and disposition of our shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws.

Mexican Tax Considerations

The following is a general summary of the principal consequences under the Mexican Income Tax Law (*Ley del Impuesto sobre la Renta*) and the rules and regulations thereunder, as currently in effect, of an investment in shares or ADSs by a holder that is not a resident of Mexico and that will not hold the shares or ADSs or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment in Mexico (a nonresident holder).

For purposes of Mexican taxation, the definition of residence is highly technical and residence arises in several situations. Generally, an individual is a resident of Mexico if he or she has established his or her home in Mexico, or if he or she has his or her center of interests in Mexico; a corporation is considered a resident if it has established its place of effective management in Mexico. However, any determination of residence should take into account the particular situation of each person or legal entity.

If a legal entity or an individual is deemed to have a permanent establishment in Mexico for Mexican tax purposes, all income attributable to that permanent establishment will be subject to Mexican income taxes, in accordance with applicable tax laws.

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This summary does not address all of the Mexican tax consequences that may be applicable to specific holders of the shares (including a holder that controls us, an investor that holds 10% or more of the shares or holders that constitute a group of persons for purposes of Mexican law). It also does not purport to be a comprehensive description of all the Mexican tax considerations that may be relevant to a decision to purchase, own or dispose of the shares. In particular, this summary does not describe any tax consequences arising under the laws of any state, locality, municipality or taxing jurisdiction other than certain federal laws of Mexico.

Tax Treaties

The Mexican Income Tax Law has established procedural requirements for a nonresident holder disposing of shares to be entitled to benefits under any of the tax treaties to which Mexico is a party. These procedural requirements include the obligation to (i) prove tax treaty residence, (ii) appoint a representative in Mexico for taxation purposes and (iii) present tax calculations prepared by authorized certified public accountants. These requirements are also applicable to provisions of the Tax Treaty that may affect the taxation of certain U.S. holders (as defined in *U.S. Federal Income Tax Considerations* below).

Payment of Dividends

Dividends, either in cash or in kind, paid with respect to our shares or ADSs will not be subject to Mexican withholding tax.

Taxation of Dispositions

Gains on the sale of shares or ADSs by a non-Mexican holder will generally not be subject to Mexican income tax, provided that the transaction is carried out through (a) the Mexican Stock Exchange, (b) other securities exchanges or markets approved by the Mexican Ministry of Finance or (c) other securities exchanges or markets with ample securities trading that are located in countries with which Mexico has entered into an income tax treaty, such as the New York Stock Exchange, NASDAQ and the *Mercado de Valores Latinoamericanos en Euros* (Latibex).

The tax exemption described in the previous paragraph will not be applicable to pre-negotiated trades executed through the facilities of a Mexican securities exchange. The exemption also will not be applicable in the case of a person or group of persons that, directly or indirectly, holds 10% or more of the shares representing our capital stock, or that holds a controlling interest in us, if in a period of 24 months, a sale of 10% or more of our fully paid shares, or of a controlling interest in us, is carried out through one or several simultaneous or successive transactions, including those carried out through derivative instruments or other similar transactions.

For a nonresident corporation or individual that does not meet the requirements summarized above, proceeds obtained from the sale or disposition of shares will be subject to a 25% tax. Under certain circumstances, nonresident corporations and individuals, alternatively, may elect to pay a 20% tax on the gain obtained from the transaction.

Pursuant to the Tax Treaty, gains realized by a U.S. holder (as defined in *U.S. Federal Income Tax Considerations*) eligible for the benefits of the Tax Treaty from the sale or other disposition of shares, even if the sale or disposition is not carried out under the circumstances described in the preceding paragraphs, will not be subject to Mexican income tax, provided that such U.S. holder owned less than 25% of the shares representing our capital stock (including ADSs), directly or indirectly, during the 12-month period preceding such disposition.

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Gains realized by other nonresident holders that are eligible to receive benefits pursuant to other income tax treaties to which Mexico is a party may be exempt from Mexican income tax in whole or in part. If a corporation is a resident of a tax haven (as defined by the Mexican Income Tax Law), the applicable rate will be 40% on the gross income obtained. Non-U.S. holders should consult their own tax advisers as to their possible eligibility under such treaties.

In other cases, nonresident holders will be subject to Mexican income tax on the sale or other disposition of shares or ADSs. Such nonresident holders should consult with their own tax advisers as to how Mexican income tax would apply to their circumstances.

Other Mexican Taxes

Under certain circumstances, a nonresident holder will not be liable for estate, inheritance or similar taxes with respect to its holdings of shares or ADSs. A gratuitous transfer of shares by a nonresident holder, however, may in certain circumstances result in the imposition of Mexican tax upon the recipient. There are no Mexican stamp, issue, registration or similar taxes payable by a nonresident holder with respect to shares or ADSs.

U.S. Federal Income Tax Considerations

The following is a summary of certain U.S. federal income tax consequences to U.S. holders (as defined below) of the acquisition, ownership and disposition of shares or ADSs. The summary does not purport to be a comprehensive description of all of the tax consequences of the acquisition, ownership or disposition of shares or ADSs that may be relevant to U.S. holders. The summary applies only to U.S. holders that will hold their shares or ADSs as capital assets and does not apply to special classes of U.S. holders such as dealers in securities or currencies, holders with a functional currency other than the U.S. dollar, holders of 10% or more of our voting shares (whether held directly or through ADSs or both), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders electing to account for their investment in their shares or ADSs on a mark-to-market basis, certain short-term holders of shares or ADSs and persons holding their shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction.

