2010 Annual Report

# of technological development

TELMEX®
está contigo

INDEX

Teléfonos de México (TELMEX) is celebrating 20 years as a private company. During this time we have extensively modernized and updated our capabilities, transforming our company from one that exclusively offered telephony services to become one of the nation's leaders in telecommunications, in a highly competitive market. Our commitment for the past two decades has been to connect Mexico through the best technological platform, offering our customers complete access to the best services and promoting technical innovation as well as communications and information technologies in the country.

Twenty years ago, TELMEX had one of the world's most backward infrastructures, a limited ability to meet the population's demand for services and a culture that paid little attention to customers. In order to change this situation, we built a company that sets the pace for communications in Mexico with our use of a telecommunications platform that also contributes to the development of the domestic economy. We achieved these goals by investing more than 32 billion dollars from 1990 to 2010 to expand, modernize, transform and foster a digital cultural change in the company and in the country.

As we celebrate 20 years, we thank you for choosing TELMEX and promise that we will continue the commitment that we made 20 years ago as we began the transformation and development of telecommunications in our country.

highlights

[Millions of Mexican pesos, unless otherwise indicated]*	2010	2009	2008	2007	2006
Financial					
Total revenues	113,563	119,100	124,105	130,768	129,755
Voice services	73,941	82,406	92,657	104,029	105,178
Data	32,879	30,817	25,387	22,280	21,035
Other	6,743	5,877	6,061	4,459	3,542
Total costs and expenses	85,146	84,736	84,362	86,884	83,491
Costs of sales and services	34,711	34,178	32,523	32,364	32,059
Commercial, administrative and general expenses	22,351	20,811	19,863	19,553	19,383
Interconnection	10,561	11,796	14,043	16,542	13,338
Depreciation and amortization	17,523	17,951	17,933	18,425	18,711
Operating income	28,417	34,364	39,743	43,884	46,264
EBITDA(1)	45,940	52,315	57,676	62,309	64,975
Income from continuing operations	15,371	20,469	20,177	28,889	27,701
Assets from continuing operations	157,754	178,397	187,125	172,826	188,182
Debt from continuing operations	74,521	102,874	107,055	91,462	90,417
Stockholders' equity(2)	44,224	38,321	39,371	42,159	121,321
Data per share(3) (pesos)					
Earnings per share from continuing operations	0.85	1.11	1.07	1.46	1.32
Nominal dividend paid (3)	0.490	0.845	0.413	0.440	0.403
Outstanding shares at year-end (millions)	18,158	18,192	18,555	19,360	20,203

(*) The financial information for 2006 and 2007 is presented in constant pesos with purchasing power as of December 2007 and from 2008 and beyond is presented in nominal pesos (see Note 1 II.b to the consolidated financial statements).
(1) EBITDA defined as operating income plus depreciation and amortization.
(2) The decrease in 2007 was due to the split-up (escisión) of Telmex Internacional.
(3) An extraordinary dividend of P. 0.40 Mexican cents per outstanding share was paid in December 2009.

TELMEX
1991-2010

With state-of-the-art technology, investing and decreasing prices to sustain the development of the country.

Facts

Changes	1991	2010
Lines (millions)	5.4	15.6
Long Distance (million minutes)		
• Domestic	4,375	18,292
• International	1,293	8,887
Public Telephones in service (thousands)	69	752
Customers with Internet (millions)	-	7.4
Maximun Internet speed	-	20 Mbps
Computers sold in installments (millions)	-	2.8
Data Links (thousands of line equivalents of 64Kbps)	0.87	10,539
Fiber Optic (kilometers)	360	112,570
Plant Digitalization	31%	100%
Lines with Failure	13.50%	1.97%
Installation Time (per line)	2 years	5.8 days
Public Telephony Competitors	-	141
Local Competitors	9	35
Long Distance Competitors	-	74
Internet Competitors	-	479
Employee Schooling (years)	5.7	15
Training Hours (accumulated millions)	3.5	64.7
Digital Culture:		
• Computer Halls and Digital Libraries	-	3,500
• Scholarships	-	275,000

These figures correspond to the date that the administration of the Company was taken.

Prices (1)	1991	2010	U.S.A. (2)
Residential Installation Fee (per line)	$7,611.10	$1,130.00	$988.00
Residential Monthly Rent (per line)	$159.70	$156.55	$267.99
Residential Measured Service (per call)	$2.19	$1.11	$0.99
Domestic Long Distance (per minute)	$7.62	$0.79	$0.90
International Long Distance (per minute)	$19.35	$1.59	$1.42
Internet (per kilobit)	**$9.98** (1999)	**$0.05**	**$0.06**
Local interconnection (per minute)	$0.00 (1997)	$0.00	$0.05
Long Distance Interconnection (per minute)	$1.11 (1997)	$0.12	$0.29
Incoming USA Interconnection (US $ per minute)	$0.7904	$0.0223	-
Local Calling Party Pays (per minute)	$4.23 (1999)	$1.35	-
Low Usage Residential Basic Basket Rank OECD	**27** (2000)	**4**	**15**
Local Service Areas	2,200	397	25,981
Value Added Tax	10%	16%	10%
Telecommunications Tax	0%	3%	0%
Total Tax	10%	19.5%	10%
Service Packages Savings	**0%**	**To 47% additional**	

(1) Mexican pesos of 2010 without taxes.
(2) Exchange rate of $12.3571 pesos/dollar, December 2010, average prices in pesos.

telmex.com

TELMEX
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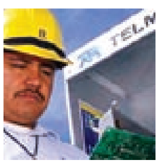
20 YEARS of technological development

December of 1990

After a process in which 16 domestic and foreign companies take part, TELMEX is acquired by a group of companies comprised of Grupo Carso, Southwestern Bell, France Telecom and 34 other Mexican investors.

1991

A Board of Directors is established with Carlos Slim Helú as President. The successful sale of TELMEX shares in international markets demonstrates that investors worldwide see our country as an attractive place to invest.

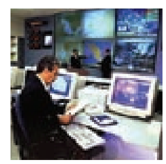


1991 / 1993

TELMEX begins growing in accord with the strategy laid out in the Technological Renewal and Quality of Telephone Service Triennial Plan, which incorporates the obligations established in the company's Concession Title. Significant investments and restructured operating and administrative functions and working with the TELMEX Union, led to solid achievements.

1994 / 1997

The pace of infrastructure modernization increases at the same time the company is developing a culture of customer attention and focusing on quality, productivity and growth. Fundación TELMEX is created to support health, education, cultural, sports and justice programs in Mexico. Dial-up Internet access is launched.



1999 / 2001

The telephone plant is 100% digital, which improves service quality and supports an increasingly diverse service offering. Broadband Internet access service is launched.

Fixed Lines: 5.4 million
Fiber optic: 360 km.

Fixed Lines: **15.6 million**

Fiber optic: **112,570 km.**

2003

TELMEX introduces *Soluciones de Crecimiento Inmediato (SCI)* (Immediate Growth Solutions), with integrated telecommunications options designed especially for micro businesses and small enterprises. The *Centro de Comercialización Remota - CECOR* (Commercialization Center at a Distance) begins operations for this market segment.

2004

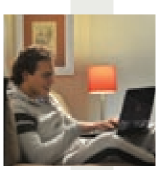
TELMEX initiates WiFi Internet access at Mexico City's Benito Juárez airport.

2006

TELMEX introduces service packages to the market and organizes Asesor es TELMEX, a marketing channel focused on small and medium-sized enterprises (SME). TELMEX stores begin a transformation focused on improving the customer experience.

2007-2009

Telecommunications service packages ranging from *TELMEX Negocios sin Límites* to *Soluciones Multimedia TELMEX* offer advanced capabilities. Hosted IP PBX service is launched, providing a single communications platform through which businesses achieve convergence of voice and data networks. Telepresence services are introduced as part of integrated solutions based on new-generation services.



2010

TELMEX reaches 7.4 million broadband access customers and sales of 2.8 million computers. Internet access of 20 Mbps is offered. The fiber optic network extends to 112,570 kilometers. Lines in service are 15.6 million and there are 388 TELMEX stores in the country.

7.4 million broadband infinitum accesses

2002 2004 2006 2008 2010

KILOMETERS OF FIBER OPTIC (thousands)

BROADBAND infinitum ACCESSES (millions)

32.0 billion dollars of investment


20 YEARS

of investing and technological development to offer more and higher connectivity

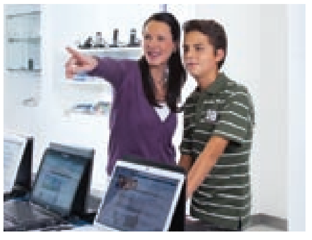
infinitum customers have access, without extra cost, to Mexico's biggest Internet wireless network, with

3,500 domestic sites,

1,300 sites in the United States and approximately 140,000 public sites around the world, through *WiFi Móvil* **infinitum** service.

2.8 million

In order to reduce the digital divide in Mexico, TELMEX promotes the sale of computers. In the last 11 years, TELMEX has sold more than 2.8 million. An important feature of this program is its broad range of computers – more than 50 models including well-known brand names and, since the third quarter of 2010, we introduced tablet computers to offer another option for customers.

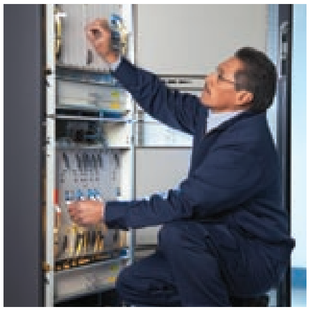


Commitment

Committed to quality and modernization, TELMEX has raised **infinitum** service speeds without increasing the price of its services to residential customers and to micro, small and medium-sized enterprises. Internet access speeds offered are 1, 2, 4, 5, and up to 20 Mbps. These advances make it possible for our customers today to communicate, talk and connect more easily, faster and at less cost.


20YEARS

committed to the future of Mexico, education and the digital culture



The educational level of TELMEX personnel has increased 2.6 times from 5.7 years of schooling in 1991 to 15 years in 2010. In the same period, the number of hours of training rose by a factor of 18, from 3.5 million to 64.7 million hours.

275,000

During the past two decades 275,000 scholarships have been awarded to students with outstanding educational performance.

TELMEX created *Aulas Digitales*, computer-equipped classrooms that promote childhood development and learning; *Bibliotecas Digitales*, which provides computer access for children in primary grades, and *Casa TELMEX*, educational centers that emphasize skills in science and technology, universal values and appreciation of the arts among students in low-income urban areas.

20YEARS

TRAINING

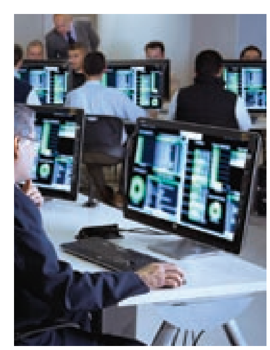
INTTELMEX IT

During 2010, free of charge to the participants, we trained 1,242 professionals in IT applications at INTTELMEX IT.

Académica promotes creation of a digital community in research and innovation among students, researchers and academic personnel at 139 higher education institutions in Mexico and Latin America.

The research and innovation network

(Red de innovación e investigación - Ri3) was created to endow the backbone of a high-speed network that digitally links universities and higher education institutions with the most advanced community of universities in the world.



TELMEX reached out to the corporate market with a unified communications platform that integrates telecommunications and information technologies, incorporating capabilities such as cloud computing, software development, outsourcing, security, consulting and training. To make these offerings possible, the company applies the experience and support of our TRIARA and Scitum subsidiaries and Customer Network Operation Center (CNOC).

letter to our shareholders

During 2010, world economic activity showed signs of a slow recovery but still there is uncertainty on the recovery performance due to higher unemployment index, to the difficult financial situation from several economies and financial institutions, and higher inflationary pressure.

After a decline of 6.5% in 2009, Mexico's economy grew 5.5% in 2010. This translated to an increase in GDP in the industrial and manufacturing sector of 6.1%, followed by 5.7% in the primary sector and 5.0% in the service sector, which included the telecommunications sector's 5.9% gain.

The devaluation of the peso in the previous year, US economic recovery and the increase in oil prices increased Mexican exports 29.8% to 298.361 billion dollars in 2010. The exchange rate was volatile during the year, but the peso began to appreciate in the closing months as a positive interest rate differential caused capital to flow into the country. Direct foreign investment for the year totaled 17.726 billion dollars.

Going forward, Mexico faces important challenges because of lower external demand, balanced against a stronger internal economy that could benefit from investments in infrastructure and human capital, which could lead to sustained long-term growth and higher employment.

20 YEARS OF TECHNOLOGICAL DEVELOPMENT

At Telefónos de México (TELMEX), 2010 marked the 20th anniversary as a private-sector company. During this time, our program to modernize and update capabilities has transformed the company from one that exclusively offered telephony into the nation's leading telecommunications services Company in a highly competitive market. Our commitment throughout the past two decades has been to connect Mexico through the best technological platform and offer our customers the best services and products, thereby driving innovation as well as information and communications technologies in the country.

The auction to privatize TELMEX in December 1990 came 18 years after the Federal Government acquired 51% of the company's capital in 1972. At that time, the remaining 49% was in the hands of investors and customers who were obligated to finance TELMEX, with service deficiencies, an obsolete infrastructure and a waiting period of up to two years for new line installations.

In 1990, when the Federal Government initiated steps to privatize TELMEX, it owned approximately 56% of the company's capital. It auctioned 25.4% of its share, comprised of 20.4% controlling shares and an option to acquire 5% of shares with limited voting power. Among 16 domestic and international companies that participated in the process were five international telecommunications companies participating in groups that presented offers to buy the company. The winning group was comprised of Southwestern Bell (today AT&T), which purchased 10%, France Telecom with 5%, Grupo Carso with 5.78% and 34 Mexican investors who acquired 4.6% and established a trust fund with limitations on

sales to third parties for a period of 10 years. The winning offer for 20.4% represented an enterprise value of 8.6157 billion dollars, or 16.6% higher than TELMEX's price in the Bolsa Mexicana de Valores (Mexican Stock Exchange), which was equivalent to 7.3878 billion dollars, on the date that the offer was made and 4.1% higher that the second offer from the group comprised of Telefónica de España, GTE (General Telephone & Electronics Corporation) and Casa de Bolsa Acciones y Valores. It is noteworthy that the market value at the time of privatization was 541% higher than TELMEX's market value on December 31, 1988, only two years earlier.

Not only did the privatization of Teléfonos de México bring large foreign investment to Mexico but also the listing of class "L" shares opened access to international financial markets that had been closed to emerging markets since the foreign debt crisis of 1982.

TECHNOLOGICAL TRANSFORMATION

Twenty years ago, TELMEX functioned with one of the most obsolete telecommunications infrastructures in the world, a growing inability to provide the services that the population demanded and a culture that paid little attention to customer service. In order to transform this situation, build a state-of-the-art company to support communications for Mexicans and provide the nation with a telecommunications platform to drive economic development, from 1990 to 2010, more than 32 billion dollars were invested in TELMEX's expansion, modernization and transformation along with changing the digital culture of the company and the country. In this manner, TELMEX achieved the following:

- Fixed lines went from 5.4 million in 1990 to 15.6 million in 2010. Traffic volumes also increased significantly, particularly long distance minutes, which increased more than 4.8 times during the 20-year period.
- The number of served communities increased to cover more than 100 million Mexicans.
- Dial-up Internet was introduced in the market in 1996 and broadband **infinitum** services were launched in 2001. By 2010 the number of accesses reached 7.4 million, which has reduced the digital divide in the country.
- Our fiber optic network increased from 360 kilometers to 112,570 kilometers, achieving recognition as one of the most modern and reliable networks in the world.
- We transformed our billing and service hiring centers into 388 modern commercial offices where we offer customer support and product marketing.
- The 100% digitalization of the telephone plant was reached in 2000, before countries like Spain and the United States. This significant advancement benefitted service quality and allowed substantial expansion of our service offering.
- The educational level of employees improved from 5.7 years of schooling per employee in 1990 to 15 in 2010, which translated to higher productivity and a change in the company's labor culture. This transformation

"From 1990 to 2010, more than 32 billion dollars were invested to build a leading company and create an infrastructure that drives economic development in Mexico."

significantly improved customer service at the same time that it laid the foundation for the transfer and assimilation of new technologies and innovation.

- We built 3,500 *Aulas y Bibliotecas Digitales* (computer halls and digital libraries) and granted 275,000 *Becas Digitales* (digital scholarships), benefitting more than 2 million Mexicans. And also, we installed more than 3,500 free WiFi móvil en **infinitum** sites.
- In 2010, the *Instituto Tecnológico de TELMEX en Tecnologías de la Información* (Inttelmex IT) trained more than 1,200 professionals at no cost to the students.
- We developed one of the most competitive portfolios of corporate solutions by offering a broad integration of services to drive the development of Mexican companies.
- We have multiplied the company's productivity several times, which has allowed us to lower costs and reduce the prices of our services 77.1% over the past 20 years. Also, since 2000 the Internet access price per kilobit has been reduced 93.9%.

In 1999, we began a process of Local Service Area (LSA) consolidations, reducing them from 2,200 to 397, for an 82% reduction in the number of domestic long distance areas. Mexico has 7.5 times more inhabitants per LSA than Brazil, 3.5 times more than Spain and 23.7 times more than the United States. The number of square kilometers in an LSA in Mexico on average is five times higher than in these same countries. In addition to the expanded reach of local service areas, TELMEX launched the neighboring cities plan to significantly reduce prices on calls between those locations. This plan benefits 32.785 million inhabitants in 168 cities.

2010 RESULTS

Our priorities during 2010 were to grow broadband **infinitum** services, enhance our portfolio of products and services for small and medium-sized businesses and corporate customers, and continue to evolve our technological platform. Along with these customer-focused programs, we implemented initiatives to obtain operating efficiencies and optimize resource use while maintaining a solid financial position.

Revenues totaled 113.563 billion pesos, a decrease of 4.6% compared with 2009, due to a 6.7% increase in the data businesses offset by decreases in revenues from local, long distance and interconnection services of 8.9%, 13.9% and 9.4%, respectively. EBITDA totaled 45.940 billion pesos, 12.2% lower than in 2009, and operating income was 28.417 billion pesos. Net income totaled 15.371 billion pesos, which translated into earnings per share of 0.85 pesos and earnings per ADR of 1.33 dollars.

Investments made in 2010 totaled the equivalent of 839.6 million dollars. Of this amount, 68.5% was used for projects for the data platform, connectivity and transmission networks to evolve and enhance our telecommunications platform. The rest was used for other operational support projects. Also, 340 million pesos were used to purchase 34 million of our own shares.

At December 31st, TELMEX's total debt was the equivalent of 6.031 billion dollars, of which 59.1% was foreign-denominated, 84.0% was long-term and 50.1% carried fixed interest rates, taking interest rate swaps into consideration. The company's net debt was 5.425 billion dollars.

Telmex Social

Shareholders at the Extraordinary Shareholders' Meeting held on April 4, 2011 approved a corporate restructuring to create the subsidiary Telmex Social. It will provide telecommunications and interconnection services primarily in rural areas where currently there is no investment from other fixed-line competitors.

Considering that these regions significantly lag the nation as a whole in economic and social development, we intend for this restructuring to encourage greater access to telecommunications services, emphasize the importance of investing to expand and modernize these services, and drive the digital culture, which will improve the quality of life of citizens in these areas and incorporate these communities into the country's socio-economic development.

