TELMEX

is with you

2008 annual report

TELMEX 2008 annual report

Corporate Profile

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

Highlights

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

Financial	2008	2007	2006	2005	2004
Total revenues	124,105	130,768	129,755	131,449	135,302
Voice services	92,657	104,029	105,178	108,639	114,098
Corporate networks	12,219	11,340	10,877	11,183	10,747
Internet access	13,168	10,940	10,158	8,800	7,508
Other	6,061	4,459	3,542	2,827	2,948
Total costs and expenses	84,362	86,884	83,491	85,210	89,897
Costs of sales and services	32,806	32,364	32,059	32,435	33,851
Commercial, administrative and general	19,831	19,553	19,383	19,111	19,049
Interconnection	13,760	16,542	13,338	13,350	14,591
Depreciation and amortization	17,965	18,425	18,711	20,314	22,406
Operating income	39,743	43,884	46,264	46,239	45,405
EBITDA (1)	57,708	62,309	64,975	66,553	67,811
Majority income from continuing operations	20,177	28,889	27,689	27,236	29,103
Assets from continuing operations	187,125	172,826	188,182	200,793	214,792
Debt from continuing operations	107,055	91,462	90,417	90,197	84,668
Stockholders' equity (2)	39,371	42,159	121,321	135,879	132,785
Per share data (3) (pesos)					
Earnings per share from continuing operations	1.07	1.46	1.32	1.19	1.22
Nominal dividend paid	0.413	0.440	0.403	0.370	0.333
Outstanding shares at year-end (millions)	18,555	19,360	20,203	22,045	23,665

(*) The financial information from 2004 through 2007 is expressed in millions of Mexican monetary units with purchasing power as of December 31, 2007, while 2008 is expressed in nominal pesos (see Note 1II.b to the financial statements).

(1) EBITDA defined as operating income plus depreciation and amortization.

(2) 2007 decrease was due to the split-up (escisión) of Telmex Internacional.

(3) Outstanding shares reflect the two-for-one stock split, in which stockholders received two shares for each outstanding share, approved on April 28, 2005 and effective on May 25, 2005.

In 2008 the international financial crisis became evident. Many consider this economic downturn to be one of the most complex in history not only in magnitude but also because of its global character, a reflection of the interdependence of nations' economies. In the fourth quarter of 2008, global economic activity decreased because of strong declines in employment and aggregate demand across world commerce. With this scenario, the Mexican economy decreased 1.6% in the last quarter of 2008, causing the Gross Domestic Product (GDP) for the year to increase only 1.3% (primary sector +3.2%, service sector +2.1% and industry sector -0.7%), the lowest advance registered in the last 6 years. At the same time, uncertainty regarding the depth and duration of the international financial crisis produced a strong increase in financial market volatility, with consequent distortion of financial variables.

In 2008, inflation in Mexico reached an annual rate of 6.5%, the highest in the last 8 years due to increases in the costs of energy and food, the impact of the devaluation of the peso on imported goods and the cost of external financing. Notwithstanding that monetary policy was able to reduce the pressure on peso-dollar parity, the exchange rate to cover foreign currency obligations was 13.5383 pesos per dollar at year-end 2008, representing a depreciation of our currency of 24.6% compared with year-end 2007, when the exchange rate was 10.8662 pesos per dollar.

In 2009, economic indicators point to further contraction in employment, consumption, production, investment, and remittances from the United States of America, which will translate into a slowdown in the Mexican economy as a result of the negative impact on demand for goods and services. In this environment, we consider it necessary for the nation to implement measures to protect employment and family income as well as drive the development of our human capital through education. This will allow us to improve job alternatives for citizens, which in turn will improve revenue distribution in the country.

At TELMEX, we have reviewed and, when necessary, adapted our business initiatives to continue satisfying our customers' needs at the same time that we maintain our company's financial health.

Currently, worldwide broadband Internet access is one of the main catalysts for the development of societies. It benefits every economic sector because it multiplies the benefits to be gained from education, growth and competition. In 2008, our efforts were focused on enhancing and modernizing our telecommunications platforms. That, along with our commercial initiatives, allowed us to surpass 5 million broadband Infinitum users at the end of the year. At TELMEX, our commitment is to offer our customers, in every market segment, products and services at attractive prices with the highest quality standards.

Also, 2009 is the 9th consecutive year that TELMEX is showing support for the budgets of families and companies by continuing to reduce prices of our services, which were already very competitive when compared with other member countries of the OECD (Organization for Economic Cooperation and Development). This effort will be carried out in spite of the prevailing domestic and international economic conditions and the devaluation of the peso.

Maintain a Solid Financial Position

During 2008, our conservative financial strategy allowed us to make the necessary adjustments to decrease the adverse impact of the world's economic situation. In this demanding environment, we paid close attention to internal resources to generate revenues like those from multi-service packages. Also, we continued to focus on carrying out operating efficiencies through the disciplined and careful management of our costs and expenses, supported by optimal use of financial and human resources.

Total revenues were 124.105 billion pesos, 5.1% lower than 2007, due to the decrease in local and long distance revenues of 10.0% and 9.2%, respectively, partially offset by increases of 20.4% in Internet access revenues and 7.8% in corporate networks.

In 2008, EBITDA totaled 57.708 billion pesos, a decrease of 7.4% compared with 2007. Operating income was 39.743 billion pesos, 9.4% lower than the previous year, due to continuing price reduction for our products and services to support our customers as well as improved operating efficiencies. Majority net income from continuing operations was 20.177 billion pesos, 30.2% lower compared with 2007.

Earnings per share were 1.07 pesos and earnings per ADR were 1.99 dollars.

At December 31, 2008, total debt was the equivalent of 7.908 billion dollars, 6% lower than in 2007. Only 10.4% of foreign denominated debt was exposed to the variations in the exchange rate, since we had dollar-peso hedges for 5.451 billion dollars. Net debt was the equivalent of 7.455 billion dollars, 464 million dollars less than year-end 2007.

June 10, 2008 was a historic date for TELMEX. After fulfilling the requirements established by market authorities, Telmex Internacional (BMV: TELINT; NYSE: TII; LATIBEX: XTII) began to trade independently on the Bolsa Mexicana de Valores (BMV), the New York Stock Exchange (NYSE) and the Bolsa de Madrid (Latibex). The initiation of trading marked the conclusion of the strategic initiative approved by the Shareholders' Meeting in April 2007 to reorganize TELMEX's corporate structure.

The split- up (escisión) sought to:

- Give each company, in Mexico and abroad, a more efficient operation and the appropriate dimension for each to operate with autonomy in its administrative, commercial and financial environment.
- Improve each company's competitive position.
- More clearly define TELMEX's operation in the Mexican telecommunications market, clearly differentiating operations in the medium- and high-income segments where there is competition and in the low-income and rural segments where there is no competition.

In this manner, it is expected that TELMEX and Telmex Internacional will be able to generate greater value for shareholders and facilitate growth as they adapt to conditions in the countries where they operate.

