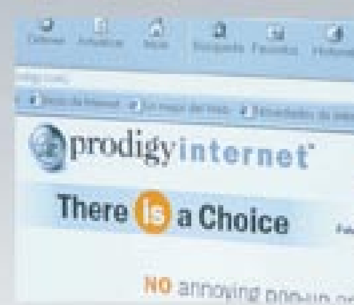
Annual Report 1998

TELÉFONOS DE MÉXICO

service

diversification

expansion



commitment

TELMEX

"We are convinced that because of our people, technology, management and marketing, TELMEX delivers long-term value to shareholders by serving customers, anytime, anyplace".

INDEX

HIGHLIGHTS

(Figures in millions of pesos, unless otherwise indicated, with purchasing power as of December 31, 1998)

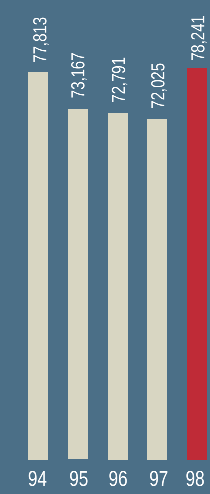
Financial Results	**1998**	**1997**	**1996**	**1995**	**1994**
Total Revenues	**78,241**	72,025	72,791	73,167	77,813
Cost of Sales and Services	**17,136**	16,833	16,591	21,675	23,341
Commercial, Administrative and General Expenses	**15,507**	14,135	14,690	12,495	11,928
Depreciation and Amortization	**15,719**	14,284	15,598	13,197	9,447
Total Costs and Expenses	**48,514**	47,081	50,251	47,368	44,716
Operating Income	**29,727**	24,944	22,541	25,800	33,097
Net Income	**16,401**	15,242	15,922	16,312	20,939
Total Assets	**153,873**	151,586	153,290	178,139	200,415
Total Debt	**30,052**	30,531	18,332	28,871	28,149
Stockholders' Equity	**105,898**	104,651	122,453	138,513	147,148
Total Debt/Capitalization (%)	**22.1**	22.6	13.0	17.2	16.1

Statistics	**1998**	**1997**	**1996**	**1995**	**1994**
Communities with Telephone Service	**24,711**	24,691	20,694	20,688	20,572
Access Lines in Service (1)	**9,927**	9,254	8,826	8,801	8,493
Cellular Customers (1)	**2,113**	1,112	657	399	306
Kms. of L.D. Circuits in Service (2)	**133**	113	96	87	82
Domestic L.D. Minutes (2)	**9,077**	8,232	7,867	7,294	6,746
International L.D. Minutes (2) (3)	**3,286**	3,768	3,558	3,055	2,622

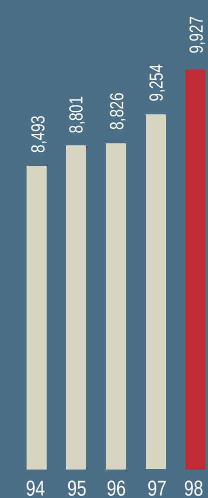
Data per Share (pesos)	**1998**	**1997**	**1996**	**1995**	**1994**
Average Earnings of the Year	**2.08**	1.81	1.74	1.61	1.98
Book Value	**13.71**	12.89	13.80	14.35	14.02
Market Value at Year-End (TELMEX L) (4)	**24.40**	22.75	12.98	12.36	10.24
Nominal Dividend Paid	**0.700**	0.525	0.350	0.300	0.250
Outstanding Shares at the End of each Year (2)	**7,724**	8,118	8,875	9,654	10,499

(1) thousands
(2) millions
(3) includes incoming and outgoing traffic
(4) unit prices have not been restated in constant currency

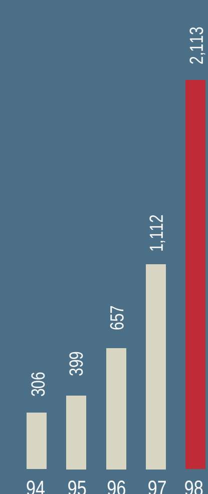
Total Revenues
(millions)



Access Lines in Service
(thousands)



Cellular Customers
(thousands)



LETTER TO OUR SHAREHOLDERS

During 1998, we focused on continuing the effective management of our operations in Mexico in a fully competitive environment, further diversifying our revenues by offering a wide variety of telecommunications services, and positioning Teléfonos de México (TELMEX) as a company with reach beyond Mexico's borders.

In 1998, TELMEX increased lines in service 7.3%. A net gain of 673,000 lines raised the year end total to 9.927 million lines. Digital services such as three-way calling, call waiting, call forwarding, caller ID, and voice mail covered 12.6% of all lines in service. Digital capabilities added value to traditional telephony and contributed to the higher rate of call completion.

Improving billing was a fundamental achievement in 1998. We focused on refining the billing system and creating tools to assist customers in managing their telephone use. A new telephone bill and detailed measured service were introduced nationwide. Billing information was also made available through the Internet. For corporate customers, TELMEX introduced SI@NA (Sistema de Analísis de Facturación), an internet-based program for analyzing billing. SI@NA provides customers with up-to-date information about their accounts after only a four-hour delay.

We also introduced TELMEX Precisa, which enables customers to control the total cost of their local telephone bill by using prepaid telephone cards. It is important to note that TELMEX's local service is one of the most accessible in the world. Approximately 48% of our residential customers pay only the basic monthly fee because they make fewer than the standard 100 local calls per month.

Another priority for 1998 was to make the necessary preparations for the year 2000. We have thoroughly reviewed our equipment and systems and are making changes as needed so that there will be no interruption in service to TELMEX customers.

During the year, the Mexican Government auctioned radiospectrum wave frequency bands to deliver services in the local telephone market, which has always been open to competition. TELMEX participated in this process and obtained concessions for frequencies to offer diverse wireless services nationwide. These concessions will allow TELMEX to expand services and enhance transmission capacity.

TELMEX continued fulfilling our regulatory obligations to foster competition in all areas of telecommunications in Mexico. We interconnected 40 additional cities in 1998 within the established time frame, bringing the total number of cities connected to 100. These cities account for 82.8% of all lines in service. Interconnection rates per minute in Mexico have decreased from 5.8 US cents to 2.65 US cents for all customers since the market was opened to competition in January 1, 1997. In the United States, it took 15 years for rates to drop from 8.6 US cents to 5.2 US cents for residential customers and from 12.8 US cents to 9.8 US cents for business customers.

In the long distance market, quality of service and customer acceptance have enabled TELMEX to recover market share and increase the number of customers across market segments. Our long distance market share in the 100 cities open to competition was 79.2% at the end of 1998, compared with 74.8% at year-end 1997. The amount of traffic TELMEX lost to other providers was approximately 1,819 million minutes, which is more than twice the annual international long distance outgoing traffic in Central America, Chile, and Argentina combined.

Our in-bound international traffic volume was negatively impacted by illegal by-pass carried out by some telecommunications services operators. This practice violates established agreements and regulations, slows the healthy development of the telecommunication sector in Mexico, and curtails the flow of foreign currency into Mexico.

Throughout the year, we strengthened and diversified our revenue sources. TELMEX offers integrated telecommunications services according to customers' needs, ranging from providing rural telephone service in the country's most remote populations to serving multinational corporations with significant global communication needs. TELMEX's cellular, public telephony, data transmission and Internet access businesses are now generators of growth for the company.

TELCEL, our cellular company, expanded its customer base by over 1 million to reach 2.113 million subscribers, 89.9% more than at year-end 1997. It is clear that growth in cellular telephony will outpace the rate of growth in fixed lines and that the number of cellular customers will exceed fixed-line customers in the near future.

Public telephony represents another means for TELMEX to meet basic communications needs. In 1998 we increased the number of telephones with microchip technology to 231,873, at the same time we continued to expand the availability of public telephones throughout Mexico. We also improved the nationwide distribution network of prepaid telephone cards. Additionally, customers' options have been expanded through TELMEX's establishment and support of new public telephone operators. TELMEX continues to focus on increasing public telephony nationwide, through microchip technology and through new programs such as "shared telephones", which began in the last quarter of 1998.

Due to the corporate market's growing demand for high-capacity data transmission, LADA Enlaces (private links), which is responsible for non-switched private connections, grew 40.2% to a total of 71,285 links by year-end. Expansion and constant technology updates of UNINET, our switched data network, continue to be a priority, allowing us to offer a wide range of voice, data, and video services to our corporate customers.

Considering the importance of the Internet in the Information Age, TELMEX acquired 18.9% of the capital stock of Prodigy Communications Corporation, a major Internet services provider in the United States. At the end of the year, it had a presence in 600 cities and a customer base of 671,000. We are creating synergies in 1999 to strengthen and accelerate Internet services in Mexico. TELMEX's Internet Directo Personal grew 325.3% in 1998 and provided access to 146,380 customers in 75 cities in Mexico. Through UNINET, TELMEX also provides Internet access to 331 corporations.

TELMEX's internationalization strategy became a reality in September 1998 through alliances and associations with telecommunications operators in the United States.

Additionally, we signed an agreement with LUCA, S.A. of Guatemala to manage the operations of Telecomunicaciones de Guatemala, S.A., (TELGUA), Guatemala's telecommunications company. This contract gives TELMEX the option to acquire 49% of the company in five years. Also, TELMEX acquired 51% of TELGUA's subsidiaries in businesses such as wireless, data transmission, telephone directory, telemarketing, and public telephony.

In February 1999, TELMEX acquired 55.5% of Topp Telecom, Inc., a U.S. company that resells cellular telephone service through prepaid telephone cards.

We remain committed to contributing to Mexico's progress, and in 1998, TELMEX paid fiscal authorities Ps. 23.439 billion in taxes, contributions, and retained taxes.

Commitments for the future include continuing our daily efforts to serve customers well and making the necessary investments for TELMEX to maintain our role as a leading telecommunications company in this rapidly growing sector.

We seek to strengthen our leadership in traditional telecommunications markets based on continuous investment in technology and the development of new, integrated, high-quality products and services.

TELMEX will continue to face many challenges. Nevertheless, if we unite the commitment of our employees, the experience and talent of our executives, the use of advanced technology, our energetic marketing efforts, the development of new markets within and outside Mexico, and our solid financial position, we are convinced that the coming years will be promising for our customers and shareholders, bringing satisfaction to all of us who work at TELMEX.

Carlos Slim Helú
Chairman of the Board

Jaime Chico Pardo
Chief Executive Officer

SERVICE

TELMEX is committed to offering telecommunications solutions that meet the cultural and economic needs of Mexican customers. We also strive to provide technology which enables our customers to lead more productive lives and to communicate with each other and the rest of the world.

The nature of the Mexican market, characterized by a great need for both basic communications and advanced products and services, validates our long-term strategy to maintain our position as the principle provider of telecommunications services in Mexico.

Local Telephony

Lines in service grew 7.3% in 1998, compared with the previous year, reaching a total of 9,926,879. The net gain of 673,164 lines resulted from 1,350,727 installations and 677,563 disconnections.

TELMEX provided telecommunications services to 24,711 cities and towns nationwide in 1998. Of these, 16,480 were rural communities to which TELMEX extended the benefits of telecommunications and thereby contributed to Mexico's general development.

To enhance our services, TELMEX obtained additional radiospectrum wave frequency concessions in the Mexican government's May 1998 auction. This strengthens TELMEX's presence in fixed, mobile, and PCS wireless telephony in Mexico's nine regions. The total cost for these frequencies was Ps. 1.842 billion.

In 1998, 1.251 million customers had digital service, 372.5% more than in 1997, representing a penetration rate of 12.6% of lines in service at year-end. Digital services include caller ID, call waiting, three-way calling, call forwarding, and voice mail. Through digital services, TELMEX is delivering additional value to traditional line use while increasing the rate of call completion.

Billing

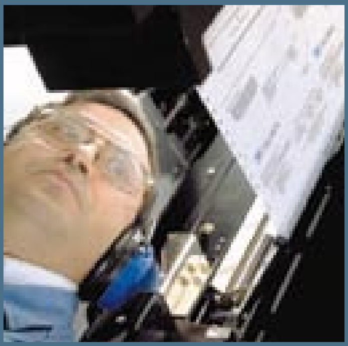
Telecommunications service billing is more than a means of account collection. TELMEX has transformed billing into an information management tool to assist customers in specialized decision-making for managing service consumption.