The price that Telmex Social charges for interconnection services will be the same for all telecommunications operators, including TELMEX.

We estimate that Telmex Social will serve approximately 1.5 million lines, with a density of 14.8 inhabitants per line, located in 10,453 communities without the presence of competitors. The Local Service Areas of Telmex Social cover approximately 40% of the national territory with more than 22 million inhabitants.

The restructuring is subject, if needed, to the approval of the *"Secretaría de Comunicaciones y Transportes"* (Ministry of Communications and Transportation), as well as the authorization and confirmation of other authorities and government entities as required.

FUNDACIÓN TELMEX

Fundación TELMEX was created in 1995 with a commitment to support health, education, justice, culture and sports in our country. Among its accomplishments to date are 620,502 surgeries, 6,709 organ and tissue transplants, 2,564 specialized medical equipment installations related to maternal, neonatal, and child development needs, 85,616 bail bonds, 255,494 bicycles for the *"Ayúdame a Llegar"* (Help Me Get There Program), 28,695 thousand tons of humanitarian help for disaster relief, 11.093 million bags of nutritional candy, early education manuals, cultural events and support for more than 1,636 public and private institutions.

To carry out these tasks, Fundación TELMEX has the support of outstanding volunteers who are dedicated and committed to their peers. The volunteer force at year-end totaled 4,175 participants.

Additionally, aware of the importance of sports, TELMEX has sponsored several programs to benefit national sports at all levels, which includes sporting events with a clear social focus like the soccer *"Copa TELMEX"* (TELMEX Cup,) which has the participation of 126,397 soccer teams nationwide, and high-performance sports with programs like *"Escudería TELMEX"* (racing team), the

"Ring TELMEX" (boxing) and the *"Vuelta Ciclista México-TELMEX"* (cycling tour), among others.

COMMITMENT

As the leading telecommunications company in Mexico, TELMEX will continue to reduce the prices of our services and transfer to our customers the benefits derived from our substantial investments, innovation, higher productivity and technological advances.

As always, we thank our customers for giving us the opportunity to offer them the best Information Technology and Communications (ITC), our shareholders for their trust, and our employees for their efforts on behalf of TELMEX.

TELMEX today is a Mexican company that proudly works for all Mexicans. Even as we celebrate our 20th anniversary, we reconfirm our commitment to continue the evolution of our company and support the development of telecommunications in our country.

Carlos Slim Domit
Chairman

Héctor Slim Seade
Chief Executive Officer

"We celebrate 20 years and confirm our commitment to continue evolving our company and support telecommunications development in our country."

chief executive officer's report

INTRODUCTION

TELMEX has been always active in modernization, growth, training, quality and enhanced efficiency from simplifying and improving various processes. By steadily pursuing related initiatives, the company has increased productivity and competitiveness, evolving from a telephone company to a state-of-the-art telecommunications services company.

TELMEX represents a fundamental pillar in economic growth in our country by offering telecommunications services to our customers and other telecommunications operators in all of Mexico. Without a doubt, the vital growth elements of TELMEX are our basic principles: simplified structure, minimal levels of hierarchy, human development, internal training for executive functions, flexibility and rapid decision-making in investments, and austerity and efficiency in spending. These basic principles have enabled us to expand services and offer the best conditions in the market.

MORE AND BETTER SERVICES TO OUR CUSTOMERS

The best experience of the customer

TELMEX reaffirms our commitment to provide communications services for all Mexicans, even in areas where other providers have no interest, at the same quality level and under the best price conditions. We are proud

to be the only telecommunications company with national coverage. Our services satisfy the needs of more than 90% of the population in urban, semiurban and rural areas, a demonstration of our commitment to serve all of Mexico.

In order to offer efficient and timely attention to our customers, we make different contact options available. In the last 20 years we have established 388 TELMEX stores, which are modern retail areas that sell and exhibit our products and services. Additionally, customers can get in touch with TELMEX at 53 Telephone Attention Centers (CAT in Spanish) in the country and through the Internet at www.telmex.com. We tailor customer attention through various channels like account executives, Attention Centers and Call Centers 24 hours a day, all the days of the week (24/7).

“We are the only telecommunications company with national coverage and our services today satisfy the needs of more than 90% of the Mexican population. We reiterate our commitment to serve all of Mexico.”

infinitum, the fastest connection
TELMEX is the main promoter of Internet access and penetration in Mexico. Thanks to our ongoing effort to offer the best connection to the Internet through **infinitum**, our broadband service reached 7.4 million accesses in 2010. Besides speed, additional features associated with **infinitum** make it the most robust connection, giving customers a superior Internet navigation experience:

- **infinitum** Apps, a virtual store with more than 50,000 free applications and secure access.
- Technological Consulting (Asesor tecnológico), a support service for customers wanting to know how to use the Internet better or how to use other equipment and gadgets.
- 24 Hour Professor (*Profesor 24 horas*), where bi-lingual professors provide assistance to students from pre-school to high school grades.
- And the new e-mail service, TELMEX mail.

This **infinitum** growth has been generated by our commitment to technology that reaches all Mexicans and offers a better future for Mexico. That is why since 1999 we have facilitated the purchase of computers to access the Internet.

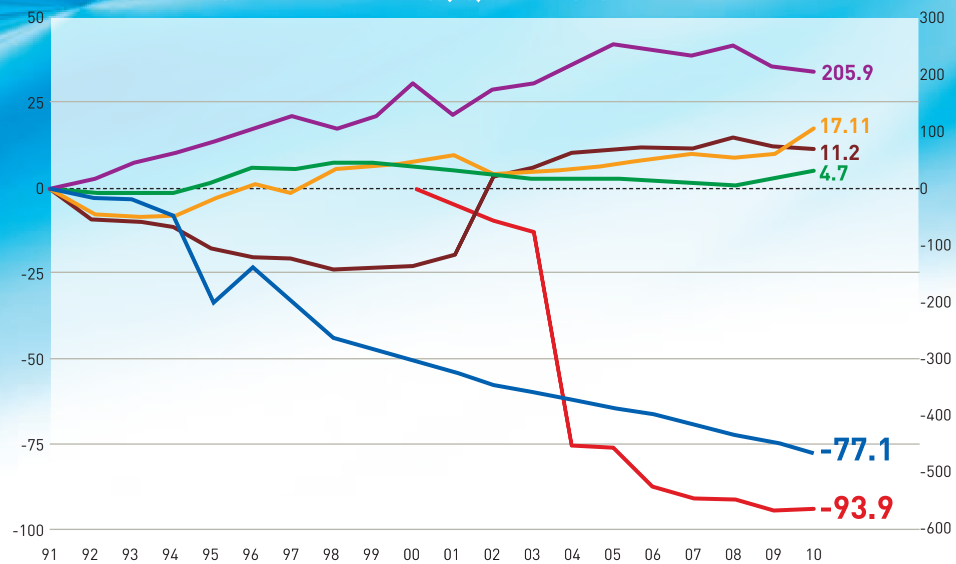
Computer sales
One way TELMEX has carried out its objective of promoting the Digital Culture to Mexicans has been the sale of brand-name computers through installment purchases that customers pay along with their monthly telephone bills.

In 2010 we sold more than 381,000 computers, including desktops, laptops and notebooks, an increase of 15.3% compared with 2009. Since 1999 TELMEX has sold more than 2.8 million computers, which made us one of the main retailers of personal computers in Mexico and has helped raise the proportion of Mexican homes with computers.

In 2010 our offering of a wide range of computers was comprised of more than 50 models of the most prestigious brand names, plus, starting in the third quarter, the addition of tablet computers. Making the newest tablets available to Mexicans reconfirmed our market leadership and helped consolidate our position as the main retailer of these devices in 2010.

Telecommunications services packages
Since privatization TELMEX has followed a practice of reducing prices. In real terms, the price of a basic basket of telecommunications services has decreased 77.1% since 1990. Additionally, when new taxes took effect at the beginning of 2010, TELMEX provided a benefit to customers by not passing along the increase on packages of services that include **infinitum**.

PRICE VARIATION IN REAL TERMS (%) 1991-2010



- Natural gas (secondary axis)
- Transportation
- Gasoline and lubricant oil
- Electricity
- TELMEX basket (Telephony prices)
- Broadband **infinitum** rates of 1 Mbps

Source:
Banco de México (Mexico´s Central Bank) indicators, TELMEX.
At December 1991-2010 of each year.
Note: Since January 2010, *Banco de México* established the last fifteen days of January 2010 as a base for the *Índice Nacional de Precios al Consumidor (INPC)* (National Consumer Price Index)
In the case of "Natural gas", the series begins since July 2002, therefore, TELMEX calculated this item since January 1990 with figures from the previous base.

As part of our strategy to offer high-quality solutions that match the needs of our customers, during 2010 we increased the speed of Internet access in our packages without increasing the cost of these services. To complement our telecommunications package offering, in April 2011 we launched a TELMEX + Dish package that offers 34 channels, including the best pay-TV channels; monthly rent; 50 domestic long distance minutes; 100 local calls without time limits; TELMEX mailbox and the call forwarding service for 299 pesos per month, taxes included.

TELMEX packages continue to be the most popular solution for our residential and SME customers' needs, allowing us to offer the most complete range of local, long distance and Internet service, along with brand-name computer equipment and support.

Fixed Line Market

At March 31, 2011, we operated 12.523 million lines, a decrease of 0.9% compared with the first quarter of 2010. Additionally:

- We have 1.5 million lines mainly in rural areas which will be served by Telmex Social.
- In the rest of the country, there are 727,000 public telephony lines and 862,000 prepaid lines.
- The number of lines totaled 15.562 million, a decrease of 1.6% compared with the total number of lines in the first quarter of 2010

In regard to interconnection and interoperability among networks, TELMEX is up to date interconnecting with all companies, including cable TV companies that have complied with all valid legal requirements. A bill-and-keep agreement applies to local interconnections, meaning that under normal conditions no payment is realized among operators. In the case of long distance interconnection, the tariff in Mexico is competitive internationally.

Development of the SME market

During 20 years as a private company, TELMEX has made significant investments in the development of customer service, especially in the SME and corporate market segments. The focus on the broad range of corporate customers has made it possible for even micro and small and medium enterprises in the country to have access to world-class Information Technology and Communications (ITC).

In TELMEX, we understand the relevance of telecommunications to SME productivity. That is why we have tailored communications solutions to their needs.

By continually expanding this concept, we have developed a solid commercial offering that ranges from voice services to telecommunications solutions that include voice, data, Internet access and equipment. These

“Services based on the concept of cloud computing are a fact, and they allow us to provide programs and solutions for SME’s that previously only big companies could acquire.”

capabilities are designed specifically to meet business needs, regardless of market sector or enterprise size. For example, services based on cloud computing are now a fact. Therefore, we offer programs and solutions to SME’s that only bigger companies accessed previously. These customers make a monthly payment or usage payment at very attractive prices and avoid the investment and maintenance costs associated with operating their own systems.

Telecommunications Service Packages

In 2010 TELMEX continued to strengthen our telecommunications service packages for SME users. Among improvements were faster **infinitum** broadband access and increases in domestic and long distance minutes.

Telecommunications service packages grew more than 60% compared with 2009. *Paquete Mi Negocio* achieved solid growth among micro and small businesses, which responded positively to its **infinitum**, Internet web page, local calls, domestic long distance minutes, attractive rates on international calls, all digital services and monthly rent, all for only 549 pesos per month.

A service designed to offer alternatives to SME‘s that need to integrate different users and branches is TELMEX Multiline Solutions (*familia de Soluciones Multilínea TELMEX*). It offers advanced voice functions and the potential for integration with a telephone network anywhere in the Mexican Republic. This platform is comprised of Virtual Multiline (*Multilínea Virtual*), Multiline Equipment (*Equipo Multilínea*) and Multi-line Network (*Red Multilínea*).

Additionally, TELMEX continues promoting TELMEX MAS (*Módulo de Administración Segura*) for small businesses with direct sales to customers. The service is a point-of-sale solution that includes equipment, software, installation and support. Medium-sized enterprises can take advantage of an option offered in conjunction with Banco Inbursa to access a preapproved credit line (*Línea de Crédito*) based on credit history and consumption of telecommunications services. The credit line can be used as working capital and to acquire information technologies services. In 2010 TELMEX facilitated

customers' placement of more than 30,000 credit lines through this alliance with *Banco Inbursa*.

To increase penetration in Internet dedicated links in the medium-size business market segment, we expanded our *SRI Plus Soluciones de Rentabilidad Inmediata* (Immediate Growth Solutions) offering to include cellular calls, domestic long distance minutes and a 2 Mbps link IDE (*Internet Directo Empresarial*).

These packages allow us not only to increase important Internet connectivity in the SME market segment but also to offer these customers a very competitive and reliable alternative. The relationships also represent a foundation for integrating new services in the future.

Development of the Corporate Market

For the corporate market, we have developed a unified communications platform that integrates new-generation services in voice, data and video. We offer these capabilities through an administrative model that allows our customers to choose only the services that they use to support and to update their individual infrastructures. As part of these arrangements we make available web service support, teleconferencing, solutions for call centers and unified communications, among other services.

Integration of Communications with Information Technologies

In order to integrate communications with information technologies we have opened five new lines of business: Cloud Computing, Software Development, Outsourcing, Security, and Consulting and Training.

The concept of cloud computing offers our customers applications that integrate and optimize their business processes through a menu of services, all for a single monthly charge. This arrangement enables our customers to avoid making unnecessary investments while maintaining the ability to easily adopt new technologies. During 2010 we introduced to the market popular computer services like *Servidores Virtuales y Escritorios Virtuales* (Virtual Services and Virtual Desks). Also, we have solutions and applications in the Cloud such as E-mail, audio and video streaming, Learning Management System (LMS) and web conferencing.

Software Development integrates solutions for customers who are building or validating operations. The service provides support in any stage of business development from determining specifications through design and implementation.

Besides integrating traditional services from our TRIARA Data Center, our Outsourcing platform also supports our customers' third-party operations and processes such as document management.

“In order to increase our market presence in the ITC segment, we launched TELMEX IT, which is redefining how we position our services.”

During 2010, TELMEX acquired Scitum, a leader in ITC security. Its strong commercial portfolio has been integrated with the TELMEX IT security portfolio.

The role of our Consulting and Training business line is to assist our customers in the use of information technologies in order to achieve their business goals through process and technology management. The service includes a certification course in best practices in ITIL, COBIT, ISO 27001 and 20000, besides consulting in BCM and infrastructure optimization.

Information Technology and Communications (ITC)

Based on the corporate strategy to increase our participation in the ITC – Information Technology and Communications – market, we launched TELMEX IT, in which we redesign how our services are delivered to market so that they integrate various communication and information technologies.

To achieve this, we took steps to develop our sales force, especially in the area of understanding our customers’ businesses and the challenges that they face. The goal is to be the technology consulting arm for our customers and help support and strengthen their business growth.

Vertical Solutions

In addition to our corporate programs, we have designed integrated offerings focused on other economic sectors. An example for the government sector is *Municipio Digital* (Digital Township) a solution that allows government entities to take advantage of technological advances to improve public security, enhance attention to citizens and communications with them and track expenses. It also provides connectivity options to more Mexicans and boosts

economic development in the region, among other benefits.

To meet the particular needs of universities, we introduced an Integrated Educational Solution *(Solución Integral Educativa - SIE)* through which teachers and students can take advantage of technology to share experiences with other schools in and outside of the country. The service incorporates tools to extend its reach to more people and to add considerable benefits for members of the university community. INTTELMEX IT experience is also being applied to develop a portal as part of the *Académica* initiative.

Security is a priority for governments and enterprises. For that reason we have included various alternatives in our portfolio of solutions. One example is the Integrated Security Solution *(Solución Integral de Seguridad - SIS)*. It expands the communications infrastructure for emergency calls to a system that takes advantage of the best international practices in criminal intelligence and can integrate a video surveillance platform. For the corporate market segment, we developed Video-Surveillance Management *(Videovigilancia Administrada - VIVA)*, a centralized system that allows customers to improve security inside and outside their installations.

Internet and Data

We introduced new value-added services to our Internet Directo Empresarial offering in order to incorporate both security and measures of enterprise productivity. Using our Ethernet network to implement these services gives customers flexibility to grow at a pace that is appropriate for their businesses and to expand broadband capabilities using the infrastructure that they already have installed.

TRIARA

TRIARA, located in *Monterrey* and *Querétaro*, is an Internet Data Center that allows TELMEX to offer several services like web hosting, co-location and management services in Mexico. TRIARA represents an opportunity to expand support for the SME and corporate market segments.

On March 25, 2010, for the third consecutive year and after a strict audit of security and quality processes, TRIARA Querétaro was certified as a Level 5 – HSHA-WCQA, or High Security High Available World Class Quality Assurance Data Center. The recognition was granted by the ICREA (International Computer Room Expert Association) and gives assurance that the web-hosting service of vital and strategic information that TRIARA offers to national and international companies maintains maximum security and availability.

In Latin America, TRIARA Querétaro and TRIARA Monterrey are the only data centers certified with this security level in web-hosting processes.

Customer Network Operation Center - CNOC

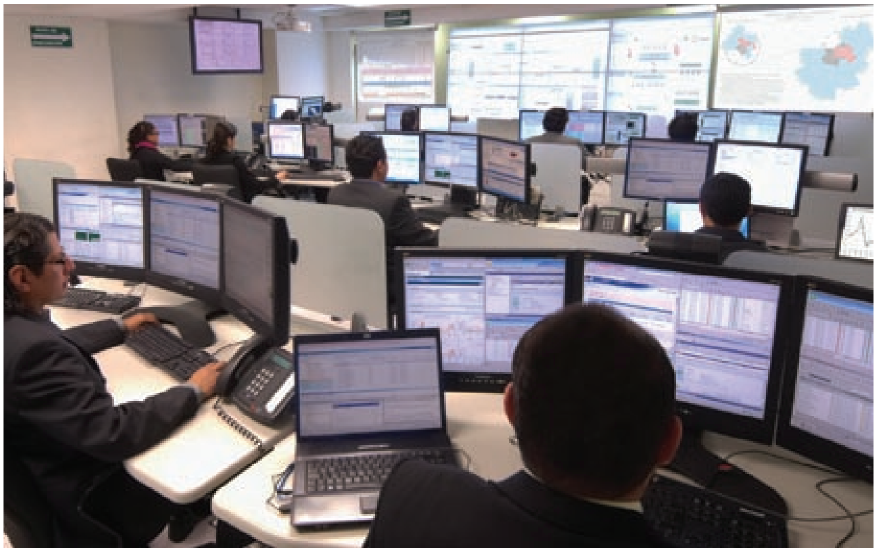
In today's world economy, companies must constantly evaluate new business models and advances in information technologies in order to optimize their technological and human resources and guarantee continuous operations. It is essential that they have access to effective solutions and can prevent incidents in their networks. These are only some of the challenges facing voice, data, Internet services and data centers because keeping the network up and running represents a basic day-to-day responsibility.

The solution for the customer is the Customer Network Operation Center (CNOC), operated by Red Uno, which monitors operations and provides administration and proactive management of customer networks to guarantee their continuous operation in line with objectives set by customers and how they define business value.

The operating model for CNOC is to prevent network interruption, generate value in the service chain, achieve synergies based on knowledge of how the customer's business operates and carry out the Service Level Agreement – SLA.