For purposes of this discussion, a U.S. holder is a holder or beneficial owner of shares or ADSs that is:

a citizen or resident of the United States of America;

a corporation organized under the laws of the United States of America or any state thereof; or

otherwise subject to U.S. federal income taxation on a net income basis with respect to the shares or ADSs.

If a partnership holds our shares or ADSs, the tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partners of a partnership holding our shares or ADSs should consult their own tax advisers.

Each U.S. holder should consult such holder's own tax adviser concerning the overall tax consequences to it of the ownership or disposition of shares or ADSs that may arise under foreign, state and local laws.

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Treatment of ADSs

In general, a U.S. holder of ADSs will be treated as the owner of the shares represented by those ADSs for U.S. federal income tax purposes. Deposits or withdrawals of shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes. U.S. holders that withdraw any shares should consult their own tax advisers regarding the treatment of any foreign currency gain or loss on any pesos received in respect of such shares.

Taxation of Distributions

In this discussion, we use the term *dividends* to mean distributions paid out of our current or accumulated earnings and profits with respect to our shares or ADSs. In general, the gross amount of any dividends will be subject to U.S. federal income taxation. Dividends will be paid in pesos and will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day that they are received by the U.S. holder in the case of shares or by the depositary in the case of ADSs. U.S. holders should consult their own tax advisers regarding the treatment of foreign currency gain or loss, if any, on any pesos received by a U.S. holder or depositary that are converted into U.S. dollars on a date subsequent to receipt. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs, L Shares and A Shares will be subject to taxation at a maximum rate of 15% if the dividends are *qualified dividends*. Dividends paid on the ADSs, L Shares and A Shares will be treated as *qualified dividends* if (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the Internal Revenue Service has approved for the purposes of the *qualified dividend rules* and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a *passive foreign investment company*, or PFIC. The Tax Treaty has been approved for the purposes of the *qualified dividend rules*. In addition, based on our audited consolidated financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2007 or 2008 taxable years. In addition, based on our audited consolidated financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2009 taxable year.

To the extent that the amount of any distribution exceeds our current and accumulated earnings and profits for a taxable year, as determined under United States federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the shares or ADSs (thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the shares or ADSs), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange. However, we do not expect to keep earnings and profits in accordance with United States federal income tax principles. Therefore, you should expect that a distribution will generally be treated as a dividend (as discussed above).

Dividends paid by us will not be eligible for the dividends-received deduction allowed to corporations under the U.S. Internal Revenue Code of 1986, as amended (the *Code*).

Distributions of additional shares or ADSs to U.S. holders with respect to their shares or ADSs that are made as part of a pro rata distribution to all of our shareholders generally will not be subject to U.S. federal income tax.

Taxation of Dispositions

A U.S. holder will recognize gain or loss on the sale or other disposition of the shares or ADSs in an amount equal to the difference between the U.S. holder's basis in such shares or ADSs (in U.S. dollars) and the amount realized on

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the disposition (in U.S. dollars, determined at the spot rate on the date of disposition or, for a cash basis U.S. holder (or an electing accrual basis U.S. holder), at the exchange rate in effect on the settlement date, if the amount realized is denominated in a foreign currency). Gain or loss realized by a U.S. holder on such sale or other disposition generally will be long-term capital gain or loss if, at the time of disposition, the shares or ADSs have been held for more than one year. The net amount of long-term capital gain recognized by an individual holder is taxed at a reduced rate. Such gain or loss generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

Gain, if any, realized by a U.S. holder on the sale or other disposition of the shares or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Mexican withholding tax is imposed on the sale or disposition of the shares or ADSs, a U.S. holder that does not receive significant foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. U.S. holders should consult their own tax advisers regarding the application of the foreign tax credit rules to their investment in, and disposition of, our shares or ADSs.

Exchange of Shares

A U.S. holder's exchange of A Shares for L Shares will not constitute a taxable event for U.S. federal income tax purposes. An exchanging U.S. holder will have a tax basis in the L Shares equal to the basis such holder had in the exchanged A Shares. An exchanging U.S. holder's holding period for the L Shares will include the holding period such U.S. holder had in the A Shares before such shares were exchanged.

A U.S. holder's exchange of L Shares for AA Shares, pursuant to the option to exchange in respect of such L Shares, will not constitute a taxable event for U.S. federal income tax purposes. An exchanging U.S. holder will have a tax basis in the AA Shares received equal to the basis such holder had in the exchanged L Shares. A U.S. holder's holding period for AA Shares received in such an exchange will include the holding period such U.S. holder had in the L Shares prior to such exchange. The AA Shares, however, may be owned only by holders that qualify as Mexican investors as defined in the Foreign Investment Law and our bylaws. See *Bylaws and Mexican Law Limitation on Share Ownership*.

Information Reporting and Backup Withholding

Dividends on, and proceeds from the sale or other disposition of, the shares or ADSs paid to a U.S. holder generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the holder:

establishes that it is a corporation or other exempt holder; or

provides an accurate taxpayer identification number on a properly completed Internal Revenue Service Form W-9 and certifies that it is not subject to backup withholding and otherwise complies with applicable requirements of the backup withholding rules.

The amount of any backup withholding from a payment to a holder will be allowed as a credit against the U.S. holder's U.S. federal income tax liability and may entitle such holder to a refund, provided that certain required information is furnished to the Internal Revenue Service.

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U.S. Tax Consequences for Non-U.S. holders

Distributions. A holder or beneficial owner of shares or ADSs that is not a U.S. holder for U.S. federal income tax purposes (a non-U.S. holder) generally will not be subject to U.S. federal income or withholding tax on dividends received on shares or ADSs, unless such income is effectively connected with the conduct by the holder of a U.S. trade or business.

