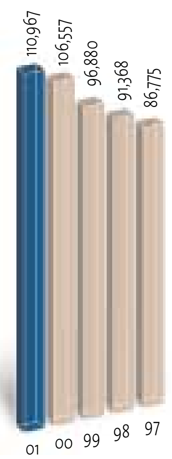

Annual Report 2001
Teléfonos de México
Telmex está
contigo...

TELMEX®

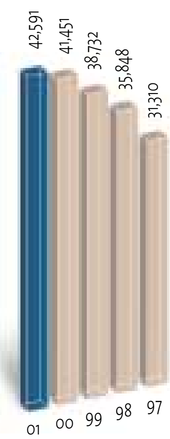
Total revenues

(million pesos)



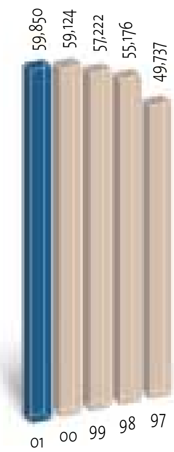
Operating income

(million pesos)



EBITDA

(million pesos)



I n d e x

Telmex está contigo...

2001

Highlights

(Figures in millions of pesos, unless otherwise indicated, with purchasing power as of December 31, 2001)

Financial Results

	2001	2000	1999	1998	1997
Total revenues	**110,967**	106,557	96,880	91,368	86,775
Cost of sales and services	**24,169**	23,026	20,146	19,540	20,137
Commercial, administrative and general expenses	**17,138**	17,228	16,636	16,652	16,901
Interconnection	**9,810**	7,179	2,876	-	-
Depreciation and amortization	**17,259**	17,673	18,490	19,328	18,427
Total costs and expenses	**68,376**	65,106	58,148	55,520	55,465
Operating income	**42,591**	41,451	38,732	35,848	31,310
EBITDA	**59,850**	59,124	57,222	55,176	49,737
Net income from continuing operations	**23,494**	26,098	23,713	16,378	17,218
Assets from continuing operations	**156,911**	163,789	155,384	166,039	170,868
Debt from continuing operations	**69,742**	77,688	55,602	61,963	62,778
Stockholders´ equity (1)	**50,762**	51,626	139,118	135,304	133,708

Statistics

	2001	2000	1999	1998	1997
Lines in service (2)	**13,372**	12,069	10,878	9,927	9,254
Internet customers (2)	**913**	634	403	146	34
Line equivalents for data transmission (2)	**1,574**	997	507	371	224
Domestic long-distance minutes (3)	**14,251**	12,309	10,419	9,077	8,232
International long-distance minutes (3) (4)	**4,404**	5,521	4,192	3,286	3,768
Total local calls (3)	**25,567**	24,738	23,426	22,986	20,832
Sold telephone cards (3)	**268**	257	209	139	100

Data per Share (pesos) (5)

	2001	2000	1999	1998	1997
Average income from continuing operations					
Basic	**1.74**	1.78	1.57	1.04	1.02
Diluted	**1.63**	1.68	1.53	1.04	1.02
Nominal dividend paid	**0.490**	0.445	0.388	0.350	0.263
Outstanding shares at the end of each year (3) (5)	**13,165**	14,010	14,949	15,449	16,236

(1) The decreased in the value of stockholders´ equity between 1999 and 2000, is due to the spin-off of América Móvil in September, 2000
(2) Thousands
(3) Millions
(4) Includes incoming and outgoing traffic
(5) Considers in retroactive form the effect of the stock split approved since February 1, 2000

Momentous economic and political challenges left their mark on 2001. The far-reaching impact of international conflicts and the dramatic decrease in the market value of technology and information companies intensified the economic recession that became more evident during the second half of the year, especially in Mexico.

However, in spite of the unfavorable economic environment and continuing intense competition in the Mexican telecommunications market, TELMEX's position as the premier provider of integrated telecommunications services in the country continued to grow stronger. Our customers appreciate the value of our services and are loyal. Because we have their support, operating indicators such as lines in service, local, interconnection, international and long-distance traffic; Internet access accounts, and line equivalents for data transmission achieved positive trends throughout the year.

These gains contributed to a 4.1% increase in revenues to 110.967 billion pesos for 2001. That top-line growth along with continuing emphasis on expense control produced operating income of 42.591 billion pesos, 2.8% higher than the previous year.

The operating and financial results that are presented in this annual report are the result of concentrating our efforts in the following initiatives:

1) Know and satisfy our customers´ needs
2) Increase our offering of integrated telecommunications services
3) Maintain the technological evolution of the telecommunications platform in the country
4) Carry out the tasks necessary to support the development of the telecommunications industry

1) Know and satisfy our customers´ needs

More information and instant access to tremendous amounts of data have transformed commercial relations among partners, suppliers, regulatory authorities and customers, creating unprecedented challenges as well as opportunities. For this reason, our corporate customers seek out providers that understand information technology and actively invest in it. Their priorities for telecommunications services are integrated solutions, single point of contact, the best technology, high quality and competitive pricing. These factors therefore are key considerations in how TELMEX organizes our services and markets them to customers.

The current business environment has put pressure on small and medium-size businesses to modernize quickly to respond to their customers' demands. In order to succeed, they must have proper technological tools and the financial ability to acquire the required infrastructure without sacrificing their profitability in the short term.

These realities guided TELMEX as we reviewed our services for the small and medium-size business market during 2001. We combined access and transport services for this market segment with a platform of services like bandwidth access, equipment, shared hosting and e-commerce. The realigned service offering makes it easier for these customers to take advantage of newly available technological advances and trust that their Internet presence will be carried out in a secure and cost-effective manner. As part of our assessment of how best to serve this market segment, we turned selected telephone attention centers into specialized offices where operators of small and medium-sized businesses can obtain advice and support.

TELMEX Solución Integral (TELMEX Integrated Solution) is our answer for serving large corporate customers and their often complex telecommunications needs. To meet the wide range of expectations of this important market segment, we have developed the most complete technological offering and highest quality available anywhere in Mexico. Our offering integrates equipment, access, transport, applications, dedicated hosting, colocation, content and consulting in order to provide complete support of telecommunications and e-commerce.

We continue to act on our belief that TELMEX should work with customers to figure out the best ways to make telecommunications advances available to them and applicable in their business operations. In this way, large and small companies alike increase their likelihood of success in a world that grows steadily more competitive. TELMEX remains committed to being the telecommunications partner of choice for companies in Mexico—a partner who knows how to satisfy their telecommunications needs and supports them by investing in a technologically advanced infrastructure, build a more robust and secure network that readily connects them with the world and adapts technology to satisfy customer needs.

2) Increase the offering of integrated telecommunications services

TELMEX has made a commitment to improving connectivity throughout Mexico. A measure of our progress is how much our network expanded during the year. We increased the number of line equivalents from 13.7 million in 2000 to more than 15.8 million at year-end 2001.

That growth, along with programs like shared telephony and Community Digital Centers, enabled us to continue enhancing access to connectivity throughout the country.

Public telephony continued to demonstrate its value as an efficient means of extending service to more segments of the Mexican market. During the year, 268 million prepaid telephone cards were sold, setting a record for the company and one of the highest in the world. In May 2001 we began to evolve the Ladafon telephone card to the more versatile Multifon version. Customers can use the new cards with Ladafon, Ladatel or fixed telephones. The effect is to broaden access to TELMEX's complete phone platform among all users of shared telephony.

In the same way that we have worked to increase access to voice services, we have put programs in place to connect more Mexicans to the powerful information flow that the world of data transmission and Internet access represents. In support of that strategic emphasis, we have made it possible for customers in 1,880 communities to access the Internet through TELMEX´s network just by making a local call.

Always seeking to be one step ahead, we launched the TELMEX National Connectivity Project (e-TELMEX) with the goal of offering voice and broadband data services in 2,508 communities in the country. As a result, these communities will have access to state-of-the-art telecommunications services within 18 months of the project's launch. At the core of this project are Community Digital Centers which fill a number of roles for residents in their local areas. The centers are designed to offer voice and high-speed Internet services as well as carry out educational, health and economic development functions. The telecommunications service available through these centers is an integrated solution that includes connectivity, equipment, installation, programming, maintenance, support, technological updates and remote monitoring.

We continue to provide a more robust offering of traditional voice services and Internet access across the entire residential market. Of particular note in 2001 were bandwidth expansions introduced as part of our Prodigy line, including Prodigy Turbo (ISDN) and Prodigy Infinitum (ADSL).

Additionally, we continued to facilitate customers' purchases of PCs with Internet access through our Prodigy Internet Plus program that reached 277 thousand customers at year-end 2001.

Eficentrum is our horizontal market dedicated to the indirect buying and selling of goods and services through which he have obtained higher operating efficiencies in our basic processes. At the same time, we have made this platform available to our customers and suppliers in order to optimize their supply chain and give them access to on-line auctions of goods. On the other hand, Triara, our company that provides colocation and hosting services has increased its offering by adjusting its operations model to the Mexican market by providing our corporate customers support in the development of their e-commerce strategy.

3) Maintain the evolution of the telecommunications platform in the country

TELMEX has one of the most advanced telecommunications networks in the world as a result of 11 years of constant work and technological innovation. Our investments in our network during that period totaled 26 billion dollars.

Even more important in terms of continued growth, we understand that maintaining leading-edge technology requires us to continue to upgrade our infrastructure. In 2001, we invested 2.495 billion dollars in our network to continue broadening our telecommunications platform and enhance its capacity and functions.

Our investment strategy is focused on achieving the gradual evolution of the telecommunications infrastructure by rationalizing economic resources in order to optimize its use. In 2001, we paid equal attention to growth of the voice and data services, especially considering that data has recently surpassed traffic volume of the voice business confirming its relevance and validating our strategy.

During the year, TELMEX added more than 1 million 302 thousand fixed lines, 576 thousand line equivalents for data transmission and 279 thousand Internet access accounts. Collectively these additions translate into a 15.8% increase in services, bringing the total to 15 million 859 thousand at year-end 2001. Unfortunately, our customers purchasing power forced us to cancel close to 615 thousand fixed lines during the year.

TELMEX continued to provide integrated attention to the several telecommunications operators, 24 hours a day, 365 days a year. Among the services we provided them is interconnection where carried minutes through TELMEX´s network totaled 18.847 billion, 35.9% more than the previous year. Additionally, services of infrastructure use like interconnection and termination ports, local interconnection links, line equivalents for data transmission, digital trunks and lines to support public telephony increased 81.4% in units. TELMEX´s network supported this growth by offering a level of availability in its ports of 99.97%.

TELMEX's fiber optic network extends more than 70 thousand kilometers, is fully digital and has connections via submarine cables with 39 countries. Because of this advanced capability, Mexico's citizens have immediate and reliable telecommunications service nationally and internationally.

4) Carry out the necessary tasks that support the development of the telecommunications industry

In October 2001, the Mexican Congress, through the Communications Commission of the Congress and the Communications and Transportation Commission of the Senate, began the process of revising the Federal Telecommunications Law. Accordingly, TELMEX has participated in the legislative process by presenting comments on proposed legislative positions regarding several major topics under discussion.

TELMEX´s proposal was focused on promoting the telecommunications industry's development in Mexico through direct investments in infrastructure and guaranteeing the rights of investors' with regard to transparency, equality, legal security and profitability.

In its proposal, TELMEX insisted on the need to ensure a regulation that promotes investment and not only the exploitation of profitable markets. In this sense, we strongly oppose the unbundling of TELMEX´s network into segments with the obligation of reselling it at cost, since this not only will reduce the total investment, but it would also restrain the development of marginal areas.

TELMEX has represented approximately 85% of the investments of the sector in the country. During 2001, total investments were 2.495 billion dollars that fulfilled our growth and infrastructure modernization needs. Of that total, 40.4 % was applied to the voice business and slightly more—41.4 %—to the expansion and modernization of the data business. The rest was invested in optimizing processes. During 2002, we seek to consolidate projects initiated in 2001, as well as enhance capacity and coverage of the voice and data network throughout the country.

It is essential to keep on working with politicians in charge of the telecom law reform to ensure the fair balance that fosters competition and consumers and not only provides benefits to some competitors.

Simultaneously, we advanced in our negotiations with Mexican telecommunications operators. In December, we reached a broad agreement that established the main interconnection conditions on a commercial basis among our networks until next year. Additionally, we actively negotiated settlement rates between The United States and Mexico that have decreased 86% in the last 5 years.

The year 2002 will be difficult not only because the current economic conditions could result in moderate growth in our country, but also because the uncertain regulatory environment can affect our investment decisions. Nevertheless, we will take advantage this year to consolidate the achievements of the previous years, seeking higher efficiency in the management of our basic processes.

Especially with uncertainty still affecting the economic outlook, we will maintain strict controls over operating costs, preserve our solid financial position and consolidate the efforts of the last years. These initiatives will position us in a privileged condition to take advantage of the opportunities that will surely arise in the telecom industry.

TELMEX's progress toward achieving our corporate initiatives would not be possible without the participation of our entire organization. The effort, dedication and commitment of our employees have been essential in meeting the goals and overcoming the challenges of 2001.

Additionally, Forbes magazine named TELMEX the best telecommunications company in the world. Each year, this prestigious magazine selects the best companies in the world in all economic sectors, that is carried out among 400 companies that are strongly evaluated in their financial and growth performance.

We are aware that the achievements and growth we attained in the past do not guarantee progress in the future. However, the people of TELMEX are determined to continue meeting the telecommunications needs of our society by staying a step ahead of our market in order to remain the leading-edge integrated service provider of telecommunications services.

All of us who work at TELMEX are aware that we must execute these strategies well and fulfill their associated objectives to fuel the company's momentum and, most of all, to continue adding value for our shareholders.

Carlos Slim Helú	Jaime Chico Pardo
Chairman of the Board	Chief Executive Officer

...in your home

TELMEX is with you, connecting you to a network of more than 13 million users in Mexico and hundreds of millions more worldwide, through the most advanced services and the largest telecommunications network in the country.

TELMEX is committed to enhance connectivity for Mexico. Just as we have increased access to voice services through programs like basic and shared telephony, we are working to involve more Mexicans in the powerful flow of information available through data and Internet access.

As part of that strategy, we are opening community digital centers in 2,508 communities across the country. These centers will not only provide broadband access but will also efficiently help carry out educational, health and economic development functions.

In the residential market we have increased our voice service offering and Internet access with products like Prodigy Turbo (ISDN) and Prodigy Infinitum (ADSL). These services allow our customers to handle larger bandwidth and make it easier for them to access information on the World Wide Web.

We recognize that the speed with which information flows in the current global environment has forced companies, regardless of size, to transform their relationships with partners, suppliers, regulatory authorities and customers.

Small and medium-size businesses represent a significant force in the Mexican economy. TELMEX is helping them meet the challenges of changing market realities by providing a platform of services such as bandwidth, equipment, shared hosting and e-commerce. These telecommunications elements help the businesses build the capabilities they need to participate successfully in the global economy.

In the large-customer market segment, TELMEX continues to develop the broadest high-quality technological offering in the country in order to provide complete telecommunications support for these customers from a single point of contact. TELMEX remains committed to being the telecommunications partner of choice for companies in Mexico.

TELMEX offers customers state-of-the-art capability supported by an intelligent platform because our long-distance network uses world-class technologies and enables us to meet our customers' needs for processing, transport, signaling, synchrony, supervision and management. Moreover, we have continued to evolve our telecommunications network toward the concept generally referred to as new generation.

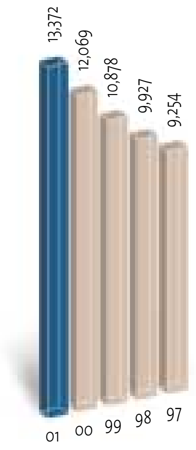
TELMEX also continues to promote the development of the telecommunications industry in Mexico through direct investment in infrastructure. In 2001 we invested 2.495 billion dollars to continue expanding and adding new capacities and functions to our telecommunications network. One result of this investment is that during the year our access points—including lines for voice, data and Internet—increased 15.8 % to 15 million 859 thousand.