Some of the benefits to our customers are decreased maintenance

"With TELMEX services, our customers can be certain that their information and their customers' information is safe because we apply the highest operating standards to be the most secure network."



responsibility, which generates cost savings, and less technological obsolescence leading to additional investment, which increases the customer's return on investment.

Innovation and constant improvement are fundamental tools for CNOC. Its turnkey solution achieves the highest performance for the customer. Processes and improvements are based on service-oriented best practices (ITIL V.3), certification ISO 20000 (T1-2011) and ISO 27001 (T4-2011).

In the TELMEX CNOC, our customers find technological and business support for network productivity, which empowers them to use their resources to reach their highest goals.

Security Operation Center - SOC

Management Services are the responsibility of our Security Operation Centers (SOC) by Scitum, which has been present in the Mexican market since 1998 and has become the market leader in information security. TELMEX offers security management services complementing our portfolio of services, with the support of Scitum's reputation as well as solid experience among its customers.

TELMEX's offering through Scitum takes network security full circle from diagnosing and evaluating to creating an operating plan to designing and implementing the security architecture for management services, which focus on security and applications.

Among the demonstrated benefits to our customers are a decrease in risks and threats, higher availability of services, identification and prevention of vulnerabilities, optimization of operating capacity, implementation of clear policies and rules, centralization of data registers and improved report generation.

A very important factor in consolidating our leadership position in this sector is our innovation capacity. An example of this is the creation of services like Surveillance of Data Base Security and Applications, Security Services for Combined Communications (VoIP, Data and Video), Security Development, E-mail security and web navigation. Other elements that have contributed to delivering value to our customers are the experience of the consultants and professional teams as evident in their more than 380 security certifications; our financial capacity to realize major, technologically complex projects; our market understanding, and the flexibility to fulfill individual customer expectations.

Public Telephony

TELMEX ended 2010 with 752,000 public telephones in operation. Of the total, 269,000 are Ladatel prepaid telephones that use a chip card and 337,000 are shared telephones —*"Multifón"*— that also use prepaid cards. The total of public telephones at December

2010 also includes 56,000 devices offered through *"ponga su línea a trabajar"* (put your line to work) and rural agencies. In 2010, TELMEX sold 43.7 million *"Ladatel"* cards and 19.5 million *"Multifón"* cards through our distribution channel network of 150,000 sales points.

It is important to mention that due to the cellular penetration growth in the country, public telephony revenues have decreased more than 65% in the last three years.

In a competitive atmosphere, TELMEX continues to offer operational support to public telephony companies that commercialize public telephone service in the country.

THE EVOLUTION OF OUR TELECOMMUNICATIONS PLATFORM

The TELMEX network operates on a state-of-the-art technological platform, as do other world-class networks. The platform is constantly evolving in order to incorporate the best developments to increase usage efficiency, scalability and support for new and enhanced services.

To better understand a modern telecommunications network structure, like that of TELMEX, it is helpful to divide it into four different parts: The first part is connectivity, which is formed by the access network and the transport network. The access network links our customers with the network. The transport network allows traffic exchange between telecommunication network nodes and is divided in two parts: the local transport and the long distance transport. It also includes the data network, which is controlled by a subsidiary and maintains the traffic exchange based on the Internet Protocol.

The second part is the processing, which allows access control and routing, establishes the features of the service and monitors communication.

The third one is the part dedicated to applications, formed by a group of information systems that establish the logic and service function criteria as well as an environment for development and deployment of new applications.

Finally, the fourth part, named integrated management, is focused on the operation, monitoring and continuous supervision of the network and the services it provides.

TELMEX Network

The TELMEX network is supported by a fiber optic cable infrastructure for local and long distance networks. At the end of 2010, it extended to 112,570 kilometers, making it the largest network in the country.

The corporate accesses enjoy high security and reliability levels through the implementation of various avenues of connectivity, diverse transmission capabilities, geographic diversity and equipment redundancy. TELMEX also has satellite platforms to extend voice and data services penetration in rural communities as well as provide satellite services to corporate customers any place in the country.

For international communications, TELMEX participates in 12 consortiums of international submarine cables, permitting direct interconnection to 28 countries and 39 operators to enable Mexico to communicate with the world.

The network structure allows us to guarantee service continuity under several simultaneous disruptive events, with a reestablishment period of 50 thousandth of a second. As a result, an interruption in customer service is practically imperceptible.

"Surveillance continuously tracks the performance of our network and services through a centralized management platform and specialized centers that operate 24 hours a day, all 365 days a year."

In order to handle the level of broadband that the market currently demands, the company has made substantial investments in optical equipment, with the most modern technology based on the latest-generation optical systems. This equipment is deployed in grids and rings that provide automatic redundancy through diverse trajectories so that we are able to offer high levels of service quality and world-class continuity to our customers.

During 2010, we adopted Ethernet technology in order to give everyone access to the optical infrastructure of local transport and achieve better technical and economic efficiency for domestic transport services, based on the Internet Protocol. TELMEX network applications are delivered through a recently developed platform that supports Information Technology and Communications (ITC) functions, based on open standards. These standards allow quick creation of new services and applications. Because this platform is formed by modules, it can readily integrate new developments in independent modules, which are connected to the process with interfaces widely recognized in the industry, reducing the time needed to launch new-generation services in the market.

We have developed an advanced management model to support TELMEX communications nationwide. We constantly monitor the performance of our network and services (traffic levels and routing) through a centralized management platform and specialized centers, which work 24 hours a day, every day of the year. This platform facilitates geographic expansion and rapid implementation of network systems. Also, it allows us to monitor the service levels and quality standards that our corporate customers require.

All information about the network and services status is sent from each installed device in the network through the dedicated data communications network. The arrangement protects the information from coming in contact with public networks and provides absolute security for this management traffic.

Continuous and effective monitoring of our network

In the operating centers, all the information is received and processed by expert automated information systems that correct deviations from established performance metrics.

This group of centers allows the network and telecommunication services that TELMEX provides to customers to be available 24 hours a day, every day of the year.

The model incorporates several specialized management centers:

- 4 National Supervision Centers (NSC)
- 1 Multimedia Services Center (MSC)
- 1 National Provisioning Center (NPC)
- 1 Data Network Operations Center (Uninet)

The NSC's operate these different networks: Transport, Broadband Services, Processing, Access and Data, all important components of the telecommunications and services offered by TELMEX on a nationwide level. These centers are located in different states across Mexico and provide support for one another as well as carry out their assigned functions.

The MSC operates on a nationwide basis to solve problems related to voice services, **infinitum** and potential multimedia services.

The NPC is in charge of centralized configuration and activation of new-generation services for corporate customers.

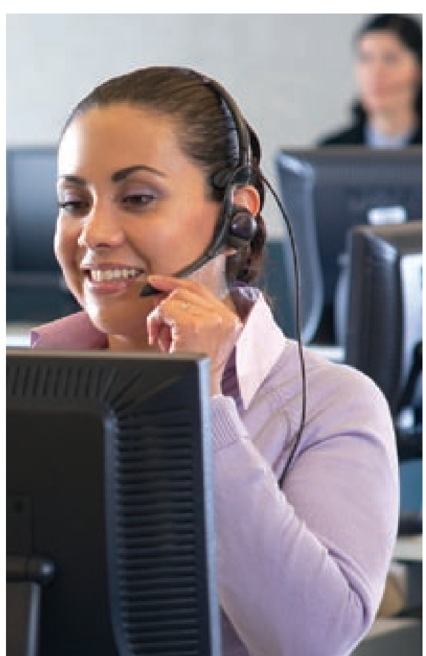
Uninet provides a universal network for multiprotocol link services nationally and internationally, with high capabilities of routing and package switching. It also supports connectivity functions LAN to LAN (Local Area Network), server to server, file transfer, virtual terminals, electronic mail, conversation between protocols, videoconferencing and Internet access. Today, Uninet is the Data Network Operations Center

The customer-oriented centers have direct contact with customers and notify the specialized management centers of any problem detected in the TELMEX network. They make the respective diagnosis and fix the problem. When necessary they intervene in the network and contact appropriate maintenance personnel on site.

"To keep in touch with the customers, TELMEX operates specialized centers with expertise directed to the mass market and to the corporate market."

The TELMEX management model is structured in such a manner as to provide extensive support for central business processes. In that way the operation is guaranteed to support growth, operational security, supply procurement, maintenance, billing and evolution of services.

With this infrastructure, the TELMEX telecommunications network has helped diminish the digital gap in the country and is



prepared to offer the new convergent services of voice, data and video.

Additionally, and in what represents a differentiator in the industry, the model includes a crisis prevention plan. This plan establishes general and particular policies and guidelines that allow us to organize ourselves in an orderly manner in order to prevent risky situations for the personnel and services as well as respond rapidly and efficiently to recover services in the event of a natural disaster or another major unpredictable event that severely damages service.

Apart from the infrastructure, an important feature is the attitude, cooperation and capability of our personnel to respond to reestablishing the service. Our contingency plans are designed to deliver quick response, with specific procedures, emergency equipment and materials to handle various phenomena, predictable or not.

Natural Disasters

The security and continuity of services on the telecommunications network is priority number one at TELMEX. To meet that objective, we have processes in place to prevent interruption and restore service in crisis situations such as natural disasters caused by hurricanes, earthquakes, fires and similar events.

When a natural disaster occurs, TELMEX initiates operation of our Prevention and Attention to Contingencies Plan to execute a series of processes oriented to the following: i) Safeguard the integrity of personnel and the company's and customers' properties and interests, ii) Assure rapid recovery of services, iii) Face the emergency situation efficiently and iv) Initiate the Humanitarian Assistance Plan.

During 2010, there were 24 critical events. Of these, six occurred in the Pacific region, ten in the Atlantic region and eight in the interior of the country. In 2010 we completed rebuilding the telecommunications plant in the Northwest that was significantly affected by Hurricane Alex. This disaster caused damage in the states of Nuevo León, Coahuila, San Luis Potosí and Tamaulipas.

In connection with rebuilding the facility, we redesigned the network topology to decrease the risk of future major interruptions in service.

During 15 years, Fundación TELMEX has gained experience in applying its Natural Disasters Support Program. This program takes effect when major natural disasters affect regions of our country or nearby countries. To provide humanitarian assistance, the Fundación sends vehicles, trucks, helicopters and groups of volunteers to the damaged area. These groups distribute medicine, water, blankets, purified water, generators and food. This series of activities demonstrates TELMEX's commitment to Mexicans and other countries and has become a distinguishing characteristic in the company's behavior.

"Safeguard the integrity of personnel and the company's and customers' properties and interests are a priority for TELMEX."

Aldea Digital TELMEX (TELMEX Digital Village)

Aldea Digital TELMEX (TELMEX Digital Village) brings together professionals and amateurs in the digital world to exchange knowledge and participate in various information technology activities as well as tap TELMEX expertise.

Aldea Digital TELMEX was held for the first time in 2009, and Mexicans had another opportunity to participate in this mass cyber event again during four days in 2010.

The most significant aspect of the *Aldea Digital* TELMEX event is the experience that attendees obtain by staying in the village and connecting their computers to a local network and the Internet, navigating under a speed of 20 Gbps. The villagers attend master conferences as well as interact with people with similar interests to exchange their work and compete in contests like the following:

- Digital Art: Art, animation and digital music.
- Technology: latest-generation hardware and contests to win free software.
- Games: In the 2010 edition, the video game was Starcraft II.
- Entertainment: voice dubbing contest, mobile video entertainment, photography contest, Fast Relato and Air Guitar (video games contest), costume contest, CD and DVD launch.
- Pets contest, Photomontage, among other activities.

The attendees chose between two methods of participation:

- Resident villager: He or she camped during the four days of the event, and the ticket covered the tent, computer station, PowerPoint and connections to the local network and the Internet.
- Single-day villager: These attendees spent one day with access to village activities but without camping.

Rooms in the Digital Village

Villagers Zone: Area where the attendees connected their equipment to the local network and carried out their projects.

Camping Zone: The village living area, where four-day attendees stayed in their tents and had access to showers, bathrooms, microwaves and other services.

Digital Entertainment Zone: Technological novelties were exhibited in this area and game tournaments were carried out for professionals and amateurs. This space also was the site for master conferences and roundtable discussions with technology experts.

OUR COMMITMENT WITH MEXICO: DRIVING EDUCATION AND DIGITAL CULTURE

TELMEX 2010 Driving Technological Innovation Program

In January 2010, we launched the TELMEX 2010 Driving Technological Innovation Program in order to bring a better future to Mexico. That program reinforced our commitment to the development and welfare of all of Mexico, with clear goals in connectivity, digital education and culture, and information technologies, focused on the following:

More and Better Connectivity

We will actively continue to contribute to help our country reach 12 million broadband accesses in the following two years, including all the technologies and all the operators. With that capability more than half of the Mexican population will have access to the Internet. As part of this program, we have built 3,500 Digital Classrooms and Libraries and granted 275,000 Digital Scholarships, benefiting more than 2 million Mexicans. We installed more than 3,500 public sites with free WiFi connectivity to the Internet through WiFi Móvil en **infinitum**.

This emphasis on connectivity strengthens information technology in Mexico and creates a nation without limits, with no barriers to future development.

INTTELMEX IT

During 2010, we trained 1,242 professionals, at no cost to the participants, in the *Instituto Tecnológico de Teléfonos de México en Tecnologías de la Información* (INTTELMEX IT), a higher education institution supported by the *Secretaría de Educación Pública* (SEP) (Mexico's Education Ministry) and endorsed by the Massachusetts Institute of Technology (MIT). The purpose of this training was to prepare these professionals to develop technological solutions that respond to real needs in the economy. In 2011 we will begin operations of the new *Universidad Tecnológica Digital* (Digital Technological University) to train students in higher technological education.

TELMEX Hub

TELMEX Hub brings together information technology, knowledge and the power of the new social networks. Equipped with a permanent Internet access of 10 Gbps, wireless networks and a modern and attractive space, the TELMEX Hub deploys state-of-the-art technology that characterizes twenty-first-century technology centers. With access to videostreaming that accommodates 10,000 simultaneous users online, TELMEX Hub is also a place of interaction and a node-to-face education and learning opportunity that matches the best in the world. Located in the heart of Mexico City (Isabel la Catolica #51), the TELMEX Hub has become a frequently visited place for virtually all who are interested in the rapid technological evolution, in the discussion of current issues and in the creation of advanced Internet content. The lectures and seminars there are contributions from experts at world-class institutions, leading technology companies and entrepreneurs of all ages, sectors and nationalities. The TELMEX Hub opens its doors for free seven days a week for those interested in the digital culture and the acquisition of skills of the twenty-first century.

Académica

Académica is an initiative to drive a digital community of research and innovation comprised of students, teachers and researchers from higher education institutions in Latin America and other locations in North America. It incorporates projects and developments from

institutions around the world that enrich the digital community, such as the University of Cataluña, Harvard, Stanford, Yale and Berkeley, among others. Among *Académica's* fundamental purposes are:

- Promoting mobility and open access to knowledge.
- Creating a network of institutions to generate synergies and help raise the quality of academic education, based on the responsibility of each of the participating institutions in the project.
- Linking with industry to build bridges between academic production and business needs.

"Académica is a digital community, with a Web 2.0 platform, for interaction and collaboration among universities and their main participants —teachers, students and researchers— with free access to content, innovative practices and educational projects."

académica
Comunidad Digital de Investigación e Innovación
Impulsada por TELMEX®

TELMEX coordination contributes to the creation of the digital community with the design and development of the platform that enables the network and the hosting of the collections as well as support for specific projects that promote the emergence of *Académica*.

Red de innovación e investigación (Ri3) (Research and Innovation Network)

The Research and Innovation Network was created by TELMEX with the goal of providing Mexican universities and higher education institutions with a high-speed network to digitally integrate them with the most advanced international universities in the world. In partnership with the *Universidad Nacional Autónoma de México* (National Autonomous University of Mexico) and the *Instituto Tecnológico de TELMEX*, the Research and Innovation Network allows, at no cost, members of the Mexican academic community – teachers, researchers and students – to share ideas and research projects and interact with colleagues across Latin America and in North America, Europe and Asia. Through the open networks of Academic Earth, it also connects them with the most prestigious American universities like the Massachusetts Institute of Technology, The University of Cataluña, The National Lambda Rail Network, LEARN, Cisco Research Wave, and many other technology leaders. Additionally, professors have the ability to share courses and knowledge around the world and provide consultation and open discussion of their expertise, technologies and scientific theories. Finally, the Research and Innovation Network allows Mexican and foreign universities to share their archives and libraries, extracurricular activities and access to the most relevant academic social networks. TELMEX enables access to this network, contributing to the dissemination of scientific and technological knowledge of this era at no cost.

Telmex Social

At the Extraordinary Shareholders' Meeting held on April 4, 2011, shareholders approved a corporate restructuring, through the creation of a subsidiary company that will provide telecommunications and interconnection services in rural areas, where fixed telephony competitors do not invest. The company will be named Telmex Social.

1. Telmex Social will provide services mainly in rural areas that are home to many migrant workers who make phone calls from abroad to their home communities. These areas have high call termination traffic from the United States, where interconnection charges, based on agreements with U.S. telecommunication operators, have declined 95% since 1990. The prices are below those charged in many other countries, particularly taking into account that most of these communities are remote and sparsely populated.

2. Considering that these regions have a significant economic and social disadvantage, it is expected that this restructuring will encourage promotion of access to telecommunications services and emphasize the importance of investing to expand and modernize these services and drive the digital culture, which will improve the quality of life of inhabitants and incorporate these communities into the country's socio-economic development.

3. The network infrastructure of Telmex Social could be complemented with investments from other telecommunications operators and, if so decided by the Federal Government, with investments and projects of both the Federation and decentralized public sector companies to provide access to telecommunications services for voice, data and video.

4. The interconnection service price to be determined by Telmex Social will be the same for all telecommunications operators, including TELMEX.

5. It is expected that Telmex Social will serve approximately 1.5 million lines, with a density of 14.8 inhabitants per line, located in 10,453 communities without the presence of competition. The Local Service Areas of Telmex Social comprise approximately 40% of the country where there are more than 22 million inhabitants.

6. TELMEX has complied and will continue to comply with all the obligations established in our concession, even though there are some items, like the public phones coverage requirement, that are obsolete given the current environment of high cell phone services penetration.

The restructuring is subject, if needed, to the approval of the *"Secretaría de Comunicaciones y Transportes"* (Mexican Ministry of Communications and Transportation), as well as the authorization and confirmation of other authorities and government entities.

"Telmex Social will offer telecommunications and interconnection services mainly in rural areas."