During 1998, TELMEX refined the billing system to better meet the information needs of each segment of the market:

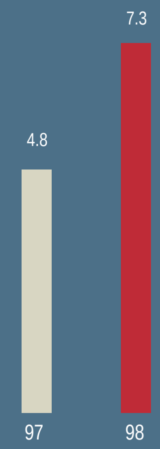
- New telephone billing includes detailed reporting of long distance, local, and cellular services consumed.

- Detailed local measured service includes numbers dialed, duration and frequency of calls made.

- TELMEX en línea (www.online.telmex.net), offers residential customers free confidential access to their local and long distance telephone charges through the Internet.



Annual Line Growth
(%)



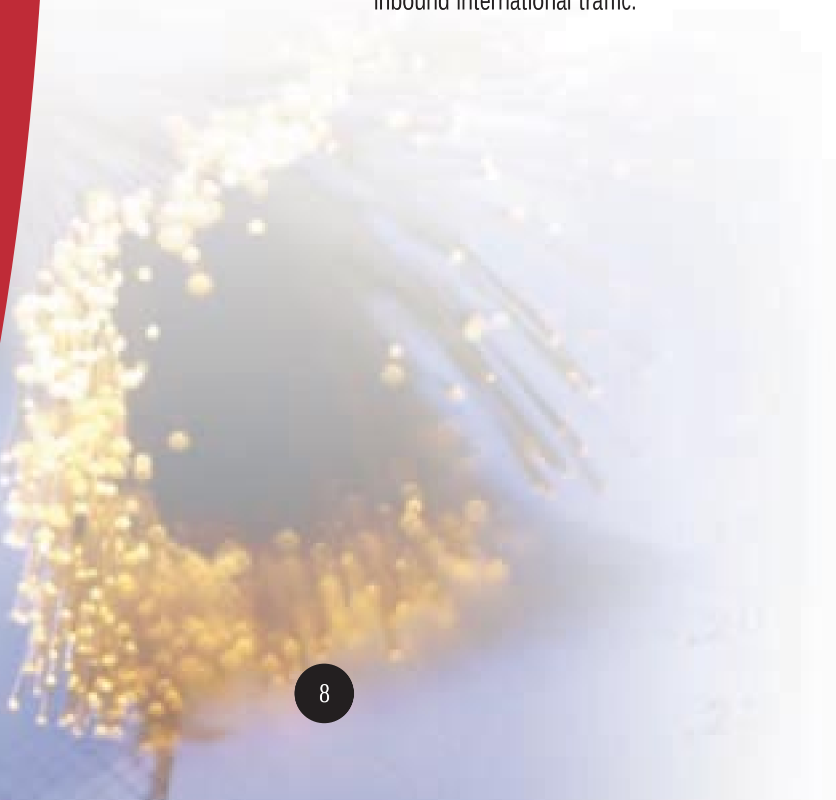
- SI@NA (Detailed Billing Information System), designed for corporate customers, is a valuable management tool for administrative purposes and decision-making. Through the Internet, SI@NA allows customers access to information about their telephone use after only a four-hour delay.

- TELMEX Precisa allows customers to control their telephone bill through pre-paid telephone cards which give them access to all telephone services.

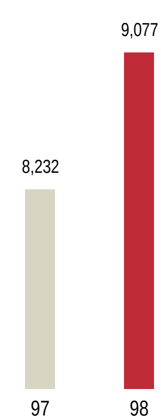
Long Distance

The volume of domestic long distance minutes billed rose to 9,077 million, reflecting 10.3% growth since year-end 1997.

International long distance traffic decreased 12.8% from the 3,286 million minutes billed in 1997. This reduction was a result of greater competition and illegal by-pass mechanisms used by some telecommunications operators to route inbound international traffic.



Domestic Long Distance
Billed Minutes
(millions)

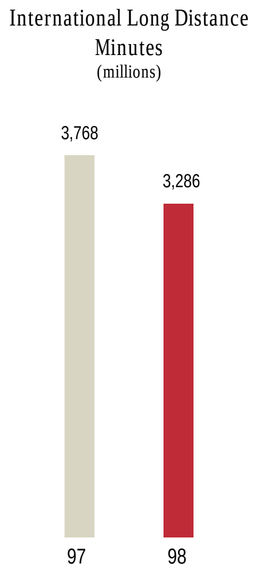


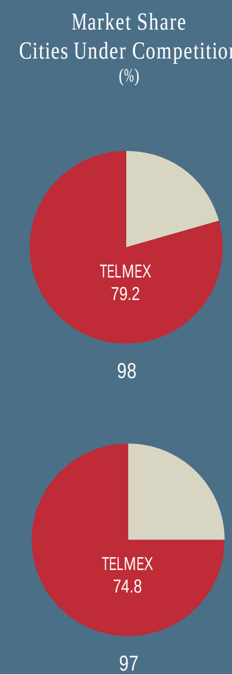
Implementing the schedule established previously, TELMEX continued the process of opening long distance service to competition. In February and March 1998, 40 additional cities were added to the 60 cities that were opened to competition in 1997. Altogether these cities represent 82.8% of total lines.

In February 1998, a new process was implemented to verify customer requests to change their long distance operator. An independent company, NCS México, S.A. de C.V., now calls to confirm customers' decisions to change. This measure is reducing the illegal slamming that began when the market was opened to competition in 1997.

In the two years since the introduction of competition into Mexico's long distance market, TELMEX has increased our long distance market share in pre-subscribed lines, to 79.2% for the 100 cities open to competition and 82.9% of lines nationwide.

During this period, the interconnection rate per minute in Mexico has decreased 54% from 5.8 US cents in 1997 to 2.65 US cents in 1999, which is below prevailing interconnection rates in the United States.





Integrated **solutions** total communication

TELMEX Solución Integral (Integrated Telecommunications Solutions)

By offering TELMEX Solución Integral, the company provides corporate customers options that help them meet their development and expansion needs and increase their competitiveness through global telecommunications solutions.

This concept integrates the diverse products and services that are part of TELMEX's telecommunications network, including:

- Long distance services with wide coverage, reliability, quality and competitive pricing.
- Access and value-added services through UNINET, a public multimedia network of voice, data, and video.
- Service integration, through RED UNO, a leader in network engineering.
- Access through digital wireline technology, LADA Enlaces.
- Wireless access through Kb/TEL's products.
- Satellite access.
- Videoconferencing services.
- E-commerce.

In 1998, TELMEX's Corporate Market Service Center obtained ISO 9002 certification, a recognition of its international level of quality. This certification has also been obtained by TELMEX's National Long Distance Network Supervision Center, the Intelligent Network, and the Signaling System for Common Channel No. 7.

TELMEX's advanced technology and the high quality of our customer service are major factors in the service level agreements established with corporate customers during 1998. These agreements set specific commitments beyond standard commercial contracts. They guarantee the quality and continuity of service, delivery times determined by the customer, and personal attention to the customer's telecommunications needs.

Productivity

The constant search for productivity and the realities of the increasingly competitive telecommunications market have encouraged TELMEX to consolidate the efforts of administrators and employees to transform the company into a service organization focused on customers.

In April 1998, TELMEX and our employees ratified an Alliance for Productivity and Competitiveness in which they committed to unite their efforts to permanently elevate quality as well as enhance customer service and satisfaction so that customers would continue to choose TELMEX as their telecommunications partner.

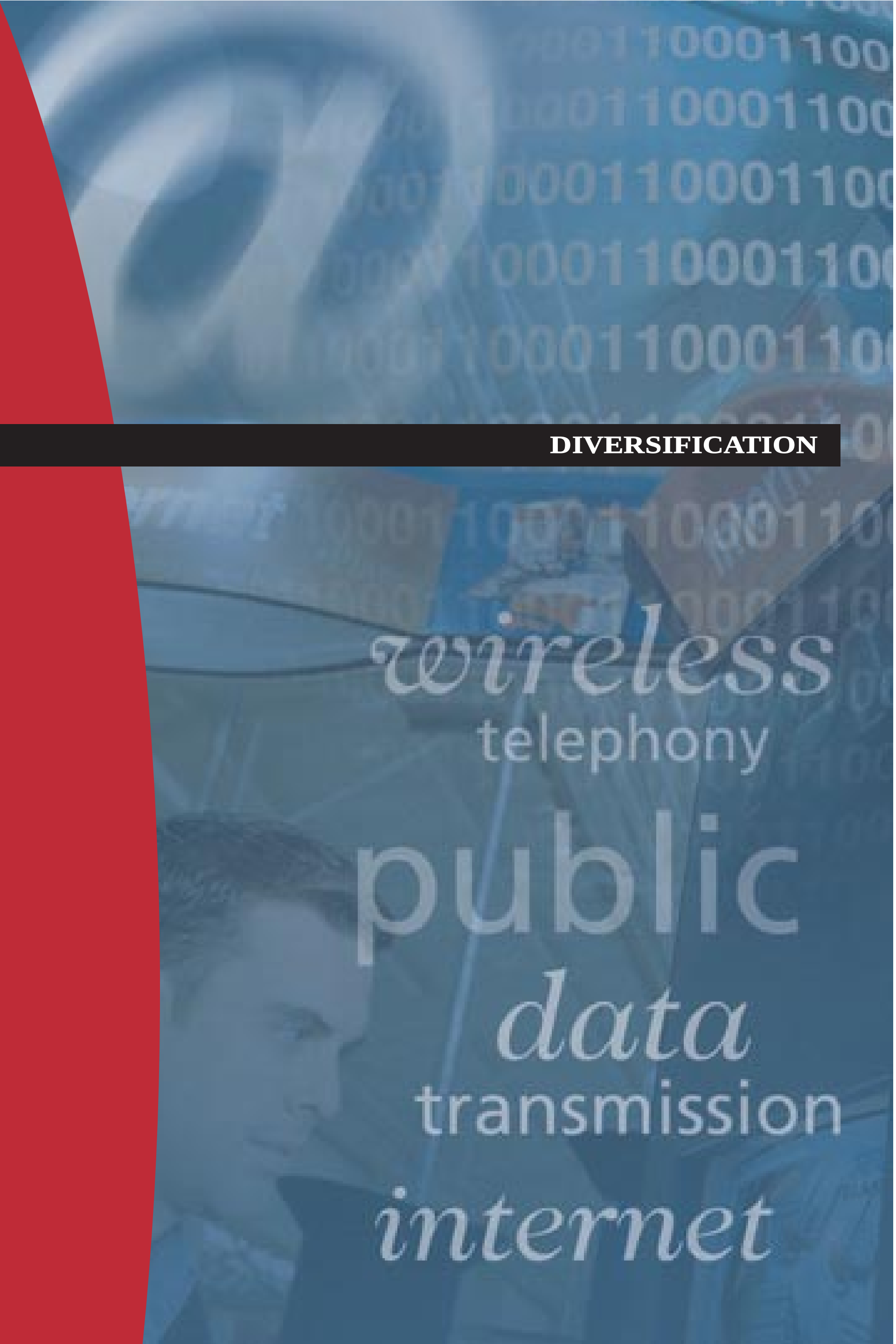
This alliance specifies that employee compensation be based on technical and operating quality, revenue growth, market share, and positive customer perception.

Carrying out this commitment, each employee attended an average of 96 hours of training sessions in 1998 at the Instituto Tecnológico de Teléfonos de México, S.C. (INTTELMEX). A significant part of the training, at least 60%, is focused on the commercial aspects of the business and customer service.

UNINET, The multimedia network of audio, data and video, guarantees efficient access and value added service as well as the most advanced internet services.

RED UNO integrates multimedia services, and is the leader in network engineering.

KB/TEL responds to the digital wireless access needs of our customers.