Drive Broadband Services in the Country

At TELMEX we maintain our commitment to increase broadband penetration services and drive the digital culture in the country. Accordingly, between 2007 and 2008 the number of broadband Infinitum customers increased 175%, exceeding 5 million broadband Internet accesses and making Mexico one of the members of the OECD with the highest growth rates in these services. (OECD–Broadband portal).

The main limitation for broadband growth in Mexican homes is the lack of computers. Only 25.7% of households have computers, which is significantly below the average of 66.3% for member countries of the OECD. From 1999 through March 2009, TELMEX has sold more than 1.9 million computers in installments of up to 48 months. Since its introduction, this program has undergone significant expansion, which has made TELMEX one of the main retailers of personal computers in Mexico.

In our company, we are convinced that broadband and education are key components for the development of the country and the wellbeing of the population. Through support from information technologies, it is possible to develop human capital and improve our competitiveness as we reduce the digital divide in our country. This is why TELMEX along with Fundación Carlos Slim is driving the Education and Digital Culture Program. The goal of this program is to put low-income children, teenagers, teachers and parents in contact with state-of-the-art educational tools, which are supported by TELMEX's broadband services.

In 2009, we will maintain our commitment to driving broadband growth, a key element in promoting our nation's digital culture and technological development. In order to achieve this, we consider it necessary to establish the proper conditions to encourage investments by all companies that participate in each market sector, which will support growth in the telecommunications sector and generate a multiplying effect in the country's economy.

The October 3, 2006, "Acuerdo de Convergencia" (Convergence Agreement), which was issued by the Federal Government through the Secretaría de Comunicaciones y Transportes (Communications and Transportation Ministry), established the basis for the convergence of networks and further development of the telecommunications sector more than 30 months ago. TELMEX has met the requirements, but to date there has not been a favorable resolution form the authority for us to offer Pay TV services.

The agreement specifies that TELMEX can provide video services once our Title of Concession is modified and we comply with 3 conditions: provide interconnection and interoperability of networks to sector participants and provide number portability. In the case of portability, once the technical and operating requirements were issued in January 2008, we carried out the modifications in our telecommunications platform for number portability to begin on July 5, 2008. TELMEX has complied with all of the interoperability conditions and has interconnected all of the companies that have requested it, including cable companies. In our opinion, in order to achieve full convergence in the country, no company should be denied participation in providing voice, data and video services (triple play), which expands the service offering and allows more competitive pricing of telecommunications services to benefit consumers.

Product and Service Offerings with Competitive Conditions and World-class Quality

One of our main objectives is to provide customers an integrated offering of products and services with attractive prices and world-class quality. In order to increase the value of our offering and enhance the benefits for more customers, in 2008 we introduced new multi-service packages. These packages provide discounts up to 42% on access to broadband service and different voice services. One example is the “Paquete Conectes” package with a price of 389 pesos per month ($338.3 pesos per month plus 15% VAT, equivalent to 25.0 dollars).

We also launched the “Paquete Acerques” package that for 599 pesos per month (VAT included), offers the monthly line rental, broadband Infinitum (ADSL) with speed of 1 Mbps, unlimited domestic long distance calls, 200 local calls and all digital services. For small and medium-sized businesses, we launched the “Paquete SuperNegocio” package, which includes 200 local calls, unlimited domestic long distance calls, all digital services and broadband Infinitum (ADSL) with speed of 1 Mbps. At year-end 2008, we had 4.330 million multi-service packages, which means that 24.6% of our lines in service had at least one package compared with 9.7% in December 2007.

In the corporate market, we promoted growth of VPNs (Virtual Private Networks), as well as the integration of value-added products to our portfolio of products and services, increasing our participation in their information technology and telecommunications budgets. An example of value-added products is the “Secure City Project” (Proyecto Ciudad Segura) with the Mexico City Government. It provides an integrated solution of video surveillance supported by world-class surveillance technology, video-surveillance and telecommunications at more than 8,000 video-surveillance centers. The purpose of this project is to prevent, control and monitor delinquency, crisis and emergency events in Mexico City. These business initiatives contributed to line equivalents for data transmission registering more than 4 million line equivalents of 64 Kbps, an increase of 48% compared with year-end 2007.

Among other complementary services that TELMEX offers are billing and collection services through the telephone bill. To date, we have more than 980 contracts with companies such as Medicallhome, Socio Águila, Teletón and Telecomunicaciones de México (Telecomm Telégrafos, a decentralized entity of the SCT).

In 2008, billing and collection services for satellite TV services provided by Dish México were incorporated. According to this company, close to 55% of its new customers did not have pay TV services and 51% of customers have decided to make their payments through their telephone bills.

TELMEX has always distinguished itself by having a world-class technological platform with the necessary infrastructure to offer state-of-the-art products and services. In support of this objective, during 2008 we carried out investments to maintain the modernization process of our network through the integration of 4,680 kilometers of fiber optics, bringing the total to 107,107 kilometers and giving TELMEX one of the largest and most secure networks on the continent. In 2008 investments totaled the equivalent of 879 million dollars, of which 74.4% were used for projects in the data, connectivity and transmission networks and the rest for other projects.

At TELMEX, we reiterate our commitment to serve our customers by offering products and services with the highest quality standards at competitive prices.

Provide Telecommunications Services to the Whole Population

In 2008, TELMEX offered telecommunications services in 22,965 locations nationwide that cover close to 91% of the country's population. The infrastructure that we have deployed with investments of around 31 billion dollars in the last 19 years has allowed us to expand and modernize our telecommunications platform, anticipate and satisfy our customers' needs and position the company as a core element in Mexico's economic development.

TELMEX participates in a sector where hundreds of concessions or licenses exist to provide telecommunications services, which have been open to competition in every market except long distance services, where competition began more than 12 years ago.

At December 31, 2008, we provided telecommunications services to 17.589 million fixed lines, 211,000 fewer than in 2007. The decrease in lines in service, among other factors, was due to disconnections related to competition from other fixed line, cellular and pay TV operators, including the effect of number portability that began in July 2008.

Of our lines in service, approximately 9.952 million are in areas in which competitors are interested and present. On the other hand, 7.637 million lines are in areas that hold no interest for competitors. In 2008, these customers generated revenues of approximately 19.823 billion pesos and an operating loss of approximately 2.761 billion pesos.

In order to support our customers as well as the development of selected regions, we established a program of 190 neighboring cities which include cities with adjoining borders and strong economic bonds. In these cities, a price per minute of 0.50 pesos (plus VAT) is applied for domestic long distance, which reduced the price of this service 58% for our customers, benefiting approximately 20 million inhabitants.

Additionally, TELMEX provides products and services in all Local Service Areas (LSA), whose number has decreased from 2,200 in 1998 to 397 at year-end 2008. That number could decrease further to benefit our customers and help develop several regions in the country, but the consolidation should occur only when the necessary economic criteria are satisfied and service quality is not adversely affected. It is important to note that currently each LSA in Mexico averages approximately 5,000 square kilometers and serves around 262,000 inhabitants. This data compares favorably with other countries like the United States of America, which has close to 26,000 LSAs, each with fewer than 12,000 residents on average, and Spain, with 508 LSAs, each covering only 993 square kilometers and serving 87,000 inhabitants.