AWARDS

- *Premio Nacional de Tecnología* (National Technology Award) (2000), the most important award given by the Federal Government for the proper use and management of technological resources.
- Best Telecommunications Company in the world (2001), Forbes Magazine.
- One of the most admired companies in the world (2003), Financial Times.
- The best telecommunications company of Latin America (2001, 2002 and 2003), an award given by Global Finance. The criteria for this award are based on companies' technology, successful management, market development, revenues, profitability, growth in market capitalization and social responsibility.
- The most important telecommunications company in Latin America (2005), award given by *América Economía Magazine*.
- Best managed company in the telecommunications sector (2006), awarded by Euromoney, resulting from an analysis of 258 companies worldwide.
- Recognition of TELMEX as one of "The 40 Most Valuable Mexican Brands" (2009), based on a study by Interbrand, the leading international brand consulting firm, and by *Expansión* Magazine.
- Recognized as one of the 10 main companies in the country (2006-2010), based on "The 500 Most Important Companies in Mexico", by *Expansión* Magazine.
- For the second consecutive year, the most important award in the advertising industry (Effie) – 2009 for the *"Paquete conectes en* **infinitum***"* campaign.
- The first Mexican company to have a *"Certificación de Calidad Multisitio"* (Multi-site Certification) in ISO 9000 (2000), awarded by the *Comité Técnico Nacional de Normalización de Sistemas de Calidad (Cotennsiscal)* (National Technical Committee in Quality Systems).
- iBest Award (2000) for www.telmex.com, recognized as the best telecommunications site on the Internet.
- One of the 50 companies with the highest demonstration of social responsibility (2008), recognized by *Mundo Ejecutivo* Magazine.
- One of the 14 Leading Companies (2007) based on a study by Hay Group and HSM.
- Socially Responsible Company (2001- 2011): For 10 consecutive years, The *Centro Mexicano para la Filantropía (CEMEFI)* (Mexican Center of Philanthropy) has awarded TELMEX this recognition for our social emphasis as well as the altruistic initiatives undertaken through *Fundación TELMEX*.
- PROSA Award given to TELMEX for *Proveedor Estrella* (Star Provider) for six consecutive years (2005 – 2010), in several categories.
- *Premio Nacional de la Franquicia* (National Franchise Award) (2008), given by the *Asociación Mexicana de Franquicias* (Mexican Franchise Association), for our contributions in nine different categories.
- Certification of "Clean Company" given by the *Procuraduría Federal de Protección al Ambiente* (Mexican Federal Agency for Environmental Protection) for complying with commitments derived from the environmental audit (2007-2011).
- In the *Expo Seguridad México 2010* (2010 Mexico Security Expo) TELMEX received the Best Solutions Integrator Award (2010).
- Among others...

"Over the last 20 years, TELMEX has been recognized nationally and internationally as a world-class company."

“We have the support of volunteers —*Red de Voluntarios*— a human team of excellence that unselfishly offers a warm helping hand nationwide”

Fundación TELMEX
(TELMEX Foundation)

Fundación TELMEX has had 15 years of dedicated and constant work, accumulating new achievements and taking on new challenges. The commitment that we have with Mexicans drives our day-to-day effort to strengthen our organization, learn from our experience and seek better processes to reach the highest possible proportion of the population. Our team is focused on programs that benefit those groups of the population with limited resources in areas of education, health and nutrition, justice, natural disaster support and sports with social purposes. In 2010, for the first time, we realized 120,000 surgeries in one year and in sports, for the fourth consecutive year, Copa TELMEX was awarded the Guinness record as the biggest amateur soccer tournament in the world.

Among the foundation’s achievements through December 2010 are 222,861 scholarships, 255,494 bicycles from the Help Me Get There program, 620,502 surgeries, 2,564 specialized medical devices for the *Amanece* program, 6,709 organ and tissue transplants, 85,616 bail bonds, 11.093 million one-kilogram packages of nutritional candy, 55,000 wheelchairs, 28,695 tons of humanitarian support and 126,397 soccer teams that participate in Copa TELMEX.

Additionally, we have the support of volunteers —*Red de Voluntarios*— a human team of excellence that unselfishly offers a warm helping hand nationwide through various organizations dedicated to activities related to education, environment, health, culture, recreation and community support.

TELMEX as an economic catalyst to promote competition in the sector

TELMEX is one of the private companies in Mexico that pays the most in taxes and contributions. The expanding operations of TELMEX in Mexico have produced increasing payments of taxes and contributions, which totaled 29.710 billion pesos in 2010 (includes direct, indirect and retained taxes).

CORPORATE GOVERNANCE

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

- More clarity in strategic and operating decisions.
- System-wide control of business processes.
- Clearly defined management and supervisory responsibilities.
- Establishment of independent corporate oversight bodies.
- Application of corporate best practices, and
- The Code of Ethics, which is a document that includes rules and basic guidelines and serves as a conduct guide for a variety of circumstances and participants: shareholders, customers, suppliers, bosses, co-workers, authorities, competitors and citizens. This code applies to all TELMEX personnel, as well as our Board of Directors. The Code of Ethics is available at www.telmex.com.

TELMEX's Board of Directors is comprised of 23 members, of whom 15 are independent, which exceeds the 25% that the Mexican Securities Market Law requires.

Additionally, the Board of Directors has Committees of Corporate Practices and Audit. It is important to mention that each one of the members of these committees complies with the requirements to be considered independent, according to shareholder votes at the Ordinary and Annual Shareholders' Meetings and in compliance with the Mexican Securities Market Law. These Committees assure that management operates ethically and in compliance with the company's legal and regulatory frameworks.

TELMEX also has a Regional Advisory Board that is comprised of 43 members who support the company through opinions and recommendations that are derived from their knowledge of the realities that their regions experience regarding TELMEX. Also, they participate in different activities of social, entrepreneurial and community impact that TELMEX or Fundación TELMEX carries out locally in their regions.

TELMEX always complies with the requirements of internal control established by entities such as the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV) in Mexico and the Securities and Exchange Commission (SEC) in the United States, by evaluating our registry, reporting and presentation of financial information as well as processes associated with our main operating and information systems.

FINAL COMMENTS

Since privatization, TELMEX has followed a clear mission of being not only a telecommunications company but also one of the fundamental pillars in the development of Mexico, by providing a significant part of the infrastructure that delivers

"Teamwork, emphasis on efficiencies, constant training and personnel development as well as investments in technology have improved TELMEX's competitiveness, which has enabled us to increase value for our customers, our shareholders and our country."

communications capabilities in all parts of the country with products, services and processes that incorporate world-class state-of-the-art technology. That is why we have invested and worked intensely alongside our personnel to remain a leading company by updating, modernizing, enhancing efficiency and following a total service approach to customers.

TELMEX's long-term strategy not only provides constant investment in training personnel, so that it represents the greatest competitive advantage of the company given increased competition, but also encourages the constant introduction of world-class technology platforms, which has enabled us to become one of the most renowned companies worldwide. Teamwork, the pursuit of greater efficiencies in processes, realized savings in costs and operating expenses, and optimized investments are part of the corporate values that will continue at TELMEX, with the objective of generating value for our customers, our shareholders and our country.

Héctor Slim Seade
Chief Executive Officer

Comments on the Consolidated Financial Statements

The following comments should be read along with the consolidated financial statements and their notes included in this Annual Report. Our financial statements have been prepared in conformity with Mexican Financial Reporting Standards. In 2008, those standards no longer required recognition of changes in inflation rates. As a result, 2010 and 2009 financial information is presented in nominal pesos (See Note 1 II.b of the consolidated financial statements).

Transition toward International Financial Reporting Standards

Starting in 2012, Mexican companies listed on the Bolsa Mexicana de Valores (Mexican Stock Exchange) will be required to prepare their financial statements according to International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, IASB. Listed companies can voluntary use IFRS before the changes in the information guidelines are obligatory. TELMEX has begun to prepare its financial statements in 2011 in accordance with IFRS.

Summary

Our total revenues have fallen in recent years due to the decrease in average revenue in local telephony, long distance and interconnection services and the decrease in traffic volume of these services, partially offset by the increase in data revenues. The proportion of our revenues from voice services (which include local, long distance and interconnection services) declined from 69.2% in 2009 to 65.1% in 2010. Revenues from data services were 29.0% of our total revenues in 2010 compared with 25.9% in 2009.

Based on weighted average shares outstanding in each year, earnings per share in 2010 were 0.85 pesos per share (1.11 in 2009), equivalent to 1.33 dollars per ADR (1.64 in 2009).

Operating revenues

Our revenues have been affected by increasing competition from other fixed telephony operators, cable operators and mobile telephony companies. Local service revenues decreased 8.9% in 2010, totaling 41.007 billion pesos compared with 45.028 billion pesos in 2009, due to fewer lines, the decline in the average revenue per local billed call and lower volume of local traffic.

Domestic long distance revenues totaled 12.265 billion pesos, a decrease of 13.3% in 2010 compared with the previous year. The decrease was due to declines in traffic with other long distance operators and in the average revenue per minute from termination traffic with long distance operators as well as higher penetration of our telecommunications service packages that include domestic long distance service.

International long distance revenues decreased 15.3% in 2010, totaling 5.646 billion pesos. The decrease was due to the decline in the average revenue per outgoing international long distance minute, in addition to the inclusion of international long distance minutes in some telecommunications service packages and the growth of 3.9% in outgoing international long distance traffic. Incoming international long distance revenues decreased 5.6% compared with the previous year due to the decline in international settlement rates that we receive from US operators, combined with the increase of 21.2% in incoming traffic.

Interconnection revenues decreased 9.4% in 2010, totaling 15.023 billion pesos. The decrease was mainly due to the reduction in rates and the decline in the volume of calling party pays traffic.

Data service revenues increased 6.7% in 2010, totaling 32.879 billion pesos. The increase was due to the growth of 12.8% in the number of broadband Internet **infinitum** accesses, which totaled 7.4 million at year-end, to lower average unit revenue, as well as higher sales of virtual private networks and value-added services for corporate customers.

The main components of the other revenues category are the sale of computers, telephone sets and accessories at Tiendas TELMEX (TELMEX Stores), as well as billing and collection services for other companies. Other revenues increased 14.7% in 2010, totaling 6.743 billion pesos, due to higher computer sales at Tiendas TELMEX (TELMEX Stores) and higher billing and collection revenues.

Operating costs and expenses

Operating costs and expenses increased 1.6% in 2010, totaling 34.711 billion pesos. The increase was due to higher costs for third-party products and services for corporate customers as well as computer sales and telecommunications equipment.

Commercial, administrative and general expenses increased 7.4% in 2010, totaling 22.351 billion pesos, due to higher labor, maintenance and advertising costs, as well as lower charges for doubtful accounts receivable.

Interconnection costs are mainly comprised of the payments that we make to cellular operators for calling party pays services. Interconnection costs decreased 10.5% in 2010, totaling 10.561 billion pesos, due to the decline in the amount paid to cellular operators for calling party pays services and the decrease in traffic related to these services.

Depreciation and amortization charges decreased 2.4% in 2010, totaling 17.523 billion pesos. The decrease was due to lower investments in plant, property and equipment in recent years.

Operating income

In 2010, operating income decreased 17.3%, totaling 28.417 billion pesos. The operating margin was 25.0%, 3.9 percentage points lower than in 2009, due to the decrease of 4.6% in revenues and to the increase of 0.5% in operating costs and expenses.

Financing cost

Financing cost in 2010 was 10.2% higher than in 2009, totaling 4.756 billion pesos. The increase was due to: (i) a net interest charge of 5.150 billion pesos, 4.8% lower than in 2009 due to a lower debt balance and (ii) a net exchange gain of 394 million pesos, from the exchange rate appreciation of 0.7016 pesos and 3.527 billion dollars in dollar-peso hedges.

Net income

Net income decreased 24.9% in 2010, totaling 15.371 billion pesos. Based on weighted average shares outstanding in each year, earnings per share in 2010 were 0.85 pesos per share and 1.11 pesos per share in 2009.

Debt

At December 31, 2010, total debt was 74.521 billion pesos (equivalent to 6.031 billion dollars), compared with 102.874 billion pesos (equivalent to 7.878 billion dollars) at December 31, 2009. Of our total consolidated debt, 54.8% was in US dollars, 40.9% in Mexican pesos and the remainder in other currencies. Of the outstanding debt, 61.9% carried floating interest rates. That proportion decreases to 49.9% when interest rate swaps are taken into consideration.

In 2010, we carried out amortizations totaling 35.728 billion pesos. These amortizations included the payment of 12.294 billion pesos (950 million dollars) made in January 2010, which corresponds to bonds issued in 2005; the payment of 3.116 billion pesos (250 million dollars) made in March 2010, which corresponds to the first tranch of the syndicated bank loan issued in June 2006, as well as the prepayment of.12.260 billion pesos (1.0 billion dollars) related to the second tranch of the syndicated bank loan issued in August 2006, whose original maturity was in October 2011. Of this payment, 500 million dollars came from internal resources. We have 11.952 billion pesos (967 million dollars) of debt that matures in 2011, which will be partially refinanced.

In February 2011, América Móvil launched a private offer to exchange any and all outstanding senior notes of TELMEX with maturity in 2015 and 2019 for new senior notes of América Móvil. In March 2011, TELMEX paid América Móvil 394 million dollars, which includes a premium of 27.8 million dollars. The amount paid by TELMEX was based on the same market conditions under which the TELMEX senior notes were exchanged by América Móvil

Derivatives and hedges

At December 31, 2010, our cross currency swaps hedged foreign currency denominated liabilities of 43.091 billion pesos (3.487 billion dollars). Also, we had forwards to cover dollar denominated liabilities for 494 million pesos (40 million dollars). Total liabilities in foreign currency were 44.075 billion pesos (equivalent to 3.567 billion dollars). At year-end, 62.6% of our debt in pesos (19.046 billion pesos) carried floating interest rates and we had interest rate swaps for 16.649 billion pesos to cover risks associated with floating interest rates in pesos.

Investments

Our investments in plant, property and equipment and inventories to operate the telecommunications plant were 10.588 billion pesos in 2010 and 8.998 billion pesos in 2009. In 2010, 56.2% of our investments were applied to projects in data, connectivity and transmission, and the remainder to other operational support projects.

Dividends paid in cash

Cash dividends paid were 8.737 billion pesos in 2010 and 15.093 billion pesos in 2009. The dividend paid per share was 0.490 pesos in 2010 and 0.845 pesos in 2009, which includes an extraordinary dividend of 0.40 pesos, declared and made in one payment in December 2009.

Resources used to repurchase own shares

During 2010, we repurchased 34 million Series "L" shares for 340 million pesos and 7,000 Series "A" shares for 76,000 pesos. At December 31, 2010, outstanding shares totaled 18.158 billion, comprised of 7.840 billion Series "AA" shares, 383 million Series "A" shares and 9.935 billion Series "L" shares.

Audit Committee Report

Mexico City, March 16, 2011.
To the Board of Directors of Teléfonos de México, S.A.B. de C.V.

The Company's management has the basic responsibility of issuing financial statements based on Mexican Financial Reporting Standards, preparing financial information in a timely manner, and implementing internal control systems. The Audit Committee has reviewed the consolidated audited financial statements of Teléfonos de México, S.A.B. de C.V. (TELMEX) and subsidiaries as of December 31, 2010. This review included the analysis and approval of policies, procedures and accounting practices of the Company and its subsidiaries. The accounting policies for the preparation of the Company's financial information proposed and recommended by this Committee to the Board of Directors, have been approved by the Board of Directors.

As a result of the review of the above-mentioned financial statements, which include financial information on the companies controlled by TELMEX, and based on the activities carried out in connection therewith by this Committee and the work performed by the External Auditors and TELMEX's Internal Auditing Area, we conclude that such financial statements reasonably reflect in all material aspects the consolidated financial position of TELMEX and its subsidiaries at December 31, 2010, the results of their operations, changes in stockholders' equity and changes in consolidated cash flow financial position for the year ending as of such date, based on Mexican Financial Reporting Standards.

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

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

Based on the aforesaid reviews and comments, the Committee recommends that the Board of Directors approve the audited consolidated financial statements of TELMEX and subsidiaries as of December 31, 2010, so that they may be included in the Chief Executive Officer's Annual Report on the 2010 fiscal year, which is to be submitted, in due course, for approval at the Shareholders' Meeting.

Additionally, TELMEX has an Internal Auditing Area. The internal control and internal auditing system of the Company and the companies it controls has been reviewed and evaluated by the Audit Committee and, in the Committee's opinion, is sufficient to allow the Company to operate in an effective control environment. The Internal and External Auditors have evaluated, as part of their work program, the effectiveness of the internal control system, as well as the process for issuing financial information for the purpose of auditing the financial statements, and have discussed the results of such evaluation. The External Auditors have provided additional tax services, which were also adequate and satisfactory. The External Auditor's report on the effectiveness of internal controls at December 31, 2010 will be issued in conjunction with the 20-F "Annual Report" to be filed with the Securities and Exchange Commission, without any significant deficiencies or deviations having been reported in the meetings held by this Committee with the External Auditor. The aforesaid system covers the general guidelines approved by the Board of Directors, upon the recommendation by this Committee.

Neither this Committee nor the management of the Company has had any knowledge of non-compliance with the operational and accounting records guidelines and policies of the Company or of any companies it controls, nor, to its knowledge, have any remarks by shareholders, board members, relevant executives, employees and in general any other third parties, been brought to its attention, regarding accounting, internal controls and other matters relating to the internal or external audit, nor is it aware of any claims made with respect to any actions deemed irregular in the management thereof.

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

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

Additionally, TELMEX's Audit Committee also submits for consideration by the Board of Directors, for subsequent presentation at the Shareholders' Meeting, the opinion referred to in Article 28, Section IV, paragraph (c) of the Mexican Securities Market Law in connection with the audited consolidated financial statements of TELMEX and its subsidiaries as of December 31, 2010, and the Notes thereto, issued by the External Auditors of the Company, which form an integral part of the report of TELMEX's Chief Executive Officer prescribed by article 44, section XI of the aforesaid Law.

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

- We reviewed the results of the investment programs and liabilities of the Company at year-end 2010. The investments and financing complied with the policies established by the Board and the evaluation regarding its reasonableness was satisfactory.

- We analyzed and evaluated the projected investment and liabilities plan for 2011. Both the projected investments and liabilities fall within the framework of the policies established by the Board, which policies are also consistent with the strategic plan of the Company. Therefore, the Committee determined that the principal investments and financings for 2011 planned by management are viable and adequate, and that they are also consistent with the Company's strategic plan.

- We also reviewed the figures of the financial statements as of December 31, 2010, compared them with the figures for 2009 and with the 2010 budget, and analyzed the assumptions and financial projections included in the Company's budget for 2011. The Committee determined that these projections are in line with the Company's strategic plan.

- In addition, before we carried out an evaluation, we verified that the strategic position of the Company is consistent with its strategic plan.

We believe that this information should be included in the Annual Report of the Board of Directors to the Shareholders' Meeting at which the 2010 results will be presented, in order to comply with the Securities Market Law and the Code of Best Corporate Practices.

C.P. Rafael Kalach Mizrahi
Chairman

Corporate Practices Committee Report

Mexico City, March 16, 2011.
To the Board of Directors of Teléfonos de México, S.A.B. de C.V.

The principal actions of the Corporate Practices Committee with respect to fiscal year 2010 are the following:

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

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

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

Transactions with related parties of TELMEX and its subsidiaries during the period of January to December 2010 were approved and such transactions were audited by the firm Mancera, S.C., a member practice of Ernst & Young, TELMEX's external auditors. We reviewed and issued our favorable opinion regarding the following significant operations (which exceed 1% of the value of TELMEX's consolidated assets): Operations with Radiomóvil DIPSA, S.A. de C.V. for Calling Party Pays expenses, corporate networks services, measured service, ILD and DLD, with Carso Infraestructura y Construcción, S.A.B. de C.V. and several subsidiaries for expenses and investments for construction and maintenance of energy and air conditioning equipment. The Board of Directors subsequently approved these operations.

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

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

C.P. Juan Antonio Pérez Simón
Chairman

Consolidated Financial Statements

Report of Independent Auditors

ERNST & YOUNG

Mancera, S.C.