Dispositions. A non-U.S. holder of shares or ADSs will not be subject to U.S. federal income or withholding tax on gain realized on the sale of shares or ADSs, unless:

such gain is effectively connected with the conduct by the holder of a U.S. trade or business; or

in the case of gain realized by an individual non-U.S. holder, the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information reporting and backup withholding. Although non-U.S. holders generally are exempt from backup withholding, a non-U.S. holder may be required to comply with certification and identification procedures in order to establish its exemption from information reporting and backup withholding.

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DOCUMENTS ON DISPLAY

We file reports, including annual reports on Form 20-F, and other information electronically with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make are also available to the public over the Internet at the SEC's website at www.sec.gov and at our website at www.telmex.com. (This URL is intended to be an inactive textual reference only. It is not intended to be an active hyperlink to our website. The information on our website, which might be accessible through a hyperlink resulting from this URL, is not and shall not be deemed to be incorporated into this Annual Report.)

Item 11. Quantitative and Qualitative Disclosures about Market Risk
EXCHANGE RATE AND INTEREST RATE RISKS

We are exposed to exchange rate risk and interest rate risk related to our indebtedness. Exchange rate risk exists principally with respect to our indebtedness denominated in currencies other than Mexican pesos. As of December 31, 2008, indebtedness denominated in foreign currencies was P.84,955 million, of which P.81,698 million was denominated in U.S. dollars and P.3,257 million was denominated in other currency. Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. We had P.67,947 million of indebtedness bearing interest at floating rates at December 31, 2008.

We use derivative instruments to minimize the impact of fluctuations in exchange rates and floating interest rates on our indebtedness. We regularly assess our exposure and monitor opportunities to manage these risks. See *Item 5. Operating and Financial Review and Prospects Hedging*.

SENSITIVITY ANALYSIS DISCLOSURES

Exchange Rates

The potential loss in fair value of financial instruments at December 31, 2008 that would have resulted from a hypothetical, instantaneous and unfavorable 10% change in currency exchange rates, taking into account our hedging transactions, would have been approximately P.880 million. Such a change in currency exchange rates would also have resulted in additional interest expense of approximately P.22 million per year, assuming no change in the principal amount of such indebtedness, reflecting the increased costs in pesos of servicing foreign currency indebtedness. This sensitivity analysis assumes an instantaneous unfavorable 10% change in exchange rates affecting the foreign currencies in which our indebtedness is denominated.

Interest Rates

The potential loss in fair market value of financial instruments at December 31, 2008 that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to such financial instruments, taking into account our hedging transactions, would have been approximately P.1,729 million. This effect would be fully attributable to the impact of the interest rate change on fixed-rate financial assets and liabilities. A hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to floating-rate financial assets and liabilities held at December 31, 2008, taking into account our hedging transactions, would have resulted in additional interest expense of approximately P.439 million per year, assuming no change in the principal amount of such indebtedness. The above sensitivity analyses are based on the assumption of an

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unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial assets and liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement with each homogeneous category. As a result, interest rate risk sensitivity analysis may overstate the impact of interest rate fluctuations for such financial instruments, as consistently unfavorable.

Item 12. Description of Securities Other Than Equity Securities

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Securities Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Disclosure Controls and Procedures

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2008. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20-F. Our internal control over financial reporting includes those policies and procedures that:

- (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

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(b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20-F, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and

(c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework and, with respect to the effectiveness of our information technology, the criteria set forth in the Control Objectives for Information and related Technology (COBIT).

Based on our assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2008.

Mancera, S.C., a member practice of Ernst & Young Global, the independent registered public accounting firm that has audited our financial statements, has issued an attestation report on our internal control over financial reporting, which appears below.

There has been no change in our internal control over financial reporting during 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Stockholders

Teléfonos de México, S.A.B. de C.V.

We have audited Teléfonos de México, S.A.B. de C.V.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Teléfonos de México, S.A.B. de C.V.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20-F. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Mexican Financial Reporting Standards, including the reconciliation to U.S. GAAP in accordance with Item 18 of Form 20-F, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Teléfonos de México, S.A.B. de C.V. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008 based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated balance sheets of Teléfonos de México, S.A.B. de C.V. as of December 31, 2008 and 2007, the related consolidated statements of income and changes in stockholders' equity for each of the three years in the period ended December 31, 2008, and the statement of cash flows for the year ended December 31, 2008 and the statements of changes in financial position for each of the two years in the period ended December 31, 2007 of Teléfonos de México, S.A.B. de C.V. and our report dated May 26, 2009, expressed an unqualified opinion thereon.

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Mancera, S.C.
A member practice of

Ernst & Young Global

/s/ CPC Fernando Espinosa López
C.P.C. Fernando Espinosa López

Mexico City, Mexico

May 26, 2009

Item 16A. Audit Committee Financial Expert

Our Board of Directors has determined that Rafael Kalach M., the chairman of our audit committee and a member of our Board of Directors, qualifies as an audit committee financial expert. Rafael Kalach M. has a public accountant degree from the Universidad Nacional Autónoma de México. He has been a member of audit, finance and planning, and evaluation and compensation committees of various Mexican companies. Rafael Kalach M. qualifies as independent, as determined by our shareholders at their annual ordinary general meeting pursuant to the Mexican Securities Market Law and as defined under the rules of the New York Stock Exchange and the NASDAQ Stock Market, Inc. that are applicable to foreign private issuers. See *Item 6. Directors, Senior Management and Employees Audit Committee*.