Additionally, continued investment and the introduction of new technologies in our network have translated into more reliability for our customers as measured in higher call completion levels and more traffic. Including local, long-distance and interconnection activity, the total traffic carried on TELMEX´s network during 2001 rose to more than 115.226 billion minutes, 4.9% more than in the previous year.

In short, 2001 was a year in which we remained focused on what we do best: develop telecommunications in Mexico to satisfy our customers' needs. This is how we generate value for our shareholders.

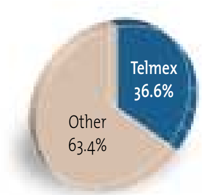
Lines in service

(thousands)



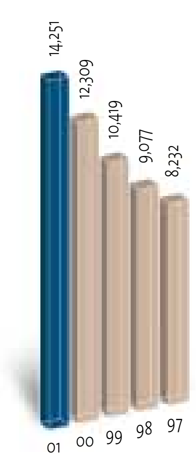
Local

(estimated market share based on customers)



DLD minutes

(millions)



Local service

According to information provided by the Mexican Telecommunications Commission (COFETEL) on its Internet site, Mexico's local telephony competitive environment is comprised of 20 companies with concessions to provide local wireline and wireless telephony and 10 companies with concessions for cellular and mobile telephony. Based on publicly available information, TELMEX estimates that at year-end 2001 our market share based on customers was 36.6% of the local service market. Local service revenues represented 47.2% of the company's total revenues.

For the second consecutive year, TELMEX added more than one million lines to the nation's telephone service. For the year the total gain was 1,302,586 fixed lines, 9.4% higher than in 2000. At year-end 2001 TELMEX had 13,371,579 fixed lines in operation, an increase of 10.8% compared with the previous year.

In 2001 local traffic totaled 25.567 billion calls, an increase of 3.3% over the previous year. The lower rate of growth for traffic compared with that of lines in service was mainly due to higher market penetration among lower socioeconomic levels where purchasing power is more restricted. The number of residential lines for which customers did not consume measured service increased 0.3% during 2001 to 51.5% of the total customer base.

In order to promote the use of digital services and give more value to fixed lines, in June we began aggressively promoting a program encouraging new residential and commercial customers to subscribe to at least three digital services from among options like Call Waiting, Call Forwarding, Three Way Calling, Caller ID and Voice mail. In 2001 lines with digital services increased 55.5%, bringing the total to 3,206,907.

Long-distance (LADA)

Competition in the long-distance market continued to increase. Our competitors have focused their strategies in the corporate and high-end residential customer markets. As a result, in a short time the competitors have captured a significant portion of total traffic while serving a relatively small number of customers.

According to information on the COFETEL Web site, 21 companies had concessions to provide long-distance services in the country, 11 companies to operate international ports and 29 companies with concessions for other services like videoconferencing, data transmission, land mobile services and broadband services. Together these companies comprised the Mexican long-distance market in 2001.

During the year, 493 cities were added to the presubscription process, bringing to 693 the total number of cities with long-distance competition. They accounted for 88.9% of lines in service and 90.2% of total long-distance minutes. Between 1997, when competition began in Mexico's long-distance market, and the end of 2001, customers changed long-distance providers 20,737,374 times, according to information provided by NCS Pearson, an independent company that tracks these activities.

Using industry and internal figures, we estimate that TELMEX's market share in cities open to competition was 68% in Domestic long-distance (DLD) and 59% in International long-distance (ILD). At year-end 2001 revenues for DLD represented 25.7% of TELMEX´s total revenues and ILD 8.5%.

Mexico has opened its telecommunications market to competition at a faster pace than has been the case in many other nations. According to information gathered by the Organization for Cooperation of Economic Development (OCED), in four years the new operators in Mexico have gained DLD market share equivalent to what occurred over a nine-year period in Japan and Canada and fourteen years in England.

The slowing economy, especially in the fourth quarter, affected DLD traffic in 2001. Total DLD billed traffic was 14.251 billion minutes, an increase of 15.8% compared with 2000.

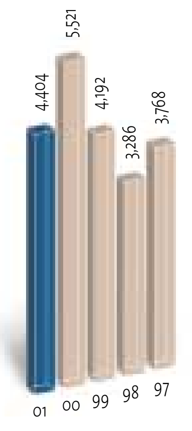
As a company focused on customer service, we believe that in a difficult economic environment we should make additional efforts to help our customers. Reflecting that point of view, we decided not to increase long-distance rates during 2001.

In order to accommodate the need for more telephone numbers in Mexico and carry out a government mandate, domestic numbering increased to 10 digits in November, 2001. The change from eight digits made it necessary to modify and adapt 100% of our local and long-distance telephone facilities. TELMEX complied with this change in a timely manner, providing technical support, new long-distance area codes, the new way of local dialing, and a broad advertising campaign to familiarize telephone users nationwide with these necessary changes. The cost to the company for supporting this improvement in Mexico's telecommunications environment was approximately 20 million dollars.

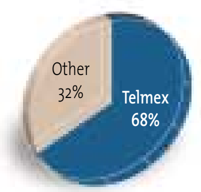
Settlement rates between Mexico and the United States have decreased significantly over the last decade, especially as steps have been carried out to increase competition on what is one of the world's busiest telecommunications traffic routes. Related to those efforts, on May 30, 2001, TELMEX reached an agreement with several US operators that reduced 2001's rates 18.4% to US15.5 cents from US19 cents per minute.

This agreement was modified at the beginning of 2002, further accommodating international operators by taking into account where calls are initiated and terminated in setting settlement rates for 2002-2003. For calls initiated in the United States and terminated in Guadalajara, Mexico City and Monterrey the settlement rate is US5.5 cents per minute. In the next largest 200 Mexican cities the settlement rate was set at US8.5 cents per minute. For the rest of the country the rate is US11.75 cents per minute. The US 5.5 cent rate represents a drop of 92% in settlement rates in just 10 years.

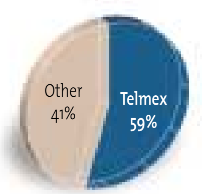
ILD minutes
(millions)



DLD
(estimated market share based on traffic)



ILD
(estimated market share based on traffic)



...everywhere

TELMEX is with you with the largest nationwide public telephony network and an Internet access platform, adding more Mexicans to the digital world regardless of their economic condition.

Even with the settlement rate cuts, ILD traffic declined to 4.404 billion minutes in 2001. The year-over-year decrease of 20.2% reflected lower incoming traffic from the United States as well as fewer outgoing calls, trends that became more pronounced in the last quarter of the year.

Additionally, ILD traffic terminated in Mexico continued to be adversely affected by some telecommunications operators' practice of illegal by-pass. We estimate that for 2001 alone, TELMEX was deprived of revenues of approximately 1.699 billion pesos, equivalent to 18% of ILD revenues, as a result of by-pass practices.

Public telephony

TELMEX increased the public telephone base 13.1% during 2001 with a year-over-year increase of 82,198 public phones, bringing the total number in service to 707,791. Of that number, 267,981 are fixed phones that accept prepaid Ladatel cards, which contain electronic chips that enable customers to access TELMEX services. By year's end there were 359,307 fixed shared phones using prepaid Multifon cards.

In May 2001 we began offering a multipurpose card called Multifon which customers can use with both Ladatel phones and fixed lines. These more versatile electronic-chip cards are making telecommunications services more available to shared phone customers by giving them access to a full range of TELMEX services.

Since August TELMEX has been using satellite technology to bring telecommunications services to remote communities where access is difficult. A minimum of three phone lines are installed in agencies in rural communities, broadening service coverage and improving call completion. The number of rural public phones rose to 38,227 by year-end, 9.2% more than in 2000.

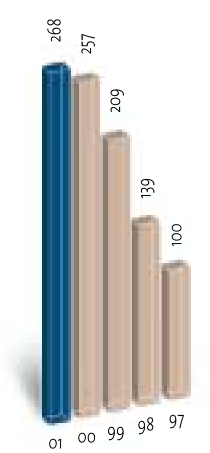
Through a distribution network with 147,680 points of sale, TELMEX sold 263 million Ladatel cards and 5 million Multifon cards in 2001, the equivalent of 2.7 cards per Mexican. These figures position Mexico as the leader in providing access to public telephony through prepaid cards.

Still another factor in extending public telephony service is wireless service, which added 1,488,509 public phones during 2001, bringing the total to 2,196,300 operating telephones.

Additionally, TELMEX provided necessary support for other public telephony operators, which added 12,101 to the total number of public telephones in service in Mexico.

Sold telephone cards

(millions)



...in your business

TELMEX is with you, offering the largest portfolio of telecommunications products and services in Mexico, helping to integrate your business into the global economy.

Services for telecommunications operators

The services we offer to fixed and mobile telecommunications operators represent an important business segment for TELMEX. Not only are these providers large customers for TELMEX but also the services they provide to customers are an important contributor to the Mexican economy overall.

Interconnection

Interconnection traffic with telecommunications operators increased 35.9% compared with 2000, reaching 18.847 billion minutes. This increase in interconnection traffic reflected the interconnection rate reduction and the impact of calling-party-pays rules that govern cellular use, a growing market in Mexico.

In December 2001 TELMEX and the telecommunications operators agreed to establish the interconnection rate at US 0.975 cents per minute and per interconnection point. The new rate represents a decrease of 22% and falls well below the average rate internationally. Additionally, mutual discounts were negotiated up to 45% below the best market rate offered to the public in local and long-distance private interconnection links and 45% below the market price of colocation. Carrying out these kinds of initiatives is another way TELMEX contributes to a stronger telecommunications industry in Mexico.

Use of infrastructure and specialized products

Infrastructure-use services provided to telecommunications operators include incoming, outgoing and bi-directional digital trunks, point-to-point and point-to-multipoint links, as well as direct commercial lines, 800 numbers and digital services.

Specialized products consist of lines for suppliers of public telephone services, infrastructure for ISPs, ending of public long-distance commuted traffic, yellow pages information services, billing and collecting, 800-number service to public telephony suppliers, as well as long-distance calls charged to a credit card.

The following table shows TELMEX´s performance as a carrier of carriers:

Service	2000	2001	% Change
Interconnection ports	8,044	12,748	58.5
Local interconnection links	2,521	6,953	175.8
Termination ports	560	996	77.9
Line equivalents for data transmission			
LD and local operators	97,067	149,437	53.9
Cellular operators, data networks and others	343,700	626,988	82.4
Digital trunks	31,028	85,260	174.8
Public telephony lines	10,119	12,101	19.6
Interconnection minutes (millions)	13,874	18,847	35.9
LD traffic completion minutes (millions)	1,600	2,279	42.4
Level of network availability (ports) (%)	99.97	99.97	-

...online

TELMEX is with you, connecting you at high speed to the World Wide Web to take full advantage of its information, education, commercial, entertainment and cultural potential, thus helping bring Mexico into the digital era.

Data

We have carried out a number of key initiatives to define the commercial offerings that best match the needs of all our customers even as we work to make our data network robust enough to support new technological capabilities.

Our strategy takes into account big corporations' demanding requirements for volume, speed and security as well as the diverse needs of the medium- and small-business market. The latter market in particular offers interesting challenges given the fundamental role it plays in Mexico's economic development.

A high priority for TELMEX is to help bring technology to a larger portion of the Mexican population by providing broader access to the World Wide Web.

Revenues generated by the data business represented 10.3% of the company's total revenues and rose to 11.405 billion pesos, 21.9% higher than in 2000.

Line equivalents

At year-end 2001 TELMEX had 1,573,894 line equivalents for data transmission, an increase of 57.8% compared with the previous year. The year-over-year gain was 576,616 line equivalents, 17.6% higher than in 2000.

Internet access service

Despite the fact that cable companies entered Mexico's Internet access market and some free-access ISP´s continued operating during 2001, TELMEX´s Prodigy Internet performed well.

During the year we added 279,125 Internet access accounts, 20.7% more than in 2000. At year-end 2001 there were 913,127 Internet access accounts, 44% more than the previous year, and coverage extended to 1,880 communities. TELMEX ranks as Mexico's largest ISP. Out of the total of Internet subscribers, 80.5% are residential customers and 19.5% are commercial customers.

During the year we also strengthened international Internet connections through an increase in bandwidth capacity with the United States. TELMEX has more than 2,790 Mbps to access the World Wide Web.

We continued to increase personal computer penetration in homes and small businesses through Prodigy Internet Plus. The number of service packages sold through this program reached 277,489 at the end of 2001, 35.9% more than in 2000. This package provides a PC and unlimited access to the Internet for two years, a personal Web site and e-mail service.

Bandwidth service

Prodigy Infinitum is TELMEX's new Internet connectivity product based on ADSL technology. It enables customers to browse the Web at speeds up to 2 Mbps and includes the capability to place or receive phone calls at the same time the user is online. Prodigy Infinitum's versatility will enable users access to a series of services and applications that help them make more use of available bandwidth.

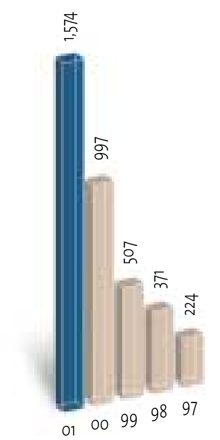
At December 31, 2001, TELMEX had 29,854 customers with access to bandwidth services, 16.5% of whom had signed up for Prodigy Infinitum even before the mass launch of this service.

T1MSN Portal

The preferences of the Mexican public have made T1MSN a clear market leader—eight of 10 people accessing the Internet in Mexico pass T1MSN at some point in their Web searches.

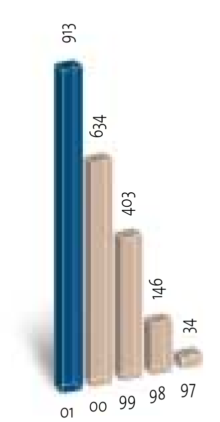
Line equivalents for data transmission

(thousands)



Internet access accounts

(thousands)



To enhance its leadership position in the Hispanic market, T1MSN concluded the acquisition of Yupi Internet, Inc. in September. Yupi manages one of the portals most frequently visited by the Hispanic community in the United States and in Latin American countries where there is a high level of Internet use.

The acquisition significantly increased T1MSN´s reach in those markets. At December 31, 2001, it had 6.4 million unique users in Mexico and 9.8 million in Latin America and the United States. Total page views rose to 6.268 billion during the year.

www.telmex.com

TELMEX's corporate Web page has become a highly appreciated point of contact for customers looking for an easier way to conduct business with us. At www.telmex.com they can sign up for most of our services as well as research billing questions and pay their telephone bills, avoiding the extra effort of making trips to meet with our representatives in our offices. During 2001 TELMEX´s Web site had 1.3 million unique users, 68% of them from Mexico and the remaining 32% from abroad. The site recorded more than 88 million page views during the year..

TELMEX Stores (Tiendas TELMEX)

Tiendas TELMEX represents the company's most important sales channel for the residential market. This store chain—374 stores and 88 drive-thru pay centers—sells a broad variety of TELMEX telecommunications products and services. In 2001 Tiendas TELMEX received more than 5 million visits per month.

Yellow Pages

The business strategy for yellow pages is focused on maintaining its market position as Mexico's best, most complete and most used search tool for companies, products and services. In 2001, 8 new phone books were launched, bringing the total to 120 nationwide.

In July we began operating www.seccionamarilla.com.mx. Not only does it offer customers and users a search engine for the 120 printed directories but it also allows customers to build Web sites or virtual stores online.

The 2001 editions of the yellow pages had added up to 18.6 million printed books, of which 1.9 million were district directories.

Embracing a global environment while maintaining a regional focus

Mexico is immersed in the unavoidable globalization process. Even so, national companies and those which operate primarily as infrastructure suppliers must not lose their regional focus so that they can continue to adapt products and services to accommodate the diverse realities of unique economic areas within Mexico.