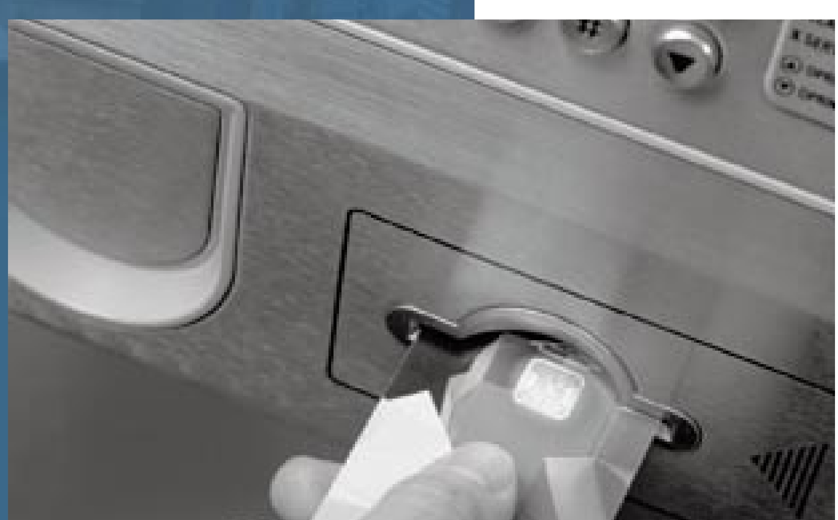


DIVERSIFICATION

The continuous technological advances characterizing the Information Age require telecommunications companies to continually reinvent themselves to respond to new challenges in a timely manner.

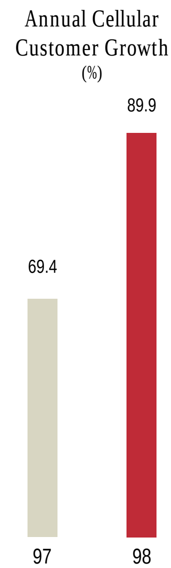
Factors such as mobility, coverage, capacity and convergence are the new engines of growth in the dynamic information and telecommunications industry.

TELMEX has prepared for this new era, and today plays a leading role in this new environment in Mexico.

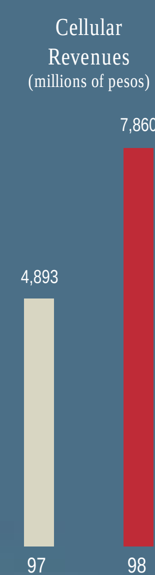


Wireless Telephony

In a market in which companies and people increasingly depend on mobile communications, and taking into consideration the challenges presented by Mexico's geography, TELCEL has devised a variety of services that recognize the needs of particular market segments. The success of the strategy is reflected in TELCEL's 64% market share. At the end of 1998, TELCEL served 2.113 million customers, 89.9% higher than a year earlier.

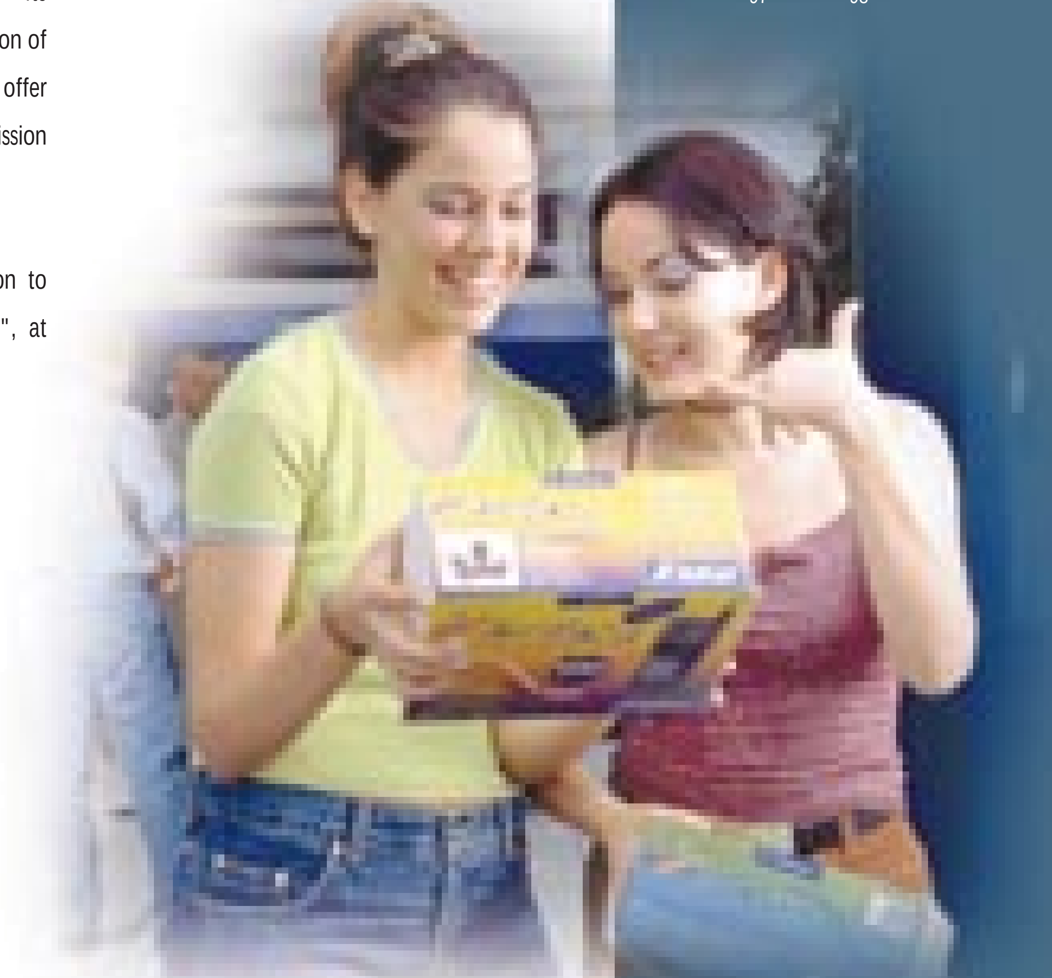


In the same period, TELCEL's revenues totaled Ps. 7.860 billion, an increase of 60.6% compared with 1997. TELCEL accounted for 9.6% of TELMEX´s consolidated operating revenues in 1998. The operating margin was 21.9% compared with 5.7% in 1997.



During the year, TELCEL continued its modernization process through the introduction of digital technology, which has allowed it to offer value-added services and to increase transmission quality.

In May 1998, TELCEL acquired a concession to offer PCS services nationwide in band "D", at 1900 MHz.



Public Telephony

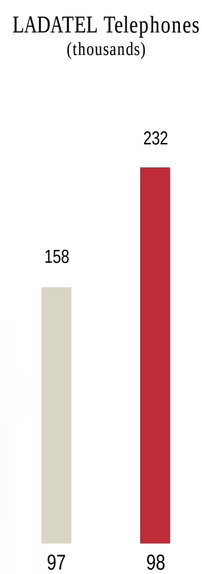
Through our public telephony network, TELMEX offers a modern, simple and reliable platform that amplifies many customers' communications opportunities.

At year-end, the public telephony network had 231,873 telephones with microchip technology, 46.9% more than in 1997.

TELMEX sold 138.214 million LADATEL cards in 1998, 39.3% more than in 1997. The increase in prepaid card sales was a direct result of customers recognizing that LADATEL cards provide the most effective means of communicating from anywhere in the country.

Our policy of fostering competition also was evident in the public telephony market. TELMEX provided a second year of operational support for several public telephony companies, increasing communication options for all Mexicans.

We continue to explore opportunities to expand telephony service to all segments of our market. One new program being expanded in 1999 offers basic telephone service to under-served segments of Mexico's population. Called "shared phones," it is specifically designed as an alternative for people who are financially unable to contract basic service through traditional means.



Data Transmission

The integration of our customers' communication and information systems with our high-performance, reliable network has translated into significant growth possibilities for their businesses and growing revenue opportunities for TELMEX.

TELMEX provides high-capacity data transmission services at speeds from 9.6 kbps to 2 mbps through LADA Enlaces (private links), which provides non-switched private connections for customers with significant communication needs.

During 1998, these services produced revenues of Ps. 3.660 billion, 24.3% higher than 1997's revenue level and equal to 4.7% of TELMEX's consolidated operating revenues in 1998.

This growth can be attributed to the integration of networks and platforms in a transparent, efficient, and open system that resulted in 71,285 LADA Enlaces links in 1998, an increase of 40.2% over 1997.

Internet

The Internet is an opportunity for TELMEX to offer customers access to the information and communication advantages of the Digital Era.

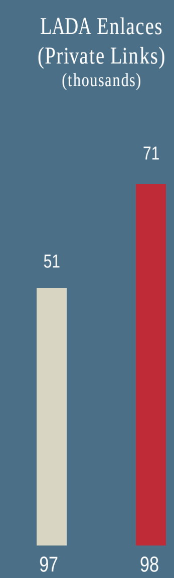
Well aware of the importance of the Internet as a means of communication, TELMEX acquired a stake of 18.9% of the capital stock of Prodigy Communications Corporation (PRODIGY) in the United States. Its brand recognition, wide channels of distribution, and advanced technology have made PRODIGY the fourth largest provider of Internet services in the United States with 671,000 customers at year-end, 9.5% more than the previous year. PRODIGY serves its customers through an ATM digital network, operated by Splitrock Services, with a coverage of more than 600 cities that potentially can reach 83% of homes in the United States.

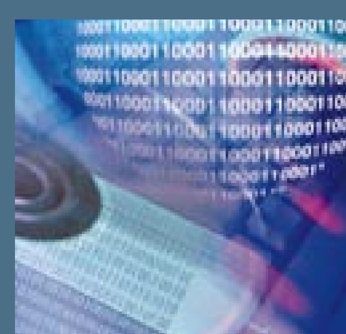
PRODIGY is positioning itself in the small business market through hosting, Internet page design, value-added services, and e-commerce.

With this association, TELMEX is strengthening and increasing the services we offer in Mexico through Internet Directo Personal (IDP).

In 1998 IDP's revenues grew 325.3% over 1997, when the service was introduced. IDP provided Internet access to a total of 146,380 subscribers in 75 cities in Mexico, at the end of 1998. After two years of operation, TELMEX has a market share of approximately 50%. Moreover, through UNINET, TELMEX provides high-capacity Internet service to 331 corporate customers.

In the last quarter of the year, TELMEX launched a web page hosting service focused on the corporate market and the development of e-commerce in Mexico.

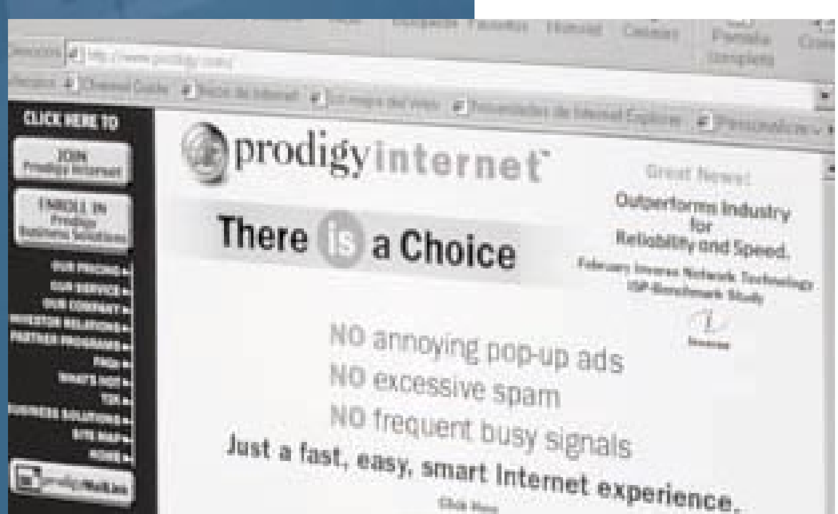




EXPANSION

Our experience offering customers in Mexico telecommunication solutions has positioned TELMEX to expand our presence regionally and to capitalize on opportunities in business with rapid growth, especially in markets with a cultural affinity and historical relationships with Mexico.

During 1998, TELMEX became a full participant in the international telecommunications marketplace by participating in the U.S. and Guatemalan markets through diverse alliances and associations.



United States

The Hispanic market in the United States is a natural niche for TELMEX due to cultural affinity and family ties in Mexico, as well as its rapid growth and economic influence.

In August 1998, the U.S. Federal Communication Commission gave approval for TELMEX / SPRINT Communications L.L.C. (TSC) to enter the long distance market in the United States. The same month, TSC began operations in Tucson, Arizona, test marketing three products: México en Línea, personal 800 numbers, and resale of domestic and international long distance traffic.