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

We have audited the accompanying consolidated balance sheets of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in conformity with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teléfonos de México, S.A.B. de C.V. and subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations, changes in their stockholders' equity and cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards.

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

C.P.C. David Sitt Cofradía

Mexico City, Mexico
March 15, 2011

Consolidated Balance Sheets

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

		December 31		
		2010		2009
Assets				
Current assets:				
Cash and cash equivalents (Note 2)	P.	7,493,465	P.	14,379,768
Accounts receivable, net (Note 3)		17,648,533		20,425,556
Derivative financial instruments (Note 7)		6,957,018		12,225,550
Inventories for sale, net		1,783,579		1,448,102
Prepaid expenses and others		3,121,994		3,303,275
Total current assets		37,004,589		51,782,251
Plant, property and equipment, net (Note 4)		99,421,332		106,047,642
Licenses and trademarks, net (Note 5)		1,307,517		918,341
Equity investments (Note 6)		1,392,042		1,775,380
Net projected asset (Note 10)		17,342,200		16,430,857
Goodwill (Note 6)		103,289		
Deferred charges and prepaid expenses, net		1,183,363		1,442,330
Total assets	P.	157,754,332	P.	178,396,801
Liabilities and stockholders' equity				
Current liabilities:				
Short-term debt and current portion of long-term debt (Note 7)	P.	11,951,532	P.	19,768,894
Accounts payable and accrued liabilities (Note 8)		17,377,010		14,245,612
Taxes payable		2,443,268		2,211,626
Deferred revenues (Note 9)		917,377		1,104,175
Total current liabilities		32,689,187		37,330,307
Long-term debt (Note 7)		62,569,413		83,105,454
Labor obligations (Note 10)		3,516,686		4,113,513
Deferred taxes (Note 15)		14,132,763		15,060,058
Deferred revenues (Note 9)		622,351		466,696
Total liabilities		113,530,400		140,076,028
Stockholders' equity (Note 14):				
Capital stock		9,008,985		9,020,300
Retained earnings:				
Prior years		19,135,353		7,907,079
Current year		15,384,162		20,468,689
		34,519,515		28,375,768
Accumulated other comprehensive income items		386,109		883,225
Controlling interest		43,914,609		38,279,293
Noncontrolling interest		309,323		41,480
Total stockholders' equity		44,223,932		38,320,773
Total liabilities and stockholders' equity	P.	157,754,332	P.	178,396,801

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

Consolidated Statements of Income

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

	For the year ended December 31 2010		2009
Operating revenues:			
Local service	P. 41,006,772	P.	45,027,811
Long distance service:			
Domestic	12,264,837		14,142,688
International	5,646,278		6,662,102
Interconnection service	15,022,721		16,572,941
Data	32,878,968		30,817,715
Other	6,743,789		5,876,955
	113,563,365		119,100,212
Operating costs and expenses:			
Cost of sales and services	34,710,580		34,177,782
Commercial, administrative and general expenses	22,351,181		20,811,440
Interconnection	10,561,053		11,796,163
Depreciation and amortization (Notes 4 and 5) (includes P.16,942,580 in 2010 and P.17,152,939 in 2009, not included in cost of sales and services)	17,523,330		17,950,768
	85,146,144		84,736,153
Operating income	28,417,221		34,364,059
Other expenses, net (Note 1 II.s)	78,337		1,349,680
Financing cost:			
Interest income	(583,761)		(711,243)
Interest expense	5,733,627		6,122,328
Exchange gain, net	(394,470)		(1,096,531)
	4,755,396		4,314,554
Equity interest in net income of affiliates	195,910		254,680
Income before taxes on profits	23,779,398		28,954,505
Provision for income tax (Note 15)	8,407,940		8,485,522
Net income	P. 15,371,458	P.	20,468,983
Distribution of net income:			
Controlling interest	P. 15,384,162	P.	20,468,689
Noncontrolling interest	(12,704)		294
	P. 15,371,458	P.	20,468,983
Weighted average number of shares issued and outstanding (millions)	18,189		18,383
Earnings per share	P. 0.85	P.	1.11

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2010 and 2009
(In thousands of Mexican pesos, see Note 1 II.b)

	Capital stock	Retained: Legal reserve	Retained: Unappropriated
Balance at December 31, 2008	P. 9,138,632	P. 1,880,513	P. 25,494,143
Appropriation of earnings approved at regular stockholders' meetings:			
Cash dividends declared			(15,447,559)
Cash purchase of Company's own shares	(118,332)		(3,976,988)
Excess of purchase price over book value of entities acquired from companies under common control			(43,030)
Comprehensive income:			
Net income for the year			20,468,689
Other comprehensive income items:			
Changes in fair value of swaps, net of deferred taxes			
Effect of translation of foreign entities, net of deferred taxes			
Comprehensive income			
Balance at December 31, 2009	9,020,300	1,880,513	26,495,255
Appropriation of earnings approved at regular stockholders' meetings:			
Cash dividends declared			**(8,911,908)**
Cash purchase of Company's own shares	**(11,315)**		**(328,507)**
Noncontrolling interest arising on a business combination			
Comprehensive income:			
Net income for the year			**15,384,162**
Other comprehensive income items:			
Changes in fair value of swaps, net of deferred taxes			
Effect of translation of foreign entities, net of deferred taxes			
Comprehensive income			
Balance at December 31, 2010 (Note 14)	**P. 9,008,985**	**P. 1,880,513**	**P. 32,639,002**

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

earnings Total	Accumulated other income items	Controlling interest	Noncontrolling interest	Comprehensive income	Total stockholders' equity
P. 27,374,656	P. 2,816,625	P. 39,329,913	P. 41,186		P. 39,371,099
(15,447,559)		(15,447,559)			(15,447,559)
(3,976,988)		(4,095,320)			(4,095,320)
(43,030)		(43,030)			(43,030)
20,468,689		20,468,689	294	P. 20,468,983	20,468,983
	(1,866,847)	(1,866,847)		(1,866,847)	(1,866,847)
	(66,553)	(66,553)		(66,553)	(66,553)
				P. 18,535,583	
28,375,768	883,225	38,279,293	41,480		38,320,773
(8,911,908)		(8,911,908)			(8,911,908)
(328,507)		(339,822)			(339,822)
			280,547		280,547
15,384,162		15,384,162	(12,704)	P. 15,371,458	15,371,458
	(536,933)	(536,933)		(536,933)	(536,933)
	39,817	39,817		39,817	39,817
				P. 14,874,342	
P. 34,519,515	P. 386,109	P. 43,914,609	P. 309,323		P. 44,223,932

Consolidated Statements of Cash Flows

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

	For the years ended December 31 2010	2009
Operating activities		
Income before taxes on profits	P. 23,779,398	P. 28,954,505
Add (deduct) items not requiring the use of cash:		
Depreciation	17,392,411	17,828,006
Amortization	130,919	122,762
Reserve for obsolete inventories for operation of the telephone plant	9,462	69,669
Equity interest in net income of affiliates	(195,910)	(254,680)
Gain on sale of affiliated company	(322,500)	
Net periodic cost of labor obligations	7,018,738	6,646,858
Interest expense	5,733,627	6,122,328
Exchange gain, net	(646,909)	(1,232,671)
Other	1,082	
	52,900,318	58,256,777
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	820,670	335,214
Inventories for sale	(335,477)	370,658
Prepaid expenses and others	183,267	(463,577)
Deferred charges	284,446	24,537
(Decrease) increase in:		
Labor obligations:		
Contributions to trust fund	(289)	(5,751,947)
Benefits paid to employees	(6,445,654)	(218,816)
Accounts payable and accrued liabilities	(994,803)	(2,924,775)
Taxes on profits paid	(6,916,875)	(10,200,635)
Taxes payable	13,942	1,428,082
Deferred revenues	(33,149)	(620,350)
Net cash flows provided by operating activities	39,476,396	40,235,168
Investing activities		
Acquisition of plant, property and equipment	(9,270,448)	(9,657,071)
Acquisition of licenses	(6,620)	(14,168)
Acquisition of long-term equity investments	(285,181)	(116,640)
Sale of long-term equity investments	669,387	
Dividends received from affiliated companies	126,000	28,751
Net cash flows used in investing activities	(8,766,862)	(9,759,128)
Cash surplus to be applied to financing activities	30,709,534	30,476,040
Financing activities		
New loans	10,135,980	23,689,235
Repayment of loans	(35,727,693)	(24,552,238)
Cash purchase of Company's own shares	(339,822)	(4,095,320)
Dividends paid	(8,736,965)	(15,093,082)
Derivative financial instruments	826,850	2,019,050
Interest paid	(3,754,187)	(4,200,480)
Net cash flows used in financing activities	(37,595,837)	(22,232,835)
Net (decrease) increase in cash and cash equivalents	(6,886,303)	8,243,205
Cash and cash equivalents at beginning of year	14,379,768	6,136,563
Cash and cash equivalents at end of year	P. 7,493,465	P. 14,379,768

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

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

1. Description of the Business and Significant Accounting Policies

I. Description of the Business

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

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

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

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

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

On May 11, 2010, América Móvil, S.A.B. de C.V. (América Móvil) launched two concurrent public exchange offers to acquire the outstanding shares of Carso Global Telecom, S.A.B. de C.V. (Carso Global Telecom) (TELMEX's controlling stockholder) and Telmex Internacional, S.A.B de C.V. (Telmex Internacional). Carso Global Telecom was the direct holder of 59.4% of the outstanding shares of TELMEX. On June 16, 2010, América Móvil completed the acquisition of 99.4% of the outstanding shares of Carso Global Telecom by means of a first public exchange offer, thus, América Móvil indirectly owned 59.1% of the outstanding shares of TELMEX by then. América Móvil launched an additional offer on November 19, 2010, which ended on December 17, 2010, increasing to 59.5% its indirect ownership of the outstanding shares of TELMEX.

On March 15, 2011, TELMEX's Audit Committee and management authorized the issuance of the accompanying consolidated financial statements and these notes as of December 31, 2010 and 2009. These financial statements also must be approved by the Company's Board of Directors and stockholders at their next meetings.

At December 31, 2010 and 2009, TELMEX's equity interest in its principal subsidiaries and affiliated companies is as follows:

		% equity interest at December 31	
Company	Country	2010	2009
Subsidiaries:			
Integración de Servicios TMX, S.A. de C.V.	Mexico	100%	100%
Alquiladora de Casas, S.A. de C.V.	Mexico	100%	100%
Cía. de Teléfonos y Bienes Raíces, S.A. de C.V.	Mexico	100%	100%
Consorcio Red Uno, S.A. de C.V.	Mexico	100%	100%
Teléfonos del Noroeste, S.A. de C.V.	Mexico	100%	100%
Uninet, S.A. de C.V.	Mexico	100%	100%
Telmex USA, L.L.C.	U.S.A.	100%	100%
Affiliated companies:			
Grupo Telvista, S.A. de C.V.	Mexico	45%	45%
2Wire, Inc.	U.S.A.		13%

II. Significant Accounting Policies and Practices

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

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

i) Consolidation and equity method

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

Subsidiaries are fully consolidated from the date of acquisition, being the date on which TELMEX obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as TELMEX, using consistent accounting policies.

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

Equity investments in affiliated companies over which the Company exercises significant influence is accounted for using the equity method, which basically consists of recognizing TELMEX's proportional share in the net income or loss and the stockholders' equity of the investee (see Note 6).

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

ii) Translation of financial statements of foreign subsidiary and affiliate

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

b) Recognition of the effects of inflation on financial information

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

The financial statements for the years ended December 31, 2010 and 2009 are expressed in nominal pesos, except for those non-monetary items that included inflation effects through December 31, 2007. Subsequent additions are recognized at historical cost.

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

c) Recognition of revenues

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

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

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

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

d) Use of estimates

The preparation of financial statements in conformity with Mexican Financial Reporting Standards requires the use of estimates and assumptions in certain areas. Actual results could differ from these estimates. TELMEX based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of TELMEX. Such changes are reflected in the estimates and assumptions and the related effect in the financial statements when they occur.

e) Cash and cash equivalents

Cash at banks earns interest at floating rates based on daily bank deposit rates. Cash equivalents are represented by short-term deposits made for varying periods of between one day and three months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates. Such investments are stated at acquisition cost plus accrued interest, which is similar to their market value.

f) Derivative financial instruments and hedging activities

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

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

The effectiveness of the Company's derivatives used for hedging purposes is evaluated prior to their designation as hedges, as well as during the hedging period, which is performed at least quarterly based on recognized statistical techniques. Whenever it is determined that a derivative is not highly effective as a hedge or that the derivative ceases to be a highly effective hedge, the Company ceases to apply hedge accounting for the derivative on a prospective basis. During the years ended December 31, 2010 and 2009, there were no gains or losses recognized due to changes in the accounting treatment for hedges.

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

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

g) Allowance for doubtful accounts

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

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

h) Inventories

Inventories for sale are valued at average cost. The carrying value of inventories is not in excess of their net realizable value.

i) Plant, property and equipment

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

From January 1, 1997 through December 31, 2007, plant, property and equipment and construction in progress acquired abroad were re-expressed based on the rate of inflation of the respective country of origin and the prevailing exchange rate at the balance sheet date (specific indexation factors). Plant, property and equipment of domestic origin were re-expressed based on the NCPI.

Telephone plant and equipment are depreciated using the straight-line method based on the estimated useful lives of the related assets (see Note 4 b).

The carrying value of plant, property, plant and equipment is reviewed whenever there are indicators of impairment in the carrying value of such assets. Whenever an asset's recovery value, which is the greater of the asset's selling price and its value in use (the present value of future cash flows) is less than the asset's net carrying amount, the difference is recognized as an impairment loss. For the years ended December 31, 2010 and 2009, there were no indicators of impairment in the value of the Company's plant, property and equipment.

An item of plant, property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

Reclassification of comparative information
TELMEX has reclassified the caption inventories for operation of the telephone plant, net as part of the caption plant, property and equipment, net. The Company concluded that this classification better reflects the underlying nature of the asset.

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

j) Leases

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

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

k) Licenses and trademarks

TELMEX records licenses at acquisition cost and, through December 31, 2007, re-expressed them based on the inflation rate of the country in which the license was acquired. The amortization period is based on the terms of the licenses, which range from 5 to 20 years. Trademarks are recorded at their estimated fair values at the date of acquisition, as determined by independent appraisers, and are amortized using the straight-line method over a sixteen-year period (see Note 5).

l) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value of acquisition date and the amount of any noncontrolling interest in the acquiree. For each business combination, the acquirer measures the noncontrolling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed and included in administrative expenses.

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

Goodwill is initially measured as the excess of the acquisition price and the amount recognized for noncontrolling interest, as measured at their fair value, over the net identifiable assets acquired and liabilities assumed.

m) Accrued liabilities

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

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

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

n) Labor obligations

The cost of pension, seniority premium and termination benefits (severance) are recognized periodically during the years of service of personnel, based on actuarial computations made by independent actuaries using the projected unit-credit method (see Note 10).

Actuarial (losses) gains are being amortized over a period of 11 years, which is the estimated average remaining working lifetime of Company employees.

Beginning January 1, 2008, the Company adopted Mexican FRS D-3 *Employee Benefits*, which replaced Mexican accounting Bulletin D-3, *Labor Obligations*. As a result of the MFRS D-3 adoption, the transition liability for labor obligations and prior service costs at December 31, 2007 are being amortized over a maximum period of 5 years. Prior to December 31, 2007, such amounts were being amortized over the estimated average remaining working lifetime of Company employees (12 years) (see Note 10).

o) Employee profit sharing

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

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

p) Exchange differences

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

See Note 11 for the Company's consolidated foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

q) Comprehensive income

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

r) Taxes on profits

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date.

Deferred tax

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

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

s) Statement of income presentation

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

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

An analysis of the "Other expenses, net" caption for the years ended December 31, 2010 and 2009 is as follows:

		2010		2009
Employee profit sharing, current	P.	1,998,105	P.	2,217,482
Other income (Note 10)	(	1,919,768)	(	867,802)
Other expenses, net	P.	78,337	P.	1,349,680

t) Statement of cash flows

Effective January 1, 2008, the Company adopted Mexican FRS B-2 *Statement of cash flows*. The statement of cash flows shows the entity's cash inflows and outflows during the period. Also, the statement of cash flows presents first income before taxes on profits, followed by cash flows from operating activities, then cash flows from investing activities and finally cash flows from financing activities.

The statement of cash flows for the years ended December 31, 2010 and 2009 were prepared using the indirect method.

u) Earnings per share

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

v) Concentration of risk

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

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

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

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

w) Segments

Segment information is presented based on information used by the Company in its decision-making processes (see Note 16).

Local and long distance segment information differs from the information presented in the consolidated financial statements due to:

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

x) Reclassifications

Certain captions shown in the 2009 financial statements as originally issued have been reclassified for uniformity of presentation with the 2010 financial statements.

		As originally reported 2009	Reclassifications	As reclassified 2009
Assets				
Current assets:				
Accounts receivable, net	(1)	P. 21,113,323	P. (687,767)	P. 20,425,556
Derivative financial instruments	(2)	11,496,359	729,191	12,225,550
Inventories for sale, net	(3)	1,543,648	(95,546)	1,448,102
Plant, property and equipment, net	(3)	104,304,749	1,742,893	106,047,642
Inventories for operation of telephone plant, net	(3)	1,647,347	(1,647,347)	
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	(1, 2)	14,204,188	41,424	14,245,612
Statement of income				
Operating costs and expenses:				
Cost of sales and services	(4)	34,158,977	18,805	34,177,782
Commercial, administrative and general expenses	(4)	20,830,245	(18,805)	20,811,440

(1) Reclassification to accounts receivable, net.

(2) Reclassification of derivative financial instruments.

(3) Reclassification of inventories for operation of telephone plant.

(4) Reclassification of administrative expenses.

y) New accounting pronouncements

Following is a discussion of the new accounting pronouncements issued by the Mexican Financial Reporting Standards Research and Development Board (Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C. or "CINIF") that became effective on January 1, 2010 and that affected TELMEX's accounting policies:

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

In November 2009, the CINIF issued Mexican FRS C-1, which became effective for fiscal years beginning on or after January 1, 2010. Mexican FRS C-1 replaces Mexican accounting Bulletin C-1, Cash. The main changes compared to Mexican accounting Bulletin are the presentation of restricted cash and the substitution of the term "short-term demand investments" with the new term "liquid demand investments", which, among other characteristics, must be readily convertible to cash and have maturities of no more than three months.

The adoption of this accounting standard must be made retrospectively. The adoption of the requirements of this standard had no effect on the Company's financial position or on its results of operations.

Interpretation to Mexican FRS 19, *Changes derived from the adoption of International Financial Reporting Standards*

In August 2010, the CINIF issued Interpretation to Mexican FRS 19, which became effective for financial statements issued on or after September 30, 2010. This interpretation establishes the disclosures that must be made in the notes to the financial statements prepared under Mexican Financial Reporting Standards prior to the adoption of International Financial Reporting Standards.

The National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or "CNBV") requires securities issuers registered with the National Securities Registry to prepare and disclose their financial information in conformity with International Financial Reporting Standards (IFRS) beginning on January 1, 2012, allowing early adoption. As a result of this requirement, the Company plans to adopt IFRS as the basis for preparing its financial information beginning on January 1, 2011.