TELMEX is committed to the development of the diverse regions of our country, as manifested in our presence and investment in the 32 Mexican states. So far only a few companies have acted on business opportunities in the south region of our country. In a single year TELMEX has invested over 120 million dollars in Chiapas, Guerrero and Oaxaca, states that traditionally have lagged the national pace of economic development.

In many ways TELMEX is important to the development of strong local economies, not only because of the services we offer but also because of the labor market we create and the multiplier effect of expanded employment. In 2001 TELMEX hired at least 1,000 people in Baja California, Chihuahua, Coahuila, Mexico City, the State of Mexico, Guanajuato, Guerrero, Jalisco, Michoacán, Nuevo León, Puebla, Querétaro, Sinaloa, Sonora, Tamaulipas, Veracruz and Yucatán.

Only a limited number of companies in Mexico can equal TELMEX's presence and regional commitment. These circumstances—and TELMEX's willingness to accept the accompanying responsibilities—have contributed to our being not only a leader in telecommunications but also a key participant in the national economic system. Our company has a first-level management team in 11 districts across the nation to help us understand local areas' specific needs and offer intelligent, workable solutions.

Human resources

Human resources constitute the most important network in TELMEX and play an increasingly critical role in accomplishing strategic success. We remain convinced that sharing our knowledge vertically and horizontally in our organization helps us to continue fostering creativity among our employees and, as a result, gives us the flexibility to adapt our strategies to the fast-changing market.

The Instituto Tecnológico de Teléfonos de México (the Technological Institute of Telmex, or INTTELMEX) offered 17,190 training programs averaging 3.7 days each, which were attended by 130,633 persons during 2001. Our ongoing investment in training and employee programs has allowed TELMEX to develop telecommunications services that satisfy our customers' needs while also paying attention to controlling operating costs and increasing value for our shareholders.

	Telephone lines	Internet access	Communities with service	Jobs	Investment (1)
Aguascalientes	132,436	8,155	214	461	25.1
Baja California	549,104	50,588	255	3,756	78.0
Baja California Sur	81,579	11,966	63	314	18.8
Campeche	54,686	7,099	193	144	10.1
Coahuila	359,490	30,603	385	1,870	75.7
Colima	85,761	7,832	122	480	13.5
Chiapas	156,058	13,282	1,391	626	39.7
Chihuahua	470,970	29,682	600	2,122	112.8
Distrito Federal	2,862,500	220,517	34	23,921	398.3
Durango	157,405	8,725	531	402	19.8
Estado de México	1,741,245	109,578	1,896	4,159	182.1
Guanajuato	484,511	33,345	1,634	1,624	99.3
Guerrero	240,786	13,144	1,091	1,279	47.8
Hidalgo	162,336	10,244	1,079	686	28.9
Jalisco	1,100,295	47,323	1,558	4,137	226.3
Michoacán	363,210	18,495	1,691	1,218	75.3
Morelos	240,593	14,233	301	954	42.5
Nayarit	97,140	3,374	408	391	16.2
Nuevo León	825,089	38,781	556	3,953	189.2
Oaxaca	160,757	13,404	1,599	722	33.5
Puebla	447,372	25,849	1,480	2,284	127.4
Querétaro	186,679	19,264	403	1,158	98.3
Quintana Roo	128,823	18,526	155	490	57.9
San Luis Potosí	208,819	16,314	767	699	34.1
Sinaloa	297,950	14,070	1,045	1,276	49.5
Sonora	318,106	25,033	555	1,831	75.6
Tabasco	119,926	11,405	820	604	22.6
Tamaulipas	414,827	33,013	645	1,773	76.5
Tlaxcala	79,975	5,288	256	191	12.1
Veracruz	561,493	34,655	2,854	2,569	88.1
Yucatán	180,391	14,246	449	1,108	78.8
Zacatecas	101,267	5,094	608	348	41.2
Total	**13,371,579**	**913,127**	**25,638**	**67,550**	**2,495**

(1) Investment in millions of US dollars

...with society

TELMEX is with you and all of Mexican society, contributing to the integrated development of our country through education, health, justice, cultural and sports programs.

Fundación TELMEX

People living in big urban centers as well as small communities nationwide benefit from the activities carried out by Fundación TELMEX. It works closely with local authorities and organizations with expertise in its core programs so that it can help those who most need assistance.

The mission of Fundación TELMEX is to support individual development, which in turn contributes to improvement in the social, educational and economic structure of society.

During 2001 Fundación TELMEX continued promoting research, education, nutrition, health, justice, culture, sports and environmental responsibility projects. It donated 8,936 scholarships to students preparing for 748 different careers in 739 private and public institutions. Additionally, Fundación TELMEX supported 14 Scholar Houses in Mexico, each one providing its residents computer services, Internet access, videoconferencing capabilities and libraries to enhance the professional development of all scholarship holders.

In health, Fundación TELMEX donated 4,450 pairs of eyeglasses to public school children and funded treatment for 14,343 patients in ophthalmology, cleft lip and palate, orthopedics, reconstruction and general surgeries. Additionally, in 2001 Fundación TELMEX started a program in conjunction with the Children's Hospital to distribute 450 tons of free candy bars with nutritional supplements to 450,000 children in low-income families.

Regarding justice, Fundación TELMEX, in conjunction with Fundación Mexicana de Reintegración Social, A.C., (Mexican Foundation for Social Reintegration) provided 6,267 bail bonds to low-income first-time offenders who were eligible for release but could not make bail. The program helps prevent an escalation in the social cost of minor crimes by avoiding the family disintegration and interruption to children's schooling that can occur when family members are imprisoned while awaiting trial.

Fundación TELMEX also encourages sports to promote good health and attack the drug problem. For four consecutive years the foundation has helped organize the México-TELMEX soccer cup, now the world's largest soccer tournament. It involves more than 47 thousand teams from all over the country, including teams of indigenous people like the Huicholes from Nayarit and the Zapotecas from Oaxaca.

Comments on the operating results
and the financial position

Consolidated financial statements

Comments on the operating results and the financial position

TELMEX is a corporation made up of Teléfonos de México, S.A. de C.V., its subsidiaries and affiliates. Along with them, TELMEX provides telecommunications services throughout the country. In addition to other services, this includes operation of the nation's most complete local, domestic and international long-distance networks. Additionally, TELMEX offers services like connectivity, Internet access, colocation, dedicated web-hosting and interconnection services to other telecommunications operators.

In 2001 TELMEX added 1 million 303 thousand fixed lines, 9.4% more than in 2000. Total lines in service increased 10.8% reaching 13 million 371 thousand 579 fixed lines.

During 2001, the economic activity decreased and affected long-distance traffic volume that, partially offset by the win-back of customers and improvement in call completion, resulted in volume growth of the long-distance business. Domestic long-distance traffic was 14.251 billion minutes, 15.8% higher than in 2000. International long-distance were 4.404 billion minutes, equivalent to an annual decrease of 20.2%. In the fourth quarter, the performance of these two services contracted since domestic long-distance increased 10.0%, and international long-distance decreased 13.2%

On September 25, 2000, TELMEX´s shareholders approved the spin-off of the wireless telecommunications segment and most of its international operations. As a result of the spin-off, América Móvil was established as a new Mexican company apart from TELMEX, where specific assets, liabilities and equity related to these operations were transferred. As a result of the spin-off, each TELMEX shareholder became shareholders of América Móvil and consequently, both companies are controlled by the same group of shareholders.

The consolidated statements of income of TELMEX reported in the following pages should be analyzed in conjunction with the consolidated financial statements and accompanying notes, which are an integral part of this annual report. The consolidated statements of income of 2000 and 1999 were restated to present continuing operations apart from the discontinued operations, in order to achieve an adequate comparability, as well as to comply with the current accounting principles. Revenues and costs of the discontinued operations are presented in the income from discontinued operations, net of income tax and employee profit sharing.

In accordance with Mexican Accounting Principles Bulletin B-10, issued by the Mexican Institute of Public Accountants, the figures shown in the financial statements and its accompanying notes, as well as the notes included in this section are expressed in pesos with purchasing power as of December 31, 2001.

TELMEX

Consolidated statements of income

Years ended December 31

	2001		2000		1999	
	Million pesos	% of operating revenues	Million pesos	% of operating revenues	Million pesos	% of operating revenues
Operating revenues:						
Local service	52,420	47.2	49,292	46.3	48,364	49.9
Long-distance service:						
Domestic	28,503	25.7	26,737	25.1	24,187	25.0
International	9,422	8.5	11,873	11.1	13,125	13.5
Interconnection service	14,708	13.3	13,079	12.3	6,069	6.3
Others	5,914	5.3	5,576	5.2	5,135	5.3
	110,967	100.0	106,557	100.0	96,880	100.0
Operating costs and expenses:						
Cost of sales and services	24,169	21.8	23,026	21.6	20,146	20.8
Commercial, administrative and general	17,138	15.4	17,228	16.2	16,636	17.2
Interconnection	9,810	8.8	7,179	6.7	2,876	3.0
Depreciation and amortization	17,259	15.6	17,673	16.6	18,490	19.0
	68,376	61.6	65,106	61.1	58,148	60.0
Operating income	42,591	38.4	41,451	38.9	38,732	40.0
Comprehensive financing cost:						
Interest income	(1,279)	(1.2)	(3,370)	(3.2)	(1,572)	(1.6)
Interest expense	6,997	6.3	10,429	9.8	11,226	11.6
Exchange gain, net	(1,159)	(1.0)	(85)	(0.1)	(1,057)	(1.1)
Monetary gain, net	(2,156)	(1.9)	(3,581)	(3.3)	(5,425)	(5.6)
	2,403	2.2	3,393	3.2	3,172	3.3
Income before income tax and employee profit sharing	40,188	36.2	38,058	35.7	35,560	36.7
Provisions for:						
Income tax	13,279	11.9	8,181	7.7	8,891	9.2
Employee profit sharing	2,985	2.7	3,452	3.2	2,835	2.9
	16,264	14.6	11,633	10.9	11,726	12.1
Income before equity in results of affiliates	23,924	21.6	26,425	24.8	23,834	24.6
Equity in results of affiliates	(430)	(0.4)	(327)	(0.3)	(121)	(0.1)
Income from continuing operations	23,494	21.2	26,098	24.5	23,713	24.5
Income from discontinued operations, net of income tax and employee profit sharing	-	-	1,538	1.4	4,870	5.0
Net income	23,494	21.2	27,636	25.9	28,583	29.5

Revenues from local service

In 2001, total revenues for local service were 52.420 billion pesos, 6.3% higher than in 2000. The increase was mainly due to growth of lines in service, increase in digital services used by our customers, increase in rates of basic rent and measured service in April, 2001, reimbursement of interconnection projects from long-distance operators and the increase in local call traffic.

At year-end 2001, digital services (Call Waiting, Caller ID , Voice Mail, Three Way Calling and Call Forwarding) increased 67.9% compared with 2000. The penetration of lines that have at least one digital service rose to 24.0% in 2001 compared with 17.1% in 2000.

In 2000, total revenues for local service were 49.292 billion pesos, 1.9% higher than in 1999. The increase was due to the higher number of lines in service, as well as the increase in local traffic, offset by a reduction of local rates in real terms.

Revenues from domestic long-distance service (DLD)

In 2001, total domestic long-distance service revenues (DLD) were 28.503 billion pesos, 6.6% higher than in 2000. This increase was due to growth in the data business and Internet access, to an increase in domestic long-distance billed traffic and also to maintaining market share, all this partially offset by the reduction of long-distance rates in real terms. The DLD contribution to TELMEX´s total revenues in 2001 was 25.7%.

In 2000, total domestic long-distance revenues were 26.737 billion pesos, 10.5% higher than in 1999. This growth was due to increased billed traffic, higher penetration of lines in competition, higher revenues from the data business mainly in connectivity and Internet services, partially offset by the decrease in real terms of long-distance rates. The DLD contribution to TELMEX´s total revenues in 2000 was 25.1%.

Since 2000, TELMEX changed its accounting policy related to the recognition of revenues from the sale of prepaid telephone service cards (LADATEL) by deferring its revenue based on a time estimation to consume the amount that the prepaid card is entitled. This change generated an adjustment of 354 million pesos in DLD revenues, being a non-recurring event since previous years were not restated. Similar effects were registered in local and international long-distance revenues by recognizing adjustments that decreased these revenues by 203 million pesos and 116 million pesos, respectively.

Revenues from international long-distance service (ILD)

In 2001, international long-distance revenues were 9.422 billion pesos, 20.6% lower than the previous year. The decrease was mainly because international settlement revenues were 2.399 billion pesos, 55.0% lower than in 2000, caused by lower incoming traffic, lower settlement rates of international traffic, lower economic activity between Mexico and the United States of America as well as for the illegal by-pass carried out by some competitors. Also contributing to the decrease was the reduction of rates in real terms of traffic billed in Mexico. ILD´s contribution to TELMEX´s total revenues was 8.5%.

In 2000 ILD revenues rose to 11.873 billion pesos, 9.5% lower than the previous year. The decrease was mainly due to a reduction in revenues from international settlement rates which amounted to 5.330 billion pesos, 12.2% lower than 1999, as a result of lower settlement rates, as well as for the reduction of rates in real terms for traffic billed in Mexico and for the illegal by-pass carried out by some competitors. In 1999, retroactive payments for international settlements corresponding to 1998 were recognized for 131.5 million dollars. In the last quarter of 2000, a non-recurring payment to Alestra and Avantel for settlement rates was registered in ILD revenues for approximately 239 million pesos. ILD revenues decreased their contribution to TELMEX´ s total revenues to 11.1%.

Revenues from interconnection service

This category includes revenues from the "calling party pays" service that is billed to our customers for calls to cellular phones as well as revenues from interconnecting domestic long-distance operators, cellular companies and new local service operators networks to TELMEX's local network. The contribution of this category to the total revenues of the company increased from 12.3% in 2000, to 13.3% in 2001, reflecting an increase in these revenues of 12.5% in 2001. This increase was mainly due to revenues generated by "calling party pays" service, partially offset by the reduction of the interconnection rate for long-distance operators which decreased from 3.34 US cents per minute in 2000 to 1.25 US cents per minute in 2001.

In 2000, interconnection revenues increased 115.5% compared with 1999. The increase in 2000 was due to "calling party pays" and to growth of 23.5% in interconnection of long-distance operators.

Other revenues

In 2001 and 2000, the other revenues category increased 6.1% and 8.6%, respectively, compared with the previous year. Yellow pages and sales of equipment and accessories continue to be the main components of this category.

Cost of sales and services

In 2001, cost of sales and services increased 5.0% compared with the previous year. The increase was mainly due to labor costs, expenses related to the rehabilitation of local districts, costs related to higher volume of PC´s for the Prodigy Internet Plus program and telephone sets.

In 2000, cost of sales and services increased 14.3% compared with the previous year. The increase was mainly due to higher labor costs, higher level of Internet customers and the increase in expenses for services from third parties.

Commercial, administrative and general expenses

In 2001, commercial, administrative and general expenses decreased 0.5% compared with 2000. The decrease was mainly due to the reduction in promotion campaigns and lower contributions to Fundación TELMEX, partially offset by the increase in the provision for uncollectables and the increase in labor costs.

During 2000 commercial, administrative and general expenses were 3.6% higher than the previous year. This growth was mainly due to higher expenses in salaries and promotional expenses focused on market gain and market expansion and the introduction of new services, offset by a reduction in provisions for uncollectables once the agreement was reached with the long-distance operators Avantel and Alestra.

Interconnection

In 2001 and 2000, interconnection costs increased 36.6% and 149.6%, respectively, compared with the ones obtained in 2000 and 1999. The increase in both years was mainly due to growth in cellular customers which propitiated growth in traffic of TELMEX´s network customers to cellular customers network.