The e-Mexico II and III Programs began in 2004 and were successfully concluded on April 6, 2009. Through these programs TELMEX provided digital satellite connectivity services to 4,800 Digital Community Centers nationwide in accordance with the technological conditions established by the Secretaría de Comunicaciones y Transportes (Communications and Transportation Ministry). For TELMEX the Program's success is of great satisfaction because while it was in effect more than 720 million hits were registered, benefiting 2,761 institutions in the educational sector, 883 institutions in the health sector and 1,156 additional institutions in towns and social development agencies.

Fundación TELMEX

Sensitive to the needs of the least favored population in our country, Fundación TELMEX has a solid social commitment with Mexicans and a precise objective: participate in solving structural problems that concern Mexico. Year after year, its task positively impacts the lives of thousands of children, teenagers, adults, elders, families and whole communities nationwide. Fundación TELMEX works throughout Mexico with great commitment and dedication, supported by outstanding TELMEX volunteers, who at year-end 2008 totaled 3,175.

In the last 13 years, Fundación TELMEX has promoted programs that benefit Mexicans in natural disasters and in 6 continuing priority programs in education, health, nutrition, justice, culture and human development To date, 191,474 scholarships have been granted, 37,392 pieces of computer equipment have been donated, 395,279 surgeries and 5,389 organ and tissue transplants have been sponsored and 70,040 bail bonds have been granted.

Our Commitment

During 2008, we carried out organizational changes to increase focus on competitive markets, optimize quality and timeliness in our customer attention process and increase our competitive capacity. We have a group of highly trained and committed employees to reach the established objectives.

At TELMEX, our commitment is with our customers, with our shareholders and with Mexico.

We are a company with a long history of challenges and achievements, always focused on anticipating and satisfying our customers' needs, assuring the continuity of our business and contributing to the progress of the country. We are a company whose commitment is manifested with direct employment and full training that we offer to our employees and with our investments in fixed assets which allow us to maintain state-of-the-art technology. We are a company that is managed with strict operating guidelines; our public character obligates and commits us to have complete transparency in information about the performance of our business, as well as in our role as a participant in the domestic economy, which, among other things, recognizes us as one of the major taxpayers.

2009 is a year of important challenges but also of opportunities. At TELMEX we are convinced that when crises are faced up front and consistently, they generate progress for the economy. For our part, we will continue to use our resources rationally, applying our austerity policies to reduce and control our expenses without adversely affecting our customers' needs, and continue supporting education and digital culture. The values that have formed our culture and our presence in the market continue to allow us to maintain leadership in the business in which we participate, in spite of the economic challenges and the regulatory uncertainty our industry faces.

Finally, we want to thank our shareholders for their trust by investing their resources in the development of telecommunications in Mexico, our customers for their preference by allowing us to offer them the telecommunications services that they require and our employees for their commitment and dedication to reach the objectives that TELMEX has established.

Jaime Chico Pardo
Chairman

Carlos Slim Domit
Co-Chairman

Héctor Slim Seade
Chief Executive Officer

Chief Executive Officer's Report

The impact of the international financial crisis was evident in Mexico's economy in 2008. GDP increased only 1.3% year over year as economic activity in several productive sectors decreased, offsetting the telecommunications sector's 9.9% estimated annual growth rate.

By the fourth quarter of 2008, the economic impact had become more evident. Interest rates increased 7.3% compared with the same quarter of 2007 and total GDP declined 1.6%. The slowing of the economy and exchange rate pressure negatively impacted our customers' purchasing power. These developments underscore the importance of giving them access to a better, broader variety of telecommunications products and services that seek to satisfy their needs while at the same time respecting their budgets.

For the 9th consecutive year, in spite of the present economic crisis and devaluation of the Mexican peso, TELMEX will continue reducing the prices of our services, which were already very competitive compared with those in various countries around the world. These actions were taken to support the economic realities faced by families and companies, in particular the small and medium-sized businesses.

The October 3, 2006, Convergence Agreement, which was issued by the Federal Government through the Communications and Transportation Ministry (Secretaría de Comunicaciones y Transportes – SCT) established the basis for the convergence of networks and telecommunications development in the country more than 30 months ago. The requirements were: Interconnection, Interoperability and Number Portability. TELMEX has met the requirements and today all networks are interconnected and operate normally. In spite of this, up to this time there has not been a favorable resolution from the regulatory authority for the company to offer Pay TV services. Portability service began in July 2008 and thousands of customers have taken advantage of its convenience.

The interconnection technical plan (Plan Técnico Fundamental de Interconexión e Interoperabilidad – PTFII) was published in the Official Gazette on February 10th, 2009. It established that operators with the highest number of access should give network access to the rest of the operators on an unbundling basis. This situation is delaying the technological development of the country and has inhibited telecommunications infrastructure growth, an outcome that already has been proven by the experience of several other countries.

TELMEX's market share in fixed lines in Mexico is similar to that of incumbent operators with the highest number of installed lines in other countries. Examples include the US with 89.8%, Spain 87.8%, Brazil 87.5%, Italy 93.6% and Germany 98.0%. In Mexico TELMEX's market share in the fixed line market is 84.1%. If cellular subscribers are included in the calculation, TELMEX's estimated market share is only 17.6%.

For the 9th consecutive year, TELMEX will continue reducing the prices of our services.

With you

More than
97%
of our lines in urban areas can offer broadband services.

Allowing you to be in touch with your loved ones through products and services tailored for each need, from voice and broadband packages at attractive prices for residential customers to broad coverage of basic telecommunications services in remote areas of the country where no competitor wants to be.

In 2008, in Mexico 23% of computer retail sales were made through TELMEX.

at home...

We are a company that seeks to differentiate itself from competitors by innovating services and commercial offerings. In 2008, recognizing customers' consumption profiles and lifestyles, we expanded our range of multi-service package offerings with the launch of two new packages: Paquete Conectes and Paquete Acerques.

Residential Market Products

A major commitment at TELMEX is to reduce the digital divide in Mexico. That is one reason for promoting broadband service penetration, which has helped Mexico achieve one of the highest growth rates worldwide for this type of service.

This growth has been mainly driven by two initiatives. The first is selling more than 1.9 million computers since 1999 in installments of up to 48 months. The second is our offering of multi-service packages that satisfy different consumption profiles among our residential customers.

These packages offer great benefits like access to broadband and voice services with discounts of up to 42%. Among the most important achievements are the following:

- Broadband Infinitum service covers more than 92% of the country's total population compared with 219 communities covered by the rest of the competitors.
- Our Infinitum product (ADSL) added a total of 5 million services, an increase of 71.3% compared with 2007. In particular, among residential customers, broadband penetration measured to these lines almost doubled from 16.9% in December 2007 to 32.1% in December 2008.
- To support mobility for our customers and provide easy access to broadband services, nationwide there are more than 1,290 Prodigy Móvil hot spots that deliver high quality and world-class connection capacity.