In February 1999, TELMEX acquired 55.5% of Topp Telecom, Inc. (TOPP). This company resells wireless services in the United States through prepaid telephone cards. TOPP has a nationwide distribution network and air time contracts with telephone operators with the potential to offer services throughout the United States.

Central America

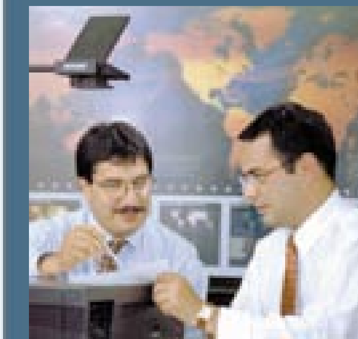
The participation of TELMEX in Guatemala represents the first step in the company's strategy to position itself in Central America.

In 1998, the strategic alliance between TELMEX and LUCA, S.A. of Guatemala was formalized. Under this agreement, TELMEX began to manage the operation of the local, domestic and international long distance services of Telecomunicaciones de Guatemala S.A. (TELGUA).

Additionally, TELMEX acquired a 51% share of capital in the new TELGUA subsidiaries that have been established to provide wireless, public telephony, data transmission, telemarketing, and telephone directory services.

TELMEX also has the option to acquire 49% of TELGUA´s capital stock within five years.

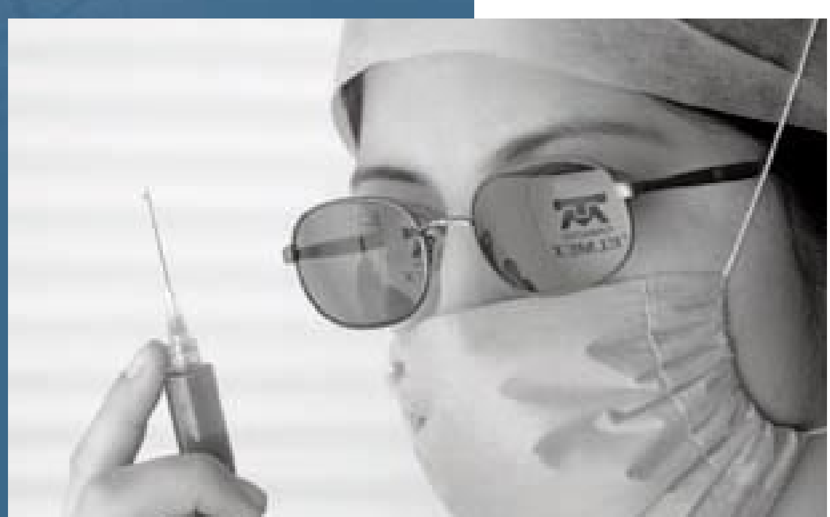
Initially the alliance is focused on rebalancing tariffs and restructuring the company. It also has begun modernizing public telephony with the installation of telephones with microchip technology. TELMEX personnel have been assigned to work in Guatemala to support TELGUA's operations.



In 1998, we began to expand beyond Mexico's borders.

COMMITMENT

TELMEX's commitment to society is not limited to offering telecommunication services. Our commitment extends to the educational, social, and cultural development of people through concrete and permanent actions and contributions.



Through Fundación TELMEX, scholarships are provided to 17,472 distinguished students in 587 universities. Fourteen new student centers were established in 1998 to enrich students' university careers.

As part of the justice program, Fundación TELMEX provided 5,500 bail bonds to help first-time offenders who lacked the economic resources to obtain release. These bonds were provided through human rights defense organizations that were responsible for selecting the beneficiaries and reintegrating them into family life, society, and work.

Fundación TELMEX also sponsored 15,000 surgeries as part of the Rural Surgery Program that helps economically deprived communities. This program was carried out along with the Mexican Secretary of Health.

In 1998, Mexico and Central America were struck by two devastating natural disasters. TELMEX's directors and employees responded with participation in collective resource organization and social solidarity, in addition to rapidly reconstructing telecommunications infrastructure for the affected communities in Mexico.

Additionally, the Foundation also channeled efforts to provide assistance to populations devastated by the rains in Chiapas and to restore communities damaged by Hurricane Mitch in Guatemala, Honduras, Nicaragua, and El Salvador. A total of 240 tons of basic foods, clothing, and medicine was delivered to the affected populations.

TELMEX also coordinated efforts with the Mexican Government and the affected countries to provide equipment, knowledge and personnel to reestablish telephone service after the hurricane struck.

The programs carried out by Fundación TELMEX demonstrate our commitment to society.

Teléfonos de México, S.A. de C.V., its subsidiaries and associated companies, (TELMEX) provides the widest range of telecommunications services both domestically and internationally. TELMEX has the most extensive coverage of any telecommunications company in Mexico.

During 1998, TELMEX continued as an innovator in our market, introducing a series of new products and services that enabled the company to maintain leadership in the telecommunications industry.

Operating Results

TELMEX's lines in service grew 7.3% in 1998, compared with last year, which increased the total to 9,926,879 lines. The net increase of 673,164 lines was the result of 1,350,727 installations and 677,563 disconnections.

The volume of domestic long distance minutes billed rose to 9,077 million, 10.3% higher than in 1997. International long distance traffic decreased 12.8%, compared with last year, reaching a total of 3,286 million minutes.

Financial Results

The financial results of TELMEX reported in the pages that follow should be analyzed in conjunction with the consolidated financial statements and accompanying notes, which are an integral part of this annual report.

The consolidated financial statements were prepared in conformity with generally accepted accounting principles in Mexico. As required by Mexican Accounting Principles Bulletin B-10, as amended, issued by the Mexican Institute of Public Accountants, the figures shown in the consolidated financial statements and in the accompanying notes are expressed in pesos with purchasing power as of December 31, 1998.

TELMEX
Years ended December 31

	1998		1997	
	Million pesos	% of operating revenues	Million pesos	% of operating revenues
Operating Revenues:				
Long-Distance Service:				
International	8,670	11.1	13,586	18.9
Domestic	17,978	23.0	18,051	25.1
Local Service	44,668	57.1	36,287	50.4
Interconnection Service	2,225	2.8	824	1.1
Other	4,700	6.0	3,277	4.5
	78,241	100.0	72,025	100.0
Operating Costs and Expenses:				
Cost of Sales and Services	17,136	21.9	16,833	23.4
Commercial, Administrative and General	15,507	19.8	14,135	19.6
Depreciation and Amortization	15,719	20.1	14,284	19.8
Special Charges	152	0.2	1,829	2.6
	48,514	62.0	47,081	65.4
Operating Income	29,727	38.0	24,944	34.6
Comprehensive Financing Cost (Income):				
Interest Income	(4,918)	(6.3)	(3,456)	(4.8)
Interest Expense	4,661	6.0	3,787	5.3
Exchange Loss (Gain), Net	3,826	4.9	(238)	(0.3)
Monetary Effect	(841)	(1.2)	(569)	(0.9)
	2,728	3.4	(476)	(0.7)
Income Before Income Tax and Employee Profit Sharing	26,999	34.6	25,420	35.3
Income Tax and Employe Profit Sharing	10,625	13.6	10,226	14.2
Equity in Results of Affiliates	(27)	-	(48)	(0.1)
Net Income	16,401	21.0	15,242	21.2

The following is a brief explanation of the most important changes:

Revenues from International Long Distance Service

During 1998, consolidated revenues for international long distance service decreased 36.2% compared with 1997, when they dropped 32.0% from the prior year. With the decline posted in 1998, these revenues reduced their contribution to the Company's total revenues from 18.9% in 1997 to 11.1% in 1998.

The reduction in international long distance revenues in 1998 was due to a rate decrease in real terms, a greater impact of competition on the level of billed traffic, and the illegal by-pass of international traffic. Minutes billed decreased 12.8% in 1998 following a 5.9% increase the year before.

Additionally, in 1998 it was not possible to establish an agreement concerning settlement rates with U.S. operators of international long distance. Following its conservative accounting policy, TELMEX decided to only recognize the revenues for international net settlement that were actually paid by these operators. TELMEX continues negotiating to reach a reasonable agreement based on what had been previously agreed with these international operators.

The reduction in international long distance revenues in 1997 was due to discounts offered to customers; the reduction in settlement rates which went from 48.5 and 32.0 U.S. cents per minute for incoming and outgoing traffic, respectively, in 1996 to 39.5 U.S. cents per minute for both in 1997; the reduction in rates to the public in real terms; and the impact of increased competition on market share.

Revenues from Domestic Long Distance Service

Consolidated revenues for domestic long distance service decreased 0.4% in 1998 and 20.5% in 1997. Its percentage of TELMEX's total revenues was 23.0% in 1998 and 25.1% in 1997.

In 1998, revenues from domestic long distance service decreased slightly compared with 1997 as a result of a rate decrease, in real terms, which was offset by an increase in billed traffic and the rebound of the market. In 1998, the volume of minutes billed for this service was 10.3% higher than in 1997, when it increased 4.6%.

In 1997, despite the growth in domestic long distance minutes billed compared with the previous year, revenues from this service decreased as a result of a rate reduction in real terms, discounts offered to customers, and the loss of market share.

Revenues from Local Service

Local service revenues increased 23.1% in 1998, which represented a slower rate of growth compared with the 31.7% registered the year before. Nevertheless, their proportion of total operating revenues rose from 50.4%

in 1997 to 57.1% in 1998. The increases registered in 1998 and 1997 were due to the increase in local traffic, growth in lines in service, and rate rebalancing in both years.

Revenues from Interconnection Service

Revenues from interconnection service include revenues obtained from interconecting the long distance carriers and cellular companies networks to TELMEX´s local network. The contribution of this item to total operating revenues rose from 1.1% in 1997 to 2.8% in 1998. In 1998 and 1997, revenues from interconnecting long distance operators accounted for 90.7% and 68.3% of total interconnection revenues, respectively.

Other Revenues

For the second consecutive year, other revenues reflected strong growth, rising 40.5% and 43.5% in 1997 and 1998, respectively. Revenues from the item's main components, the sale of equipment and Yellow Pages, continued to grow, increasing 135.4% and 35.4% in 1998 and 142.2% and 29.5% in 1997, respectively.

Cost of Sales and Services

In 1998, the cost of sales and services grew 1.8%, similar to the previous year's increase of 1.5%. In 1998, the increase was mainly due to the increased cost of cellular telephones resulting from higher sales of this equipment compared with the previous year. The increase in 1997 was primarily the result of higher costs of spare parts and non-capitalized items as well as increases in salaries and associated costs.

Commercial, Administrative and General Expenses

This item increased 9.7% in 1998 compared with the previous year due to increases in salaries and related costs, commissions, and bad debt. In 1997, these expenses decreased 3.8% as a result of modernizing commercial offices, increased advertising expenses, and a change in accounting for commissions of cellular distributors. In 1997, TELMEX began to apply in our results, distributor commissions at the time a new cellular customer was activated instead of deferring them as it was done in 1996. These items were partially offset by a lower bad debt provision.

Depreciation and Amortization

Charges to depreciation and amortization increased 10.0% in 1998 after decreasing 8.4% in 1997 from the previous year's level. The increase in 1998 was due to new investments; restament derived from the alternate method defined in the fifth amendment to Bulletin B-10, as revised, wich was higher than Mexico's consumer price index and changes in the useful lives of computer and transportation equipment.

The charges in 1997 were due to applying the alternate method defined in the fifth amendment to Bulletin B-10, as revised, which increased annual depreciation approximately Ps. 200 million, without goodwill charges.

Special Charges

In 1998, special charges were 91.7% lower than in the previous year because of reductions in expenses associated with opening the long distance market to competition, which were Ps. 152 million in 1998, 87.3% less than in 1997. Additionally, in 1997 a decision was made to apply goodwill charges of Ps. 631 million resulting from the acquisition of the remaining 50% of the shares of Consorcio Red Uno, S.A. de C.V., and 70% of Kb/TEL, S.A. de C.V.

Operating Income

Operating income rose 19.2% in 1998 compared with the prior year, reflecting the 8.6% increase in operating revenues and the 3.0% increase in operating costs. Consequently, the operating margin increased from 34.6% in 1997 to 38.0% in 1998.