Depreciation and amortization

During 2001,depreciation and amortization charges decreased 2.3% compared with 2000. The decrease was mainly because depreciation is calculated by applying useful lives over the restated value of fixed assets and the increase due to the restatement based on the specific indexation method was lower than the inflation rate in Mexico.

During 2000, depreciation and amortization charges decreased 4.4%, compared with the previous year. The decrease was mainly because the increase in the restatement based on the specific indexation method was lower than the inflation rate in Mexico, partially offset by new investments in 2000.

Operating income

Operating income for 2001 and 2000 was 2.8% and 7.0% higher than 2000 and 1999, respectively. This is the result of the increase in operating revenues of 4.1% in 2001 and 10.0% in 2000, offset by an increase of operating costs and expenses of 5.0% in 2001 and 12.0% in 2000. As a result, the operating margin decreased to 38.4% in 2001 and to 38.9% in 2000, after being 40.0% in 1999.

Comprehensive financing cost

Comprehensive financing cost reflected a net charge of 2.403 billion pesos in 2001, compared with a net charge of 3.393 billion pesos in 2000.

In 2001, interest revenues decreased 62.0%, due to a lower average level of cash and short-term investments and also for a considerable decrease in domestic and foreign interest rates. In 2000, interest revenues increased 114.4% due to a higher average level of cash and short-term investments. Interest expenses decreased 32.9% in 2001 and 7.1% in 2000. The reduction of interest expenses in 2001, was due to a lower level of average debt compared with 2000, the reduction of domestic and foreign interest rates and higher foreign debt. The reduction of interest expenses in 2000 were due to similar average levels of debt compared with 1999, the decrease in domestic interest rates and higher foreign debt.

The appreciation of the Mexican peso to the U.S. dollar resulted in a net exchange gain of 1.159 billion pesos in 2001 and 85 million pesos in 2000. Monetary gains during 2001 and 2000, reflected the effect of a lower inflation rate and a reduction in the average of net short monetary positions with the respective previous years.

Net income from continuing operations

For 2001, net income from continuing operations was 23.494 billion pesos, a decrease of 10.0% compared with the previous year. In 2000, net income for continuing operations was 26.098 billion pesos, an increase of 10.1% compared with 1999.

Investments

During 2001, total consolidated investments reached 22.810 billion pesos, an increase of 10.9% compared with the previous year when investments totaled 20.575 billion pesos. The increase was due to higher investments for voice and data services.

Financial structure

The debt to capitalization ratio of 57.9% for 2001 is within range of most telecommunications companies. In 2000 this ratio was 60.1%.

Share repurchase

In 2001, TELMEX repurchased 845.2 million shares (939.4 million shares in 2000), equivalent to 6.0% of outstanding shares at the beginning of the year. The outstanding shares at year-end 2001 were 13,165 million shares, comprised of 4,307 million Series "AA" shares, 313 million Series "A" and 8,545 millions Series "L" shares.

Audit Committee Report

To the Board of Directors
of Teléfonos de México, S.A. de C.V.

The company's management has the basic responsibility of issuing financial statements, based on the generally accepted accounting principles of Mexico, preparing financial information on time and according to accepted methods, and implementing appropriate internal controls. The Audit Committee, on behalf of the Board of Directors of the company, has reviewed the consolidated and audited financial statements of Teléfonos de México, S.A. de C.V. and subsidiaries to December 31st, 2001. This review included analysis and approval of policy, procedures and accounting practices of the Company and all of its subsidiaries.

The Committee evaluated the report of the external auditors, who are responsible for expressing their opinion about the reasonability of the financial statements of the company and the conformity of the latter to the generally accepted accounting principles of Mexico. The Committee considered that all partners of the external audit firm carried out their task with the necessary requisites for professional quality, freedom of action, and intellectual and economical independence to perform this duty.

The Committee has ensured that preliminary public financial information, such as that presented quarterly report to the Bolsa Mexicana de Valores, S.A. and to the Comisión Nacional Bancaria y de Valores, is prepared following the same principles, procedures, criteria and accounting practices used in preparing the annual information.

Based on the before mentioned revisions and opinions, the Committee recommends to the Board of Directors that the audited financial statements of Teléfonos de México, S.A. de C.V. and subsidiaries at December 31st, 2001, be included in the 2001 annual report and approved at the Shareholders Meeting.

Antonio del Valle Ruiz
President of the Audit Committee

Mexico City, Mexico
March 14, 2002

Opinion of the Statutory Auditor

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

In my capacity as statutory auditor and in compliance with Article 166 of the Mexican Corporations Act and the bylaws of Teléfonos de México, S.A. de C.V., I am pleased to submit my report on the consolidated financial statements for the year ended December 31, 2001, presented to you by the Board of Directors.

Among the auditing procedures applied, I personally (or in my absence the alternate statutory auditor) attended the stockholders' and the Board of Directors' meetings to which I was summoned. I reviewed, to the extent that I considered necessary in the circumstances, the unqualified report of the Company's independent auditors, dated February 15, 2002, issued as a result of their audit of the financial statements made in accordance with auditing standards generally accepted in Mexico. Such financial statements are the responsibility of the Company's management.

In my opinion, based on my review and that of the independent auditors, the accounting and reporting policies and criteria observed by the Company in the preparation of the consolidated financial statements that are being presented to the stockholders are adequate and sufficient and were applied on a basis consistent with that of the prior year. Consequently, it is also my opinion that the above-mentioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teléfonos de México, S.A. de C.V. and subsidiaries at December 31, 2001, the consolidated results of their operations, changes in their stockholders' equity and changes in their financial position for the year then ended, in conformity with accounting principles generally accepted in Mexico.

C.P.C. Alberto Tiburcio Celorio
Statutory Auditor

Mexico City, Mexico
February 15, 2002

Report of Independent Auditors

MANCERA, S.C.
ERNST & YOUNG

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

We have audited the accompanying consolidated balance sheets of Teléfonos de México, S.A. de C.V. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position 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 the United States of America and 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 accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teléfonos de México, S.A. de C.V. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended, in conformity with accounting principles generally accepted in Mexico, which differ in certain respects from those followed in the United States of America (see Note 18).

As described in Note 1 to the accompanying financial statements, effective January 1, 2000, the Company adopted the requirements of the new Mexican Accounting Principles Bulletin D-4, "Accounting for Income Tax, Asset Tax and Employee Profit Sharing", issued by the Mexican Institute of Public Accountants. The effects are described in Note 15.

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

C.P.C. Fausto Sandoval Amaya

Mexico City, Mexico
February 15, 2002

Consolidated statements of income

(Amounts in thousands of constant pesos as of December 31, 2001 except for earnings per share)

	Year ended December 31 2001	2000
Operating revenues:		
Local service	Ps. 52,419,607	Ps. 49,292,474
Long-distance service:		
Domestic	28,502,881	26,736,848
International	9,421,797	11,872,492
Interconnection service	14,708,101	13,079,028
Others	5,914,554	5,576,166
	110,966,940	106,557,008
Operating costs and expenses:		
Cost of sales and services	33,978,768	30,204,882
Commercial, administrative and general	17,137,824	17,228,123
Depreciation and amortization (Notes 5 and 7)	17,258,752	17,673,235
	68,375,344	65,106,240
Operating income	42,591,596	41,450,768
Comprehensive financing cost:		
Interest income	(1,279,220)	(3,369,739)
Interest expense	6,997,237	10,428,753
Exchange gain, net	(1,158,524)	(84,924)
Monetary gain, net	(2,156,381)	(3,581,250)
	2,403,112	3,392,840
Income before income tax and employee profit sharing	40,188,484	38,057,928
Provisions for (Note 15):		
Income tax	13,279,170	8,181,154
Employee profit sharing	2,985,115	3,451,825
	16,264,285	11,632,979
Income before equity interest in results of affiliates	23,924,199	26,424,949
Equity in results of affiliates	(430,082)	(327,454)
Income from continuing operations	23,494,117	26,097,495
Income from discontinued operations, net of income tax and employee profit sharing (Note 2)		1,538,274
Net income	Ps. 23,494,117	Ps. 27,635,769
Earnings per share from continuing operations:		
Basic	Ps. 1.735	Ps. 1.779
Diluted	Ps. 1.629	Ps. 1.683
Net earnings per share:		
Basic	Ps. 1.735	Ps. 1.884
Diluted	Ps. 1.629	Ps. 1.784

See accompanying notes.

Consolidated statements of changes in financial position

(Amounts in thousands of constant pesos as of December 31, 2001)

	Year ended December 31 2001	2000
Operating activities:		
Net income	Ps. 23,494,117	Ps. 27,635,769
Add (deduct) items not requiring the use of resources:		
Depreciation	16,752,861	17,332,976
Amortization	505,891	340,259
Deferred taxes	2,702,020	1,865,668
Equity in results of affiliates	430,082	327,454
Income from discontinued operations		(1,538,274)
Adjustment to value of equity investments	881,618	
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	2,070,288	(3,799,999)
Prepaid expenses	38,771	(522,513)
Increase (decrease) in:		
Pensions and seniority premiums:		
Reserve	3,556,858	3,536,433
Contributions to trust fund	(4,894,966)	(1,887,095)
Payments to employees	(3,041,014)	(2,605,701)
Accounts payable and accrued liabilities	3,551,030	3,584,031
Taxes payable	514,350	(1,341,473)
Deferred credits	(316,145)	754,395
Resources provided by operating activities	46,245,761	43,681,930
Financing activities:		
New loans	70,283,971	62,557,484
Repayment of loans	(72,912,305)	(35,542,956)
Effect of inflation and exchange rate differences on debt	(5,318,060)	(4,928,482)
Decrease in capital stock and retained earnings due to purchase of Company's own shares	(13,715,382)	(24,672,187)
Cash dividends paid	(6,700,972)	(7,010,051)
Resources used in financing activities	(28,362,748)	(9,596,192)
Investing activities:		
Investment in plant, property and equipment	(22,944,770)	(18,457,936)
Investment in inventories	784,094	(312,643)
Investment in affiliated companies	(127,196)	(1,426,018)
Investment in subsidiary companies		(216,759)
Other investments	(522,452)	(161,707)
Resources used in investing activities	(22,810,324)	(20,575,063)
Net change in assets and liabilities of discontinued operations		(6,694,823)
Net (decrease) increase in cash and short-term investments	(4,927,311)	6,815,852
Cash and short-term investments at beginning of year	13,741,340	6,925,488
Cash and short-term investments at end of year	Ps. 8,814,029	Ps. 13,741,340

See accompanying notes.

Consolidated balance sheets

(Amounts in thousands of constant pesos as of December 31, 2001)

	December 31			
		2001		2000
Current assets:				
Cash and short-term investments	**Ps.**	**8,814,029**	Ps.	13,741,340
Marketable securities (Note 3)		**700,936**		355,466
Accounts receivable, net (Note 4)		**20,085,315**		22,155,603
Prepaid expenses		**1,427,102**		1,508,184
Total current assets		**31,027,382**		37,760,593
Plant, property and equipment, net (Note 5)		**114,454,386**		111,205,486
Inventories, primarily for use in the construction of the telephone plant		**1,899,225**		2,547,262
Licenses, net (Note 6)		**608,643**		645,890
Equity investments (Note 7)		**1,071,166**		2,109,887
Intangible asset (Note 8)		**7,571,437**		8,612,605
Goodwill, net (Note 7)		**278,807**		907,324
Total assets	**Ps.**	**156,911,046**	Ps.	163,789,047

See accompanying notes.

	December 31 2001		December 31 2000	
Liabilities and stockholders' equity				
Current liabilities:				
Short-term debt and current portion of long-term debt (Note 9)	Ps.	17,487,311	Ps.	46,059,201
Accounts payable and accrued liabilities		17,307,169		13,756,139
Taxes payable		1,244,533		718,306
Total current liabilities		36,039,013		60,533,646
Long-term debt (Note 9)		52,254,382		31,628,886
Pensions and seniority premiums (Note 8)		5,323,729		6,779,611
Deferred taxes (Note 15)		11,523,792		11,896,597
Deferred credits (Note 10)		1,008,014		1,324,159
Total liabilities		106,148,930		112,162,899
Stockholders' equity (Note 14):				
Capital stock:				
Historical		329,121		350,250
Restatement increment		26,440,583		27,689,401
		26,769,704		28,039,651
Premium on sale of shares		10,382,688		10,382,688
Retained earnings:				
Unappropriated earnings of prior years		59,003,203		50,513,841
Net income for the year		23,494,117		27,635,769
		82,497,320		78,149,610
Accumulated other comprehensive income items		(68,887,596)		(64,945,801)
Total stockholders' equity		50,762,116		51,626,148
Total liabilities and stockholders' equity	Ps.	156,911,046	Ps.	163,789,047

Consolidated statements of changes in stockholders' equity

(Amounts in thousands of constant pesos as of December 31, 2001, except for dividends per share)

			Retained earnings		
	Capital stock	Premium on sale of shares	Legal reserve	Reserve for purchase of Company's own shares	Unappropriated
Balance at December 31, 1999	Ps. 58,906,698	Ps. 10,382,688	Ps. 14,282,709	Ps. 36,460,821	Ps. 82,986,754
Cumulative effect of accounting change (Notes 1 and 15)					(13,840,359)
Appropriation of earnings approved at stockholders' meeting held in April, 2000:					
Cash dividends paid at Ps. 0.479 per share (Ps. 0.445 historical)					(7,010,051)
Increase in legal reserve			84,098		(84,098)
Cash purchase of Company's own shares	(2,096,997)			(22,743,899)	168,709
Comprehensive income:					
Net income for the year:					
From continuing operations					26,097,495
From discontinued operations					1,538,274
Other comprehensive income items:					
Minimum pension and seniority premium liability adjusment (Note 8)					
Deficit from holding non-monetary assets, net of deferred taxes					
Comprehensive income					
Spun-off stockholders' equity (Note 2)	(28,770,050)		(44,228)	(8,622,874)	(31,123,741)
Balance at December 31, 2000	28,039,651	10,382,688	14,322,579	5,094,048	58,732,983
Appropriation of earnings approved at stockholders' meetings held in February and April, 2001:					
Cash dividends paid at Ps. 0.498 per share (Ps. 0.490 historical)					(6,700,972)
Increase in reserve for purchase of Company's own shares				5,256,174	(5,256,174)
Increase in legal reserve			51,373		(51,373)
Cash purchase of Company's own shares	(1,269,947)			(10,350,222)	(2,095,213)
Comprehensive income:					
Net income for the year					23,494,117
Other comprehensive income items:					
Minimum pension and seniority premium liability adjusment, net of deferred taxes (Note 8)					
Deficit from holding non-monetary assets, net of deferred taxes					
Comprehensive income					
Balance at December 31, 2001 (Note 14)	**Ps. 26,769,704**	**Ps. 10,382,688**	**Ps. 14,373,952**	**Ps.**	**Ps. 68,123,368**

See accompanying notes

Total	Accumulated other comprehensive income items	Comprehensive income	Total majority stockholders' equity	Minority interest	Total stockholders' equity
Ps. 133,730,284	Ps. (64,663,940)		Ps. 138,355,730	Ps. 762,585	Ps. 139,118,315
(13,840,359)	4,280,762		(9,559,597)		(9,559,597)
(7,010,051)			(7,010,051)		(7,010,051)
(22,575,190)			(24,672,187)		(24,672,187)
26,097,495		Ps. 26,097,495	26,097,495		26,097,495
1,538,274		1,538,274	1,538,274		1,538,274
	(2,766,911)	(2,766,911)	(2,766,911)		(2,766,911)
	(1,291,811)	(1,291,811)	(1,291,811)		(1,291,811)
		Ps. 23,577,047			
(39,790,843)	(503,901)		(69,064,794)	(762,585)	(69,827,379)
78,149,610	(64,945,801)		51,626,148		51,626,148
(6,700,972)			(6,700,972)		(6,700,972)
(12,445,435)			(13,715,382)		(13,715,382)
23,494,117		Ps. 23,494,117	23,494,117		23,494,117
	(1,415,682)	(1,415,682)	(1,415,682)		(1,415,682)
	(2,526,113)	(2,526,113)	(2,526,113)		(2,526,113)
		Ps. 19,552,322			
Ps. 82,497,320	Ps. (68,887,596)		Ps. 50,762,116	Ps.	Ps. 50,762,116

Notes to consolidated financial statements

December 31, 2001 and 2000

(Amounts in thousands of constant pesos as of December 31, 2001)

1. Description of the Business and Significant Accounting Policies

I. Description of business

TELMEX obtains its revenues primarily from telecommunications services, including domestic and international long-distance and local telephone services, data transmission and internet services, as well as the interconnection of domestic long-distance operators', cellular telephone companies' and local service operators' networks with the TELMEX local network. The Company also obtains revenues from other activities related to its telephone operations, such as the publication of the telephone directory.