Multi-service Packages

A characteristic of TELMEX's evolution is continuing to meet our customers' needs by innovating services and expanding commercial offerings. In February 2008, TELMEX introduced an integrated offering of services, "Paquete Acerques." Its price of 599 pesos per month (VAT included) covers monthly rent, broadband Internet access, 200 local calls, unlimited domestic long distance minutes, all digital services and preferential international long distance tariffs.

Enhancing the reach of these services, the "Paquete Conectes" package was launched in June 2008. Its cost of 389 pesos per month (VAT included) comprises monthly rent, Internet broadband access, 100 local calls, 100 domestic long distance minutes, preferential rates for extra domestic and international long distance minutes and all digital services.

As a result of this strategy, multi-service packages increased more than 165% at December 2008 compared with December 2007, reaching a 29.8% penetration over residential lines compared with 11% penetration in 2007. Of our total Infinitum customers, 92.8% had at least one multi-service plan in 2008 while the year-earlier total was 64.9%.

More than

75%

of Mexican homes that have a computer already have broadband access.

71%

Infinitum growth.

Broadband

In 2008, according to the National Institute of Statistics, Geography and Data Processing (Instituto Nacional de Estadística, Geografía e Informática – INEGI) 3 out of 4 homes in Mexico do not have a computer. TELMEX introduced market campaigns that eased the acquisition of PC's in Mexican homes by increasing the number of installments from 13 to 48 with preferred terms. The program supports the acquisition of computers and promotes broadband penetration.

Computer sales totaled 351,355 units in 2008, mainly sold through our 385 TELMEX stores, the main point of sales contact with our customers.

Infinitum (ADSL) added a total of 5 million services, an increase of 71.3% compared with 2007.

With you

With Mexico's most complete telecommunications infrastructure, TELMEX contributes to the growth of small, medium-sized and corporate businesses with integrated products and services that allow permanent, reliable and secure contact with customers, providers and other businesses.

Micro, small and medium-sized businesses today have multi-service packages that provide savings and adapt to their needs.

in your company...

In the corporate market we have enhanced our portfolio of solutions by adding new options for Information Technology (IT) services over our network.

Small and Medium-Sized Businesses Market Products

During 2008 we made significant progress in organizing our commercial offering for small and medium-sized enterprises (SME). The success of this effort is evident in customers' response to multi-service packages, which provide savings as well as variety in broadband offerings.

Multi-service Packages

Among the multi-service packages service offering is "Paquete TELMEX Negocio Sin Límites." The package is available with three different broadband speeds (1Mbps, 2Mbps, and 4Mbps) as well as e-mail accounts and a Web site for each business customer. These features deliver a personalized domain for the customer's e-mail accounts and web page, allowing the SME market not only excellent access but also Internet presence.

In the last quarter of 2008 we introduced "Paquete SuperNegocio," which has been well accepted by micro and small business. Its monthly rate includes Internet broadband access, 200 local calls, unlimited domestic long distance minutes, all digital services, and preferential international long distance tariffs for calls anywhere in the world through the Lada América plan.

Another popular choice among medium-sized enterprises is the "Internet Directo Empresarial platform". It allows users to optimize e-business activities and increase communications across different networks. Additionally, it offers complementary services:

- Internet Security (Seguridad Internet); which offers a maximum computer protection against Internet virus and other significant online threats.
- Business e-mails (Correo Negocios); which reflect the name of the business and allow sending and receiving messages faster and with greater security.
- Computer back-up (Respaldo de Computadoras); that automatically backs up business computers and stores information in TELMEX's Data Center.

Our 385 Tiendas TELMEX (TELMEX stores) are the main point of sales contact with our customers.

Corporate Market Products

In 2008, TELMEX expanded the portfolio of services for the corporate market by launching new technologically advanced solutions.

The solutions portfolio was widened and alliances were established with leading companies in the Information Technology (IT) market. These alliances complemented TELMEX's network management offering by incorporating value-added advanced services and the expertise of world-class consulting firms.

An example of value-added products is the "Secure City Project" (Proyecto Ciudad Segura) with the Mexico City Government. It provides an integrated solution of video surveillance supported by world-class surveillance technology, video-surveillance and telecommunications at more than 8,000 video-surveillance centers. The purpose of this project is to prevent, control and monitor delinquency, crisis and emergency events in Mexico City.

Corporate Solutions

One of TELMEX's most important commitments to our nation's enterprises is to offer competitive solutions that respond to their specific voice communications needs, including new versions of Package SRI Enterprises Options (Paquetes Opciones SRI Empresarial).

At the same time, we strengthened our Lada 800 service by adding new applications: "Segmenta 800" and Basic IVR. These enhancements made the Lada 800 service the most complete service in the market and a valuable marketing tool with superior advantages for our customers.

Additionally, we have maintained the position of TELMEX's data network as the most reliable with the highest coverage in the market. Thanks to this, different services that are offered over this platform have increased significantly. Moreover, the advanced state of the network enables us to offer to our customers other types of value-added services, more timely assistance and efficient management of the technological infrastructure. Because service continuity is always the highest priority, redundancy and network security have been reinforced.

Our Data Centers provide for corporate customers' critical information and systems to be both protected and available in a reliable manner. The mission of these centers is to take care of one of the most valuable asset of companies: their information.

In April 2008, TELMEX launched Hosted IP PBX service, a solution that allows enterprises to combine their voice and data network through a unified communications platform with multiple attention points. With this service, we can provide audio and video conferences, use it as a collaboration tool, accommodate mobile applications and provide other services that improve productivity without requiring significant investments in telecommunications by our customers.

At the same time, TELMEX has maintained the leading-edge nature of our International Attention Center for Multinational Customers by incorporating best practices and hiring certified personnel with particular expertise in planning, running and managing projects for this type of customer.

With you

94

thousand computers delivered benefiting 1.031 million children, teenagers, parents and teachers.

The Education and Digital Culture Program, launched in January 2008 by TELMEX and Fundación Carlos Slim, actively drives the inclusion of children, teenagers, parents and teachers of low-income citizens in the knowledge society and digital culture, through educational workshops using best practices in teaching and learning and supported by the best information technologies.

The Program comprises: Casa TELMEX (TELMEX Home), Aula TELMEX (TELMEX Computer Hall), Biblioteca Digital (Digital Library), Mochila Digital (Digital Schoolbag, distribution of computers), Programa de Acompañamiento Educativo (Educational Partnership Program) for teachers, parents and children, Beca Digital (Digital Scholarship) and, along with the Massachusetts Institute of Technology (MIT), development of state-of-the-art educational applications.

Casa TELMEX
Islas Marías

in education and digital culture...

172
thousand
children, parents and teachers have benefited from Aula TELMEX.

Aula TELMEX is located in elementary schools and provides activities similar to those offered by Casa TELMEX.

Casa TELMEX (TELMEX Home)
Casa TELMEX is dedicated to integrated educational development. They are located in urban zones with limited economic resources and offer their services free of charge. Casa TELMEX supplements the educational system with a variety of learning opportunities for children, teenagers, teachers and parents, particularly in the areas of science and technology, universal values and art appreciation through teaching practices that both complement and supplement the educational system. The Program has 11 Casas TELMEX, already benefiting more than 15,000 users. Through the end of April 2009, 120 workshops have been provided to develop cognitive skills (logic reasoning – mathematics, numeric languages and computer skills), cooperation, collaboration, and art appreciation and culture.