Item 16B. Code of Ethics

We have adopted a code of ethics, as defined in Item 16B of Form 20-F. Our code of ethics applies to our chief executive officer, chief financial officer, principal accounting officer, persons performing similar functions and other personnel. Our code of ethics is available on our website at www.telmex.com. If we amend the provisions of our code of ethics that apply to our chief executive officer, our chief financial officer, our principal accounting officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Table of Contents**Item 16C. Principal Accountant Fees and Services
Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent auditors, Mancera, S.C., a member practice of Ernst & Young Global, an independent, registered public accounting firm, and by other member practices of Ernst & Young Global during the years ended December 31, 2008 and 2007:

	Year ended December 31,	
	2008	2007
	(thousands)	(in thousands of constant pesos of December 31, 2007)
Audit fees	P. 38,444	P. 83,118
Audit-related fees	116	1,672
Tax fees	2,035	7,396
All other fees		525
Total fees	P. 40,595	P. 92,711

Audit fees in the above table are the aggregate fees billed in connection with the audit of our annual financial statements, the review of our interim financial statements, statutory and regulatory audits, and fees related to compliance with the Sarbanes-Oxley Act of 2002. The reduction of these fees in 2008 reflects the reduced size of our operations following the *Escisión*.

Audit-related fees in the above table are fees billed for the review of information provided to Mexican regulatory authorities.

Tax fees in the above table are fees billed for tax compliance services.

In 2007, all other fees in the above table are fees billed primarily related to assistance in connection with information technology services.

Audit Committee Approval Policies and Procedures

Our audit committee has established policies and procedures for the engagement of our independent auditors for services. Such policies and procedures outline services that require specific approval on a case-by-case basis and general services that have been approved in advance by the audit committee, which include statutory and regulatory audits, tax compliance and evaluation of the security of our information technology. Prior to providing any services that require specific pre-approval, our independent auditor, together with our chief financial officer, will jointly present to the audit committee a request for approval of audit services, in which such persons confirm that the request complies with applicable rules.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Table of Contents**Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The following table provides information on L Shares purchased by our company and affiliated purchasers in 2008:

Year ended December 31, 2008	Total Number of L Shares Purchased ⁽¹⁾	Weighted Average Price Paid per L Share	Total Number of L Shares Purchased as Part of the Share Repurchase Program ⁽²⁾	Weighted Average Price Paid per L Share Repurchased as Part of the Share Repurchase Program	Approximate Peso Value (in Thousands) of L Shares that May Yet Be Purchased Under the Share Repurchase Program ⁽³⁾
January 1-31	127,050,000	P. 18.92	118,000,000	P. 19.01	P. 11,543,715
February 1-29	155,400,000	18.43	76,000,000	18.55	10,132,156
March 1-31	89,676,000	18.48	55,500,000	18.65	9,095,534
April 1-30	93,646,000	19.46	70,160,000	19.59	7,712,066
May 1-31	105,993,300	20.15	79,400,000	20.12	6,110,016
June 1-30	62,378,000	14.61	60,995,000	14.47	5,224,548
July 1-31	85,491,000	12.38	85,491,000	12.38	4,165,134
August 1-31	62,056,000	12.92	62,056,000	12.92	3,362,135
September 1-30	49,167,300	13.21	49,167,300	13.21	2,708,083
October 1-31	113,050,900	12.04	73,594,300	12.34	1,784,913
November 1-30	34,361,100	11.38	34,361,100	11.38	1,367,297
December 1-31	31,998,600	12.91	31,998,600	12.91	916,740
Total/Average	1,010,278,200	16.30	796,723,300	16.02	

- (1) We do not repurchase our L Shares other than through the share repurchase program. An aggregate of 214 million L Shares were purchased by our affiliated purchasers in 2008. These shares were purchased in open-market transactions.
- (2) We periodically repurchase our L Shares on the open market using funds authorized by our shareholders specifically for the repurchase of L Shares and A Shares by us at our discretion. On March 3, 2009, our shareholders authorized an additional P.10,000 million for the repurchase of L Shares and A Shares.
- (3) This is the approximate peso amount available at the end of the period for purchases of both L Shares and A Shares pursuant to the share repurchase program.

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The following table provides information on A Shares purchased by our company and affiliated purchasers in 2008:

Year ended December 31, 2008	Total Number of A Shares Purchased⁽¹⁾	Weighted Average Price Paid per A Share	Total Number of A Shares Purchased as Part of the Share Repurchase Program⁽²⁾	Weighted Average Price Paid per A Share Purchased as Part of the Share Repurchase Program	Approximate Peso Value (in Thousands) of A Shares that May Yet Be Purchased Under the Share Repurchase Program⁽³⁾
January 1-31	113,100	P. 18.64	113,100	P. 18.64	P. 11,543,715
February 1-29	87,100	18.19	87,100	18.19	10,132,156
March 1-31	77,100	18.89	77,100	18.89	9,095,534
April 1-30	459,600	19.70	459,600	19.70	7,712,066
May 1-31	217,210	19.85	217,210	19.85	6,110,016
June 1-30	189,200	15.81	189,200	15.81	5,224,548
July 1-31	115,900	12.31	115,900	12.31	4,165,134
August 1-31	98,900	12.47	98,900	12.47	3,362,135
September 1-30	356,200	13.23	356,200	13.23	2,708,083
October 1-31	1,363,100	10.89	1,363,100	10.89	1,784,913
November 1-30	2,320,800	11.49	2,320,800	11.49	1,367,297
December 1-31	3,222,600	11.58	3,222,600	11.58	916,740
Total/Average	8,620,810	12.49	8,620,810	12.49	

- (1) No A Shares were purchased by us or our affiliated purchasers in 2008 other than under our share repurchase program.
- (2) We periodically repurchase our A Shares on the open market using funds authorized by our shareholders specifically for the repurchase of L Shares and A Shares by us at our discretion. On March 3, 2009, our shareholders authorized an additional P.10,000 million for the repurchase of L Shares and A Shares.
- (3) This is the approximate peso amount available at the end of the period for purchases of both L Shares and A Shares pursuant to the share repurchase program. These are nominal figures and have not been restated for inflation.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Table of Contents**Item 16G. Corporate Governance**

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 U.S. companies under the NYSE and NASDAQ listing standards.