The amended concession under which the Company 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. The concession defines, among other things, the quality standards for telephone service and establishes the basis for regulating rates.

At the end of 1996 the competition was allowed to provide domestic and international long-distance telephone services. In 1999 the competition began to provide basic local telephone service.

At an extraordinary shareholders' meeting held on September 25, 2000, TELMEX's shareholders approved the spin-off of the Company's wireless telecommunication business and most of its international operations into América Móvil, S.A. de C.V. (América Móvil), to which certain specific assets, liabilities and equity were transferred (see Note 2 for additional information).

II. Significant accounting policies

The significant accounting policies and practices followed in the preparation of these financial statements are described below:

a) Consolidation

The consolidated financial statements include the accounts of Teléfonos de México, S.A. de C.V. and its subsidiaries, all of which are wholly owned, except for three in which the Company holds equity interests ranging from 51% to 85%. Related minority interest is not significant to these financial statements. All the companies operate in the telecommunications sector or they provide services to companies operating in this sector.

All significant intercompany accounts and transactions have been eliminated in consolidation.

b) Recognition of revenues

Revenues are recognized as they accrue.

Local service revenues are derived from new-line installation charges, monthly service fees, measured usage charges based on the number of calls made, and other service charges to subscribers, including, among others, charges for interconnecting fixed-system users with cellular users.

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. All these services are billed monthly, based on the rates authorized by the Ministry of Communications and Transportation (SCT), through the Federal Telecommunications Commission (COFETEL). International long-distance service revenues include the revenues earned under agreements with foreign telephone service providers or operators for the use of facilities in interconnecting international calls. These agreements specify the rates for the use of such international interconnecting facilities. These service revenues represent the net settlement between the parties.

Due to the important growth in the sale of prepaid telephone service cards and their potential in the future, effective in 2000, the Company changed its policy with respect to the recognition of revenues from these cards, providing for the deferral of revenue based on an estimate of the usage of time covered by the prepaid card.

c) Recognition of the effects of inflation on financial information

The Company recognizes the effects of inflation on financial information as required by Mexican Accounting Principles Bulletin B-10, "Accounting Recognition of the Effects of Inflation on Financial Information", issued by the Mexican Institute of Public Accountants (MIPA). Consequently, the amounts shown in the accompanying financial statements and in these notes are expressed in thousands of constant pesos as of December 31, 2001. The December 31, 2001 restatement factor applied to the financial statements at December 31, 2000 was 4.40%, based on the Mexican National Consumer Price Index (NCPI) published by Banco de México (the Central Bank).

Plant, property and equipment and construction in progress were restated as described in Note 5. Telephone plant and equipment depreciation is computed on the restated investment using the composite group method. All other assets are depreciated using the straight-line method based on the estimated useful lives of the related assets.

Inventories are valued at average cost and are restated on the basis of specific indexes. The stated value of inventories is similar to replacement value, not in excess of market.

Other nonmonetary assets were restated using adjustment factors obtained from the NCPI.

Capital stock, premium on sale of shares, and retained earnings were restated using adjustment factors obtained from the NCPI.

Other accumulated comprehensive income items includes the deficit from restatement of stockholders' equity, which consists of the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied, which was Ps. 11,756,417 at December 31, 2001 and 2000, and of the result from holding nonmonetary assets, which represents the net difference between restatement by the specific indexation method (see Note 5) and restatement based on the NCPI.

The net monetary gain represents the impact of inflation on monetary assets and liabilities. The net monetary gain of each year is included in the statements of income as a part of the comprehensive financing cost.

Bulletin B-12 specifies the appropriate presentation of the statement of changes in financial position based on financial statements restated in constant pesos in accordance with Bulletin B-10. Bulletin B-12 identifies the sources and applications of resources representing differences between beginning and ending financial statement balances in constant pesos. In accordance with this bulletin, monetary and foreign exchange gains and losses are not treated as noncash items in the determination of resources provided by operations.

d) Short-term investments
Short-term investments, represented basically by time deposits in financial institutions, are stated at market value.

e) Marketable securities
Marketable securities, presented at market value, are held for trading purposes and include equity securities.

f) Equity investments in affiliates
The investment in shares of affiliates is valued using the equity method. This accounting method consists basically of recognizing the investor's equity interest in the results of operations and in the result from holding nonmonetary assets of investees at the time such results are incurred (see Note 7).

g) Exchange differences
Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet date. Exchange rate differences are applied to income of the year.

h) Labor obligations
Pension and seniority premium costs are recognized periodically during the years of service of personnel, based on actuarial computations made by independent actuaries, using the projected unit-credit method and financial hypotheses net of inflation, as required by Mexican Accounting Principles Bulletin D-3, "Labor Obligations", issued by the MIPA (see Note 8). Termination payments are charged to income in the year in which the decision to dismiss an employee is made.

i) Income tax and employee profit sharing
Requirements of the new Mexican Accounting Principles Bulletin D-4, "Accounting for Income Tax, Assets Tax and Employee Profit Sharing", issued by the MIPA, went into effect on January 1, 2000. The new bulletin modifies the rules with respect to the determination and presentation of deferred income tax (deferred taxes). Basically, the new bulletin requires that deferred taxes be determined on virtually all temporary differences in balance sheet accounts for financial and tax reporting purposes, using the enacted income tax rate at the time the financial statements are issued. Through December 31, 1999, deferred taxes were recognized only on temporary differences that were considered to be non-recurring and that had a known turnaround time. Accordingly, the provision for income tax includes both the current year tax and the deferred portion. See Note 15 for additional information.

The new bulletin did not significantly affect how employee profit sharing is accounted for.

j) Basis of translation of financial statements of foreign subsidiaries
The financial statements of the subsidiaries located in the United States of America (U.S.A.), Guatemala and in Ecuador, which were transferred to América Móvil in the spin-off described in Note 2, represent approximately 18% of net revenues of the discontinued operations and approximately 39% of the total assets of the discontinued operations in 2000, and together with the foreign subsidiaries that remain in TELMEX, were translated into Mexican pesos in conformity with Mexican Accounting Principles Bulletin B-15, "Transactions in Foreign Currency and Translation of Financial Statements of Foreign Operations", issued by the MIPA, as follows:

All balance sheet amounts, except for capital stock and retained earnings, were translated at the prevailing exchange rate at year-end; capital stock and retained earnings were translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. The statement of income amounts were translated at the prevailing exchange rate at the end of the reporting period. The effect of inflation and changes in exchange rates were not material and are presented as part of the result from holding nonmonetary assets.

k) Comprehensive income
Requirements of Mexican Accounting Principles Bulletin B-4, "Comprehensive Income", issued by the MIPA, went into effect on January 1, 2001. The Company's comprehensive income is the net income for the year presented in the statement of income, plus the effects of deferred taxes, labor obligations and the result from holding nonmonetary assets of the year applied directly to stockholders' equity.

l) Earnings per share
TELMEX determined the earnings per share in conformity with Mexican Accounting Principles Bulletin B-14, "Earnings per Share", issued by the MIPA (see Note 14).

m) Use of estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

n) Concentration of risk
The Company invests a portion of its excess cash in cash deposits in financial institutions with strong credit ratings and has established guidelines relating to diversification and maturities that maintain safety and liquidity. The Company has not experienced any important losses in its investments in marketable securities. TELMEX does not believe it has significant concentrations of credit risks in its accounts receivable, because the Company's customer base is geographically diverse, thus spreading the trade credit risk.

o) Financial instruments
Requirements of the new Mexican Accounting Principles Bulletin C-2, "Financial Instruments", issued by the MIPA, went into effect on January 1, 2001. This new bulletin establishes the basic rules to be observed by issuers of and investors in financial instruments when valuing, presenting and disclosing these instruments in their financial information. The new Bulletin C-2 requires that financial instruments (derivations) be recognized as assets and liabilities and that the determined gains and losses on such instruments be credited and charged, respectively, to income, except for asset and liability hedges. The Company contracts short-term exchange-rate hedges to offset the risk of loss on certain U.S. dollar denominated transactions. The determined gains or losses on these hedges are credited or charged to income using the accrual method, net of the gains or losses on the related liabilities. In 2001, the observance of the requirements of this bulletin had no material effects, nor were there any equivalent transactions of importance in 2000.

p) Reclassifications
Certain amounts shown in the 2000 financial statements have been reclassified for uniformity of presentation with 2001.

2. Spin-Off

On September 25, 2000, TELMEX shareholders approved the spin-off of the wireless telecommunication business in Mexico and most of its international operations. As a result of the spin-off, América Móvil was established as a new Mexican corporation, independent of TELMEX, to which certain specific assets, liabilities and equity were transferred.

As a result of the spin-off, each TELMEX shareholder became a shareholder in América Móvil, and consequently, both companies are controlled by the same group of shareholders. Neither Telmex nor América Móvil owns any capital stock in the other. The relationships between the two companies are limited to: (a) agreements related to the implementation of the spin-off; (b) commercial relationships in the ordinary course of business between a major fixed-line network operator and a major wireless network operator, such as interconnection and co-location of facilities; and (c) certain transitional arrangements that continued until the third quarter of 2001, when América Móvil had its own administrative structure in place.

In the accompanying financial statements, the revenues and expenses of the spun-off entities are shown in the statement of income as income of discontinued operations, net of income taxes and employee profit sharing.

Assets and liabilities of the discontinued operations were transferred to América Móvil at their book value. The amount of stockholders' equity transferred to América Móvil in the spin-off was determined as the difference between the assets and liabilities transferred and was accounted for as a reduction in TELMEX's equity at the time of the spin-off.

Interest earned by a spun-off subsidiary from holding commercial paper and medium-term notes issued by TELMEX, which amounted to Ps. 2,295,004 for the nine-month period ended September 30, 2000, is included in income from discontinued operations.

The summarized statement of income for the nine-month period ended September 30, 2000, is as follows:

Operating revenues	Ps.	20,401,766
Operating costs and expenses		17,715,501
Operating income		2,686,265
Comprehensive financing income, net		1,184,475
Income before income tax and employee profit sharing		3,870,740
Provisions for:		
Income tax		1,884,687
Employee profit sharing		120,039
Income before equity in results of affiliates and minority interest		1,866,014
Equity in results of affiliates		(498,836)
Income before minority interest		1,367,178
Minority interest in loss of subsidiaries		171,096
Net income of discontinued operations	Ps.	1,538,274

3. Marketable Securities

At December 31, 2001, the Company has investments in equity securities in the amount of Ps. 700,396 (Ps. 355,466 in 2000) for trading purposes. The Company included in the comprehensive financing cost for the year 2001, gains of Ps. 305,981 (losses of Ps. 1,457,874 in 2000) on the valuation of unrealized shares held. The realized net loss on the sale of equity investments for 2001 was Ps. 96,559 (realized net gain of Ps. 710,718 for 2000). During 2000, the Company invested in and sold Ecuadorian government bonds for U.S.$177.3 million, obtaining a gain of Ps. 929,143.

4. Accounts Receivable

Accounts receivable consist of the following:

		2001		2000
Subscribers	Ps.	**18,364,566**	Ps.	17,394,476
Net settlement receivables		**709,409**		1,298,323
Related parties		**600,931**		841,956
Other		**1,804,051**		5,282,742
		21,478,957		24,817,497
Less:				
Allowance for doubtful accounts		**1,393,642**		2,661,894
Total	Ps.	**20,085,315**	Ps.	22,155,603

In December 2000, TELMEX and its two major long-distance competitors agreed, among other things, on long-distance interconnection rates, thus settling existing disputes with respect to such rates. The parties also agreed to withdraw unresolved legal proceedings in connection with the matters in dispute. Under this agreement, in 2000 the competitors paid TELMEX U.S.$139 million (net of taxes) for interconnection services provided in the past. As a result, TELMEX reversed approximately Ps. 1,775,000 of the allowance for doubtful accounts that it had conservatively recognized previously.

5. Plant, Property and Equipment

a) Plant, property and equipment consist of the following:

		2001		2000
Telephone plant and equipment	Ps.	**176,372,523**	Ps.	173,876,040
Land and buildings		**25,275,966**		24,927,028
Computer equipment and other assets		**20,936,070**		19,604,915
		222,584,559		218,407,983
Less:				
Accumulated depreciation		**120,146,075**		117,637,865
Net		**102,438,484**		100,770,118
Construction in progress and advances to equipment suppliers		**12,015,902**		10,435,368
Total	Ps.	**114,454,386**	Ps.	111,205,486

Included in plant, property and equipment are the following assets held under capital leases:

		2001		2000
Assets under capital leases	Ps.	**2,720,509**	Ps.	1,678,089
Less accumulated depreciation		**224,254**		71,747
	Ps.	**2,496,255**	Ps.	1,606,342

b) Through December 31, 1996, items comprising the telephone plant were restated 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 registered with the National Banking and Securities Commission (NBSC).

Effective January 1, 1997, Bulletin B-10 eliminated the use of appraisals to present plant, property and equipment in the financial statements. This caption was restated as follows at December 31, 2001 and 2000:

- The December 31, 1996 appraised value of the imported telephone plant, as well as the cost of subsequent additions to such plant, were restated based on the rate of inflation in the respective country of origin and the prevailing exchange rate at the balance sheet date (i.e., specific indexation factors).

- The appraised value of land, buildings and other fixed assets of domestic origin at December 31, 1996, and the cost of subsequent additions to such assets were restated based on the NCPI.

At December 31, 2001 and 2000, approximately 51% of the value of the plant, property and equipment has been restated using specific indexation factors.

c) Following are the plant, property and equipment amounts at December 31, 2001 and 2000, restated on the basis of the 2001 NCPI (starting with the appraised values at December 31, 1996) to meet NBSC disclosure requirements with respect to the restatement of fixed assets based on specific indexation factors:

	2001	2000
Telephone plant and equipment	Ps. 221,971,435	Ps. 210,524,123
Land and buildings	25,275,966	24,927,028
Computer equipment and other assets	24,689,649	22,509,082
	271,937,050	257,960,233
Less:		
Accumulated depreciation	152,030,632	142,756,072
Net	119,906,418	115,204,161
Construction in progress and advances to equipment suppliers	12,323,047	10,536,148
Total	Ps. 132,229,465	Ps. 125,740,309

d) Depreciation of the telephone plant has been calculated at annual rates ranging from 3.3% to 16.7%. The rest of the Company's assets are depreciated at rates ranging from 3.3% to 33.3%. Depreciation charged to income was Ps. 16,752,861 in 2001 and Ps. 17,332,976 in 2000.

6. Licenses

In May 1998, TELMEX acquired from the Mexican Government licenses to operate radio spectrum wave frequency bands to provide fixed wireless telephone services at a cost of Ps. 573,970. In December 1997, the Company also acquired from the Mexican Government concessions to operate radio spectrum wave frequency bands for point-to-point and point-to-multipoint microwave communications at a cost of Ps. 171,833. These costs are being amortized over a period of twenty years (see Note 15).

As of December 31, 2001 and 2000 licenses are as follows:

	2001	2000
Investment	Ps. 745,803	Ps. 745,803
Accumulated amortization	137,160	99,913
Net	Ps. 608,643	Ps. 645,890

Amortization expense for the years ended December 31, 2001 and 2000 was Ps.37,247 each.