Aula TELMEX (TELMEX Computer Hall)
Aula TELMEX seeks to extend the experience of Casa TELMEX to thousands of children. Aula TELMEX is located in elementary, middle and high schools and offers activities similar to those provided at Casa TELMEX. Today, there are 140 Aula TELMEX benefiting approximately 172,000 children, teenagers, parents and teachers.

Biblioteca Digital (Digital Library)
This program loans laptops at no cost for use at home by children, teenagers, teachers and parents. The purpose is to offer a technological tool that allows the users to carry out their teaching, school and entertainment activities. The service is available in Casa TELMEX and Aula TELMEX.

Mochila Digital (Digital Schoolbag)
(Computer Distribution)

In Mexico, only 25.7% of Mexican homes have a computer, according to data from the National Institute of Statistics, Geography and Data Processing (Instituto Nacional de Estadística, Geografía e Informática – INEGI). TELMEX has distributed 80,000 laptops XO and Classmates to help children and teenagers achieve the same level of digital culture as is found in developed countries. These computers were delivered to 2,159 schools, homes and classrooms benefiting 825,000 children and teenagers in the country.

Programa de Acompañamiento Educativo
(Educational Partnership Program)

The purpose of this Program is to implement teaching practices for transferring, assimilating and using technological information and communications, as well as training faculty and staff personnel at educational institutions. To date 7,000 faculty personnel and parents have been trained.

Beca Digital TELMEX
(TELMEX Digital Scholarship)

This Program has granted close to 15,000 computers and broadband services for children of our employees.

825 thousand

children, teenagers, parents and teachers have benefited from access to computers delivered to 2,159 educational institutions.

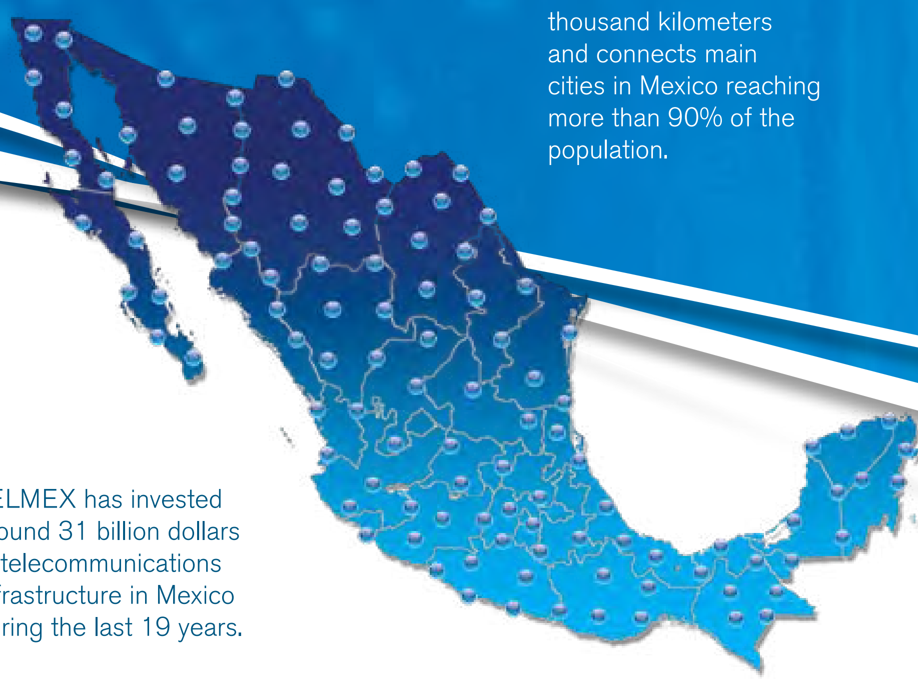
Casa TELMEX

Casa TELMEX is dedicated to integrated educational development. The centers are located in urban zones with limited economic resources and offer their services free of charge.

Technological Strength

Local Network Management Centers (Centros Locales de Administración de la Red - CAR).
In order to guarantee the continuity of all telecommunications services, TELMEX has nine advanced technology centers that supervise, monitor, analyze and manage the network 24 hours day, 365 days a year. The advanced equipment in these locations allows timely detection of failures in order to reduce time spent diagnosing problems and implementing solutions, and solution time. These centers also are responsible for making sure that the network equipment complies with established quality parameters.

Our fiber optic network extends more than 107 thousand kilometers and connects main cities in Mexico reaching more than 90% of the population.



31
billion dollars invested.

TELMEX has invested around 31 billion dollars in telecommunications infrastructure in Mexico during the last 19 years.

National Network Supervising Centers (Centros Nacionales de Supervisión de la Red – CNS).

TELMEX has two National Network Supervising Centers (CNS). The first center supervises and guarantees the operation of the long distance network everywhere it is available in the country, assuring the quality of services that are provided to our customers. This center protects and supervises the long distance network 24 hours a day, 365 days a year. The second center protects and supervises the broadband network, which supports the Infinitum service.

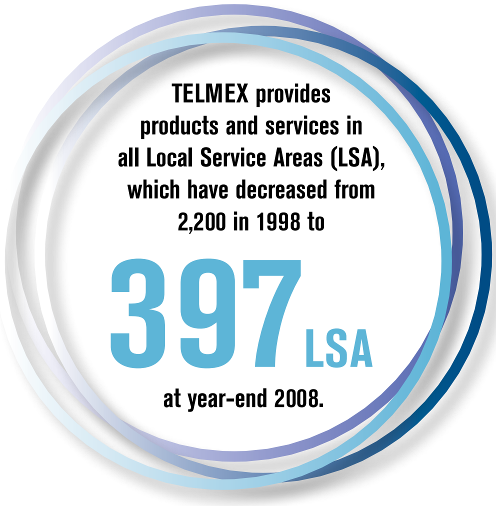
TELMEX Technological Strength

Worldwide, successful economies are characterized, among other things, by having a robust and competitive telecommunications sector. Companies that participate in this progress know that intense investments are necessary to build a solid technological platform with the capacity to evolve, as well as satisfy customer needs and anticipate and adopt timely technologies to support and enrich the offering of services and products. In Mexico, as a result of our investments of around 31 billion dollars during the last 19 years, TELMEX has a state-of-the-art technological platform through which we offer a wide range of advanced telecommunications services, Internet access and integrated solutions for all market segments, from public, rural and residential telephony services and small and medium-sized business to domestic and international corporations.

We have the most advanced telecommunications infrastructure in Mexico. At December 31, 2008 TELMEX's telecommunications platform covered more than 90% of the population with 17.589 million fixed lines located in 22,965 communities in the country. Additionally, we support 5.010 million broadband Internet access services, 4.33 million multi-service packages and 4.016 million line equivalents for data transmission.