The table below discloses the significant differences between our corporate governance practices and the NYSE and NASDAQ standards.

NYSE Standards	NASDAQ Standards	Our Corporate Governance Practices
<p>Director Independence. Majority of board of directors must be independent. §303A.01. Controlled companies, which would include our company if we were a U.S. issuer, are exempt from this requirement. A controlled company is one in which more than 50% of the voting power is held by an individual, group or another company, rather than the public. §303A.00.</p>	<p>Director Independence. Majority of board of directors must be independent and directors deemed independent must be identified in a listed company's proxy statement (or annual report on Form 10-K or 20-F if the issuer does not file a proxy statement). Rule 4350(c)(1). Controlled companies, which would include our company if we were a U.S. issuer, are exempt from this requirement. A controlled company is one in which more than 50% of the voting power is held by an individual, group or another company, rather than the public. Rule 4350(c)(5).</p>	<p>Director Independence. Pursuant to the Mexican Securities Market Law and our bylaws, our shareholders are required to appoint a Board of Directors of no more than 21 members, 25% of whom must be independent. Certain directors are <i>per se</i> non-independent, including insiders, control persons, major suppliers and any relatives of such persons. In accordance with the Mexican Securities Market Law, our shareholders are required to make a determination as to the independence of our directors, though such determination may be challenged by the CNBV. There is no exemption from the independence requirement for controlled companies.</p>
<p>Executive Sessions. Non-management directors must meet at regularly scheduled executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03.</p>	<p>Executive Sessions. Independent directors must have regularly scheduled executive sessions at which only independent directors are present. Rule 4350(c)(2).</p>	<p>Executive Sessions. Our independent directors have not held executive sessions without management, and under our bylaws and applicable Mexican law, they are not required to do so.</p>
<p>Nominating/Corporate Governance Committee. Nominating/corporate governance committee composed entirely of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.04. Controlled companies are exempt from these requirements. §303A.00.</p>	<p>Nominating Committee. Director nominees must be selected, or recommended for the board's selection, either by a nominating committee comprised solely of independent directors or by a majority of independent directors. Each listed company also must certify that it has adopted a formal charter or board resolution addressing the nominations process. Rules 4350(c)(4)(A)-(B). Controlled companies are exempt from this requirement. Rule 4350(c)(5).</p>	<p>Nominating Committee. We currently do not have a nominating committee. We are not required to have a nominating committee. However, Mexican law requires us to have one or more committees that oversee the corporate governance function.</p> <p>We have an executive committee, an audit committee and a corporate practices committee, which together perform corporate governance functions.</p>

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NYSE Standards	NASDAQ Standards	Our Corporate Governance Practices
<p>Compensation Committee. <i>Compensation committee composed entirely of independent directors is required, which must evaluate and approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. §303A.05. Controlled companies are exempt from this requirement. §303A.00.</i></p>	<p>Compensation Committee. <i>CEO compensation must be determined, or recommended to the board for determination, either by a compensation committee comprised solely of independent directors or a majority of the independent directors and the CEO may not be present during voting or deliberations. Compensation of all other executive officers must be determined in the same manner, except that the CEO, and any other executive officers, may be present. Rules 4350(c)(3)(A)-(B). Controlled companies are exempt from this requirement. Rule 4350(c)(5).</i></p>	<p>Our Corporate Governance Practices As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.</p> <p>Compensation Committee. We have a corporate practices committee, which assists our Board of Directors in evaluating and compensating our senior executives. The Mexican Securities Market Law requires that a majority of the members of the corporate practices committee of controlled companies be independent. All of the members of our corporate practices committee are independent.</p> <p>As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.</p>
<p>Audit Committee. <i>Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07.</i></p>	<p>Audit Committee. <i>Audit committee satisfying the independence and other requirements of Rule 10A-3 under the Exchange Act and the more stringent requirements under the NASDAQ standards is required. Rule 4350(d)</i></p>	<p>Audit Committee. We have an audit committee of three members. Each member of the audit committee qualifies as independent, as determined by our shareholders at their annual ordinary general meeting pursuant to the Mexican Securities Market Law, and also meets the independence requirements of Rule 10A-3 under the Exchange Act. Our audit committee operates primarily pursuant to (1) a written charter approved by our Board of Directors and (2) Mexican law. For a detailed description of the duties of our audit committee, see <i>Item 6. Directors, Senior Management and Employees Audit Committee.</i></p>
<p>Equity Compensation Plans. <i>Equity compensation plans and all material revisions thereto require shareholder approval, subject to limited exemptions. §§303A.08 & 312.03.</i></p>	<p>Equity Compensation Plans. <i>Equity compensation plans or material amendments thereto require shareholder approval, subject to limited exemptions. Rule 4350(i)(1)(A).</i></p>	<p>Equity Compensation Plans. Shareholder approval is required under Mexican law for the adoption and amendment of an equity compensation plan. Such plans should provide for general application to all executives.</p> <p>We do not have an equity compensation plans.</p>

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NYSE Standards

Shareholder Approval for Issuance of Securities. Issuances of securities (1) that will result in a change of control of the issuer, (2) that are to a related party or someone closely related to a related party, (3) that have voting power equal to at least 20% of the outstanding common stock voting power before such issuance or (4) that will increase the number of shares of common stock by at least 20% of the number of outstanding shares before such issuance require shareholder approval. §§312.03(b)-(d).