7. Equity Investments

a) An analysis of the equity investment in affiliated and other companies at December 31, 2001 and 2000, that remain in TELMEX after the spin-off, and a brief description is as follows:

	2001	2000
Equity investments in:		
Prodigy Communication Corporation		Ps. 535,279
Williams Communications Group, Inc	Ps. 99,098	1,075,093
Technology and Internet, LLC	320,567	390,228
The Telvista Company	362,802	
Other	288,699	109,287
	1,071,166	2,109,887
Goodwill	594,200	1,535,838
Accumulated amortization	315,393	628,514
Goodwill, net	278,807	907,324
Total	Ps. 1,349,973	Ps. 3,017,211

From 1998 through 2000, the Company made an equity investment of U.S.$121.3 million in Prodigy Communications Corporation (Prodigy), which is engaged in providing internet services in U.S.A. In May 2000, other stockholders made capital contributions to Prodigy for more than the book value of the shares acquired. Although this resulted in a reduction in the equity interest of TELMEX of 8.1%, it increased the proportional book value of the investment by Ps. 700,983, which was credited to income of 2000. At December 31, 2000, the Company held a 10.3% equity interest in Prodigy. In November 2001, the Company sold to a related party its entire equity interest in Prodigy for U.S.$82.6 million, obtaining a gain of Ps.103,099 on the transaction. At December 31, 2000, the goodwill of Ps. 983,674 generated on these transactions was being amortized over a period of five years.

In May 1999, the Company entered into an agreement with Williams Communications Group, Inc. (Williams), which is engaged in providing telecommunications services in U.S.A., to acquire approximately 1% of the shares comprising the capital stock of Williams. This transaction was consummated in October 1999. Williams and TELMEX agreed to interconnect their fiber optics and long-distance networks in supplying international telecommunications services. Because the market value of this investment at December 31, 2001 has substantially decreased, the Company decided to recognize in results of operations a decrease in the value of this asset of Ps. 881,618; the amount was included in the comprehensive financing cost.

In 2001, TELMEX made capital contributions to Technology and Internet, LLC (TAI). These contributions, which represent 50% of TAI's capital stock, total U.S.$3 million (U.S.$103 million in 2000). TAI has made investments in companies engaged in e-commerce, located basically in the U.S.A. and Latin America.

In June 2001, TELMEX invested U.S.$47 million in The Telvista Company (Telvista), which represents 45% of its capital stock. Telvista is engaged in providing telemarketing services in the U.S.A.

In 2001, TELMEX made other investments in affiliated companies of U.S.$33 million, mostly in telecommunications interests.

Total equity investments in affiliated companies during 2001 aggregated approximately U.S. $83 million (U.S. $123 million in 2000). Goodwill derived from these investments was not material.

TELMEX's equity interest in the results of operations of affiliated companies represented a charge to operations of Ps. 430,082 in 2001 (Ps. 327,454 in 2000).

Subsequent event

b) On January 16, 2002, TELMEX, together with Fortsmann Little & Co. (Fortsmann Little), located in the U.S.A., entered into a definitive agreement to make capital contributions of as much as U.S.$400 million each to XO Communications, Inc. (XO), a broadband services telecommunications supplier. Such contribution is expected to give TELMEX up to a 39%, share in XO. The consummation of the agreement depends on, among other things, XO's complete restructuring of its balance sheet and the approval of the transaction by the competent authorities. XO will continue its negotiations with financial institutions and bond holders, in order to satisfy the restructuring requirements of its liability, contemplated by the definitive agreement with TELMEX and Fortsmann Little.

8. Employee Pensions and Seniority Premiums

Substantially all of the Company's employees are covered under defined benefit retirement and seniority premium plans.

Pension benefits are determined on the basis of compensation to employees in their final year of employment, their seniority, and their age at the time of retirement.

In 1990, the Company set up an irrevocable trust fund to cover the payment of these obligations. It adopted the policy of making annual contributions to the fund, which totaled Ps. 4,894,966 in 2001, and Ps. 1,887,095 in 2000. These contributions are deductible for Mexican corporate income tax purposes.

The transition liability, past services and variances in assumptions are being amortized over a period of twelve years, which is the estimated average remaining working lifetime of Company employees.

The most important information related to labor obligations is as follows:

Analysis of the net period cost:

	2001	2000
Labor cost	Ps. 1,841,541	Ps. 2,039,001
Financial cost of projected benefit obligation	3,748,978	3,706,803
Return on plan assets	(3,175,865)	(3,247,868)
Amortization of past service costs	1,041,350	1,041,349
Amortization of variances in assumptions	100,854	(2,852)
Net period cost	Ps. 3,556,858	Ps. 3,536,433

Reserve for employee pensions and seniority premiums:

	2001	2000
Projected benefit obligation	Ps. 63,128,815	Ps. 56,353,130
Plan assets	(54,056,488)	(46,160,465)
Transition liability	(7,254,315)	(8,268,520)
Actuarial loss to be amortized	(11,030,677)	(6,730,723)
Past service costs and plan amendments	(317,122)	(344,085)
Net projected asset	(9,529,787)	(5,150,663)
Additional minimum liability	14,853,516	11,930,274
Reserve for employee pensions and seniority premiums	Ps. 5,323,729	Ps. 6,779,611
Accumulated benefit obligation	Ps. 59,380,217	Ps. 52,940,076
Intangible asset included on balance sheet	Ps. 7,571,437	Ps. 8,612,605
Minimum pension and seniority premium liability adjustment on stockholders' equity	Ps. 7,282,079	Ps. 3,317,669

The increase in the unamortized actuarial loss in 2001 of approximately Ps. 4,300,000 is attributable basically to the increase in the projected benefit obligation resulting from the increase in salaries over what was estimated at the beginning of the year. The actuarial loss in 2000 of approximately Ps. 3,200,000 is attributable primarily to the negative results of plan assets and the positive behavior of the projected benefit obligation. The negative behavior of plan assets in 2000 was due largely to the pervasive decline in the value of securities traded on the Mexican Stock Exchange.

In the last quarter of 2000, the Company decided to review and modify the actuarial assumptions used for several years to make the actuarial computation of the projected benefit obligation and the accumulated benefit obligation at December 31, 2000, as well as the net period cost for 2001. The net period cost is systematically computed in a prospective manner at the beginning of the year. The changes in actuarial assumptions were based on objective judgmental elements considered by both the Company and the independent actuary, including past experience of the Company and of the country in recent years, as well as expectations with respect to the future. Also, in the final quarter of 2001, because of the general economic situation, the Company decided to review and modify the annual rate of return on the fund, which was reduced from 7.84% to 6.84%.

The rates used in the actuarial studies were:

	2001	2000
Discount of labor obligations:		
First year	6.84 %	6.84 %
Long-term average	5.85 %	5.85 %
Increase in salaries:		
First year	1.85 %	1.85 %
Long-term average	0.96 %	0.96 %
Annual return from the fund	6.84 %	6.84 %

The changes in financial assumptions resulted in a decrease of approximately Ps. 1,200,000 in the net period cost of 2001, compared to the cost that would have been determined on the basis of the previous actuarial assumptions. The change represented a decrease of approximately Ps. 6,160,000 in the projected benefit obligation, the accumulated benefit obligation, and in the charge to stockholders' equity for labor obligations at December 31, 2000.

At December 31, 2001, 66% (71% in 2000) of plan assets were invested in fixed-income securities and 34% (29% in 2000) in variable-income securities.

9. Long-term Debt

Long-term debt consists of the following:

	Average weighted interest rates at December 31, 2001	2000	Maturities from 2002 through	Balance at December 31, 2001	2000
Debt denominated in foreign currency:					
Convertible senior debentures (1)	4.2 %	4.2 %	2004	Ps. 9,142,300	Ps. 10,022,087
Senior notes (2)	8.2 %		2006	13,713,450	
Banks	3.1 %	7.4 %	2011	23,983,947	22,234,617
Suppliers' credits	3.3 %	7.6 %	2022	2,832,010	3,884,871
Financial leases	2.9 %	7.2 %	2006	2,527,044	1,503,621
Mexican Government	2.8 %	7.0 %	2006	164,186	212,691
Total				52,362,937	37,857,887
Debt denominated in Mexican pesos:					
Medium-term notes		20.2 %			6,264,000
Commercial paper	8.0 %	18.0 %	2002	8,675,122	26,814,431
Domestic senior notes ("Certificados bursátiles")	11.6 %		2007	4,250,000	
Banks	7.2 %	18.1 %	2004	4,440,000	6,682,293
Financial leases	8.9 %	19.9 %	2004	13,634	69,476
Total				17,378,756	39,830,200
Total debt				69,741,693	77,688,087
Less short-term debt and current portion of long-term debt				17,487,311	46,059,201
Long-term debt				Ps. 52,254,382	Ps. 31,628,886

The above-mentioned rates are subject to variances in international and local rates and do not include the effect of the Company's agreement to reimburse certain lenders for Mexican taxes withheld. The Company's weighted average cost of borrowed funds at December 31, 2001 (including interest, fees and reimbursement of such lenders for Mexican taxes withheld) was approximately 7.5% (12.2% at December 31, 2000).

An analysis of the foreign currency denominated debt at December 31, 2001 is as follows:

	Foreign currency (in thousands)	Exchange rate at December 31, 2001 (in units)	Mexican peso equivalent
U.S. dollar	5,703,734	Ps. 9.1423	Ps. 52,145,247
French franc	176,482	1.2335	217,690
Total			Ps. 52,362,937

(1) On June 11, 1999, the Company issued U.S.$ 1,000 million of convertible senior debentures. The debentures are convertible to common stock at the option of the holders, at any time prior to their maturity into American Depositary Shares (ADSs), each representing 20 TELMEX "L" shares. The conversion price is U.S.$ 47.46095 per ADS, equal to a conversion ratio of 21.07 "L" shares ADSs per U.S.$ 1,000 principal amount of the convertible debentures, subject to adjustment under certain circumstances. As result of the spin-off, the conversion rate was adjusted from 21.07 to 33.81.

Should any person or group (other than the present controlling stockholders) acquire 50% or more of the issuer's voting shares, the holders of the convertible debentures may ask TELMEX to repurchase the convertible debentures, for 100% of the principal amount plus unpaid accrued interest through the repurchase date.

The maturity date of the convertible debentures is June 15, 2004. The debentures bear 4.25% annual interest, payable semiannually. In 2001 and 2000, accrued interest on these debentures aggregated Ps. 436,479 and Ps. 435,733, respectively.

(2) On January 26, 2001, TELMEX issued senior notes for U.S.$ 1,000 million, maturing in 2006 and bearing 8.25% annual interest payable semiannually. Additionally, on May 8, 2001, TELMEX issued supplemental senior notes for U.S.$ 500 million with similar characteristics. In 2001, accrued interest on the bonds was Ps. 1,057,636.

At December 31, 2001, the Company has long-term lines of credit with certain banks that do not require compensating balances. Origination fees range from 0.25% to 1.5% of available balances. The unused committed lines of credit at December 31, 2001 totaled approximately Ps. 6,120,000, at a floating interest rate of approximately LIBOR plus one point at the time of use.

As a part of its currency hedging strategy, the Company utilizes forward contracts to minimize the impact of exchange rate fluctuations on U.S. dollar denominated transactions. During 2001, the Company entered into short-term exchange hedges which, at December 31, 2001, cover liabilities of U.S.$2,740 million. In 2001, Ps. 462,557 was charged to income on these contracts to offset exchange differences. In 2000, these transactions were immaterial.

Long-term debt maturities at December 31, 2001 are as follows:

Year ended December 31,		Amount
2003	Ps.	8,666,212
2004		17,858,460
2005		3,444,846
2006		16,329,101
2007 and beyond		5,955,763
Total	Ps.	52,254,382

Subsequent event

On February 15, 2002, TELMEX made two placements of domestic senior notes ("Certificados bursátiles") for Ps. 850 million and Ps. 1,650 million with maturities of three and five years, respectively, bearing interest at the 91-day CETES rate plus one point and the 182-day CETES rate plus 0.8%, respectively.

10. Deferred Credits

Deferred credits consist of the following at December 31, 2001 and 2000:

		2001		2000
Advance billings	Ps.	995,444	Ps.	1,316,175
Advances from subscribers and others		12,570		7,984
Total	Ps.	1,008,014	Ps.	1,324,159

11. Foreign Currency Position and Transactions

a) At December 31, 2001, TELMEX and its Mexican subsidiaries have a net foreign currency short position of U.S.$5,650 million (net foreign currency short position of U.S.$3,648 million at December 31, 2000).

The prevailing exchange rate at December 31, 2001 was Ps. 9.14 per U.S. dollar (Ps. 9.60 per U.S. dollar at December 31, 2000). At February 15, 2002, the date of the audit report on these consolidated financial statements, the exchange rate of the Mexican peso relative to the U.S. dollar was Ps. 9.06 per U.S. dollar.

b) In the years ended December 31, 2001 and 2000, TELMEX and its Mexican subsidiaries had the following transactions denominated in foreign currencies. Currencies other than the U.S. dollar were translated to U.S. dollars using the average exchange rate for the year.

	Million of dollars			
	2001		2000	
Net settlement revenues	U.S.$	253	U.S.$	516
Interest expense		284		165
Operating expenses		136		139

12. Commitments and Contingencies

a) The Company leases certain equipment used in its operation under capital leases. At December 31, 2001, the Company had the following commitments under noncancelable leases:

Year ended December 31,

2002	Ps.	606,288
2003		739,940
2004		674,545
2005		499,487
2006		102,435
Total		2,622,695
Less interest		82,017
Present value of net minimum lease payments		2,540,678
Less current installment		587,143
Long-term obligation at December 31, 2001	Ps.	1,953,535

b) At December 31, 2001, the Company has noncancelable commitments of approximately Ps. 2,450,000 (Ps. 3,763,000 in 2000) for the purchase of equipment.

c) At December 31, 2001, there are no outstanding letters of credit (Ps. 6.264 in 2000), which were issued to foreign suppliers for the purchase of materials and supplies.

d) In February 1998, the Federal Commission of Economic Competition (COFECO) determined that Teléfonos de México, S.A. de C.V. has substantial power in what it referred to as five telecommunications markets so that, in conformity with Article 63 of the Federal Telecommunications Act, COFETEL may impose specific obligations with respect to rates charged and quality of services and information.

The Company's external lawyers who are handling this matter are of the opinion that this finding is unjustified. Consequently, Teléfonos de México, S.A. de C.V. filed an appeal in the Federal District Court and obtained protection and shelter under Mexican Federal law. COFETEL, based on the COFECO ruling, which was later reversed, handed down a new ruling imposing certain specific obligations on Teléfonos de México, S.A. de C.V. The ruling of COFETEL was appealed in a Federal Court and is still pending. Also, the SCT imposed a fine on Teléfonos de México, S.A. de C.V. for not complying with certain obligations. The fine was also appealed and the matter is pending. In 2001, COFECO upheld its previous ruling and handed down a new ruling supporting the findings with respect to the substantial power that Teléfonos de México, S.A. de C.V exercises over five telecommunications markets. Teléfonos de México, S.A. de C.V. has also appealed in a Federal District Court.

As a result of these findings, COFECO has initiated other proceedings against Teléfonos de México, S.A. de C.V. that are also being appealed.

e) In December 1995, a competitor that provides cellular telephone services reported Teléfonos de México, S.A. de C.V. to COFECO for alleged monopolistic practices.

In July 2001, the COFECO ruled that Teléfonos de México, S.A. de C.V. was responsible for monopolistic practices. Teléfonos de México, S.A. de C.V. filed an appeal for reconsideration against the ruling, but the appeal was declared unfounded and denied.