Comprehensive Financing Cost (Income)

In 1998, there was comprehensive financing cost of Ps. 2,728 million, while in 1997 there was comprehensive financing income of Ps. 476 million. The fundamental reasons are explained as follows:

In 1998 and 1997, interest revenue grew 42.3% and 5.2%, respectively, which was basically due to a higher average level of treasury funds both years and elevated domestic interest rates in 1998. Interest expense increased

23.1% in 1998 and 49.0% in 1997 due to a higher level of indebtedness in Mexican pesos as well as higher domestic interest rates.

During 1998, the 16.6% depreciation of the peso to the U.S. dollar resulted in a net foreign exchange loss. In contrast, in 1997, the marginal depreciation of the peso to the U.S. dollar at the end of the year and the appreciation of the peso to other currencies generated a net foreign exchange gain.

Average monetary liabilities in both 1998 and 1997 exceeded average monetary assets, so there was a net gain in monetary position. The increase in 1998 was generated by the increase in net average monetary liabilities and greater inflation, while in 1997 the reduction was caused by lower net average monetary liabilities and lower inflation.

Net Income

In 1998, consolidated net income grew 7.6% over 1997, to Ps. 16,401 million. In 1997, net income decreased 4.3% from the previous year, to Ps. 15,242 million.

Investments

In 1998, total consolidated investments rose to Ps. 14,631 million, a 38.9% increase compared with Ps. 10,534 million in 1997. The consolidated investment in telephone plant was Ps. 11,800 million in 1998 and Ps. 9,203 million in 1997. In May 1998, TELMEX paid Ps. 1,842 million for concessions from the Mexican Federal Government to operate frequencies to provide fixed and mobile wireless services.

Financial Structure

TELMEX's financial structure continues to be solid as demonstrated by the 22.1% ratio of total debt to capitalization at year-end 1998, a level very similar to the 22.6% registered in 1997.

Stock Repurchase

In 1998, TELMEX repurchased a total of 394 million shares, 4.9% of the Company's capital stock at the beginning of the year. TELMEX's total shares outstanding at year-end 1998 rose to 7,724.3 million, which included 2,163.0 million series "AA", 214.6 million series "A" and 5,346.7 million series "L" shares.

In March 1998, shareholders approved the cancellation of 853 million shares. In March 1999, a repurchase program for up to 800 million additional shares was approved.

CELLULAR TELEPHONY
Years ended December 31

	1998		1997	
	Million pesos	% of operating revenues	Million pesos	% of operating revenues
Operating Revenues (*)	7,860	100.0	4,893	100.0
Operating Cost and Expenses:				
Cost of Sales and Services (*)	3,038	38.6	1,982	40.5
Commercial, Administrative and General	2,512	32.0	2,141	43.7
Depreciation and Amortization	590	7.5	493	10.1
	6,140	78.1	4,616	94.3
Operating Income	1,720	21.9	277	5.7

(*) Include revenues and/or costs associated with Long-Distance service.

Cellular customers at year-end 1998 totaled 2,113,462, 89.9% more than in 1997. Billed minutes rose to 1,784 million, 73.8% higher than in 1997.

Revenues in 1998 rose to Ps. 7,860 million, 60.6% higher than in 1997. The increase in revenues was due to an expanded customer base and the growth in billed traffic, despite the continued reduction of rates in real terms during 1998.

Operating costs and expenses in 1998 were Ps. 6,140 million, 33.0% higher than in 1997, reflecting increased commission charges and costs due to increased operating volume such as higher equipment costs. Operating margins in 1998 and 1997 were 21.9% and 5.7%, respectively.

Year 2000 Readiness

In 1997, TELMEX began the necessary work for a successful transition to the Year 2000, when it established a group responsible for the strategic priority of implementing system and equipment solutions in all areas of the company.

The group's objectives are to:

- Assure that the continuity and quality of services as well as customer service are not adversely affected by the transition.

- Guarantee that the solutions or changes made in operating, commercial, financial and management systems are made within established timeframes.

- Develop contingency plans.

The group has functioned as a coordinating center and includes a representative from each TELMEX Division. In implementing Year 2000 solutions, TELMEX has decided to follow existing procedures for updating equipment and systems to make the process faster and more efficient and to avoid changes in the functions and organization of TELMEX.

To accomplish the established objectives, the project has followed a four-phase model:

a) Inventory equipment and systems to identify those elements susceptible to being affected.

b) Develop solutions.

   - Analyze the impact of equipment and system changes.
   - Define specific solutions.
   - Conduct laboratory experiments for proposed solutions.
   - Implement solutions.

c) Conduct external interaction operating tests.

d) Develop contingency plans.

As of year-end 1998, the inventory of all equipment and systems, analysis of the impact of changes, definition of specific solutions, and the laboratory tests of proposed solutions were completed. The group is currently in the final stage of implementing solutions and has made the following progress:

	Level of Compliance (%) December 1998
Telephone Plant	92
Cellular Plant	82
Public Telephone Plant	98
Public Data Network	96
Corporate Data Network	100
Corporate Systems	98

TELMEX estimates that the Year 2000 challenge will require an investment of approximately US$ 60 million. This amount has been included in TELMEX's operating budget and will not affect its financial structure. The investment made as of year-end 1998 to adapt company equipment reached US$21 million and is part of the total project budget. To reduce the financial impact of this transition, TELMEX is negotiating with the suppliers of equipment and systems susceptible to being affected. The effect of these discussions will be included in 1999 results.

CONSOLIDATED FINANCIAL STATEMENTS

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, 1998, presented to you by the Board of Directors.

I personally (or in my absence the alternate statutory auditor) attended the Stockholders' and the Board of Directors' meetings to which I was summoned and I obtained from the board members and the Company's officers the information on the Company's operations, documentation and records that I considered necessary for examination. I conducted my review in accordance with auditing standards generally accepted in Mexico.

In my opinion, 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, 1998, 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.

V. Aguilar V.

C.P. Víctor Aguilar Villalobos
Statutory Auditor

Mexico City, Mexico
March 5, 1999

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, 1998 and 1997, 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 Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance that 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, 1998 and 1997, 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.

Mancera, S. C.
A Member of
Ernst & Young International

C.P. Alberto Tiburcio Celorio

Mexico City, Mexico
March 5, 1999

CONSOLIDATED STATEMENTS OF INCOME

(Thousands of Mexican pesos with purchasing power at December 31, 1998)

	Year ended December 31 1998	1997
Operating revenues:		
Long-distance service:		
International	Ps. 8,670,093	Ps. 13,586,509
Domestic	17,978,013	18,051,180
Local service	44,667,616	36,286,689
Interconnection service	2,224,780	823,661
Other	4,700,463	3,276,544
	78,240,965	72,024,583
Operating costs and expenses:		
Cost of sales and services	17,135,749	16,832,633
Commercial, administrative and general	15,507,147	14,134,903
Depreciation and amortization (Notes 3 and 4)	15,718,547	14,284,418
Special charges (Note 9)	152,070	1,828,750
	48,513,513	47,080,704
Operating income	29,727,452	24,943,879
Comprehensive financing cost (income):		
Interest income	(4,918,098)	(3,456,733)
Interest expense	4,661,473	3,787,433
Exchange loss (gain), net (Note 10)	3,826,256	(237,863)
Monetary effect	(840,575)	(568,758)
	2,729,056	(475,921)
Income before income tax and employee profit sharing	26,998,396	25,419,800
Provisions for:		
Income tax (Note 14)	8,216,182	7,791,927
Employee profit sharing	2,408,614	2,433,784
	10,624,796	10,225,711
Income before equity in results of affiliates	16,373,600	15,194,089
Equity in results of affiliates (Note 4)	26,916	48,023
Net income	Ps. 16,400,516	Ps. 15,242,112
Weighted average common shares outstanding (in millions)	7,902	8,406
Net income per share (in Mexican pesos)	Ps. 2.075	Ps. 1.813

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(Thousands of Mexican pesos with purchasing power at December 31, 1998)

	Year ended December 31 1998	1997
Operating activities:		
Net income	Ps. 16,400,516	Ps. 15,242,112
Add: Items not requiring the use of resources:		
Depreciation	15,554,581	14,176,207
Amortization	163,966	739,339
Deferred taxes	1,467,526	70,272
Equity in results of affiliates	(26,916)	(48,023)
Changes in operating assets and liabilities:		
Decrease in:		
Accounts receivable	1,485,645	935,244
Prepaid expenses	450,468	1,704
Increase (decrease) in:		
Employee pensions and seniority premiums:		
Reserve	2,713,976	2,699,266
Contributions to trust fund	(3,188,158)	(1,253,124)
Payments to employees	(1,571,637)	(1,497,232)
Accounts payable and accrued liabilities	299,496	(369,898)
Taxes payable	(789,420)	(2,241,601)
Deferred credits	(655,005)	497,542
Resources provided by operating activities	32,305,038	28,951,808
Financing activities:		
New loans	16,534,234	57,079,011
Repayment of loans	(15,971,301)	(41,236,087)
Effect of exchange difference and of inflation on debt	(1,042,622)	(3,807,769)
Decrease in capital stock and retained earnings due to purchase of Company's own shares	(9,439,855)	(16,098,935)
Cash dividends paid	(5,895,356)	(5,327,490)
Capital reimbursement and dividends received from affiliate		122,749
Resources used in financing activities	(15,814,900)	(9,268,521)
Investing activities:		
Investment in telephone plant	(11,800,227)	(9,202,859)
Investment in telephone plant inventories	(235,551)	(388,144)
Investment in subsidiary companies		(757,007)
Investment in affiliated companies	(753,658)	(14,986)
Investment in licenses	(1,842,037)	(170,516)
Resources used in investing activities	(14,631,473)	(10,533,512)
Net increase in cash and short-term investments	1,858,665	9,149,775
Cash and short-term investments at beginning of year	16,132,081	6,982,306
Cash and short-term investments at end of year	Ps. 17,990,746	Ps. 16,132,081

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

(Thousands of Mexican pesos with purchasing power at December 31, 1998)

	December 31	
	1998	1997
Assets		
Current assets:		
Cash and short-term investments	Ps. 17,990,746	Ps. 16,132,081
Accounts receivable, net (Note 2)	14,877,519	16,423,812
Prepaid expenses	1,529,021	2,038,777
Total current assets	34,397,286	34,594,670
Plant, property and equipment, net (Note 3)	106,309,180	108,732,943
Inventories, primarily for use in construction of the telephone plant	1,937,562	1,726,169
Licenses, net (Note 6)	1,962,209	170,516
Investments in affiliates (Note 4)	1,204,223	465,777
Intangible asset (Note 5)	8,062,754	5,895,880
Total assets	Ps. 153,873,214	Ps. 151,585,955

	December 31	
	1998	1997
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt (Note 7)	Ps. 11,579,467	Ps. 14,616,984
Accounts payable and accrued liabilities	7,751,566	7,452,071
Taxes payable	2,306,407	1,688,949
Total current liabilities	21,637,440	23,758,004
Long-term debt (Note 7)	18,472,293	15,914,465
Reserve for employee pensions and seniority premiums (Note 5)	7,112,009	5,853,870
Deferred credits (Note 8)	753,872	1,408,877
Total liabilities	47,975,614	46,935,216
Stockholders' equity (Note 13):		
Capital stock:		
Historical	772,433	811,811
Restatement increment	45,433,944	45,555,834
	46,206,377	46,367,645
Premium on sale of shares	8,126,155	8,126,155
Retained earnings:		
Unappropriated earnings of prior years	78,156,844	78,088,675
Net income for the year	16,400,516	15,242,112
	94,557,360	93,330,787
Minimum pensions and seniority premiums liability adjustment (Note 5)	(1,137,084)	
Deficit from restatement of stockholders' equity	(41,855,208)	(43,173,848)
Total stockholders' equity	105,897,600	104,650,739
Total liabilities and stockholders' equity	Ps. 153,873,214	Ps. 151,585,955

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Thousands of Mexican pesos with purchasing power at December 31, 1998, except for dividends per share)