Code of Business Conduct and Ethics. Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. The code must contain compliance standards and procedures that will facilitate the effective operation of the code. §303A.10.

Conflicts of Interest. Determination of how to review and oversee related party transactions is left to the listed company. The audit committee or comparable body, however, could be considered the forum for such review and oversight. §307.00. Certain issuances of common stock to a related party require shareholder approval. §312.03(b).

Solicitation of Proxies. Solicitation of proxies and provision of proxy materials is required for all meetings of shareholders. Copies of such proxy solicitations are to be provided to NYSE. §§402.01 & 402.04.

NASDAQ Standards

Shareholder Approval for Issuance of Securities. Issuances of securities (1) that will result in a change of control of the issuer, (2) in connection with certain acquisitions of the stock or assets of another company or (3) in connection with certain transactions other than public offerings require shareholder approval. Rules 4350(i)(1)(B)-(D).

Code of Business Conduct and Ethics. Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver and the reasons for such waiver for directors or executive officers. The code must include an enforcement mechanism. Rule 4350(n).

Conflicts of Interest. Appropriate review of all related party transactions for potential conflict of interest situations and approval by an audit committee or another independent body of the board of directors of such transactions is required. Rule 4350(h).

Solicitation of Proxies. Solicitation of proxies and provision of proxy materials is required for all meetings of shareholders. Copies of such proxy solicitations are to be provided to NASDAQ. Rule 4350(g).

Our Corporate Governance Practices

Shareholder Approval for Issuance of Securities. Mexican law and our bylaws require us to obtain shareholder approval of the issuance of new equity securities.

Code of Business Conduct and Ethics. We have adopted a code of ethics, which has been accepted by all of our directors and executive officers and other personnel. A copy of our code of ethics is available on our website: www.telmex.com.

Conflicts of Interest. Pursuant to Mexican law, our bylaws and applicable internal guidelines, provided that the corporate practices committee of our Board of Directors has opined favorably, our Board of Directors has to vote on whether or not to approve of any transaction with a related party (1) the value of which exceeds 1% of our consolidated assets, (2) that is outside the ordinary course of our business, or at non-market prices, or (3) that is with employees and is not on the same terms as transactions with any others customers and does not result from employee benefits of general character.

Solicitation of Proxies. We are not required to distribute proxy materials to, or solicit the return of proxies from, our shareholders. In accordance with Mexican law and our bylaws, we inform shareholders of all meetings by public notice, which states the requirements for admission to the meeting and provides a mechanism by which

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NYSE Standards

NASDAQ Standards

Our Corporate Governance Practices

shareholders can vote through a representative using a power of attorney. Under the new Mexican Securities Market Law, we have to make power of attorney forms available to shareholders at their request. Under the deposit agreement relating to our ADSs, holders of our ADSs receive notices of shareholders meetings and, where applicable, instructions on how to vote at the shareholders meeting through the depository.

***Peer Review.** A listed company must be audited by an independent public accountant that (i) has received an external quality control review by an independent public accountant (peer review) that determines whether the auditor s system of quality control is in place and operating effectively and whether established policies and procedures and applicable auditing standards are being followed or (ii) is enrolled in a peer review program and within 18 months receives a peer review that meets acceptable guidelines. Rule 4350(k).*

***Peer Review.** Under Mexican law we must be audited by an independent public accountant that satisfies quality control requirements as defined by the CNBV.*

Mancera, S.C., a member practice of Ernst & Young Global, our independent auditor, is not subject to peer review as such term is defined in NASDAQ s Marketplace Rule 4350(k).

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PART III

Item 17. Financial Statements

Not applicable.

Item 18. Financial Statements

See our consolidated financial statements beginning on page F-1, incorporated herein by reference.

Item 19. Exhibits

Documents filed as exhibits to this Annual Report:

- 1.1 Amended and restated bylaws (estatutos sociales) of Teléfonos de México, S.A.B. de C.V., dated December 26, 2007 (English translation) (incorporated by reference to the Annual Report on Form 20-F for the year ended December 31, 2008 (File No. 1-32741) filed on June 27, 2008).
- 2.1 Form of Amended and Restated L Share Deposit Agreement (incorporated by reference to the post-effective amendment to our registration statement on Form F-6 (File No. 333-125023) filed on September 28, 2006).
- 2.2 Form of Amended and Restated A Share Deposit Agreement (incorporated by reference to the post-effective amendment to our registration statement on Form F-6 (File No. 333-12936) filed on September 28, 2006).
- 2.3 Loan Agreement, dated as of August 11, 2006, among Teléfonos de México, S.A.B. de C.V., the lenders party thereto, Citibank, N.A., as administrative agent, ABN AMRO Bank N.V., BBVA Securities Inc., Citigroup Global Markets Inc., HSBC Securities (USA) Inc. and Calyon New York Branch, as joint bookrunners, ABN AMRO Bank N.V., as syndication agent, and Banco Bilbao Vizcaya Argentaria, S.A. and HSBC Securities (USA) Inc., as co-documentation agents (incorporated by reference to our annual report on Form 20-F for the year ended December 31, 2006 (File No. 1-32741) filed on July 16, 2007).
- 3.1 Agreement dated December 20, 2000 between Carso Global Telecom, S.A.B. de C.V. and SBC International, Inc. (AT&T International since 2006) (incorporated by reference to our annual report on Form 20-F for the year ended December 31, 2000 (File No. 1-10749) filed on May 4, 2001).
- 4.1 Master Transition Agreement between Teléfonos de México, S.A.B. de C.V. and Telmex Internacional, S.A.B. de C.V., dated as of December 26, 2007 (English translation) (incorporated by reference to the registration statement on Form 20-F of Telmex Internacional, S.A.B. de C.V. (File No. 1-34086) filed on May 30, 2008).
- 4.2 Services Agreement dated February 4, 2009 between Teléfonos de México, S.A.B. de C.V. and Carso Global Telecom, S.A.B. de C.V. (English translation).