Our services have world-class quality and compare favorably with the best quality levels in the world. TELMEX's infrastructure includes 107,107 kilometers of fiber optics and submarine cable connections with 33 countries to offer higher speed and capacity access, in order to respond to constantly increasing demand for telecommunications services as our customers' needs evolve. An example of our fiber optic network strength is our state-of-the-art electronic equipments which are capable of delivering capacities up to 40,000 Mbps.

TELMEX has a world-class laboratory dedicated to testing different technologies and determining the best alternative to satisfy our customers' needs and ensure appropriate evolution of our telecommunications platform.



Our IP/MPLS Network, the biggest in the country, drives Internet access traffic and corporate customers' applications. This network has a capacity of 160,000 Mbps just to drive Internet access traffic to the USA and has a total Internet access capacity of 340,000 Mbps.

In the residential market, TELMEX has installed DSLAM equipment (Digital Subscriber Line Multiplexer) in close to 15,000 strategic points along the network, where we can offer capacity of up to 16 Mbps directly in our customers' homes. A characteristic that distinguishes our network is the capacity to offer connections with high performance both in upstream and downstream traffic. The access speeds permit us to continue leading the market and fulfilling the necessary new multimedia applications.

In the corporate market, we provide connectivity services to the most important enterprises in the country, giving them, among other services, Virtual Private Networks, or VPN services, which also offer the required broadband, security and reliability for their operations.

Security in Telecommunications

The segment of our network that links all switching centers, from north to south and east to west in the Mexican republic, is our call transport network. This central network guarantees that our customers' telecommunications at all times are handled with reliability and the highest quality.

This transport network includes back-up for fiber optic rings that reduce interruptions in communications and includes equipment that allows restoring the links in less than 50 milliseconds should a failure occur. In order to increase reliability on the network even more, we have microwave transmission equipment to provide back-up along sections of our fiber optic network and maintain transmission to rural areas.

At TELMEX we closely monitor natural disasters and have specific plans of action to restore network failures in order to maintain the service level that our customers expect.

To guarantee continuous attention to customer service, TELMEX has nine local network supervision centers and two national supervision centers that together monitor our network 24 hours a day, 365 days a year. For our corporate customers, we have personalized assistance and supervision of their point-to-point services supported by help desks.

TELMEX's coverage and penetration platform is the result of our commitment to develop telecommunications in Mexico. Currently, the company provides telecommunications services to approximately 21,500 communities with populations of fewer than 5,000 inhabitants.

Also, TELMEX has a world-class test laboratory where we analyze and test all different technologies available in the telecommunications industry. After these new technologies are incorporated and work perfectly with our platform, the laboratory also allows us to be sure that they interoperate correctly and that we appropriately manage the evolution of the telecommunications platform.

Social Telephony

Telecommunications accelerates society's development and provides extensive benefits in education, health and economic growth, making it a basic necessity in unifying the nation. For that reason TELMEX has promoted connectivity across our country. TELMEX's coverage and penetration platform are the result of our commitment to developing telecommunications in Mexico.

Today, the company provides telecommunications services to approximately 21,500 communities with populations of fewer than 5,000.

Of a total 17.589 million lines in service, 43.4% or 7.6 million lines are in areas that hold no interest to competitions. As a result, TELMEX is the only operator that provides voice and Internet access in these areas. During 2008, these customers generated revenues of approximately 19.823 billion pesos and an operating loss of 2.761 billion pesos. Nevertheless, we continue with our commitment to serve Mexicans' telecommunications needs wherever they are.

In 2005 and 2006 TELMEX acquired the federal government's options for social coverage funds I and II, intended to offer voice and Internet services to more than 11,000 communities which did not have service, benefiting more than 8.7 million inhabitants through 254,000 rural telephone lines. At the end of March 2009, funds for social coverage I and II offered telecommunications services to more than 6.2 million inhabitants through more than 166,000 installed lines in 8,934 communities.

Digital Centers with TELMEX Technology
(Centros Digitales con Tecnología TELMEX)

TELMEX has offered voice services in rural communities through rural agencies that for a long time have been the only means of communication in remote areas.

In order to enrich the offering of telecommunications services and encourage the population of those areas to take part in the digital era, TELMEX launched a technological update program in these agencies. It provides customers with Internet access along with printing, scanner, fax and traditional voice services, thereby transforming the rural agencies into Digital Centers with TELMEX Technology.

In order to achieve this transformation, the company provides financing support to the persons in charge of these agencies to acquire computers, printers and other equipment in addition to training and technical assistance for proper operation of the devices. During 2009, we plan to evolve 12,088 Digital Centers out of a total of 19,137 in the 32 states of the Mexican republic, benefiting users who live in rural communities with fewer than 2,500 inhabitants.

e-Mexico Program

The e-Mexico II and III Programs began in 2004 and were successfully concluded on April 6, 2009. Through these programs TELMEX provided more than 720 million hits in 4,580 communities located in 32 states of the country, benefiting a total of 2,761 institutions in the educational sector, 883 institutions in the health sector and 1,156 additional institutions in towns and social development agencies, significantly narrowing the digital divide in these rural areas.

Socially Responsible Company

The Mexican Center of Philanthropy (Centro Mexicano para la Filantropía - CEMEFI) and the Alliance for Socially Responsible Enterprises (Alianza para la Responsabilidad Social Empresarial - AliaRSE) have recognized TELMEX as a Socially Responsible Company for 8th consecutive year as a result of our carrying out our strategy to integrate social responsibility with our business and culture. With this award, TELMEX once again has proved that not only do we offer the best telecommunications products and services but also are a Socially Responsible Company because our business vision integrates ethical business practices that help people, the community and the environment.

Fundación TELMEX

Ever since its creation 13 years ago, Fundación TELMEX has maintained its commitment to important issues affecting the development of our country. Thanks to how it functions, citizens receive the support that they need to continue improving their quality of life.

Fundación TELMEX figures at year end 2008	2008	1996/2008
EDUCATION		
Scholarships	16,396	191,474
Institutions that have received PC equipment	29	698
Computer equipment	2,856	37,392
Bicycles (Help Me Get There Program)*	27,340	204,925
Glasses (Program “See to Learn”, number of children benefited)	10,000	77,750
HEALTH AND NUTRITION		
Orthopedic, general, ophthalmologic and reconstructive surgeries	102,785	395,279
Organ and tissue transplants	573	5,389
Packages of 1kg. of nutritional candy	1,419,000	8,499,000
Wheelchairs	15,000	34,880
Best buddies (number of buddy pairs)	943	2,613
JUSTICE		
Bail bonds	9,983	70,040
Tons of humanitarian support (natural disaster support program)	178	28,021
Water purifying generators	16	50
Drinking water (liters)	317,322	791,686
Public and private institutions supported	91	1,491
Soccer teams (Copa TELMEX)	10,457	103,340

* In coordination with local and state governments and other institutions.

The purpose of Fundación TELMEX is a collaborative process for building new social balances and promoting the potential for more Mexicans to reduce gaps in their standard of living.