	Capital stock	Premium on sale of shares	Retained: Legal reserve	Retained: Reserve for purchase of Company's own shares
Balance at December 31, 1996	Ps. 47,066,756	Ps. 8,126,155	Ps. 9,728,670	Ps. 18,925,289
Appropriation of earnings approved at stockholders' meeting held in April, 1997:				
Cash dividends paid, at Ps. 0.525 per share				
Increase in legal reserve			795,527	
Cash purchase of Company's own shares	(699,111)			(15,309,020)
Deficit from holding nonmonetary assets				
Net income				
Balance at December 31, 1997	46,367,645	8,126,155	10,524,197	3,616,269
Appropriation of earnings approved at stockholders' meeting held in March and April, 1998:				
Cash dividends paid, at Ps. 0.70 per share				
Increase in legal reserve			**645,247**	
Increase in reserve for purchase of Company's own shares				**19,371,310**
Cash purchase of Company's own shares	**(161,268)**			**(9,272,121)**
Minimum pensions and seniority premiums liability adjustment				
Surplus from holding nonmonetary assets				
Net income				
Balance at December 31, 1998 (Note 13)	**Ps. 46,206,377**	**Ps. 8,126,155**	**Ps. 11,169,444**	**Ps. 13,715,458**

See accompanying notes.

earnings

Unappropriated	Total	Minimum pensions and seniority premiums liability adjustment	Deficit from restatement of stockholders' equity	Total stockholders' equity
Ps. 70,162,030	Ps. 98,815,989		Ps. (31,556,367)	Ps. 122,452,533
(5,327,490)	(5,327,490)			(5,327,490)
(795,527)				
(90,804)	(15,399,824)			(16,098,935)
			(11,617,481)	(11,617,481)
15,242,112	15,242,112			15,242,112
79,190,321	93,330,787		(43,173,848)	104,650,739
(5,895,356)	**(5,895,356)**			**(5,895,356)**
(645,247)				
(19,371,310)				
(6,466)	**(9,278,587)**			**(9,439,855)**
		Ps. (1,137,084)		**(1,137,084)**
			1,318,640	**1,318,640**
16,400,516	**16,400,516**			**16,400,516**
Ps. 69,672,458	**Ps. 94,557,360**	**Ps. (1,137,084)**	**Ps. (41,855,208)**	**Ps. 105,897,600**

1. Description of the Business and Significant Accounting Policies

I. Description of the business

Teléfonos de México, S.A. de C.V. and its subsidiaries (collectively "the Company" or TELMEX) provide telecommunications services, basically in Mexico.

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.

TELMEX obtains its revenues primarily from telecommunications services, including domestic and international long-distance and local telephone services. The Company also obtains revenues from other activities related to its telephone operations, such as the publication of telephone directories.

Beginning at the end of 1996 and gradually during 1997, competition was allowed in domestic and international - long-distance telephone service. In the second half of 1997, competition was allowed in basic local telephone services, and will begin in 1999.

II. Significant accounting policies

The significant accounting policies and practices observed 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 twenty-two subsidiaries, all of which are wholly owned, except for two subsidiaries, in which the Company holds a 70% and an 80% equity interest. All of the companies operate in the telecommunications sector or they provide services to companies operating in this sector.

Material intercompany accounts and transactions have been eliminated in the 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 air time for both regular and cellular phones and other service charges to subscribers. Revenues from domestic and international long-distance telephone calls are determined on the basis of the duration of the calls, the distance, and the type of service used. All these services are billed monthly, based on the rates authorized by the Ministry of Communications and Transportation.

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 define the rates for the use of these international interconnecting facilities. These service revenues represent the net settlement between the parties. In 1998 revenues obtained from U.S. long-distance service operators were recognized based on actual settlements because no agreement with respect to settlement rates had been reached at the end of the year.

Interconnection service revenues are those obtained from interconnecting the networks of long-distance carriers and cellular companies to the TELMEX's local network.

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"), as amended, 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 Mexican pesos with purchasing power at December 31, 1998. The December 31, 1998 restatement factor applied to the financial statements at December 31, 1997 was 18.61% (corresponding to the rate of inflation for 1998) 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 are restated as described in Note 3. Telephone plant and equipment depreciation is calculated using the retirement and replacement 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.

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

The deficit from restatement of stockholders' equity consists of (i) the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied (Ps. 8,912,444 at December 31, 1998) and, (ii) of the result from holding nonmonetary assets, which represents the net difference between restatement by the specific-cost method through 1996 and the alternate method of specific indexation (see Note 3) effective January 1, 1997, compared to restatement based on the NCPI.

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

d) Short-term investments

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

e) Equity investments in affiliates

Investments in shares of affiliates are valued principally using the equity method. This accounting method consists generally 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 determined (see Note 4).

f) Exchange rate 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 directly to income of the year.

At times the Company enters into short-term forward exchange and options contracts, as hedges for transactions denominated in currencies other than the U.S. dollar. The gains or losses on these contracts are recognized at the time they occur, net of the gains or losses on the liabilities covered.

g) Labor obligations

Pension and seniority premium costs are recognized periodically during the years of service of employees, based on actuarial computations (see Note 5). Termination payments are charged to income in the year in which the decision to dismiss an employee is made.

h) Income taxes and employee profit sharing

Income taxes and employee profit sharing are provided based on the amount paid, taking into consideration the effect of important nonrecurring temporary differences in income for financial and tax reporting purposes (deferred taxes, see Note 14).

i) Reclassifications

Certain amounts shown in the 1997 financial statements have been reclassified for uniformity of presentation with 1998.

2. Accounts Receivable

Accounts receivable consist of the following:

	1998	1997
Subscribers	Ps. 13,915,208	Ps. 13,257,815
Net settlement receivables	265,239	1,220,230
Other	2,445,134	2,812,348
	16,625,581	17,290,393
Less:		
Allowance for doubtful accounts	1,748,062	866,581
Total	Ps. 14,877,519	Ps. 16,423,812

3. Plant, Property and Equipment

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

	1998	1997
Telephone plant and equipment	Ps. 145,589,390	Ps. 136,278,771
Land and buildings	18,717,031	18,323,225
Other assets	15,686,247	15,122,490
	179,992,668	169,724,486
Less:		
Accumulated depreciation	79,862,833	66,148,399
Net	100,129,835	103,576,087
Construction in progress and advances to equipment suppliers	6,179,345	5,156,856
Total	Ps. 106,309,180	Ps. 108,732,943

b) Through December 31, 1996, items constituting 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 expert appraiser registered with the National Banking and Securities Commission.

Since the fifth amendment (as revised) to Bulletin B-10, issued by the MIPA, effective January 1, 1997, eliminated the use of appraisals to restate plant, property and equipment in the financial statements, this caption was restated as follows at December 31, 1998 and 1997:

- 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, 1998, approximately 53% (60% in 1997) of the value of the plant, property and equipment has been restated using specific indexation factors.

Following are the figures on plant, property and equipment at December 31, 1998 and 1997, restated on the basis of the NCPI (starting with the appraised values at December 31, 1996) to meet National Banking and Securities Commission disclosure requirements with respect to the restatement of fixed assets based on specific indexation factors:

	1998	1997
Telephone plant and equipment	Ps. 157,113,695	Ps. 150,375,844
Land and buildings	18,717,031	18,323,225
Other assets	16,339,139	16,050,376
	192,169,865	184,749,445
Less:		
Accumulated depreciation	86,104,287	72,347,331
Net	106,065,578	112,402,114
Construction in progress and advances to equipment suppliers	7,129,113	5,338,610
Total	Ps. 113,194,691	Ps. 117,740,724

c) Because of technological advances in telecommunications equipment, the Company makes a periodic assessment of the estimated useful lives of its fixed assets, adjusting annual depreciation whenever it believes this to be appropriate. Starting in the fourth quarter of 1998, the Company shortened the estimated useful lives of some assets. The effect of this change was an increase of approximately Ps. 230,000 in depreciation expense for the year ended December 31, 1998 compared to 1997.

Depreciation of the telephone plant has been calculated at annual rates ranging from 3.3% to 16.7%. The other assets are depreciated at rates ranging from 3.3% to 33.3%. Depreciation charged to income was Ps. 15,554,581 in 1998 and Ps. 14,176,207 in 1997.

4. Investments

I. Investments in affiliates

An analysis at December 31, 1998 and 1997 is as follows:

	1998	1997
Empresas Cablevisión, S.A. de C.V.	Ps. 540,965	Ps. 463,816
Prodigy Communications Corporation	72,811	
Telmex/Sprint Communications, L.L.C.	(7,260)	1,961
	606,516	465,777
Goodwill, net	597,707	
Total	Ps. 1,204,223	Ps. 465,777

a) In July 1998, the Company acquired a 20.9% equity interest in Prodigy Communications Corporation (Prodigy) for U.S.$ 75 million. Such company is engaged in providing internet services in the United States. The goodwill of Ps. 652,044 generated on this transaction will be amortized in a period of five years. The unamortized balance of goodwill at December 31, 1998 is Ps. 597,707.

In February 1999, Prodigy made a public offering of 9,200,000 shares for approximately U.S.$ 129 million. At the same time as this public offering, TELMEX contributed U.S.$ 30 million to increase the capital stock of Prodigy (equal to 2 million shares). As a result of these two transactions, TELMEX's equity interest in Prodigy was changed to 18.9%.

b) TELMEX's share in the net income and equity of affiliated companies, represented a credit to income of Ps. 26,916 in 1998 (Ps. 48,023 in 1997) and a credit to equity from holding nonmonetary assets of Ps. 12,206 in 1998 (debit of Ps. 17,304 in 1997).

II. Investments in Subsidiaries

a) In September 1995, Sercotel, S.A. de C.V. (Sercotel) a subsidiary of Teléfonos de México, S.A. de C.V., acquired a 50% equity interest in Consorcio Red Uno, S.A. de C.V. (Red Uno), a company engaged in integrating telecommunications and information service systems, for Ps. 323,541. The goodwill of Ps. 165,941 generated on this purchase was charged to results of operations in 1996.

In June 1997, Sercotel acquired the remaining 50% for Ps. 454,808, giving rise to goodwill of Ps. 315,988, which, consistent with the procedure observed in 1996, was charged to results of operations in 1997 (see Note 9).

b) During 1997, the Company paid Ps. 376,287 to acquire shares of Kb/TEL Telecomunicaciones, S.A. de C.V. (Kb/TEL) and other companies, giving rise to goodwill of Ps. 315,140, which was charged to results of operations of the year (see Note 9).

No further information on the above-mentioned acquisitions is presented in the accompanying financial statements, because such information is considered relatively immaterial from the standpoint of the consolidated financial statements taken as a whole.

III. Other Investments

a) In November 1998, the Company entered into an administrative service agreement with Telecomunicaciones de Guatemala, S.A. (Telgua), whereby TELMEX agreed to provide administrative services and technical assistance to Telgua for a minimum period of five years. At the same time, TELMEX obtained the option to purchase 49% of 95% of the shares of Telgua in a period of no more than five years, at a price to be determined at the time the purchase option is exercised.

b) In February 1999, the Company acquired a 55.5% equity interest in Topp Telecom, Inc., a company engaged in the re-sale of cellular telephone services in the United States, for U.S.$ 57.5 million.

5. Employee Pensions and Seniority Premiums

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

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

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. 3,188,158 in 1998 and Ps. 1,253,124 in 1997. These contributions are deductible for Mexican corporate income tax purposes.

The Company recognizes these labor obligations following the guidelines of Mexican Accounting Principles Bulletin D-3, "Labor Obligations," issued by the MIPA, based on independent actuarial computations using the projected unit-credit method and financial hypotheses net of inflation.

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

The related charge to income of the year ended December 31, 1998 was Ps. 2,713,976 (Ps. 2,699,266 in 1997). An analysis of basic actuarial assumptions considered in the pension and seniority premium plan computations, for the years ended December 31, 1998 and 1997, is as follows:

Analysis of the net period cost:

	1998		1997	
Labor cost	Ps.	1,364,306	Ps.	1,271,730
Financial cost of projected benefit obligation		2,401,155		2,250,136
Return on plan assets		(1,843,376)		(1,616,976)
Amortization of past service costs		794,371		794,376
Amortization of variances in assumptions		(2,480)		
Net period cost	Ps.	2,713,976	Ps.	2,699,266

Reserve for employee pensions and seniority premiums:

	1998		1997	
Projected benefit obligation	Ps.	36,722,103	Ps.	34,294,001
Plan assets		(27,562,668)		(26,483,130)
Transition liability		(8,062,754)		(8,857,189)
Actuarial (loss) gain		(3,184,510)		1,004,308
Net projected asset		(2,087,829)		(42,010)
Additional minimum liability		9,199,838		5,895,880
Reserve for employee pensions and seniority premiums	Ps.	7,112,009	Ps.	5,853,870
Accumulated benefit obligation	Ps.	34,674,677	Ps.	32,337,000
Intangible asset included on balance sheet	Ps.	8,062,754	Ps.	5,895,880
Minimum pensions and seniority premiums liability adjustment on stockholders' equity	Ps.	1,137,084	Ps.	