Based on an analysis performed to identify the accounting effects upon adoption, the items which the Company has identified will have a significant impact on its financial statements are labor obligations, deferred taxes, stockholders' equity and inflation effects. The Company is in the process of quantifying the impact on its financial statements.

2. Cash and Cash Equivalents

Cash and cash equivalents consist of the following at December 31, 2010 and 2009:

		2010		2009
Cash and bank accounts	P.	817,630	P.	1,010,973
Cash equivalents		6,675,835		13,368,795
Total	P.	7,493,465	P.	14,379,768

3. Accounts Receivable

An analysis of accounts receivable at December 31, 2010 and 2009 is as follows:

		2010		2009
Customers	P.	19,589,206	P.	19,112,062
Recoverable taxes		623,876		2,728,510
Related parties (Note 13)		892,786		894,535
Net settlement receivables		181,856		417,152
Other		1,396,115		1,582,178
		22,683,839		24,734,437
Less:				
Allowance for doubtful accounts		5,035,306		4,308,881
Total	P.	17,648,533	P.	20,425,556

An analysis of activity in the allowance for doubtful accounts for the years ended December 31, 2010 and 2009 is as follows:

		2010		2009
Beginning balance at January 1	P.	4,308,881	P.	2,522,842
Increase charged to expenses		2,218,564		2,986,891
Write-offs		(1,492,139)		(1,200,852)
Ending balance at December 31	P.	5,035,306	P.	4,308,881

4. Plant, Property and Equipment

a) An analysis of plant, property and equipment at December 31, 2010 and 2009 is as follows:

		2010		2009
Telephone plant and equipment	P.	320,261,936	P.	315,548,924
Land and buildings		37,496,994		37,128,186
Computer equipment and other assets		52,446,218		49,952,667
		410,205,148		402,629,777
Less:				
Accumulated depreciation		313,020,620		298,734,102
Net		97,184,528		103,895,675
Construction in progress and advances to equipment suppliers		244,469		409,074
Inventories for operation of the telephone plant, net		1,992,335		1,742,893
Total	P.	99,421,332	P.	106,047,642

Construction in progress refers mainly to projects related to telephone plant, which are scheduled to be completed and transferred to the plant mostly during the first half of 2011.

b) Depreciation of the telephone plant and equipment is calculated at annual rates ranging from 3.3% to 20.0%. The rest of the Company's assets, excluding land, are depreciated at rates ranging from 10% to 33.3%. Depreciation charged to operating costs and expenses was P.17,392,411 in 2010 and P. 17,828,006 in 2009.

▸ 5. Licenses and Trademarks

An analysis of licenses and trademarks at December 31, 2010 and 2009 is as follows:

		2010		2009
Licenses, net	P.	850,809	P.	918,341
Trademarks, net		456,708		
Total	P.	1,307,517	P.	918,341

An analysis of licenses cost and their amortization at December 31, 2010 and 2009 is as follows:

		2010		2009
Investment	P.	1,824,790	P.	1,777,464
Less:				
Accumulated amortization		973,981		859,123
Net	P.	850,809	P.	918,341

An analysis of the changes in 2010 and 2009 is as follows:

		Balance at January 1, 2010		Translation effect		Effect of acquired companies		Investment and amortization for the year		Balance at December 31, 2010
Investment	P.	1,777,464	P.	19,281	P.	21,425	P.	6,620	P.	1,824,790
Accumulated amortization		859,123		2,447				112,411		973,981
Net	P.	918,341	P.	16,834	P.	21,425	P.(	105,791)	P.	850,809

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

Trademarks

At December 31, 2010, the Company has well-known trademarks of certain acquired companies, which were recognized at their fair value, based on appraisals performed by independent experts.

An analysis of trademarks and their amortization at December 31, 2010 is as follows:

		2010
Investment	P.	473,310
Accumulated amortization		16,602
Net	P.	456,708

The amortization expense of other deferred charges was P.1,906 and P.1,908 for the years ended December 31, 2010 and 2009, respectively.

6. Investments

I. Equity investments

An analysis of equity investments in affiliates and other companies at December 31, 2010 and 2009, and a brief description of each, is as follows:

		2010		2009
Equity investments in:				
Grupo Telvista, S.A. de C.V.	P.	784,875	P.	907,973
2Wire, Inc.				301,035
Other affiliates		607,167		566,372
	P.	1,392,042	P.	1,775,380

Grupo Telvista

TELMEX holds 45% of the capital stock of Grupo Telvista, S.A. de C.V. (Grupo Telvista) which, through its subsidiaries, provides telemarketing services in Mexico and the U.S.A. For the year ended December 31, 2010, TELMEX's equity interest in the net income of Grupo Telvista gave rise to a credit to results of operations of P.24,022 (credit of P.195,498 in 2009) and a charge to stockholders' equity of P.21,120 (charge of P.13,867 in 2009). In September 2010, TELMEX received a dividend of P.126,000.

2Wire

On October 20, 2010, TELMEX sold to Pace, Plc its 13% equity interest in 2Wire, Inc. (2Wire) for P. 744,231. Such sale gave rise to a gain of P.322,500. For the year ended December 31, 2010, TELMEX's equity interest in the results of 2Wire gave rise to a credit to results of operations of P.120,697 (credit of P.25,035 in 2009).

Other affiliates

For the year ended December 31, 2010, equity interest in other affiliates represented a net credit to results of operations of P.51,191 (net credit of P.34,147 in 2009) and a charge to stockholders' equity of P.10,396 (charge of P.4,427 in 2009).

II. Investment in subsidiary

Scitum

On May 24, 2010, TELMEX acquired for P.296,334 the 51.5% equity interest in Scitum, S.A. de C.V. (Scitum), which offers services in the design, implementation and management of infrastructures of security of information in Mexico.

The allocation of the acquisition price over fair value of the net assets acquired at the acquisition date is as follows:

		May 2010
Current assets	P.	142,736
Fixed assets		41,389
Deferred assets		22,991
Trademarks		473,310
Less:		
Current liabilities		78,934
Long-term liabilities		128,972
Fair value of net assets acquired		472,520
Acquisition price at 100%		575,809
Goodwill arising on acquisition	P.	103,289

Goodwill includes P.50,350 which corresponds to the noncontrolling interest.

From the date of acquisition, Scitum has contributed P.230,453 to operating revenues and P.(61,389) to net income of the Company.

7. Debt

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

	Weighted average interest rate at December 31 2010	2009	Maturities from 2011 through	Balance at December 31 2010	2009
Debt denominated in foreign currency:					
Senior notes	5.5%	5.2%	2019	P. 16,044,459	P. 29,361,181
Bank loans	0.8%	0.7%	2018	21,665,623	40,074,814
Others	0.6%	2.0%	2022	6,364,863	238,353
Total debt denominated in foreign currency				44,074,945	69,674,348
Debt denominated in Mexican pesos:					
Senior notes	8.8%	8.8%	2016	4,500,000	4,500,000
Domestic senior notes	6.3%	6.3%	2037	25,900,000	25,900,000
Bank loans	5.5%	4.8%	2011	46,000	2,800,000
Total debt denominated in Mexican pesos				30,446,000	33,200,000
Total debt				74,520,945	102,874,348
Less short-term debt and current portion of long-term debt				11,951,532	19,768,894
Long-term debt				P. 62,569,413	P. 83,105,454

The above-mentioned rates are subject to market variances and do not include the effect of the Company's agreement to reimburse certain lenders for Mexican withholding taxes. The Company's weighted-average cost of debt at December 31, 2010 (including interest expense, interest rate swaps, fees and withholding taxes, and excluding exchange rate variances) was approximately 6.6% (5.9% in 2009).

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

	Balance at December 31 2010	2009
Short-term debt:		
Bank loans	P. 46,000	
Others	6,178,550	
	6,224,550	
Current portion of long-term debt:		
Senior notes		P. 12,405,765
Domestic Senior notes	4,500,000	
Bank loans	1,226,982	7,363,129
	5,726,982	19,768,894
Total	P. 11,951,532	P. 19,768,894

Senior notes:

a) In the first quarter of 2005, TELMEX issued bonds in the amount of P.21,892,381[1] (U.S.$1,750 million) divided into two issuances of P.11,870,243[1] and P.10,022,138[1] (U.S.$950 million and U.S.$800 million, respectively), the first maturing in January 2010 and bearing an annual interest of 4.75%, and the second maturing in 2015 and bearing an annual interest of 5.5%. Interest is payable semiannually.

On January 27, 2010, TELMEX repaid the first issuance for P.12,294,140 (U.S.$950 million). For the year ended December 31, 2010, interest expense on these bonds was P.628,617 (P.1,274,163 in 2009).

b) On January 26, 2006, TELMEX issued abroad a bond denominated in Mexican pesos in the amount of P.4,500,000 (nominal amount), which matures in 2016 and bears an annual interest of 8.75%. For the year ended December 31, 2010, interest expense on the bond was P.406,656 (P.407,708 in 2009).

[1] Amounts re-expressed in constant pesos as of December 31, 2007.

c) On November 12, 2009, TELMEX issued a bond in the amount of P.6,615,400 (U.S.$500 million, nominal amount), which matures in 2019 and bears an annual interest of 5.5%, payable semiannually. For the year ended December 31, 2010, interest expense on the bond was P.367,648 (P.49,823 in 2009)

On February 2, 2011, América Móvil launched a private offer to exchange any and all outstanding senior notes of TELMEX with maturity in 2015 and 2019, for new senior notes of América Móvil. The offer expired on March 3, 2011. As a result of the offer, on March 8, 2011, U.S.$243.6 million of senior notes due in 2015 and U.S.$122.6 million of senior notes due in 2019 were exchanged for América Móvil senior notes. On March 10, 2011, TELMEX paid América Móvil U.S.$394.0 million, which includes a premium of U.S.$27.8 million, to extinguish the exchanged senior notes. The consideration paid by TELMEX was based on the same market conditions under which the TELMEX senior notes were exchanged by América Móvil.

Syndicated loans:

In 2004, the Company entered into a syndicated loan, which was restructured in 2005 and 2006 to improve the credit conditions and increase the total loan amount to P.34,531,521[1] (U.S.$3,000 million), split into three tranches. Tranche A for P.14,963,659[1] (U.S.$1,300 million) with a three-year maturity. Tranche B for P.11,510,507[1] (U.S.$1,000 million) with a five-year maturity. Tranche C for P.8,057,355[1] (U.S.$700 million) with a seven-year maturity. In August 2009, TELMEX prepaid the total amount of tranche A, which was scheduled to mature in October 2009. In November 2010, TELMEX prepaid the total amount of tranche B, which was scheduled to mature in October 2011. The balance of tranche C at December 31, 2010 is included under banks loans (debt denominated in foreign currency), and is scheduled to mature in October 2013.

On June 30, 2006, TELMEX entered into a syndicated loan agreement in the amount of P.5,986,554[1] (U.S.$500 million), split into two tranches in equal amounts of P.2,993,277[1] (U.S.$250 million), with maturities of four years and six years, respectively. In March 2010, TELMEX prepaid the total amount of the first tranche, for which the original maturity was scheduled for June 2010.

(1) Amounts re-expressed in constant pesos as of December 31, 2007.

Substantially all of the bank loans bear interest equal to the London Inter-Bank Offered Rate (LIBOR) plus a specified margin. For the year ended December 31, 2010, interest expense on these loans was P.162,539 (P.556,305 in 2009).

Others:

On November 12, 2010, TELMEX entered into two loan agreements with América Móvil, the first one in the amount of P.2,454,280 (U.S.$200 million) maturing in December 2010, and the second in the amount of P.6,135,700 (U.S.$500 million), maturing in October 2011. These loans bear interest equal to the LIBOR plus a specified margin. The first loan was repaid on its maturity. In 2010, interest expense on this loan was P.6,048.

Domestic senior notes ("Certificados Bursátiles"):

On December 19, 2007, TELMEX obtained authorization from the CNBV for a program to issue long-term domestic senior notes in a total amount of P.10,000,000 (nominal amount). In April 2008, domestic senior notes in the amount of P.1,600,000 were issued. In July 2009, TELMEX placed domestic senior notes in two issuances for a total amount of P.8,000,000.

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

Some domestic senior notes bear fixed-rate interest, while others bear interest equal to the Mexican interbank equilibrium interest rate ("TIIE") plus a specified margin. For the year ended December 31, 2010, interest expense on long-term domestic senior notes was P.1,663,516 (P.1,194,213 in 2009).

Restrictions:

The above-mentioned debt is subject to certain restrictions with respect to maintaining certain financial ratios, as well as restrictions on selling a significant portion of groups of assets, among others. At December 31, 2010, the Company was in compliance with all these requirements.

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

Foreign currency debt:

An analysis of the foreign currency denominated debt at December 31, 2010 is as follows:

	Foreign currency (in thousands)		Exchange rate at December 31, 2010 (in units)		Equivalent in Mexican pesos
U.S. dollar	3,306,054	P.	12.3571	P.	40,853,235
Japanese yen	19,891,200		0.1526		3,035,397
Euro	11,242		16.5733		186,313
Total				P.	44,074,945

Long-term debt maturities at December 31, 2010 are as follows:

Years		Amount
2012	P.	11,936,560
2013		11,153,036
2014		8,331,893
2015		10,673,067
2016 and thereafter		20,474,857
Total	P.	62,569,413

Derivative financial instruments and hedging activities:

At December 31, 2010 and 2009, the derivative financial instruments held by the Company are as follows:

	2010				2009			
	Notional		Fair value asset (liability)		Notional		Fair value asset (liability)	
Instrument	(in millions)				(in millions)			
Cross currency swaps	U.S.$	3,487	P.	6,957	U.S.$	4,178	P.	12,226
Forwards dollar-peso (Note 8)	U.S.$	40	(	21)	U.S.$	245	(	120)
Interest-rate swaps in pesos (Note 8)	P.	16,649	(	1,540)	P.	23,752	(	729)
Cross currency coupon swaps					U.S.$	50		
Total			P.	5,396			P.	11,377

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

Cross currency swaps

At December 31, 2010, the Company had cross currency swaps that hedge foreign currency denominated liabilities of P.43,091,161 (U.S.$3,487 million) (P.54,557,723 or U.S.$4,178 million in 2009). These cross currency swaps hedge the exchange rate and interest rate risks associated with bonds that mature in 2015 and 2019 in the total amount of U.S.$1,310 million and bank loans that mature from 2011 to 2018 of U.S.$2,177 million. These agreements allow TELMEX to fix the parity of such debt at a weighted-average exchange rate of P.10.7645 per U.S. dollar, as well as to set a fixed interest rate of 8.57% for the bond maturing in 2015 and a floating rate equal to the average 28-day TIIE less a specified margin for the bond maturing in 2019 and for the bank loans.

The change in the fair value of these cross currency swaps that offset the exchange gain on the foreign-currency denominated debt for the year ended December 31, 2010 was a net charge of P.2,108,445 (charge of P.5,682,263 in 2009).

Forwards dollar-peso

At December 31, 2010, the Company had short term foreign currency forwards with a notional amount of P.494,284 (U.S.$40 million) (P.3,199,382 or U.S.$245 million in 2009). For the year ended December 31, 2010, the Company recognized a net charge of P.97,295 (charge of P.520,733 in 2009) as part of the net exchange gain, due to changes in the fair value of these forwards.

Interest-rate swaps

At December 31, 2010, the Company had interest-rate swaps for an aggregate notional amount of P.16,649,250 (P.23,752,125 in 2009) to hedge the floating interest rate risk of its debt in Mexican pesos, fixing such rate at an average of 8.48%.

At December 31, 2010, the Company had no cross currency coupon swap contracts outstanding. At December 31, 2009 the Company had cross currency coupon swaps that covered interest payments flows of P.652,935 (U.S.$50 million).

For the year ended December 31, 2010, the Company recognized a net expense for these swaps in interest expense of P.1,687,679 (P.1,941,649 in 2009).

The ineffective portion of the cash flow hedges was a net expense of P.506,815 for the year ended December 31, 2010 (P.115,190 in 2009), recognized in interest expense.

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

Several of the Company's agreements under which it has negotiated its derivative financial instruments require margin calls when the fair value of the derivatives exceeds the Company's existing credit lines of P.5,251,768 (U.S.$425 million). At December 31, 2010, 61% of the Company's outstanding derivatives correspond to these types of agreements; however, no margin calls had been required at such date.

8. Accounts Payable and Accrued Liabilities

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

	December 31			
		2010		2009
Suppliers	**P.**	**4,426,398**	P.	2,081,727
Employee benefits		**3,017,073**		2,804,324
Derivative financial instruments (Note 7)		**1,561,294**		848,910
Related parties (Note 13)		**1,314,356**		1,602,128
Vacation accrual		**1,333,231**		1,284,578
Accrual for other contractual employee benefits		**1,104,135**		1,230,645
Dividend pending payment		**1,123,388**		1,106,119
Sundry creditors		**956,722**		750,440
Interest payable		**625,986**		936,516
Other		**1,914,427**		1,600,225
	P.	**17,377,010**	P.	14,245,612

The activity in the main accruals for the years ended December 31, 2010 and 2009 is as follows:

Vacation accrual:

		2010		2009
Beginning balance at January 1	P.	1,284,578	P.	1,287,747
Increase charged to expenses		1,701,334		1,619,979
Payments		(1,652,681)		(1,623,148)
Ending balance at December 31	P.	1,333,231	P.	1,284,578

Accrual for other contractual employee benefits:

		2010		2009
Beginning balance at January 1	P.	1,230,645	P.	1,310,570
Increase charged to expenses		3,528,045		3,725,372
Payments		(3,654,555)		(3,805,297)
Ending balance at December 31	P.	1,104,135	P.	1,230,645

9. Deferred Revenues

Deferred revenues consist of the following at December 31, 2010 and 2009:

		2010		2009
Short-term:				
Advance billings	P.	891,108	P.	1,009,603
Advances from customers		26,269		94,572
		917,377		1,104,175
Long-term:				
Advance billings		622,351		466,696
Total	P.	1,539,728	P.	1,570,871

10. Labor Obligations

a) Pensions plans and seniority premiums

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

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

Analysis of net periodic cost:

		2010		2009
Labor cost	P.	4,850,844	P.	4,431,755
Finance cost on defined benefit obligation		17,751,583		15,861,542
Projected return on plan assets		(19,632,161)		(17,524,795)
Amortization of past services and transition liability		69,533		69,526
Amortization of variances in actuarial assumptions		2,488,132		2,183,763
Net periodic cost	P.	5,527,931	P.	5,021,791

Analysis of the defined benefit obligation:

		2010		2009
Present value of labor obligations:				
Vested benefit obligation	P.	120,520,269	P.	105,002,007
Non-vested benefit obligation and effect of salary projection		96,406,898		92,330,826
Defined benefit obligation at end of year	P.	216,927,167	P.	197,332,833

Analysis of changes in the defined benefit obligation:

		2010		2009
Defined benefit obligation at beginning of year	P.	**197,332,833**	P.	176,182,835
Labor cost		**4,850,844**		4,431,755
Finance cost on defined benefit obligation		**17,751,583**		15,861,542
Actuarial loss		**7,608,718**		10,200,996
Benefits paid to employees		**(6,438,985)**		(215,298)
Payments from trust fund		**(4,177,826)**		(9,128,997)
Defined benefit obligation at end of year	P.	**216,927,167**	P.	197,332,833

Analysis of changes in plan assets:

		2010		2009
Established fund at beginning of year	P.	**163,995,375**	P.	145,475,893
Projected return on plan assets		**19,632,161**		17,524,795
Actuarial gain		**1,130,129**		4,371,737
Contributions to trust fund		**289**		5,751,947
Payments from trust fund		**(4,177,826)**		(9,128,997)
Established fund at end of year	P.	**180,580,128**	P.	163,995,375

Analysis of the net projected asset:

		2010		2009
Insufficiency of plan assets for defined benefit obligation	P.	**(36,347,039)**	P.	(33,337,458)
Unamortized actuarial loss		**53,506,227**		49,515,770
Transition liability		**86,987**		121,815
Past service cost and changes to plan		**96,025**		130,730
Net projected asset	P.	**17,342,200**	P.	16,430,857

In 2010, the net actuarial loss of P.6,478,589 resulted from (i) the effect of a favorable actuarial variance of P.1,130,129 due to the behavior of the plan assets resulting from an increase in the value of investments in shares of companies and in fixed-yield investments due to variances in reference rates, and (ii) an actuarial loss of P.7,608,718, attributable principally to the fact that the number of employees who retired was greater than the number estimated at the beginning of the year, and the salary and pension benefits of the retired employees were higher than estimated at the beginning of the year.