Telmex Internacional Split-up

On December 21, 2007 the shareholders' meeting approved the strategic initiative to reorganize TELMEX's corporate structure into two different companies. According to this initiative, the operations in Latin America, as well as the Yellow Pages (Sección Amarilla) which already had presence in other countries, formed a new company named Telmex Intenacional, S.A.B. de C.V. The split-up concluded on June 10, 2008 when Telmex Internacional shares were listed in Mexico and on foreign stock exchanges and Telmex Internacional shares were delivered to shareholders.

Reorganization of TELMEX's Corporate Structure

In February 2008 TELMEX restructured our internal organization with the objective of more closely focusing on markets with competition, optimizing customer service processes to improve quality and timeliness, and increasing competitive strategies to benefit consumers. This reorganization reduced the number of operating divisions to five, half of the previous number. The streamlined organization maintains nationwide coverage while allowing us more flexibility to stay close to customers and more easily execute our commercial and operating initiatives, as well as control our operating costs and expenses.

Corporate Governance Practices

The ethical principles and values that guide TELMEX allow us to realize the potential of our capabilities and carry out our commitment to our customers, our shareholders and society.

Our corporate governance practices strengthen the management of the company through:

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

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

Additionally, because our shares are listed on several international stock markets, TELMEX complies with the requirements of internal control established by entities such as the Securities and Exchange Commission (SEC) in the United States and the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores - CNBV) in Mexico. We comply with all of these regulations to improve our internal controls in order to assure the quality and integrity of the financial information presented on a regular basis by the company. TELMEX has a solid and healthy financial structure that allows us to sustain our growing and innovative technological strategy, no matter how difficult the economic situation and regulatory environment are for the company.

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

Today, as always, we reiterate our commitment to offer the best products and services under leading-edge technology, promotion of a digital culture that helps the technological development of the country and continuing to build long-term relationships with our customers and shareholders.

Héctor Slim Seade
Chief Executive Officer

The following comments should be read along with the consolidated financial statements and their notes included in this Annual Report. Our financial statements have been prepared in conformity with Mexican Financial Reporting Standards. In 2008 those standards no longer required recognition of changes in inflation rates. As a result, 2007 financial information is presented in constant Mexican pesos as of December 31, 2007, while 2008 results are in nominal pesos (See Note 1 II.b of the financial statements).

Summary

Our total revenues have fallen in recent years due to lower average revenue per local service, interconnection and long distance, partially offset by higher revenues from Internet access, corporate networks and other revenues. The proportion of our revenues from voice services (which includes local, long distance and interconnection services) declined from 79.6% of total revenues in 2007 to 74.7% in 2008. Revenues from corporate networks and Internet access contributed 20.5% of revenues in 2008 compared with 17.0% in 2007.

Based on weighted average shares outstanding in each year, majority net income from continuing operations for 2008 was 1.07 pesos per share (1.46 in 2007) and was equivalent to 1.99 dollars per ADR (2.69 in 2007).

Operating revenues

Local service revenues decreased 10% in 2008 to 48.982 billion pesos compared with 54.398 billion pesos in 2007. These results reflect lower revenues per billed local call and lower local traffic volume as a result of more competition from cellular companies and other telephony providers.

Domestic long distance revenues were 15.742 billion pesos, 9.3% lower in 2008 compared with 2007. This reduction primarily reflected a decrease in the average revenue per minute in spite of growth in domestic long distance traffic due to the increase of package offerings, which include domestic long distance minutes.

International long distance revenues decreased 9.1% in 2008 from a year ago, totaling 8.793 billion pesos. The decrease was mainly due to lower average revenue per minute and the decrease in incoming traffic. Billed outgoing traffic increased 2.1% and incoming minutes decreased 11.1%.

Interconnection revenues decreased 15.3% to 19.140 billion pesos in 2008. The decrease was primarily attributable to lower tariffs and to a decrease in traffic from local calling party pays and international long distance due to higher market penetration by cellular telephony.

In 2008, corporate network service revenues totaled 12.219 billion pesos, an increase of 7.8% compared with 2007. The increase reflected growth in information transmission services as evidenced in more billed line equivalents and higher sales of value-added services, partially offset by lower average revenue per billed line equivalent.

Internet access revenues comprised of dial-up and broadband Internet access (Infinitum) increased 20.4%, totaling 13.168 billion pesos in 2008. This increase was generated by a 71.3% increase in broadband customers compared with 2007.

The main elements of the category of other revenues are sales of computers, telecommunications equipment and accessories in TELMEX Stores (Tiendas TELMEX) as well as billing and collection for third parties. Other revenues amounted to 6.061 billion pesos, a year-over-year increase of 35.9% primarily as a result of more computer sales.

Operating costs and expenses

Cost of sales and services increased 1.4% in 2008, reaching a total of 32.806 billion pesos, as a result of higher costs related to computer sales, price increases in some of our goods and higher maintenance expenses from customers' corporate networks and data networks.

Commercial, administrative and general expenses totaled 19.831 billion pesos in 2008, 1.4% higher than in 2007, because of higher commissions for promoting our services and an increase in uncollectables.

Interconnection costs primarily reflect payments to cellular operators under the calling party pays arrangement. Interconnection costs were 13.760 billion pesos, a decrease of 16.8% from 2007's total as a result of the reduction in the calling party pays rate paid to cellular companies and lower traffic volume for this service.

Depreciation and amortization charges decreased 2.5%, totaling 17.965 billion pesos in 2008, as a result of lower fixed assets to depreciate.

Operating income was 39.743 billion pesos, decreasing 9.4% compared with 2007. The operating margin was 32.0% in 2008, 1.6 percentage points below 2007 mainly because lower operating costs were not enough to offset the decline in revenues, which had a negative impact on operating income.

The comprehensive financing cost was 9.233 billion pesos, 175.7% higher in 2008 compared with 2007. This charge was the result of: (i) a net interest charge of 6.739 billion pesos due to recognition of the market value of interest rate swaps, (ii) a net exchange loss of 2.494 billion pesos from the exchange rate depreciation of 2.67 pesos per dollar, offset by 5.451 billion dollars in dollar-peso hedges, and iii) recognition of a gain in the monetary position of 2.513 billion pesos in 2007, an effect that is absent in 2008 under current accounting rules.

Majority net income from continuing operations reached a total of 20.177 billion pesos, decreasing 30.2% in 2008 compared with 2007, due to the reduction in revenues from voice services and higher charges in comprehensive financing cost. Based on the weighted average number of shares outstanding each year, majority net income from continuing operations was 1.07 pesos per share in 2008 compared with 1.46 pesos per share in 2007.

At December 31, 2008, total debt was 107.055 billion pesos (approximately 7.908 billion dollars), compared with 91.462 billion pesos (approximately 8.417 billion dollars) at December 31, 2007. Of total consolidated debt, 76.3% was in US dollars, 20.6% in Mexican pesos and the remainder in other currencies. Of our outstanding debt, 63.5% carries floating interest rates. That proportion decreases to 40.0% when interest rate swaps are taken into consideration.

In 2008, we had new debt denominated in dollar and peso terms and we reduced our US dollar denominated liabilities by amortizing 1 billion dollars of senior notes that matured in November 2008. We have 22.883 billion pesos (1.690 billion dollars) maturing in 2009 and we plan to refinance part of it with new debt.