The effect of labor obligations on stockholders' equity represents the amount by which the additional liability exceeds the intangible asset. The latter represents the unamortized transition liability, most of which arose in 1997, when, effective January 1 of such year, the MIPA required that actuarial computations be based on rates net of inflation instead of nominal rates as was the practice through December 31, 1996.

The rates used in the actuarial study were:

	1998	1997
Discount of labor obligations:		
First year	6.9%	6.9%
Long-term average	4.9%	4.9%
Increase in salaries:		
First year	0.9%	0.9%
Long-term average	1.4%	1.4%
Annual returns from the fund:		
First year	6.9%	6.9%
Long-term average	4.9%	4.9%

At December 31, 1998, 75% (50% in 1997) of plan assets were invested in fixed-income securities and 25% (50% in 1997) in variable-income securities.

6. Licenses

In May 1998, TELMEX acquired from the Mexican Government concessions to operate radio spectrum wave frequency bands to provide fixed and mobile wireless telephone services at a cost of Ps. 1,842,037. 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. 170,516. These costs will be amortized in a period of twenty years (see Note 14).

7. Long-term Debt

The long-term debt consists of the following:

	Average interest rates 1998*	Average interest rates 1997*	Maturities from 1999 through	Balance at December 31 1998	Balance at December 31 1997
Debt denominated in foreign currency:					
Banks	**5.8%**	6.5%	2009	**Ps. 10,445,276**	Ps. 13,400,162
Suppliers' credits	**6.0%**	6.3%	2021	**7,612,094**	9,670,436
Mexican Government	**5.9%**	6.6%	2006	**254,630**	264,690
Financial leases	**10.1%**	10.7%	2000	**17,777**	23,346
Total				**18,329,777**	23,358,634
Debt denominated in Mexican pesos:					
Medium-term notes	**34.1%**	20.0%	2001	**10,133,000**	4,902,151
Banks	**36.6%**	20.8%	2003	**931,632**	2,022,598
Commercial paper	**35.7%**	20.2%	1999	**512,589**	160,337
Financial leases	**35.5%**	20.4%	2001	**144,762**	87,729
Total				**11,721,983**	7,172,815
Total debt				**30,051,760**	30,531,449
Less current portion of long-term debt				**11,579,467**	14,616,984
Long-term debt				**Ps. 18,472,293**	Ps. 15,914,465

* Net of taxes, subject to variances in international and local rates.

An analysis of the foreign currency denominated debt at December 31, 1998 is as follows:

	Foreign currency (in thousands)	Exchange rate at December 31,1998 (in units)	Mexican pesos equivalent
U.S. dollar	1,682,634	Ps. 9.8650	Ps. 16,599,165
Japanese yen	14,485,203	0.0868	1,257,316
French franc	267,909	1.7606	471,681
Swiss franc	226	7.1465	1,615
Total			Ps. 18,329,777

At December 31, 1998, the Company has unused lines of credit from certain banks of approximately Ps. 3,150,000, at a floating interest rate of approximately LIBOR plus 0.8 points at the time of use.

During 1998, the Company entered into short-term derivatives transactions. At December 31, 1998, these transactions are not material.

Long-term debt maturities at December 31, 1998 are as follows:

Year	Amount
2000	Ps. 6,154,313
2001	7,637,143
2002	1,403,614
2003	2,313,694
2004 and beyond	963,529
Total	Ps. 18,472,293

8. Deferred Credits

Deferred credits consist of the following at December 31, 1998 and 1997:

	1998		1997	
Advance billings	Ps.	440,094	Ps.	440,674
Advances from subscribers and others		313,778		968,203
Total	Ps.	753,872	Ps.	1,408,877

9. Special Charges

The Company recorded special charges of Ps. 152,070 and Ps. 1,828,750 in 1998 and 1997, respectively. An analysis is as follows:

	1998		1997	
Expenses related to opening of long-distance market in Mexico	Ps.	152,070	Ps.	1,197,623
Goodwill resulting primarily from acquisition of Red Uno and Kb/TEL (see Note 4).				631,127
Total	Ps.	152,070	Ps.	1,828,750

10. Foreign Currency Position and Transactions

a) At December 31, 1998, the Company has a net foreign currency short position of U.S.$ 1,831 million (net foreign currency short position of U.S.$ 2,309 million at December 31, 1997).

The net exchange loss for the year ended December 31, 1998 was Ps. 3,826,256 (net exchange gain of Ps. 237,863 in 1997). In both years these amounts were applied to income.

The prevailing exchange rate at December 31, 1998 was Ps. 9.87 per U.S. dollar (Ps. 8.08 per U.S. dollar at December 31, 1997). At March 5, 1999, which is the date of issuance of these financial statements, the exchange rate of the Mexican peso relative to the U.S. dollar was Ps. 9.96 per U.S. dollar.

b) In the years ended December 31, 1998 and 1997, the Company had the following transactions denominated in foreign currencies. Currencies other than the U.S. dollar were translated to dollars using the average exchange rate for the year.

	Millions of U.S. dollars			
	1998		1997	
Net settlement revenues	U.S.$	309	U.S.$	758
Interest expense		175		217
Operating expenses		128		209

11. Commitments and Contingencies

a) At December 31, 1998, the Company has noncancelable commitments of approximately Ps. 1,560,000 (Ps. 950,000 in 1997) for the purchase of equipment.

b) At December 31, 1998, there are outstanding letters of credit in the approximate amount of Ps. 76,000 (Ps. 53,000 in 1997), which were issued to foreign suppliers for the purchase of materials and supplies.

c) In February 1998, the Federal Commission of Economic Competition 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, the Federal Telecommunications Commission may impose specific obligations with respect to rates charged and quality of services and information. At the present time, it is not possible to quantify or estimate the economic consequences, if any, that may derive from this situation.

The Company's independent 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 for reconsideration by the Federal Commission of Economic Competition, which reconfirmed its initial stance, against which the Company proceeded to file a petition for constitutional relief. This matter is now pending.

d) In August 1997, a telecommunications sector company demanded from Teléfonos de México, S.A. de C.V. and from the Ministry of Communications and Transportation the rescission of the Company's concession for alleged violations of one of the terms of the concession. The same plaintiff has demanded that Teléfonos de México, S.A. de C.V. and a subsidiary nullify the transaction that such plaintiff refers to as the purchase-sale of 49% of the capital stock of Cablevisión, S.A. de C.V.

In defense, TELMEX maintains that the suit is unfounded and, in the opinion of the Company's independent lawyers handling this matter, TELMEX will prevail.

e) In December 1995, a competitor that provides cellular telephone services reported Teléfonos de México, S.A. de C.V. and a subsidiary to the Federal Commission of Economic Competition for alleged monopolistic practices.

The Company’s independent lawyers believe that the probabilities are great that the complaint will be declared unfounded. Although the accusation makes reference to different amounts of damages, there is no mention of the total amount of the claim. Also, the Commission is only empowered to impose fines, the total amount of which cannot be determined at the present time. Accordingly, the financial statements do not include any provision for this contingency.

f) In August 1994, Teléfonos de México, S.A. de C.V. was sued by a former employee, for the alleged illegal use of a system the latter calls the "High Traffic System", which the former employee claims to have created. The suit does not specify the exact amount of the indemnization sought. The Company's independent lawyers feel that Teléfonos de México, S.A. de C.V. will prevail in this matter.

12. Related Parties

In the years ended December 31, 1998 and 1997, the Company had the following material transactions with related parties:

	1998	1997
Purchase of materials, inventories and fixed assets	Ps. 2,656,415	Ps. 2,105,818
Payment of insurance premiums and fees for administrative and operating services	692,518	1,213,590
Discount on sale of doubtful accounts receivable	104,248	520,922
Donations to a non-profit social welfare organization	779,265	1,113,819
Sale of materials, inventories and fixed assets	402,567	419,942

13. Stockholders' Equity

a) At December 31, 1998, fixed capital stock is represented by 7,724 million common shares issued and outstanding with no par value (8,118 million shares in 1997). An analysis is as follows:

	1998	1997
2,163 million series "AA" shares	Ps. 22,833,009	Ps. 22,833,009
214 million (235 million in 1997) series "A" shares	2,396,518	2,611,363
5,347 million (5,720 million in 1997) series "L" shares	20,976,850	20,923,273
Total	Ps. 46,206,377	Ps. 46,367,645

b) 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. The Company’s bylaws contemplate the possibility of the holders of series “L” shares exchanging such shares, in certain circumstances, for series “AA” shares, commencing January 1, 2001.

c) 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.

In 1997, the Company purchased 756 million series "L" shares for Ps. 16,008,131 (Ps. 12,597,764 historical).

On March 3, 1998, the stockholders approved an increase of Ps. 19,371,310 in the reserve for the purchase of the Company’s own shares to acquire up to 800 million shares. In such year the Company acquired 394 million series "L" shares for Ps. 9,433,389 (Ps. 8,620,261 historical). On that same date, the stockholders approved the cancellation of 853 million series "L" treasury shares.

On March 2, 1999, the stockholders approved an increase in the reserve for the purchase of the Company’s own shares, in order for the reserve to reach a total of Ps. 32,889,449, to acquire up to 800 million additional shares to those previously authorized.

d) 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.

14. Income Tax and Asset Tax

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

Various changes in the tax consolidation methodology went into effect on January 1, 1999. The most important of these changes reduces the consolidation equity percentage to 60%. The Company does not expect these changes to have a significant impact on its future tax results.

b) The asset tax for the years ended December 31, 1998 and 1997 was Ps. 2,611,661 and Ps. 2,145,459, respectively. In both years, TELMEX credited against these amounts the income tax paid in such years.

c) Effective January 1, 1999, the corporate income tax rate was increased from 34% to 35%. However, corporate taxpayers have the option of deferring a portion, so that the tax payable for the year will represent 30% of taxable income (32% in 1999). The earnings on which there is a deferral of taxes 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.

If the Company opts for this tax deferral, starting in the year 2000, earnings will 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 (3% for 1999).

Any distribution of earnings in excess of the above-mentioned account balances will be subject to payment of 35% corporate income tax.

In addition, effective January 1, 1999, cash dividends obtained by individuals or residents abroad from corporate entities in Mexico, will be 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) An analysis of income tax provisions is as follows:

	1998	1997
Current year	Ps. 6,748,656	Ps. 7,721,655
Deferred	1,467,526	70,272
Total	Ps. 8,216,182	Ps. 7,791,927

The most important differences between book and tax results relate to the difference in depreciation expense for book and tax purposes, the amortization of goodwill and licenses, pensions and other nondeductible expenses.

The major temporary differences on which the Company has recognized deferred taxes in terms of Mexican Accounting Principles Bulletin D-4 issued by the MIPA, are as follows:

	1998	1997
Deferred tax asset		
Excess cost over appraised value of Federal Microwave Network	Ps. 122,689	Ps. 218,282
Deferred tax liability		
Licenses	(686,773)	
Pensions	(720,105)	
	(1,406,878)	
Net deferred tax (liability) asset	Ps. (1,284,189)	Ps. 218,282

The deferred tax asset and liability are presented on the balance sheet in accounts receivable and accounts payable, respectively, representing basically long-term items.

15. Generally Accepted Accounting Principles 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 Accounting Principles Generally Accepted in the United States ("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.