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

At December 31, 2010 and 2009, the rates used in the actuarial study are as follows:

	Nominal rates %
Discount of labor obligations:	
Long-term average	**9.2**
Increase in salaries:	
Long-term average	**4.5**

At December 31, 2010, 46.4% (45.9% in 2009) of plan assets were invested in fixed-yield securities and the remaining 53.6% (54.1% in 2009) in variable-yield securities.

b) Termination benefits

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

Analysis of net periodic cost:

		2010		2009
Labor cost	P.	13,134	P.	12,630
Finance cost on defined benefit obligation		13,508		12,498
Amortization of variances in assumptions		(15,537)		(9,867)
Net periodic cost	P.	11,105	P.	15,261

The activity in the termination pay liability is as follows:

		2010		2009
Balance at beginning of year	P.	159,377	P.	147,634
Net periodic cost (gain)		11,105		15,261
Payments		(6,669)		(3,518)
Balance at end of year	P.	163,813	P.	159,377

c) Employee profit sharing

TELMEX is obligated to pay profit sharing to its employees in Mexico, in addition to their contractual compensation and benefits. For the years ended December 31, 2010 and 2009, employee profit sharing was based on 10% of the Company's taxable income, excluding certain inflation effects and the re-expression of depreciation expense.

For the year ended December 31, 2010, the deferred employee profit sharing provision represented a credit to results of operations of P.518,403 (P.607,676 in 2009), which was recognized in the statement of income under the caption "Other expenses, net."

At December 31, 2010 and 2009, the Company recognized deferred employee profit sharing on the following temporary items:

		2010		2009
Deferred employee profit sharing assets:				
Allowance for bad debts and slow-moving inventories	P.	434,813	P.	310,287
Advance billings		146,480		147,750
Accrued liabilities		405,470		515,522
Exchange loss on debt		397,925		347,123
Derivative financial instruments		31,756		
		1,416,444		1,320,682
Deferred employee profit sharing liabilities:				
Fixed assets		(2,959,631)		(3,437,606)
Inventories		(5,420)		(4,881)
Licenses		(38,889)		(44,852)
Labor obligations		(1,707,402)		(1,609,552)
Prepaid expenses		(57,975)		(86,043)
Derivative financial instruments				(91,884)
		(4,769,317)		(5,274,818)
Deferred employee profit sharing liability, net	P.	(3,352,873)	P.	(3,954,136)

11. Foreign Currency Position

At December 31, 2010 and 2009, the Company had the following foreign currency denominated assets and liabilities:

	Foreign currency in millions					
	2010		Exchange rate at December 31, **2010**	2009		Exchange rate at December 31, 2009
Assets:						
U.S. dollar	**139**	**P.**	**12.36**	669	P.	13.06
Liabilities:						
U.S. dollar	**3,553**		**12.36**	5,205		13.06
Japanese yen	**19,904**		**0.15**	19,891		0.14
Euro	**11**		**16.57**	13		18.74

At March 15, 2011, the applicable exchange rates are as follows:

Foreign currency		Exchange rate
U.S. dollar	P.	11.94
Japanese yen		0.15
Euro		16.68

12. Commitments and Contingencies

Commitments

At December 31, 2010, TELMEX has non-cancelable commitments for the purchase of equipment of P.5,346,417 (P.3,372,975 in 2009), which include P.1,579,895 (P.977,637 in 2009) of non-cancelable commitments with related parties. Payments made under the related purchase agreements aggregated to P.2,832,019 in 2010 (P.2,858,996 in 2009).

Contingencies

a) In November 2005, COFETEL issued the guidelines for making changes to local service areas. In April 2006, Teléfonos de México, S.A.B. de C.V. filed a motion for an administrative review of COFETEL's guidelines for modifying the local service areas. Such motion was denied by the Communications Ministry (Secretaría de Comunicaciones y Transportes, or SCT) and is currently in litigation before the Third Regional Metropolitan Chamber of the Federal Tax and Administrative Court.

In March 2007, COFETEL ordered the consolidation of a package of 70 local service areas and a package of 2 local service areas while, in September 2008 it ordered the consolidation of another package of 125 local service areas and in December 2008, it ordered the consolidation of one local service area, each with its own schedule. Teléfonos de México, S.A.B. de C.V. has challenged COFETEL's orders through the corresponding legal procedures.

In November 2009, in compliance with the ruling issued by the Full Circuit Court in Administrative Matters, the court declared the resolutions issued by COFETEL to be null and void.

If the validity of COFETEL's ruling is eventually recognized, COFETEL may be able to re-initiate proceedings to require the consolidation of the local service areas.

Should the consolidation requirement ever become effective, there could be an adverse effect on the Company's long-distance revenues.

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

b) Since 2007, the Federal Commission of Economic Competition (COFECO) initiated eight investigations to evaluate if Teléfonos de México, S.A.B. de C.V. has substantial power and engages in monopolistic practices in certain markets.

Final resolutions in four of these investigations have been issued, in which COFECO has determined that Teléfonos de México, S.A.B. de C.V. has substantial power in the following areas: (i) termination of public commuted traffic; (ii) origination of public commuted traffic; (iii) local transit services; and (iv) leasing of lines or circuits. Teléfonos de México, S.A.B. de C.V. has expressed its disagreement with the proceedings, objected to the findings and submitted evidence against the resolutions.

In the four markets in question, COFECO has already confirmed its resolutions and Teléfonos de México, S.A.B. de C.V. filed the applicable motions for appeal, which COFECO denied. Teléfonos de México, S.A.B. de C.V. has filed relief (*amparo*) proceedings against the COFECO's rejection of the motions for appeal, and the rulings on these relief proceedings are currently still pending. If the disputed resolutions are determined to be final, COFETEL, after completing the applicable procedure, may establish specific obligations for the Company regarding tariffs, quality of services and information in such markets, such as additional information and service quality disclosure requirements. The exact nature of these regulations and their impact on the business cannot be known in advance, but they will likely reduce the Company's flexibility and its ability to adopt competitive market policies. It is also impossible to predict how long the Company will have to adopt the new regulations and whether it will actually be able to do so.

In the four remaining investigations, COFECO is attempting to determine if TELMEX engaged in the alleged monopolistic practices in the following markets: (i) the broad-band internet market for domestic residential customers; and (ii) the local and national long-distance dedicated links wholesale leasing services market. These investigations are currently in the submission of evidence stage. For the inter-urban transport for commuted long-distance traffic services market and the fixed-network interconnection services market, COFECO has already issued and delivered Probable Fault Notices. Teléfonos de México, S.A.B. de C.V. promptly responded to these notices and contested the findings objecting to its considerations. There is no certainty as to the outcome of these investigations and notices and they may be unfavorable, which could result in regulations, restrictions or monetary fines being imposed on the Company.

Although the arguments of Teléfonos de México, S.A.B. de C.V. are considered well-founded, the Company's external lawyers handling these cases do not believe that there is any certainty that the Company will obtain favorable rulings.

c) The Mexican Social Security Institute (IMSS) audited Teléfonos de México, S.A.B. de C.V. for the 1997-2001 period. At the conclusion of the audit, it was determined that Teléfonos de México, S.A.B. de C.V. owed a total of approximately P.330,000 (historical amount) in taxes, fines, surcharges and re-expression for inflation at July 2, 2003. Teléfonos de México, S.A.B. de C.V. filed an appeal to nullify these findings and related assessment with the Federal Court of Justice for Tax and Administrative Matters. In accordance with Mexican law, by means of a trust fund established with a banking institution, the Company guaranteed payment of the tax assessment in the amount of P.568,869 through July 19, 2010. The Regional Metropolitan Chamber court nullified the ruling; however, IMSS filed a motion for appeal. In October 2009, the court handling the appeal ruled in favor of the Company. Therefore, the ruling issued on the nullity of the fee settlement schedules became final. Consequently, Teléfonos de México, S.A.B. de C.V. initiated proceedings to dissolve the trust fund guaranteeing the payment of the amounts sought by IMSS. The trust was dissolved on January 22, 2010, which was the date on which Teléfonos de México, S.A.B. de C.V. recognized the income from canceling this contingency.

As a result, since the tax liabilities have been annulled and the amount pledged in guaranty was returned to Teléfonos de México, S.A.B. de C.V. on January 22, 2010, this matter is considered closed.

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

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

Teléfonos de México, S.A.B. de C.V. has legally challenged the plan through a number of available channels and has presented its evidence as to the illegality and unconstitutionality of the plan.

Although the arguments of Teléfonos de México, S.A.B. de C.V. are considered well-founded, the Company's external lawyers handling these cases do not believe that there is any certainty that the Company will obtain favorable rulings.

f) In November 2010, the Communications Ministry submitted the guidelines issued by COFETEL for review by the Federal Commission for the Improvement of Regulations (COFEMER) in order for the latter to develop the cost models to be used to set the interconnection rates for providing interconnection services by the public telecommunications network concessionaires. After COFEMER has issued its Complete Final Ruling on such guidelines, they will be published by COFETEL in the *Official Gazette* and will become effective. This situation may have a negative effect on the Company's revenues from interconnection services and on its results of operations.

13. Related Parties

a) An analysis of balances due from/to related parties at December 31, 2010 and 2009 is provided below. All the companies are considered affiliates since TELMEX's primary stockholders are also either direct or indirect stockholders of the related parties:

		December 31		
		2010		2009
Accounts receivable:				
Alestra, S. de R.L. de C.V.	P.	490,773	P.	454,762
Sercotel, S.A. de C.V.		165,824		193,316
Anuncios en Directorios, S.A. de C.V.		44,319		27,662
AT&T Inc.		25,897		87,885
Telmex Colombia, S.A.		25,162		
Sears Roebuck de México, S.A. de C.V.		16,874		14,231
Sanborn Hermanos, S.A.		15,495		6,397
Fundación Telmex, A.C.		13,018		1,052
Controladora de Servicios de Telecomunicaciones, S.A. de C.V.		5,647		18,235
Banco Inbursa, S.A.		1,315		4,256
Sección Amarilla USA, L.L.C.				54
Others		88,462		86,685
	P.	892,786	P.	894,535
Accounts payable:				
RadioMóvil Dipsa, S.A. de C.V.	P.	501,699	P.	1,027,048
Operadora Cicsa, S.A. de C.V.		134,040		5,940
Inversora Bursátil, S.A.		131,813		127,472
Eidon Services, S.A. de C.V.		106,186		
PC Industrial, S.A. de C.V.		98,735		29,614
Grupo Financiero Inbursa, S.A.B. de C.V.		59,723		50,695
Microm, S.A. de C.V.		52,008		65,349
Conductores Mexicanos Eléctricos y de Telecomunicaciones, S.A. de C.V.		42,812		34,161
Acer Computec México, S.A. de C.V.		34,739		
Sinergía Soluciones Integrales de Energía, S.A. de C.V.		13,121		23,629
Carso Infraestructura y Construcción, S.A.B de C.V.		293		25,459
Eidon Software, S.A. de C.V.				103,738
Others		139,187		109,023
	P.	1,314,356	P.	1,602,128
Short-term debt:				
América Móvil, S.A.B de C.V.	P.	6,178,550		

b) For the years ended December 31, 2010 and 2009, the Company had the following transactions with related parties:

		2010		2009
Investment and expenses:				
Construction services, purchase of materials, inventories and fixed assets (1)	P.	2,948,738	P.	2,163,205
Insurance premiums, fees for administrative and operating services, security trading and others (2)		2,877,506		3,318,218
Calling Party Pays interconnection fees and other telecommunication services (3)		7,069,638		7,944,362
Cost of termination of international calls (6)		730,292		715,780
Revenues:				
Sale of materials and other services (4)		1,830,032		1,879,051
Sale of long distance and other telecommunications services (5)		4,866,957		5,727,833
Revenues from termination of international calls (6)		709,844		1,074,419

(1) Includes P.2,720,123 in 2010 (P.1,591,531 in 2009) for network construction services and purchase of construction materials from subsidiaries of Grupo Carso, S.A.B. de C.V. (Carso Group), which is an entity under common control with Carso Global Telecom. Also includes P.97,204 in 2010 (P.453,348 in 2009) for the purchase of equipment for broadband platform services from 2Wire.

(2) Includes P.343,810 in 2010 (P.571,338 in 2009) for network maintenance services from subsidiaries of Carso Group; P.632,059 in 2010 (P.714,242 in 2009) for software services received from affiliates; P.327,674 in 2010 (P.327,500 in 2009) for the production and distribution of white pages telephone directories and advertising in the yellow pages with subsidiaries of Telmex Internacional; P.518,680 in 2010 (P.482,598 in 2009) for insurance premiums with Seguros Inbursa, S.A. (Seguros), which, in turn, places most of this amount in reinsurance with third parties; P.196,417 in 2010 (P.208,942 in 2009) for telemarketing services with Grupo Telvista; P.1,816 in 2010 (P.40,602 in 2009) for security trading fees with Inversora Bursátil, S.A. (Inversora); and P.159,083 in 2010 (P.335,975 in 2009) for fees paid for administrative and operating services to AT&T Mexico, Inc. and Carso Global Telecom. Telmex Internacional, Seguros, Grupo Telvista and Inversora are entities under common control with Carso Global Telecom. AT&T Inc. is a noncontrolling stockholder of the Company.

(3) Includes P.7,068,477 in 2010 (P.7,944,083 in 2009) for interconnection expenses under the "Calling Party Pays" program for outgoing calls from fixed line telephones to cellular telephones paid to subsidiaries of América Móvil.

(4) Includes P.33,206 in 2010 (P.47,462 in 2009) for the sale of materials and other services rendered to subsidiaries of Carso Group; P.235,742 in 2010 (P.230,397 in 2009) for billing and collection services rendered to subsidiaries of Grupo Financiero Inbursa, S.A.B. de C.V. (Inbursa); P.301,440 in 2010 (P.301,440 in 2009) for the use and updating of the telephone directory customer database, as well as P.317,945 in 2010 (P.373,648 in 2009) for billing, collection, administrative services and others rendered to subsidiaries of Telmex Internacional; and P.562,852 (P.494,785 in 2009) for property leases and other services rendered to subsidiaries of América Móvil. Inbursa is an entity under common control with Carso Global Telecom.

(5) Includes P.3,767,925 in 2010 (P.4,397,574 in 2009) for revenues invoiced to a subsidiary of América Móvil for the rental of private circuits and long distance services.

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

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

		2010		2009
Short and long-term direct benefits	**P.**	**45,461**	P.	51,371
Post-retirement benefits		**4,831**		3,154
Total	**P.**	**50,292**	P.	54,525

14. Stockholders' Equity

a) At December 31, 2010, capital stock is represented by 18,158 million shares issued and outstanding with no par value, representing the Company's fixed capital (18,192 million in 2009). An analysis is as follows:

		2010		2009
7,840 million Series "AA" common shares (8,115 million in 2009)	**P.**	**5,380,966**	P.	5,569,721
383 million Series "A" common shares (395 million in 2009)		**308,440**		317,792
9,935 million Series "L" shares with limited voting rights (9,682 in 2009)		**3,319,579**		3,132,787
Total	**P.**	**9,008,985**	P.	9,020,300

At December 31, 2010 and 2009, the historical value of the Company's capital stock was P.78,398 and P.78,545, respectively.

An analysis of the changes in 2010 and 2009 is as follows:

	Capital stock (1)					
	Series "AA"		Series "A"		Series "L"	
	Number	Amount	Number	Amount	Number	Amount
Balance at January 1, 2009	8,115	P. 5,569,721	407	P. 327,734	10,033	P. 3,241,177
Cash purchase of Company's own shares			(2)	(1,551)	(361)	(116,781)
Conversion of shares			(10)	(8,391)	10	8,391
Balance at December 31, 2009	8,115	5,569,721	395	317,792	9,682	3,132,787
Cash purchase of Company's own shares				**(5)**	**(34)**	**(11,310)**
Conversion of shares	**(275)**	**(188,755)**	**(12)**	**(9,347)**	**287**	**198,102**
Balance at December 31, **2010**	**7,840**	**P. 5,380,966**	**383**	**P. 308,440**	**9,935**	**P. 3,319,579**

(1) Number of shares in millions

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

Voting rights

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

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

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

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

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

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

In 2010, the Company acquired 33.9 million Series "L" shares for P.339,746 and 6,906 Series "A" shares for P.76.

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

At December 31, 2010 and 2009, the Company had 14,074 million (14,032 million Series "L" and 42 million Series "A") and 14,040 million (13,998 million Series "L" and 42 million Series "A") treasury shares, respectively.

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

d) At December 31, 2010, "Accumulated other comprehensive income items" include P.211,741 for the effective portion of the fair value of swaps designated as cash flow hedges and P.174,368 for the effect of translation of foreign entities, net of deferred taxes (P.748,675 and P.134,550 in 2009, respectively).

e) At a regular meeting held on April 29, 2010, the stockholders agreed to declare a cash dividend of P.0.50 per outstanding share, to be paid in four installments of P.0.1250 each in June, September and December 2010 and in March 2011. In March 2010, the Company paid the fourth installment of P.0.1150 per outstanding share, which was authorized at the regular meeting held on April 28, 2009.

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

The cash dividends paid in 2010 and 2009 were P.8,736,965 and P.15,093,082, respectively.

15. Income Tax and Flat-Rate Business Tax

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

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

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

When the FRBT base is negative because deductions exceed taxable income, there is no FRBT payable. The amount of the negative base multiplied by the FRBT rate results in a FRBT credit, which in 2008 and 2009 could be applied against income tax for the same year or, if applicable, may be applied against FRBT payable in the next ten years.

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

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

For the years ended December 31, 2010 and 2009, the Company had no FRBT payable and, based on its tax projections, estimates that it will not be subject to the payment of FRBT in subsequent years.