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- 4.3 Management Services Agreement, dated January 2, 2001, between Teléfonos de México, S.A. de C.V. and AT&T Mexico, Inc. (incorporated by reference to our annual report on Form 20-F for the year ended December 31, 2003 (File No. 1-10749) filed on June 28, 2004).
- 7.1 Calculation of ratios of earnings to fixed charges.
- 8.1 List of subsidiaries of Teléfonos de México, S.A.B. de C.V.
- 12.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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The exhibits do not include any instrument defining the rights of holders of long-term debt of the registrant or of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed when under such instrument the total amount of securities authorized does not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. The registrant agrees to furnish a copy of any such instrument to the SEC upon its request.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and 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, 2008 and 2007, and the related consolidated statements of income and changes in stockholders' equity for each of the three years in the period ended December 31, 2008, and the statement of cash flows for the year ended December 31, 2008 and the statements of changes in financial position for each of the two years in the period ended December 31, 2007. 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 the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above 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, 2008 and 2007, and the consolidated results of their operations for each of the three years in the period ended December 31, 2008, and their cash flows for the year ended December 31, 2008 and changes in their financial position for each of the two years in the period ended December 31, 2007, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from U.S. generally accepted accounting principles (see Note 18 to the consolidated financial statements).

As discussed in Note 1 II. x) to the consolidated financial statements, in 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*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), Teléfonos de México, S.A.B. de C.V.'s internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated May 26, 2009, expressed an unqualified opinion thereon.

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

/s/ C.P.C. Fernando Espinosa López
C.P.C. Fernando Espinosa López

Mexico City, Mexico

May 26, 2009

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

	December 31	
	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	P. 6,136,563	P. 4,697,752
Marketable securities (Note 3)		718,144
Accounts receivable, net (Note 4)	20,808,763	19,293,911
Derivative financial instruments (Note 8)	20,418,889	1,313,955
Inventories for sale, net	1,914,306	2,191,110
Prepaid expenses and others	2,900,790	2,797,420
Total current assets	52,179,311	31,012,292
Plant, property and equipment, net (Note 5)	112,865,377	120,648,559
Inventories for operation of the telephone plant, net	2,668,410	1,747,582
Licenses, net (Note 6)	1,025,027	991,461
Equity investments (Note 7)	1,494,133	1,528,138
Net projected asset (Note 11)	15,485,402	15,621,167
Deferred charges, net	1,407,687	1,277,088
Total assets	P. 187,125,347	P. 172,826,287
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 8)	P. 22,883,092	P. 12,282,260
Accounts payable and accrued liabilities (Note 9)	15,918,106	17,958,006
Taxes payable	783,543	1,400,422
Deferred credits (Note 10)	1,780,115	1,036,806
Total current liabilities	41,364,856	32,677,494
Long-term debt (Note 8)	84,172,355	79,179,854
Labor obligations (Note 11)	4,997,540	208,406
Deferred taxes (Note 16)	16,808,391	18,317,042
Deferred credits (Note 10)	411,106	284,683
Total liabilities	147,754,248	130,667,479
Stockholders equity (Note 15):		
Capital stock	9,138,632	9,402,561
Retained earnings:		
Prior years	7,197,720	76,055,117
Current year	20,176,936	35,484,947
	27,374,656	111,540,064
Accumulated other comprehensive income items	2,816,625	(78,822,851)

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Majority stockholders' equity	39,329,913	42,119,774
Noncontrolling interest	41,186	39,034
Total stockholders' equity	39,371,099	42,158,808
Total liabilities and stockholders' equity	P. 187,125,347	P. 172,826,287

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

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Table of Contents**TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES****Consolidated Statements of Income**

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

	Year ended December 31		
	2008	2007	2006
Operating revenues:			
Local service	P. 48,982,383	P. 54,398,425	P. 58,250,991
Long distance service:			
Domestic	15,741,771	17,348,649	18,324,142
International	8,793,262	9,678,537	10,531,469
Interconnection service	19,139,692	22,603,745	18,071,474
Corporate networks	12,219,402	11,339,790	10,877,371
Internet access services	13,168,270	10,940,226	10,157,799
Other	6,060,455	4,458,299	3,542,101
	124,105,235	130,767,671	129,755,347
Operating costs and expenses:			
Cost of sales and services	32,806,088	32,364,110	32,059,170
Commercial, administrative and general expenses	19,831,144	19,552,442	19,382,514
Interconnection	13,759,965	16,541,561	13,337,914
Depreciation and amortization (Notes 5 and 6) (includes P.16,993,459 in 2008, P. 17,434,266 in 2007 and P. 17,621,037 in 2006, not included in cost of sales and services)	17,965,069	18,425,285	18,711,403
	84,362,266	86,883,398	83,491,001
Operating income	39,742,969	43,884,273	46,264,346
Other expenses, net (Note 1 II.s)	679,592	44,361	2,613,495
Financing cost:			
Interest income	(913,462)	(1,396,088)	(1,495,017)
Accrued interest expense	7,652,427	6,615,400	6,951,861
Exchange loss, net	2,493,729	643,137	1,159,178
Monetary gain, net		(2,513,085)	(2,846,024)
	9,232,694	3,349,364	3,769,998
Equity interest in net (loss) income of affiliates	(62,113)	17,245	8,723
Income before taxes on profits	29,768,570	40,507,793	39,889,576
Provision for income tax (Note 16)	9,591,659	11,618,710	12,189,035
Income from continuing operations	20,176,911	28,889,083	27,700,541
Income from discontinued operations, net of income tax (Note 2)		7,166,312	2,615,031
Net income	P. 20,176,911	P. 36,055,395	P. 30,315,572