Currently, the respective defense against the denial is being prepared.

f) Under Mexican law, Teléfonos de México, S.A. de C.V. remains jointly and severally liable for any obligations transferred to América Móvil pursuant to the spin-off for a period of three years beginning on September 25, 2000, the spin-off date. Such liability, however, does not extend to any obligation with a creditor that has given its express consent relieving Teléfonos de México, S.A. de C.V., of such liability and approving the spin-off. In addition, Teléfonos de México, S.A. de C.V., has the following specific obligations:

- Teléfonos de México, S.A. de C.V. has guaranteed indebtedness of ATL Algar Telecom Leste, S.A. under certain credit facilities, for up to U.S.$104.3 million. América Móvil has agreed to indemnify Teléfonos de México, S.A. de C.V. against any liability under these guarantees.

- Teléfonos de México, S.A. de C.V. has guaranteed certain obligations of Iberbanda, S.A., (formerly FirstMark Comunicaciones España, S.A.). The guarantee is limited to 4,606.3 million Spanish pesetas. América Móvil has agreed to indemnify Teléfonos de México, S.A. de C.V. for any liability derived from these guarantees.

13. Related Parties

In the years ended December 31, 2001 and 2000, the Company had the following significant transactions with related parties:

		2001		2000
Purchase of materials, inventories and fixed assets (1)	Ps.	6,745,360	Ps.	6,149,795
Payment of insurance premiums, fees for administrative and operating services and others (2)		1,834,149		2,002,447
Payment of CPP interconnection fees (3)		7,011,828		5,970,070
Donations to a non-profit social welfare organization		500,013		1,302,701
Sale of materials, inventories and fixed assets (4)		416,178		492,448
Sale of long distance and other telecommunication services (5)		3,171,635		2,636,968

1) Includes Ps. 5,588,619 in 2001 (Ps. 4,921,823 in 2000) for fiber optic and satellite network services with a subsidiary of the Condumex group.

2) In 2001, includes Ps. 471,339 for insurance premiums with Seguros Inbursa, S.A. (Ps. 543,521 in 2000), as well as Ps. 306,132 (Ps. 375,322 in 2000) for fees paid for administrative and operating services to technology partners.

3) Interconnection fee from the "Calling Party Pays" program (CPP); incoming calls from a fixed line telephone to a wireless telephone paid to a subsidiary of América Móvil. In 2000, this income is included in income of discontinued operations, eliminating the effect at net income level.

4) Includes Ps. 164,078 in 2001 (Ps. 159,960 in 2000) from the sale of construction materials to a subsidiary of the Condumex group.

5) Interconnection revenues from interconnection of outgoing calls from the wireless network to the fixed line network of a subsidiary of América Móvil.

At December 31, 2001, TELMEX had amounts due to a subsidiary of the Condumex group and a subsidiary of América Móvil of Ps. 1,123 million and Ps. 581 million, respectively (Ps. 206 million and Ps. 477 million in 2000).

14. Stockholders' Equity

a) At an extraordinary stockholders' meeting held on September 25, 2000, as described in Note 2, it was decided to spin-off the wireless telecommunications segment and most of its international transactions. When the spin-off occurred and TELMEX made its capital contribution to América Móvil, the capital stock of both TELMEX and América Móvil was represented by an equal number of shares of each of the three series, without any change in the number of shares comprising the capital stock of TELMEX.

At December 31, 2001, capital stock is represented by 13,165 million common shares with no par value, representing the fixed capital (14,010 million in 2000), issued and outstanding. An analysis is as follows:

		2001		2000
4,307 million Series "AA" shares (3,266 million in 2000)	Ps.	13,271,547	Ps.	11,011,574
313 million Series "A" shares (339 million in 2000)		1,129,292		1,224,666
8,545 million Series "L" shares (10,405 million in 2000)		12,368,865		15,803,411
Total	Ps.	26,769,704	Ps.	28,039,651

Series "AA" shares, which may be subscribed only by Mexican individuals and corporate entities, must represent at all times no less than 20% of capital stock and no less than 51% of the common shares. Common Series "A" shares, which may be freely subscribed, must account for no more than 19.6% of capital stock and no more than 49% of the common shares. Series "AA" and "A" shares combined may not represent more than 51% of capital stock. The combined number of Series "L" shares, which have limited voting rights and may be freely subscribed, and Series "A" shares may not exceed 80% of capital stock.

Since January 1, 2001, the Company's bylaws have contemplated the possibility of the holders of Series "L" shares exchanging such shares, in certain circumstances, for Series "AA" shares, . In 2001, a total of 1,106 million Series "L" shares were exchanged for Series "AA" shares.

b) In 1994, TELMEX initiated a program to purchase its own shares. For this purpose, in accordance with the Securities Trading Act, the Company appropriated retained earnings to set up a reserve to purchase its own shares. A charge is made to the reserve for the excess cost of the shares purchased over the portion of capital stock represented by the shares acquired.

During 2000, the Company purchased 938.6 million Series "L" shares for Ps. 24,822,456 (Ps. 23,159,299 historical) and 761 thousands Series "A" shares for Ps. 18,440 (Ps. 17,519 historical) .

In February 2001, the stockholders approved an increase in the reserve to purchase Company's own shares, bringing the balance of the reserve to Ps.10,350,222 (Ps. 10,008,918 historical). During 2001, the Company acquired 843.7 million Series "L" shares for Ps. 13,692,105 (Ps. 13,400,776 historical) and 1.5 million Series "A" shares for P. 23,277 (Ps. 22,715 historical).

Under the Securities Trading Act, amended starting June 1, 2001, it is no longer required to create a reserve for the purchase on one' own shares. The Company's own shares purchased since this change were acquired using the reserve until it was eliminated, after which shares were acquired using unappropriated earnings in the amount the corresponding shares purchased exceeded capital stock.

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 issued and outstanding.

d) Earnings per share are obtained by dividing net income for the year by the average weighted number of shares issued and outstanding during the period. To determine the average weighted number of shares issued and outstanding in 2001 and 2000, the shares acquired by the Company have been excluded from the computation.

The diluted earnings per share in 2001 and 2000, were determined considering the effect of the shares that may be delivered (potentially dilutive shares) as a result of the convertible senior debentures described in Note 9. The computation was made by deducting from net income for the year, the net comprehensive financing income, net of income tax and employee profit sharing, derived from the convertible debentures. The adjusted income was divided by the average weighted number of shares issued and outstanding, taking into account the number of shares that could be capitalized.

An analysis is as follows:

Income from continuing operations	**2001**	2000
Income per basic share:		
Income from continuing operations	Ps. 23,494,117	Ps. 26,097,495
Weighted average number of shares issued and outstanding (millions)	13,541	14,669
Income per basic share (in pesos)	Ps. 1.735	Ps. 1.779
Income per diluted share:		
Income from continuing operations	Ps. 23,494,117	Ps. 26,097,495
Comprehensive financing income (net of income tax and employee profit sharing)	(339,875)	(265,678)
Adjusted income	Ps. 23,154,242	Ps. 25,831,817
Weighted average number of shares issued and outstanding (millions)	Ps. 13,541	Ps. 14,669
Add:		
Potentially dilutive shares	676	676
Weighted average number of diluted shares issued and outstanding (millions)	14,217	15,345
Income per diluted share (in pesos)	Ps. 1.629	Ps. 1.683

Net Income	**2001**	2000
Income per basic share:		
Net income	Ps. 23,494,117	Ps. 27,635,769
Weighted average number of shares issued and outstanding (millions)	13,541	14,669
Income per basic share (in pesos)	Ps. 1.735	Ps. 1.884
Income per diluted share:		
Net income	Ps. 23,494,117	Ps. 27,635,769
Comprehensive financing income (net of income tax and employee profit sharing)	(339,875)	(265,678)
Adjusted income	Ps. 23,154,242	Ps. 27,370,091
Weighted average number of shares issued and outstanding (millions)	13,541	14,669
Add:		
Potentially dilutive shares	676	676
Weighted average number of diluted shares issued and outstanding (millions)	14,217	15,345
Income per diluted share (in pesos)	Ps. 1.629	Ps. 1.784

e) At December 31, 2001, accumulated other comprehensive income items include the effects of labor obligations and the deficit from the restatement of stockholders' equity, net of deferred taxes of Ps. 4,733,351 and Ps. 64,154,245, respectively (Ps. 3,317,669 and Ps. 61,628,132 in 2000).

15. Income Tax

a) The Ministry of Finance and Public Credit authorized TELMEX to consolidate the group tax returns effective January 1, 1995. The Instituto Tecnológico de Teléfonos de México, S.C., Fundación Telmex, A.C., and the subsidiaries acquired during the year are excluded from this tax consolidation.

b) The asset tax on continuing operations for the years ended December 31, 2001 and 2000 was Ps. 2,612,247 and Ps. 2,455,054, respectively. In both years TELMEX credited against these amounts the income tax paid in such years.

c) The corporate income tax rate for 2001 and 2000 was 35%. However, corporate taxpayers had the option of deferring a portion, so that the tax payable for those years represented 30% of taxable income. The earnings on which taxes were deferred must be controlled in a so-called "net reinvested tax profit" account ("CUFINRE"), to clearly identify the earnings on which the taxpayer has opted to defer payment of corporate income tax. Effective January 1, 2002, the above-mentioned option of deferring a portion of income tax was eliminated.

Since the Company opted for this tax deferral, earnings will be considered to be distributed first from the "CUFINRE" account, and any excess will be distributed from the "net tax profit" account ("CUFIN") so as to pay the 5% deferred tax.

Any distribution of earnings in excess of the above-mentioned account balances will be subject to payment of the enacted corporate income tax rate.

In addition, from January 1, 1999 through December 31, 2001, cash dividends obtained by individuals or residents abroad from corporate entities in Mexico, were subject to a 5% withholding tax on the amount of the dividend multiplied by 1.5385 (1.515 for dividends paid from the determined balance of the "CUFIN" account at December 31, 1998).

d) The cumulative effect of the adoption of the new Bulletin D-4 at the beginning of 2000 was Ps. 9,559,597. Such amount was applied to stockholders' equity. The Company simultaneously recognized a liability for deferred taxes, without restructuring the financial statements of prior years.

e) An analysis of income tax provisions is as follows:

		2001		2000
Current year	Ps.	10,577,150	Ps.	6,321,236
Deferred tax, net of related monetary position gain of Ps. 1,443,641 (Ps. 1,231,852 in 2000)		2,702,020		1,859,918
Total	Ps.	13,279,170	Ps.	8,181,154

A reconciliation of the statutory Mexican income tax rate and the Company's provision for effective income tax rate is as follows:

	Year ended December 31, **2001**	2000
Statutory income tax rate	35.0 %	35.0 %
Depreciation	(0.5) %	(8.5) %
Financing costs	(2.2) %	(4.2) %
Other	0.7 %	(0.8) %
Effective tax rate	33.0 %	21.5 %

In 2001, the percentage of decrease in depreciation was derived basically from a change in the depreciation method, in conformity with current tax legislation.

f) The temporary differences on which the Company recognized deferred taxes in the years ended December 31, 2001 and 2000, were as follows:

		2001		2000
Deferred tax asset :				
Allowance for doubtful accounts and slow-moving inventories	Ps.	537,158	Ps.	825,631
Tax loss carryforwards		17,306		41,540
Deferred income		124,768		445,754
Liability reserves		247,717		75,117
Excess cost over appraised value of Federal Microwave network				14,501
		926,949		1,402,543
Deferred tax liability:				
Fixed assets		(11,201,916)		(10,956,766)
Inventories		(285,152)		(313,541)
Licenses		(155,051)		(226,062)
Pensions and seniority premiums		(808,622)		(1,802,771)
		(12,450,741)		(13,299,140)
Net deferred tax (liability)	Ps.	(11,523,792)	Ps.	(11,896,597)

On January 1, 2002, an annual one-percentage point decrease in the income tax rate was approved, starting in 2003, so that in 2005 the rate will be 32%. The effect this change will have in suceeding years has not yet been determined, although it is not expected to be material.

g) At December 31, 2001, the balance of the restated contributed capital account (CUCA), the net tax profit account (CUFIN) and the net reinvested tax profit account (CUFINRE) was Ps. 23,109,403, Ps. 55,828,316 and Ps. 11,827,098, respectively. These amounts are for Teléfonos de México, S.A. de C.V. computed on a stand-alone basis.

16. Stock Option Plan

Starting in September 2001,TELMEX established a stock option plan for its officers. The plan is for a duration of four years, and 50 million Series "L" shares are to be made available. Each year, plan participants may select between acquiring all shares available or deferring their purchase until the final year. In 2001, options made available totaled 11,673,401 shares and 106,248 were subscribed. The difference between market value and the price given on the respective options was not significant.

17. Segments

After the spin-off described in Note 2, TELMEX operates primarily in two segments: local and long-distance telephone services. Local telephone service corresponds to fixed local wired service. The long-distance service includes both domestic and international services, exclusive of the long-distance calls originated in public and rural telephones and data transmission, services included in the others, adjustments and eliminations column. 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 constant pesos at December 31, 2001)

		Local service		Long distance		Others, adjustments and eliminations		Total consolidated
At December 31, 2001								
Revenues:								
External revenues	Ps.	70,099	Ps.	25,385	Ps.	15,483	Ps.	110,967
Intersegment revenues		9,782				(9,782)		
Depreciation and amortization		11,850		2,095		3,314		17,259
Operating income		27,826		9,118		5,648		42,592
Segment assets (1)		172,504		33,486		30,510		236,500
At December 31, 2000								
Revenues:								
External revenues		64,674		27,058		14,825		106,557
Intersegment revenues		14,484				(14,484)		
Depreciation and amortization		13,061		2,181		2,431		17,673
Operating income		30,501		6,526		4,424		41,451
Segment assets (1)		171,641		31,431		28,319		231,391

Additionally, the others, adjusments and eliminations colum includes the yellow and white pages directories and other services. Intersegmental transactions are reported at fair value. Comprehensive financing cost and provisions for income tax and employee profit sharing are not assigned to the segments; they are handled at the corporate level.

(1) Segment assets include plant property and equipment, construction in progress, inventories and advances to suppliers, without including accumulated depreciation.

18. Generally Accepted Accounting Principales in the United States Reconciliation

The Company's consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from Generally Accepted Accounting Principles in the U.S.A. ("U.S. GAAP"). The principal differences between Mexican GAAP and U.S. GAAP, as they relate to the Company, consist of the accounting for pension plan costs, deferred income taxes and deferred employee profit sharing (deferred taxes), and the restatement of plant, property and equipment. Other differences are the accounting for interest on assets under construction and accrued vacation costs. As mentioned in Note 15, new Mexican accounting Bulletin D-4 went into effect on January 1, 2000. This new bulletin modifies the rules with respect to the accounting treatment for deferred income tax, and differences with U.S. GAAP in deferred taxes were reduced solely to the accounting treatment for deferred employee profit sharing, which was not significantly affected by the new Mexican accounting Principle. The reconciliation to U.S. GAAP does not include the reversal of the adjustments to the financial statements for the effects of inflation required under Mexican GAAP (Bulletin B-10), because the application of Bulletin B-10 represents a comprehensive measure of the effects of price level changes in the Mexican economy and, as such, is considered a more meaningful presentation than historical cost-based financial reporting for both Mexican and U.S. accounting purposes.