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 as follows:

	1998	1997
Net income as reported under Mexican GAAP	Ps. 16,400,516	Ps. 15,242,112
Total approximate U.S. GAAP adjustments, net	(768,993)	(722,112)
Approximate net income under U.S. GAAP	15,631,523	14,520,000
Other comprehensive income	(755,926)	(990,931)
Approximate comprehensive income under U.S. GAAP	Ps. 14,875,597	Ps. 13,529,069
Weighted average common shares outstanding (in millions)	7,902	8,406
Approximate net income per share under U.S. GAAP (in Mexican pesos)	Ps. 1.978	Ps. 1.727
Total stockholders' equity under Mexican GAAP	Ps. 105,897,600	Ps. 104,650,739
Total approximate U.S. GAAP adjustments, net	(13,035,284)	(11,328,809)
Approximate total stockholders' equity under U.S. GAAP	Ps. 92,862,316	Ps. 93,321,930

PROPOSAL TO THE MEETING

(Thousands of Mexican pesos with purchasing power at December 31, 1998, except for dividends per share)

Regarding dividend payments for the 1998 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 balance at December 31, 1998	Ps.	38,248,763
Less: Separation for one dividend payment in cash to shareholders beginning March 25,1999, for the amount of Ps. 0.175 per share, dictated by the Shareholders'Meeting held on March 2, 1999, by presenting coupon 08		1,328,434
Less: Increase in the reserve for the purchase of the Company's own shares, according to the Shareholders' Meeting held on March 2, 1999		25,085,203
		11,835,126
Net income for the year		11,403,048
Total	Ps.	23,238,174

It is proposed that the balance of Ps. 23,238,174 made available to the shareholders to be allocated as follows:

		Amount	
There will be no increase in the legal reserve due to fact that it is in accordance with Article 20 of the Mexican Corporations Act			
To pay four installments of Ps. 0.20 per share each, as a cash dividend coming from the Net Tax Profit Account	Ps.	6,072,840	(1)
To the retained earnings account		17,165,334	
Total	Ps.	23,238,174	

The cash dividends proposed to the Shareholders' Meeting will be paid starting June 24, 1999, September 23, 1999, December 23, 1999 and March 23, 2000, for all outstanding shares which make up the capital stock of the Company, by presenting coupons 09, 10, 11 and 12, respectively. The dividend payments are subject to the corresponding wilthholding tax. While the amounts of the dividends are not allocated to the shareholders, they will continue in the Company's retained earnings account.

(1) Estimated figure considering a total of 7,591,049,883 outstanding shares at March 31, 1999.

SIGNIFICANT RESULTS OF ACCOUNTING SEPARATION OF LOCAL AND LONG-DISTANCE TELEPHONE SERVICES
For the years ended December 31
(Millions of Mexican pesos with purchasing power at December 31, 1998)

Based on Condition 7-5 of the Amendments to the Concession Title, the commitment to present independent accounting records for local and long-distance services is presented below for 1998 and 1997.

	Local Service		Long-Distance Service	
	1998	1997	**1998**	1997
Operating Revenues:				
Access, Rent, Measured Service and Others	**Ps. 45,301**	Ps. 39,564	**Ps. 4,347**	Ps. 3,059
Domestic Long-Distance			**13,945**	15,071
International Long-Distance			**8,338**	13,339
LADA Interconnection	**9,039**	11,990		
Interconnection with Long-Distance Carriers	**2,018**	562		
Interconnection with Cellular Companies	**377**	461		
	56,735	52,577	**26,630**	31,469
Operating Costs and Expenses:				
Cost of Sales and Services	**10,574**	11,049	**4,350**	4,652
Commercial, Administrative and General	**8,922**	9,048	**8,579**	9,044
Depreciation and Amortization	**11,519**	10,893	**3,477**	2,801
Interconnection			**9,039**	11,990
	31,015	30,990	**25,445**	28,487
Operating Income	**Ps. 25,720**	Ps. 21,587	**Ps. 1,185**	Ps. 2,982
Gross Telephone Plant	**Ps. 142,080**	Ps. 134,523	**Ps. 37,358**	Ps. 34,518
Personnel	**43,123**	42,885	**11,302**	11,873

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

a) For its elaboration, the information that was considered was only the one corresponding to the following companies that are directly involved in rendering local and long-distance telephone service: 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.; Alquiladora de Casas S.A. de C.V. and Uninet S.A. de C.V.

b) Revenues from local service as well as costs and expenses of the long-distance service include the corresponding imputations.

The results of Long Distance service include the losses generated by rural telephony, which reached Ps. 698 million and Ps. 36 million in 1998 and 1997, respectively.

BOARD OF DIRECTORS

Carlos Slim Helú
Chairman of the Board

DIRECTORS

Jean Pierre Achouche
Director de l'ONS de la Red General
France Tèlècom-FCR

John H. Atterbury III
Chairman of the Board and President
Southwestern Bell Telephone Company

Claude Benmussa
Vice President Accounting Control and Operations
France Tèlècom-FCR

Antonio Cosío Ariño
President
Compañía Industrial Tepeji del Río, S.A. de C.V.

Jaime Chico Pardo
Chief Executive Officer
Teléfonos de México, S.A. de C.V.

Richard C. Dietz
President
SBCI México, SBC International, Inc.

J. Cliff Eason
President
SBC International, SBC Communications, Inc.

Amparo Espinosa Rugarcía
President
Documentación y Estudio de Mujeres, A.C.

Pierre Fortin
President
France Tèlècom-México

Elmer Franco Macías
President
Grupo Infra, S.A. de C.V.

Claudio X. González Laporte
Chairman of the Board and President
Kimberly Clark de México, S.A. de C.V.

Michel Hirsch
President
France Tèlècom-FCR

David Ibarra Muñoz
Consultant

Ángel Losada Moreno
Assistant President
Gigante, S.A. de C.V.

Rómulo O'Farrill Jr.
Chairman of the Board and President
Novedades Editores, S.A. de C.V.

Juan Antonio Pérez Simón
Vice Chairman of the Board
Teléfonos de México, S.A. de C.V.

Bernardo Quintana Isaac
President
Grupo ICA, S.A. de C.V.

Carlos Slim Domit
President
Grupo Carso, S.A. de C.V.

STATUTORY AUDITOR

Víctor Aguilar Villalobos
President
Mancera, S.C.

SECRETARY

Sergio F. Medina Noriega
General Counsel
Teléfonos de México, S.A. de C.V.

ALTERNATE DIRECTORS

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Executive Vice President
Gigante, S.A. de C.V.

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Partner
Noriega y Escobedo, A.C.

Paul W. Cardarella
Head of Operations
SBCI México, SBC International, Inc.

Christian Chauvin
Vice President International Development
France Tèlècom

Antonio del Valle Ruiz
President
Banco Internacional, S.A.

Ángeles Espinosa Rugarcía
President
Museo Amparo

Jorge Esteve Campdera
President
Tecnología Industrial Agropecuaria, S.A. de C.V.

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Chairman of the Board
Cryoinfra, S.A. de C.V.

Humberto Gutiérrez Olvera Z.
President
Grupo Condumex, S.A. de C.V.

Rafael Kalach Mizrahi
President
Grupo Kaltex, S.A. de C.V.

José Kuri Harfush
President
Janel, S.A. de C.V.

Federico Laffan Fano
Partner
Laffan, Mues y Garay, S.A.

Ricardo Martín Bringas
President
Organización Soriana, S.A. de C.V.

Sergio F. Medina Noriega
General Counsel
Teléfonos de México, S.A. de C.V.

Henri-Xavier Péretié
Head of Finance
France Cables et Radio

Bernard Perillón
Director of Finance and Cellular
France Tèlècom-FCR

Alfredo Sánchez Alcántara
President
Uninet, S.A. de C.V.

Marco Antonio Slim Domit
Chairman of the Board and President
Grupo Financiero Inbursa, S.A. de C.V.

Thierry Zylberberg
President
France Tèlècom-FCR

ALTERNATE STATUTORY AUDITOR

Alberto Tiburcio Celorio
Partner
Mancera, S.C.

ASSISTANT SECRETARY

Rafael Robles Miaja
Partner
Franck, Galicia, Duclaud y Robles, S.C.

NORTH REGION

Miguel Carlos Barragán Villarreal
Chairman of the Board and President
Proyección Corporativa, S.A. de C.V.

Federico Barrio Terrazas
Chairman of the Board and President
Lintel, S.A. de C.V.

Eduardo R. Bours Castelo
Chairman
Consejo Coordinador Empresarial

Jorge Chapa Salazar
Director
Grupo Chapa, S.A. de C.V.

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

Luis Lara Armendáriz
Chairman of the Board and President
Controladora Idea, S.A. de C.V.

Juan Manuel Ley López
Chairman of the Board
Casa Ley, S.A. de C.V.

Javier López Del Bosque
Chairman of Operations
Grupo Industrial Saltillo, S.A. de C.V.

Gastón Luken Aguilar
Chief Executive Officer
GE Capital Bank, S.A.

Jaime Alberto Rivero Santos
Chairman of the Board
Banco Regional de Monterrey, S.A.

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

Julio César Villarreal Guajardo
Chairman of the Board and President
Grupo Villacero

Roberto Zambrano Villarreal
Chief Executive Officer
Desarrollo Integrado, S.A. de C.V.

CENTER - WEST REGION

Carlos Álvarez Bermejillo
President
Laboratorios Pisa, S.A. de C.V.

Luis Aranguren Tréllez
Chief Operating Officer
Arancia-CPC, S.A. de C.V.

Alfonso Barba González
Chairman of the Board
Industrias Jobar, S. de R.L. de C.V.

José Berrondo Mir
Mananging Director-Refrigeration
Mabe México, S. de R.L. de C.V.

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

Salvador Martínez Garza
Chairman of the Board
Grupo Industrial Martínez Garza, S.A. de C.V.

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

Francisco Medina Chávez
President
Grupo Frame, S.A. de C.V.

Salvador Oñate Ascencio
Chairman of the Board
Banco del Bajío, S.A.

Roberto Ruiz Rubio
Chairman of the Board
Fomento Queretano, S.A. de C.V.

SOUTH REGION

Sergio Abraham Mafud
Chief Executive Officer
Super San Francisco de Asís, S.A. de C.V.

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

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

Juan Manuel Diez Francos
Chairman of the Board
Diez Orizaba, S.A. de C.V.

Rómulo Farrera Escudero
Chairman of the Board and President
Grupo Farrera, S.A. de C.V.

Juan José Gutiérrez Ruiz
Chairman of the Board
Grupo Gutiérrez Embotellador, S.A. de C.V.

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

Armando Millet Molina
Chairman of the Board
Operadora Real Mayan, S.A. de C.V.

Enrique Montoto Arámburo
Chief Executive Officer
C. Montoto, S.A. de C.V.

Miguel Quintana Pali
Chairman of the Board and President
Promotora XCaret, S.A. de C.V.

Jaime Chico Pardo
Chief Executive Officer

CORPORATE DIRECTORS

Isidoro Ambe Attar
Corporate Market

Adolfo Cerezo Pérez
Finance and Administration

Javier Elguea Solís
Human Resources

Arturo Elías Ayub
New Services, Regulation and Communication

Eduardo Gómez Chibli
Technical and Long Distance

Daniel Hajj Aboumrad
Subsidiaries

Roberto Isaac Rodríguez Gálvez
International Ventures

Héctor Slim Seade
Operational Support

Andrés R. Vázquez del Mercado Benshimol
Mass Market

Oscar Von Hauske Solís
Systems and Processes

DIVISIONAL DIRECTORS

Facundo Alonso García
Northeast

Pedro Cerisola y Weber
West Metro

Javier Coca Muñiz
Gulf - Pacific

Miguel Ángel González Arriaga
Telnor

Gerardo Leal Garza
South Metro

Jesús Rafael Mendoza Ortíz
East Metro

Leopoldo Muro Pico
West

José Manuel Pacheco Gamboa
Southwest

Raymundo Paulín Velasco
Northwest

Jorge Luis Suástegui Esquivel
Center

Miguel Ángel Vera García
North


TALK

NOTES

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

• Investor Relations
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• Shareholder Services
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52(5) 222 6159
Fax: 52(5) 254 59 55
E-Mail: valores@telmex.net

• Website: www.telmex.com.mx

• Shares Traded in Mexico:

"A": Bolsa Mexicana de Valores
Symbol: Telmex A

"L": Bolsa Mexicana de Valores
Symbol: Telmex L

• Shares Traded in the U.S.:

ADS: New York Stock Exchange
Symbol: TMX
One ADS represents 20 "L" shares

ADR: NASDAQ
Symbol: TFONY
One ADR represents one "A" share

• Transfer and Depository Agent in the U.S.:
JP Morgan
Morgan Guaranty Trust Company
60 Wall Street
New York, NY 10260-0060
Phone: 212 648 6801
Fax: 212 648 5104

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