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

		2010		2009
Current year income tax	**P.**	**9,269,487**	P.	9,560,860
Deferred tax		**(861,547)**		(1,075,338)
Total	**P.**	**8,407,940**	P.	8,485,522

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

	2010 %	2009 %
Statutory income tax rate	30.0	28.0
Depreciation	(1.1)	(0.9)
Social security benefits	1.6	1.2
Monetary gain	4.2	2.6
Tax benefits		(0.2)
Other	0.7	(1.4)
Effective income tax rate	35.4	29.3

At December 31, 2010 and 2009, the Company recognized deferred income taxes on the following temporary differences:

	2010	2009
Deferred tax assets:		
Allowance for bad debts and slow-moving inventories	P. 1,233,739	P. 877,847
Tax loss carryforwards	112,731	87,365
Advance billings	381,538	435,521
Accrued liabilities	1,201,475	1,492,471
Employee profit sharing	1,499,763	1,728,654
Derivative financial instruments	82,708	
	4,511,954	4,621,858
Deferred tax liabilities:		
Fixed assets	(13,257,546)	(14,357,100)
Inventories	(15,174)	(13,667)
Licenses and trademarks	(231,365)	(118,903)
Labor obligations	(4,809,996)	(4,566,155)
Prepaid expenses	(262,086)	(300,552)
Derivative financial instruments		(272,538)
Effect of translation of foreign entities	(68,550)	(53,001)
	(18,644,717)	(19,681,916)
Deferred tax liability, net	P. (14,132,763)	P. (15,060,058)

d) At December 31, 2010, the balance of the re-expressed contributed capital account (CUCA) and the net tax profit account (CUFIN) was P.12,108,643 and P.17,315,061, respectively. These amounts correspond to Teléfonos de México, S.A.B. de C.V. on an individual basis.

16. Segments

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

	(Amounts in millions of Mexican pesos)				
	Local service	Long distance	Other segments	Adjustments	Consolidated total
December 31, **2010**					
Revenues:					
External revenues	**P. 60,489**	**P. 20,056**	**P. 33,018**		**P. 113,563**
Intersegment revenues	**11,338**		**885**	**P. (12,223)**	
Depreciation and amortization	**9,335**	**1,698**	**6,490**		**17,523**
Operating income	**14,301**	**1,609**	**12,507**		**28,417**
Segment assets	**261,594**	**35,214**	**115,634**		**412,442**
December 31, 2009					
Revenues:					
External revenues	P. 65,158	P. 22,543	P. 31,399		P. 119,100
Intersegment revenues	11,722		929	P. (12,651)	
Depreciation and amortization	9,818	1,788	6,345		17,951
Operating income	17,846	2,537	13,981		34,364
Segment assets	260,597	35,094	109,091		404,782

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

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

17. Subsequent Event

On March 8, 2011, TELMEX announced that its Board of Directors approved a corporate restructuring to segregate the business into two companies, one of which will be named TELMEX Social that will provide telecommunications and interconnection services in low income and rural areas where competitors do not invest, and the other company will provide these services in the other areas of Mexico. With this restructuring, the assets, liabilities and equity would be divided accordingly, and the labor rights of the employees of both companies will be respected.

The restructuring is subject, if needed, to the approval of the Communications Ministry (Secretaría de Comunicaciones y Transportes, or SCT), as well as the authorization and confirmation of the rest of the corresponding authorities and governmental entities, in addition to the authorizations required under the Mexican Corporations Act.

Proposal to the Shareholders' Meeting*

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

With regards to the dividend payments for the 2010 fiscal year, and according to clause forty-five of Teléfonos de México, S.A.B. de C.V's bylaws, the following amounts are available to the shareholders:

Retained earnings of prior years (without including legal reserve)	P.	17,254,840
Plus: Net income for 2010		15,384,162
Unappropriated retained earnings, according to the balance sheet at December 31, 2010		32,639,002
Less: Separation for the fourth dividend payment in cash to shareholders beginning on March 24, 2011 of P. 0.1250 per share presenting coupon 57, according to the Ordinary Shareholders' Meeting held on April 29, 2010		2,261,188
Less: Earnings applied for the acquisition of Company's own shares in the period from January 1 through March 31, 2011, according to the maximum amount of the Company's resources of P. 10,340,868[(1)], approved by the Ordinary Shareholders' Meeting held on March 3, 2009		860,343
Total	P.	29,517,471

It is proposed that the balance of P. 29,517,471 made available to shareholders be allocated as follows:

There will be no increase to the legal reserve, due to the fact that complies with the requirements of the Article 20 of the Mexican Corporation Act		
To pay a cash dividend of P. 0.55 per outstanding share, coming from the Net Tax Profit Account, in four equal payments of P. 0.1375 each	P.	9,941,800[(2)]
To the retained earnings account		19,575,671[(3)]
Total	P.	29,517,471

The corresponding cash dividend payments proposed to the Shareholders' Meeting will be paid starting June 16, 2011, September 22, 2011, December 15, 2011 and March 22, 2012, by presenting coupons 58, 59, 60 and 61, respectively, of the outstanding shares in effect at the time the corresponding payments are made. While the amounts of the dividend are not distributed to shareholders, they will continue in the Company's retained earnings account.

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

(1) This figure was reduced by P. 4,719,967 for acquisitions of Company's own shares in the period from March 3, 2009 through March 31, 2011.

(2) Estimated amount considering a total of 18,076,000,000 outstanding shares at March 31, 2011.

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

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

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

Based on Condition 7-5 of the Amendments of the Concession Title, the commitment to present the accounting separation of the local and long distance services for 2010 and 2009 is presented below.

	Local service		Long distance service	
Years ended December 31,	**2010**	2009	**2010**	2009
Operating revenues:				
Access, rents and measured service	**P. 40,727**	P. 44,641		
Domestic long distance service			**P. 14,650**	P. 16,259
International long distance service			**5,406**	6,284
LADA interconnection	**4,749**	5,154		
Interconnection with operators	**1,491**	1,754		
Interconnection with cellular companies	**10,059**	11,119		
Other	**14,801**	14,212		
Total	**71,827**	76,880	**20,056**	22,543
Operating costs and expenses:				
Costs of sales and services	**24,298**	24,059	**4,541**	5,189
Commercial, administrative and general	**17,410**	17,851	**5,005**	5,515
Interconnection	**6,483**	7,306		
Interconnection to the local network			**7,203**	7,514
Depreciation and amortization	**9,335**	9,818	**1,698**	1,788
Total	**57,526**	59,034	**18,447**	20,006
Operating income	**P. 14,301**	P. 17,846	**P. 1,609**	P. 2,537
At December 31 of each year				
Assets by segment	**P. 261,594**	P. 260,597	**P. 35,214**	P. 35,094
Personnel	**32,955**	34,364	**4,548**	4,518

Notes:

This information differs from the information presented in the consolidated financial statements of this Annual Report due to:

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

Board of Directors

Board members appointed by Common Shares

Carlos Slim Domit *(r, p) (1)*
Chairman of the Board
Teléfonos de México, S.A.B. de C.V.
Chairman of the Board
Grupo Carso, S.A.B. de C.V.
Born in Mexico, D.F.
Experience: telecommunications, retailing and construction.

Antonio Cosío Ariño *(i) (1,2)*
Chief Executive Officer
Compañía Industrial Tepeji del Río, S.A. de C.V.
Born in Mexico, D.F.
Experience: textiles.

Amparo Espinosa Rugarcía *(i)*
Chief Executive Officer
Documentación y Estudios de Mujeres, A.C.
Born in Puebla, Pue.
Experience: human develpment.

Elmer Franco Macías *(i)*
Chief Executive Officer
Grupo Infra, S.A. de C.V.
Born in Mexico, D.F.
Experience: industrial and medical gas.

José Kuri Harfush *(i) (2)*
Chief Executive Officer
Janel, S.A. de C.V.
Born in Mexico, D.F.
Experience: textiles.

Ángel Losada Moreno *(i)*
Chairman of the Board and Chief Executive Officer
Grupo Gigante, S.A.B. de C.V.
Born in Mexico, D.F.
Experience: retailing.

Juan Antonio Pérez Simón *(i) (1, 3)*
Vice-Chairman of the Board
Teléfonos de México, S.A.B. de C.V.
Born in Turanzas, Asturias, Spain.
Experience: telecommunications and retailing.

Marco Antonio Slim Domit *(r, p)*
Chairman of the Board and Chief Executive Officer
Grupo Financiero Inbursa, S.A.B. de C.V.
Born in Mexico, D.F.
Experience: finance and telecommunications.

Patrick Slim Domit *(r, p)*
Chairman of the Board
América Móvil, S.A.B. de C.V.
Born in Mexico, D.F.
Experience: telecommunications and retailing.

Héctor Slim Seade *(r) (1)*
Chief Executive Officer
Teléfonos de México S.A.B. de C.V.
Born in Mexico, D.F.
Experience: finance and telecommunications.

Michael J. Viola *(i) (1)*
Senior Vice President - Finance
AT&T, Inc.
Born in Bangor, Maine, U.S.A.
Experience: international finance.

Larry I. Boyle *(i) (1)*
Chief Financial Officer
AT&T Mexico, Inc.
Born in Dallas, Texas, U.S.A.
Experience: finance and telecommunications.

Board Members Appointed by Series "L"

Rafael Moisés Kalach Mizrahi *(i) (2)*
Chairman of the Board and Chief Executive Officer
Grupo Kaltex, S.A. de C.V.
Born in Mexico, D.F.
Experience: textiles.

Ricardo Martín Bringas *(i)*
Chief Executive Officer
Organización Soriana, S.A.B. de C.V.
Born in Torreón, Coah.
Experience: retailing.

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

Common Shares Alternates
Jaime Alverde Goya *(i) (3)*
Chairman of the Board
Desarrolladora A & L, S. de R.L. de C.V.
Born in Mexico, D.F.
Experience: retailing and real estate.

Antonio Cosío Pando *(i) (3)*
Vice-president
Compañía Industrial Tepeji del Río, S.A. de C.V.
Born in Mexico, D.F.
Experience: textiles.

Jorge A. Chapa Salazar *(r)*
Director
Grupo Chapa, S.A. de C.V.
Born in Monterrey, N.L.
Experience: retailing.

Marcos Franco Hernaíz *(i)*
Board Member
Grupo Piscimex, S.A. de C.V.
Born in Mexico, D.F.
Experience: food.

José Humberto Gutiérrez Olvera Zubizarreta *(r)*
Chief Executive Officer
Grupo Carso, S.A.B. de C.V.
Born in Mexico, D.F.
Experience: construction, telecommunications and electronics.

Eduardo Tricio Haro *(i)*
Chairman of the Board
Grupo Industrial Lala, S.A. de C.V.
Born in Torreon, Coah.
Experience: food and beverages.

Eduardo Valdés Acra *(r)*
Chief Executive Officer
Inversora Bursátil, S.A. de C.V.
Born in Toluca, Edo. de Mex.
Experience: finance.

Oscar Von Hauske Solís *(r) (1)*
Chief Executive Officer
TELMEX Internacional, S.A.B. de C.V.
Fixed Operations Director
América Móvil, S.A.B. de C.V.
Born in Orizaba, Veracruz.
Experience: systems, finance and telecommunications.

Series "L" Alternates
Jorge C. Esteve Recolons *(i)*
Chief Executive Officer
HSBC Previsión América Latina
Born in Mexico, D.F.
Experience: finance.

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

Type of Board Member
(i) Independent
(p) Patrimonial
(r) Related

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

Advisory Board

Sergio Abraham Mafud *(Mérida)*
Chief Executive Officer
San Francisco de Asís, S.A. de C.V.
Retailing

Carlos Álvarez Bermejillo *(Guadalajara)*
Executive President
Laboratorios PiSA, S.A. de C.V.
Pharmaceutical

Luis Aranguren Tréllez *(Guadalajara)*
Executive President
Arancia Industrial, S.A. de C.V.
Processed Food

José Joaquín Arizpe y de la Maza *(Saltillo)*
Vice-Chairman of the Board
Grupo Corporativo Arma, S.A. de C.V.
Beverages

Carolina Aubanel Riedel *(Tijuana)*
Chief Executive Officer
Síntesis Comunicación, S.A. de C.V.
Media

Alfonso Barba González *(Aguascalientes)*
Chairman of the Board
Barba Apparel International
Textiles

Miguel Carlos Barragán Villarreal *(Monterrey)*
Board Member
Embotelladoras Arca, S.A. de C.V.
Beverages

José Berrondo Mir *(Querétaro)*
Vice-President of Technologies and Projects
Mabe S.A. de C.V.
Home Appliances

Marcelo Canales Clariond *(San Pedro Garza García)*
Chief Executive Officer
Profesionales en Tesorería, S.A. de C.V.
Finance

Luis Germán Cárcoba García *(Guadalajara)*
Businessman

Raúl Efrén Cásares G. Cantón *(Mérida)*
Chairman of the Board
Productos Prácticos de Madera, S.A. de C.V.
Industrial Wood

José Cernicchiaro Maimone *(Puebla)*
Chairman of the Board
La Italiana, S.A. de C.V.
Processed Food

Luis Alberto Chapa González *(Monterrey)*
Chairman of the Board and Chief Executive Officer
Grupo Chapa, S.A. de C.V.
Retailing

José Antonio Chapur Zahoul *(Cancún)*
Chief Executive Officer
Palace Resorts, S.A. de C.V.
Tourism

Antonio Chedraui Obeso *(Xalapa)*
Chairman of the Board
Grupo Comercial Chedraui, S.A.B. de C.V.
Retailing

Enrique Coppel Luken *(Culiacán)*
President
Coppel Capital
Retailing

Alberto Coppel Tirado *(Los Cabos)*
Director of Corporate Operations
Pueblo Bonito Oceanfront
Tourism

Juan Manuel Diez Francos *(Río Blanco)*
Chairman of the Board
Grupo Diez-Fénix
Automotive and Retailing

Rómulo Farrera Escudero *(Tuxtla Gutiérrez)*
Chairman of the Board and Chief Executive Officer
Grupo Farrera, S.A. de C.V.
Automotive

José Ramón Fernández Aguilar *(Hermosillo)*
Chairman of the Board
Grupo Empresarial Sonorense, S.A. de C.V.
Processed Food and Automotive

Herman H. Fleishman Cahn *(Tampico)*
Chairman of the Board and Chief Executive Officer
Grupo Tampico, S.A. de C.V.
Beverages

Roberto García Navarro *(San Luis Potosí)*
Chairman of the Board and Chief Executive Officer
Grupo Canel's
Processed Food

Gemma Garciarce Monraz *(Guadalajara)*
Chief Executive Officer
Hotel Sheraton Bugambilias
Resort & Towers
Tourism

Roberto González Alcalá *(San Pedro Garza García)*
Chief Executive Officer
Gruma de México y Latinoamérica
Processed Food

Juan José Gutiérrez Ruíz *(Oaxaca)*
President
Business Council
Beverages

Luis Lara Armendáriz *(Chihuahua)*
Chairman of the Board and Chief Executive Officer
American Industries, S.A. de C.V.
Construction

Juan Manuel Ley López *(Culiacán)*
Chairman of the Board
Grupo Ley, S.A. de C.V.
Retailing

Shelby Longoria Kowalski *(Reynosa)*
Chairman of the Board
Grupo Inlosa
Construction, Automotive and Banking

Ernesto López de Nigris *(Saltillo)*
Member of the Board
Grupo Industrial Saltillo, S.A.B. de C.V.
Construction and Automotive

Nicolás Madahuar Cámara *(Mérida)*
Chairman of the Board
Operadora de Tiendas Voluntarias, S.A. de C.V.
Retailing

Carlos Maldonado Quiroga *(Monterrey)*
Chairman of the Board
Milenium Grupo Hotelero Mexicano, S.A. de C.V.
Tourism and Paper

Gilberto Marín Quintero *(Puebla)*
Chairman of the Board and Chief Executive Officer
Grupo PI Mabe, S.A. de C.V.
Hygiene Products

Felipe Pablo Martínez Treviño *(León)*
Chairman of the Board
Grupo Emyco, S.A. de C.V.
Footwear

José O. Menchaca Díaz del Guante *(Tepic)*
Chief Executive Officer
Ingenio El Molino, S.A. de C.V.
Sugarcane Industry

Armando José Millet Molina *(Cancún)*
Chairman of the Board
Operadora Corporativa Miró, S.A. de C.V.
Tourism

Cuauhtémoc Pérez Román *(Mexicali)*
Chairman of the Board and Chief Executive Officer
Tecnología, Diseño e Ingeniería, S.A. de C.V.
Construction

David Rodríguez Benítez *(Monterrey)*
Vice-Chairman of the Board
Grupo Senda Autotransporte, S.A. de C.V.
Transport

Manuel Romo Muñoz *(San Juan de los Lagos)*
Chief Executive Officer
Proteína Animal, S.A. de C.V.
Poultry and Livestock Industry

Roberto Ruíz Rubio *(Querétaro)*
Shareholder
Grupo Fomento Queretano, S.A. de C.V.
Beverages

Federico Terrazas Torres *(Chihuahua)*
Chairman of the Board
Grupo Cementos de Chihuahua, S.A.B. de C.V.
Cement Industry

Félix Tonella Luken *(Hermosillo)*
Chairman of the Board
Dinisa, S.A. de C.V.
Construction

Marcelo Zambrano Lozano *(San Pedro Garza García)*
Chief Executive Officer
Constructora Carza, S.A. de C.V.
Construction

Jaime Eduardo Zorrilla de San Martín Diego *(Oaxaca)*
Chief Executive Officer
Procasa (Proveedores de Cemento y Aceros
Oaxaca, S.A. de C.V.)
Supplier of Steel and Cement

Senior Management

Héctor Slim Seade
Chief Executive Officer

Corporate

Isidoro Ambe Attar
Corporate Market

Adolfo Cerezo Pérez
Finance and Administration

José Covarrubias Bravo
Product Development and Telecommunications Operators Coordinator

Jorge Jesús de Anda Gil
Technological Development

Javier Elguea Solís
Dean of Inttelmex

Arturo Elías Ayub
Communication, Institutional Relations and Strategic Alliances

María del Consuelo Gómez Colín
Operational Support

Eduardo J. Gómez Chibli
Technical and Network Managment

Sergio F. Medina Noriega
Legal

Javier Mondragón Alarcón
Regulatory and Legal Affairs

Jaime Pérez Gómez
Human Resources

Patrick Slim Domit
Mass Market

Andrés R. Vázquez del Mercado Benshimol
Residential Mass Market

Divisions

Oscar Aguilar Ramírez
Metro

Miguel Macías Viveros
Center

Hiram Ontiveros Medrano
South

Raymundo Paulín Velasco
North

José Alfredo Reynoso del Valle
Northwest

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

More information about TELMEX can be accessed on the Internet at **www.telmex.com**

Shareholder Information

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Colonia Cuauhtémoc
México D.F., C.P. 06599

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Ph: 52 (55) 5222-5462
e-mail: ri@telmex.com

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

Independent Auditors
Mancera, S.C., Ernst & Young

Shares Traded in Mexico
"A": Bolsa Mexicana de Valores
Symbol: TELMEX A
"L": Bolsa Mexicana de Valores
Symbol: TELMEX L

Shares Traded in the U.S.
ADS: New York Stock Exchange
Symbol: TMX
One ADS represents 20 "L" shares
ADS: NASDAQ
Symbol: TFONY
One ADS represents 20 "A" shares

Transfer and Depositary Agent in the U.S.
J.P. Morgan Depositary Receipts
www.adr.com

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Ticker Symbols:

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

www.telmex.com

TELMEX

TMX LISTED NYSE

TFONY NASDAQ LISTED

LATIBEX XTMXL

design: **signi.com.mx** / Photography: **Agustín Garza and Daniel Robles**

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YEARS

TELMEX®
está contigo