A summary reconciliation of net income, comprehensive income and total stockholders´ equity between Mexican and U.S. GAAP, is a follows:

		2001		2000
Income from continuing operations as reported under Mexican GAAP	Ps.	23,494,117	Ps.	26,097,495
Total U.S. GAAP adjustments from continuing operations, net		(3,268,623)		(1,943,640)
Income from continuing operations under U.S. GAAP		20,225494		24,153,855
Income from discontinued operations under U.S. GAAP		-		1,302,506
Net income under U.S. GAAP		20,225,494		25,456,361
Other comprehensive income from continuing operations		2,523,009		(2,984,743)
Other comprehensive income from discontinued operations		-		1,348,248
Comprehensive income under U.S. GAAP	Ps.	22,748,503	Ps.	23,819,866
Weighted average common shares outstanding (in millions):				
Basic		13,541		14,669
Diluted		14,217		15,345
Income per share from continuing operations under U.S. GAAP (in pesos):				
Basic	Ps.	1.494	Ps.	1.647
Diluted	Ps.	1.399	Ps.	1.557
Net income per share under U.S. GAAP (in pesos):				
Basic	Ps.	1.494	Ps.	1.735
Diluted	Ps.	1.399	Ps.	1.642
Total stockholders' equity under Mexican GAAP	Ps.	50,762,116	Ps.	51,626,148
Total U.S. GAAP adjustments from continuing operations, net		2,139,060		(1,057,122)
Total stockholders' equity under U.S. GAAP	Ps.	52,901,176	Ps.	50,569,026

Proposal to the Meeting (*)

(Thousands of Mexican pesos with purchasing power at December 31, 2001)

Regarding dividend payments for the 2001 fiscal year, and according to clause forty-five of Teléfonos de México, S.A. de C.V. by-laws, the following amounts are available to the Shareholders:

		(Amount)
Prior year's unappropriated earnings according to the unconsolidated balance at December 31, 2001	Ps.	50,348,607
Less: Separation for the fourth dividend payment in cash to shareholders, beginning on March 20, 2002. of Ps. 0.125 per share by presenting coupon 21, according with the Shareholders´ Meeting held on April 30, 2001		1,635,041
Less: Earnings applied for the purchase of own shares in the period of January 1 to March 31, 2002, according with the Shareholders´ Meeting held on August 7, 2001		1,502,548
Less: Remaining balance as of March 31, 2002 of the maximum amount approved for the purchase of own shares, according with the Shareholders´ Meeting held on August 7, 2001		5,561,248
		41,649,770
Unconsolidated net income for the year		18,563,939
Total	Ps.	60,213,709

It is proposed that the balance of Ps. 60,213,709 made available to the shareholders be allocated as follows:

		(Amount)	
There will be no increase to the legal reserve due to the fact that it has reached the 20% limit establis hed in Article 20 of the Mexican Corporations Act			
To pay a cash dividend of Ps. 0.56 per share coming from the Net Tax Profit Account divided in four payments of Ps.0.14 each	Ps.	7,323,052	(1)
To the retained earnings account		52,890,657	
Total	Ps.	60,213,709	

The cash dividend proposed to the Shareholders´ Meeting will be paid starting June 20, 2002, September 19, 2002, December 19, 2002 and March 20, 2003, for all outstanding shares which make up the capital stock of the company by presenting coupons 22, 23, 24 and 25, respectively. While the amounts of the dividends are not allocated to the shareholders, they will continue in the Company's retained earnings account.

(*) Subject to the proceeding updates at the moment the Annual Shareholders´ Meeting be held.
(1) Estimated figure considering a total of 13,076,877,931 outstanding shares at March 31, 2002.

Significant results of accounting separation of local and long-distance telephone service

For the years ended December 31

(Millions of Mexican pesos with purchasing power at December 31, 2001)

Based on Condition 7-5 of the Amendments to the Concession title, the commitment to present the accounting separation of local and long-distance services is presented below for 2001 and 2000.

	Local service				Long-distance service			
	2001		2000		2001		2000	
Operating revenues:								
Access, rent and measured service	Ps.	52,248	Ps.	49,676				
Recovery of LADA special projects		1,581		133				
Domestic long-distance					Ps.	17,239	Ps.	17,316
International long-distance						8,146		9,742
LADA interconnection		3,845		10,099				
Interconnection with L.D. operators		1,149		2,445				
Interconnection with cellular companies		13,559		10,634				
Others		7,499		6,171				
Total revenues		79,881		79,158		25,385		27,058
Operating costs and expenses:								
Cost of sales and services		16,749		15,590		3,941		3,628
Commercial, administrative and general		13,674		12,845		5,005		5,091
Depreciation and amortization		11,850		13,061		2,095		2,181
Cost of LADA special projects						1,543		125
Interconnection with cellular companies		9,782		7,161				
Interconnection to the local network						3,683		9,507
Total costs and expenses		52,055		48,657		16,267		20,532
Operating income	Ps.	27,826	Ps.	30,501	Ps.	9,118	Ps.	6,526
Estimation of lost revenues due to illegal by-pass					Ps.	1,699	Ps.	2,872
Gross fixed asset	Ps.	172,504	Ps.	171,641	Ps.	33,486	Ps.	31,431
Personnel		42,390		42,835		7,680		7,670

Notes:

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

1) The information that was considered in its elaboration was only the one corresponding to companies that are directly involved in rendering local and long-distance telephone services as follows: Teléfonos de México, S.A. de C.V.; Teléfonos del Noroeste, S.A. de C.V.; Compañía de Teléfonos y Bienes Raíces, S.A. de C.V. and Alquiladora de Casas, S.A. de C.V.

2) Local Service: includes revenues from monthly rent, measured service, installation charges, equipment sales and interconnection service.

3) Long-Distance Service: includes revenues from basic services of domestic and international long-distance, does not include revenues from rural and public telephony services and data transmission services.

4) The services being disclosed consider the corresponding imputations for interconnection, billing collecting, leased ports, colocation and leased lines.

Board of Directors

Board Members Appointed by Common Shares

Carlos Slim Helú *(p, r)*
Chairman of the Board
Teléfonos de México, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: telecommunications, retailing, finance and construction.

Emilio Azcárraga Jean *(i)*
Chairman of the Board
Grupo Televisa, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: mass media.

James W. Callaway *(i)*
Group President
SBC Communications Inc.
Born in Little Rock, Arkansas, USA
Experience in: telecommunications.

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

Jaime Chico Pardo *(r)*
Vice Chairman of the Board and Chief Executive Officer
Teléfonos de México, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: telecommunications and automotive.

Janet M. Duncan *(i)*
Chief Financial Officer
SBC International Management Services Inc.
Born in Burlington, Vermont USA
Experience in: telecommunications.

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

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

Ángel Losada Moreno *(i)*
Executive President
Grupo Gigante, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: retailing

Rómulo O´Farrill Jr. *(i)*
President and Chief Executive Officer
Novedades Editores, S.A.de C.V.
Born in Mexico City, Mexico
Experience in: mass media.

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

Mark E. Royse *(i)*
President
SBC International Management Services Inc.
Born in Ottawa, Kansas USA.
Experience in: telecommunications.

Fernando Senderos Mestre *(i)*
Chairman of the Board and Executive President
DESC, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: chemicals, real estate and food.

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

Board Members Appointed by Series "L"

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

Rafael Kalach Mizrahi *(i)*
Chief Executive Officer
Grupo Kaltex, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: textiles.

Secretary

Sergio F. Medina Noriega
General Counsel
Teléfonos de México, S.A. de C.V.
Born in Tenancingo, State of Mexico
Experience in: law and telecommunications.

Statutory Auditor

Alberto Tiburcio Celorio
General Director
Mancera, S.C. Ernst & Young
Born in Veracruz, Veracruz Mexico
Experience in: auditing and business consulting.

Common Share Alternates

Jaime Alverde Goya *(i)*
Chairman of the Board
Hoteles Presidente Intercontinental
Born in Mexico City, Mexico
Experience in: tourism and retailing.

Carlos Bernal Verea *(i)*
Partner
Noriega y Escobedo, A.C.
Born in Mexico City, Mexico.
Experience in: law.

Antonio del Valle Ruiz *(i)*
Chairman of the Board
Grupo Industrial Camesa, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: steel and finance.

Arturo Elías Ayub *(r)*
Director of Strategic Alliances, Communication and Institutional Relations
Teléfonos de México, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: telecommunications.

Angeles Espinosa-Yglesias *(i)*
Chief Executive Officer
Museo Amparo
Born in Puebla, Puebla Mexico
Experience in: history and art.

Jorge Esteve Campdera *(i)*
Chairman of the Board
Agro Industrias Unidas, S.A. de C.V.
Born in Barcelona, Spain
Experience in: food.

Agustín Franco Macías *(i)*
Chairman of the Board
CRYOINFRA, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: industrial and medicinal gas.

John B. Gibson *(i)*
Legal Director
SBC Communications Inc.
Born in Oldham, England.
Experience in: telecommunications.

Humberto Gutiérrez-Olvera Zubizarreta *(r)*
Chief Executive Officer
Grupo Condumex, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: construction.

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

Federico Laffan Fano *(i)*
Partner
Laffan y Asociados, S.C.
Born in Tampico, Tamaulipas, Mexico.
Experiencia in: law.

Marco Antonio Slim Domit *(p, r)*
President and Chief Executive Officer
Grupo Financiero Inbursa, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: finance and telecommunications.

Patrick Slim Domit *(p, r)*
Mass Market Director
Teléfonos de México, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: telecommunications.

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

Series "L" Alternates

Sergio F. Medina Noriega *(r)*
General Counsel
Teléfonos de México, S.A. de C.V.
Born in Tenancingo, State of Mexico
Experience in: law and telecommunications.

Bernardo Quintana Isaac *(i)*
Chairman of the Board
Grupo ICA, S.A. de C.V.
Born in Mexico City, Mexico
Experience in: construction.

Assistant Secretary

Rafael Robles Miaja
Partner
Franck, Galicia y Robles, S.C.
Born in Mexico City, Mexico
Experience in: law.

Alternate Statutory Auditor

Fernando Espinosa López
Auditing Partner
Mancera, S.C. Ernst & Young
Born in Mexico City, Mexico
Experience in: auditing and business consulting.

Type of Board Member

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

Consultive Board

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

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

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

Joaquín Arizpe de la Maza *(Saltillo)*
Vice Chairman of the Board
Grupo Corporativo ARMA

Carolina Aubanel de Bustamante *(Tijuana)*
Chief Executive Officer
TV Azteca Baja California, S.A. de C.V.

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

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

Federico Barrio Terrazas *(Cd. Juárez)*
Chairman of the Board
Lintel, S.A. de C.V.

José Berrondo Mir *(Querétaro)*
Director
Mabe México, S. de R.L. de C.V.

Luis Germán Cárcoba García *(Guadalajara)*
Chairman of the Board
Promotora Terracasa, S.A. de C.V.

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

Enrique Coppel Luken *(Culiacán)*
President and Chief Executive Officer
Almacenes Coppel, S.A. de C.V.

Jorge A. Chapa Salazar *(Monterrey)*
Board Member
Grupo Chapa, S.A. de C.V.

José Chapur Zahoul *(Cancún)*
Chairman of the Board
Palace Resorts, S.C.

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

Juan Manuel Diez Francos *(Orizaba)*
Chairman of the Board
Grupo Diez Fénix, S.A. de C.V.

Robert Dotson Castrejón *(Acapulco)*
Chairman of the Board
Yoli de Acapulco, S.A. de C.V.

Rómulo Farrera Escudero *(Tuxtla Gutiérrez)*
President and Chief Executive Officer
Grupo Farrera, S.A. de C.V.

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

César Fernández Díaz *(Villahermosa)*
Presidente del Consejo Directivo
Unión Ganadera Regional de Tabasco

Herman H. Fleishman Cahn *(Tampico)*
President and Chief Executive Officer
Grupo Tampico, S.A.

Roberto García Navarro *(San Luis Potosí)*
Chairman of the Board
Grupo Canels, S.A. de C.V.

Gemma Garciarce Monraz *(Puerto Vallarta)*
Director
Hotel Sheraton Bugambilias Resort & Towers

Juan José Gutiérrez Ruiz *(Oaxaca)*
Chairman of the Board
Unión de Crédito Industrial y Comercial de Oaxaca, S.C.

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

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

Shelby Longoria Kowalski *(Reynosa)*
President and Chief Executive Officer
Grupo Inlosa, S.A. de C.V.

Javier López del Bosque *(Saltillo)*
President of Operations
Grupo Industrial Saltillo, S.A. de C.V.

Gastón Luken Aguilar *(Mexicali)*
Chairman of the Board
GE Capital México, S.A. de C.V.

Nicolás Madahuar Cámara *(Mérida)*
Chief Executive Officer
Operadora de Tiendas Voluntarias, S.A. de C.V.

Ricardo E. Marcos Touché *(Torreón)*
President and Chief Executive Officer
Grupo Libra, S.A. de C.V.

Gilberto Marín Quintero *(Puebla)*
President and Chief Executive Officer
Grupo PI Mabe, S.A. de C.V.

José Martínez Ramírez *(Guadalajara)*
Chairman of the Board
Loma Textil, S.A. de C.V.

Francisco Medina Chávez *(Morelia)*
Executive President
Grupo Frame, S.A. de C.V.

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

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

Enrique Montoto Arámburo *(Puebla)*
Chief Executive Officer
C. Montoto, S.A. de C.V.

Roberto Ruiz Rubio *(Querétaro)*
Board Member
Fomento Queretano, S.A. de C.V.

Luis Felipe Salas Benavides *(Monterrey)*
Board Member
Gpo.Benavides

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

Félix Tonella Luken *(Hermosillo)*
Chairman of the Board
Dinisa

Eduardo Tricio Haro *(Torreón)*
Chairman of the Board
Grupo Industrial Lala, S.A. de C.V.

Hugo Villalobos González *(León)*
Chief Executive Officer
Compañía Ferremás, S.A. de C.V.

Roberto Zambrano Villarreal *(Monterrey)*
Chief Executive Officer
Desarrollo Integrado, S.A. de C.V.

Jaime Zorrilla de San Martín Diego *(Oaxaca)*
Chief Executive Officer
Procasa, S.A.

Jaime Chico Pardo
Chief Executive Officer

Corporate Directors

Isidoro Ambe Attar
Corporate Market

Adolfo Cerezo Pérez
Finance and Administration

Javier Elguea Solís
Dean of Inttelmex

Arturo Elías Ayub
Strategic Alliances, Communication and Institutional Relations

Eduardo Gómez Chibli
Technical and Long Distance

Javier Mondragón Alarcón
Legal Affairs

Jaime Pérez Gómez
Human Resources

Patrick Slim Domit
Mass Market

Héctor Slim Seade
Operational Support

Andrés Vázquez del Mercado Benshimol
Investments and Strategic Development

Oscar Von Hauske Solís
Systems and Processes

Divisional Directors

José Covarrubias Bravo
East Metro

Darío Fernández Lizardi
Gulf-Pacific

Miguel Ángel González Arriaga
West

Gerardo Leal Garza
South Metro

Rafael Mendoza Ortiz
West Metro

Francisco Niembro González
Telnor

Hiram Ontiveros Medrano
Northwest

Raymundo Paulín Velasco
Northeast

Jorge Luis Suástegui Esquivel
Center

Miguel Ángel Vera García
Southwest

Gerardo Zozaya
North

Shareholder Information

Headquarters:	Shares Traded in Mexico:
Parque Vía 190	"A": Bolsa Mexicana de Valores
Colonia Cuauhtémoc	Symbol: TELMEX A
México, D.F.	"L" : Bolsa Mexicana de Valores
C.P. 06599	Symbol: TELMEX L
Investor Relations:	Shares Traded in the U.S.:
Parque Vía 198, Oficina 701	ADS : New York Stock Exchange
Colonia Cuauhtémoc	Symbol: TMX
México, D.F.	One ADS represents 20 "L" shares
C.P. 06599	
Tel. 52(55) 5703 3990 / 52(55) 5222 5462	ADS : NASDAQ
Fax: 52(55) 5545 5550	Symbol: TFONY
e-mail: ri@telmex.com	One ADS represents 20 "A" shares
Shareholder Services:	Transfer and Depository Agent in the U.S.:
Tel. 52(55) 5222 1126 / 52(55) 5222 5534 /	JP Morgan Chase Bank
52(55) 5222 6159	60 Wall Street 36th floor
Fax: 52(55) 5254 5955	New York, NY 10260-0060
e-mail: valores@telmex.com	Tel. 1 (212) 648 6801
	Fax: 1 (212) 648 5104
Independent Auditors:	
Mancera, S.C. Ernst&Young	

Stock Information

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

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