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Distribution of net income:			
Majority interest	P. 20,176,936	P. 35,484,947	P. 29,640,032
Noncontrolling interest	(25)	570,448	675,540
	P. 20,176,911	P. 36,055,395	P. 30,315,572
Weighted average number of shares issued and outstanding (millions)	18,906	19,766	20,948
Earnings per share from continuing operations	P. 1.07	P. 1.46	P. 1.32
Earnings per share from discontinued operations	P.	P. 0.34	P. 0.09
Earnings per share	P. 1.07	P. 1.80	P. 1.41

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

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Table of Contents**TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES****Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2006, 2007 and 2008**

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

	Capital stock	Premium on sale of shares	Legal reserve	Retained earnings		Accumulated			Total stockholders' equity
				Unappropriated	Total	other comprehensive income items	Majority stockholders' equity	Noncontrolling interest	
Balance at December 31, 2005	P. 29,728,438	P. 20,919,197	P. 16,148,490	P. 118,939,278	P. 135,087,768	P. (61,982,008)	P. 123,753,395	P. 12,125,447	P. 135,878,842
Appropriation of earnings approved at regular stockholders meeting held in April 2007:									
Cash dividend declared at P. 0.426 per share (P. 0.403 historical)				(8,846,171)	(8,846,171)		(8,846,171)		(8,846,171)
Cash dividend paid to noncontrolling stockholders in split-up subsidiary				(200,830)	(200,830)		(200,830)	(245,503)	(446,333)
Cash purchase of Company's own shares	(1,717,104)			(22,966,682)	(22,966,682)		(24,683,786)		(24,683,786)
Acquisition of noncontrolling interest				387,835	387,835		387,835	(10,174,464)	(9,786,629)
Dilution of investment in split-up affiliate				858,279	858,279		858,279	29,647	887,926
Comprehensive income:									
Net income for the year				29,640,032	29,640,032		29,640,032	675,540	P. 30,315,572
Other comprehensive income items:									
Changes in fair value of swaps, net of deferred taxes						(139,028)	(139,028)		(139,028)
Effect of translation of foreign entities, net						1,052,378	1,052,378	946,438	1,998,816
Deficit from holding non-monetary						(3,657,209)	(3,657,209)	(200,765)	(3,857,974)

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Assets, net of deferred taxes										
Comprehensive income										P. 28,317,386
Balance at December 31, 2006	28,011,334	20,919,197	16,148,490	117,811,741	133,960,231	(64,725,867)	118,164,895	3,156,340		121,321,235
Appropriation of earnings approved at regular stockholders meeting held in April 2007:										
Cash dividend declared at \$0.448 per share (P. 0.440 historical)				(8,820,074)	(8,820,074)		(8,820,074)			(8,820,074)
Cash purchase of Company's own shares	(780,210)			(15,002,629)	(15,002,629)		(15,782,839)			(15,782,839)
Acquisition of noncontrolling interest				(164,575)	(164,575)		(164,575)	(450,572)		(615,147)
Gain on dilution of investment in affiliate				1,123,819	1,123,819		1,123,819			1,123,819
Comprehensive income:										
Net income for the year				35,484,947	35,484,947		35,484,947	570,448	P. 36,055,395	36,055,395
Other comprehensive income items:										
Changes in fair value of swaps, net of deferred taxes						499,089	499,089		499,089	499,089
Effect of translation of foreign entities						(2,739,571)	(2,739,571)	(369,053)	(3,108,624)	(3,108,624)
Deficit from holding non-monetary assets, net of deferred taxes						(927,126)	(927,126)	(184,575)	(1,111,701)	(1,111,701)
Comprehensive income										P. 32,334,159
Reduction due to the split-up of Telmex Internacional	(17,828,563)	(20,919,197)	(14,267,977)	(20,773,678)	(35,041,655)	(10,929,376)	(84,718,791)	(2,683,554)		(87,402,345)
Balance at December 31, 2007	9,402,561		1,880,513	109,659,551	111,540,064	(78,822,851)	42,119,774	39,034		42,158,808
Effect of adopting Mexican FRS -10, net of deferred taxes				(79,419,845)	(79,419,845)	79,419,845				

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cumulative effect									
adjustment for recognition of deferred employee profit sharing, net of deferred taxes	(4,136,583)	(4,136,583)	(53,552)	(4,190,135)					(4,190,135)
appropriation of earnings approved at regular stockholders meeting held in April 2008:									
cash dividend declared at P. 0.413 per share	(7,774,143)	(7,774,143)		(7,774,143)					(7,774,143)
cash purchase of Company's own shares	(263,929)	(12,607,913)	(12,607,913)	(12,871,842)					(12,871,842)
comprehensive income:									
net income for the year	20,176,936	20,176,936		20,176,936	(25)	P. 20,176,911			20,176,911
other comprehensive income items:									
changes in fair value of swaps, net of deferred taxes				2,126,088	2,126,088		2,126,088		2,126,088
deferred taxes	(403,860)	(403,860)		(403,860)	2,177	(401,683)			(401,683)
effect of translation of foreign entities				147,095	147,095		147,095		147,095
comprehensive income							P. 22,048,411		
balance at December 31, 2008 (Note 15)	P. 9,138,632	P. 1,880,513	P. 25,494,143	P. 27,374,656	P. 2,816,625	P. 39,329,913	P. 41,186		P. 39,371,099

The accompanying notes are