At December 2008, cross currency swaps covered 73.8 billion pesos (5.451 billion dollars) of 81.698 billion pesos of total US dollar denominated liabilities (approximately 6.035 billion dollars). At year-end we also held interest rate swaps in pesos for 23.752 billion pesos which cover risks on floating interest rate in pesos, cross currency coupon swaps that cover cash interest of 4.738 billion pesos (350 million dollars) and interest rate swaps that cover debt in dollars of 1.354 billion pesos (100 million dollars) paying a fixed interest rate and receiving a Libor rate of three months. Approximately 35.3% of our debt in Mexican pesos (22.1 billion pesos at December 31, 2008) carried floating interest rates.

Investments

Our investments in plant, property and equipment and inventories to operate the telephone plant were 10.081 billion pesos in 2008 and 13.440 billion pesos in 2007. Among 2008 investments, 74.4% was applied to growth projects in data, connectivity and transport infrastructure and the remainder to other projects.

Dividends paid in cash

Cash dividends paid were 7.609 billion pesos in 2008 and 8.628 billion pesos in 2007. The dividend paid per share was 0.413 nominal pesos in 2008 and 0.440 nominal pesos in 2007.

Resources used to repurchase shares

During 2008, we repurchased 796.7 million Series "L" shares for 12.764 billion pesos and 8.6 million Series "A" shares for 107.7 million pesos.

At December 31, 2008, outstanding shares totaled 18.555 billion, comprised of 8.115 billion Series "AA" shares, 407 million Series "A" shares and 10.033 billion Series "L" shares.

On March 3, 2009, the Ordinary Shareholders' Meeting passed a resolution to increase the amount of funds that can be allocated to purchase the Company's own shares by 10 billion pesos. At that date the balance in the account was approximately 341 million pesos, which, added to the newly authorized amount for the repurchase of TELMEX's own shares, created a net balance of approximately 10.341 billion pesos. The amount takes into consideration retained earnings as of December 31, 2008.

Audit Committee Report

Mexico City, March 18, 2009

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

The Company's management has the basic responsibility of issuing financial statements based on Mexican Financial Reporting Standards, preparing financial information in a timely manner, and implementing internal control systems. The Audit Committee has reviewed the consolidated audited financial statements of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2008. This review included the analysis and approval of policies, procedures and accounting practices of the Company and its subsidiaries. The accounting policies for the preparation of the Company's financial information proposed and recommended by this Committee to the Board of Directors, have been approved by the Board of Directors.

As a result of the review of the above-mentioned financial statements, which include financial information on the companies controlled by TELMEX, and based on the activities carried out in connection therewith by this Committee and the work performed by the External Auditors and TELMEX's Internal Auditing Area, we conclude that such financial statements reasonably reflect in all material aspects the consolidated financial position of TELMEX and its subsidiaries at December 31, 2008, the results of their operations, changes in stockholders' equity and changes in consolidated cash flow financial position for the year ending as of such date, based on Mexican Financial Reporting Standards.

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

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

Based on the aforesaid reviews and comments, the Committee recommends that the Board of Directors approve the audited consolidated financial statements of TELMEX and subsidiaries as of December 31, 2008, so that they may be included in the Chief Executive Officer's Annual Report on the 2008 fiscal year, which is to be submitted, in due course, for approval at the Shareholders' Meeting.

Additionally, TELMEX has an Internal Auditing Area. The internal control and internal auditing system of the Company and the companies it controls has been reviewed and evaluated by the Audit Committee and, in the Committee's opinion, is sufficient to allow the Company to operate in an effective control environment. The Internal and External Auditors have evaluated, as part of their work program, the effectiveness of the internal control system as well as the process for issuing financial information for the purpose of auditing the financial statements, and have discussed the results of such evaluation. The External Auditors have provided additional tax services, which were also adequate and satisfactory. The External Auditor's report on the effectiveness of internal controls at December 31, 2008 will be issued in conjunction with the 20-F "Annual Report" to be filed with the Securities and Exchange Commission, without any significant deficiencies or deviations having been reported in the meetings held by this Committee with the External Auditor. The aforesaid system covers the general guidelines approved by the Board of Directors, upon the recommendation by this Committee.

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

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

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

Additionally, TELMEX's Audit Committee also submits for consideration by the Board of Directors, for subsequent presentation at the Shareholders' Meeting, the opinion referred to in Article 28, Section IV, paragraph (c) of the Mexican Securities Market Law in connection with the audited consolidated financial statements of TELMEX and its subsidiaries as of December 31, 2008, and the Notes thereto, issued by the External Auditors of the Company, which form an integral part of the report of TELMEX's Chief Executive Officer prescribed by article 44, section XI of the aforesaid Law.

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

- We reviewed the results of the investment programs and liabilities of the Company at year-end 2008. The investments and financing complied with the policies established by the Board and the evaluation regarding its reasonableness was satisfactory.

- We analyzed and evaluated the projected investment and liabilities plan for 2009. Both the projected investments and liabilities fall within the framework of the policies established by the Board, which policies are also consistent with the strategic plan of the Company.

- Therefore, the Committee determined that the principal investments and financings for 2009 planned by management are viable and adequate, and that they are also consistent with the Company's strategic plan.

- We also reviewed the figures of the financial statements as of December 31, 2008, compared them with the figures for 2007 and with the 2008 budget, and analyzed the assumptions and financial projections included in the Company's budget for 2009. The Committee determined that these projections are in line with the Company's strategic plan.

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

We believe that this information should be included in the Annual Report of the Board of Directors to the Shareholders' Meeting at which the 2008 results will be presented, in order to comply with the Securities Market Law and the Code of Best Corporate Practices.

Rafael Kalach Mizrahi
Chairman

Corporate Practices Committee Report

Mexico City, March 18, 2009

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

The principal actions of the Corporate Practices Committee with respect to fiscal year 2008 are the following:

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

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

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

Transactions with related parties of TELMEX and its subsidiaries during the period of January to December 2008 were approved and such transactions were audited by the firm Mancera, S.C., a member practice of Ernst & Young, TELMEX's external auditors. We reviewed and issued our favorable opinion regarding the following significant operations (which exceed 1% of the value of TELMEX's consolidated assets): operations with Radiomóvil DIPSA, S.A. de C.V. for telecommunications services and operations with Carso Infraestructura y Construcción, S.A.B. de C.V. and several subsidiaries for expansion and maintenance of TELMEX's plant. The Board of Directors subsequently approved these operations.

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

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

Juan Antonio Pérez Simón
Chairman

Ernst & Young Mancera S.C.

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

We have audited the accompanying consolidated balance sheets of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income and changes in stockholders' equity for the years then ended, as well as the statement of cash flows for the year ended December 31, 2008 and the statements of changes in financial position for the year ended December 31, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Note 1 to the financial statements, at an extraordinary stockholders' meeting held on December 21, 2007, the stockholders of Teléfonos de México, S.A.B. de C.V. approved the split-up of assets, liabilities and stockholders' equity of its subsidiaries with operations in Latin America, as well as its telephone directory business, for the incorporation of Telmex Internacional, S.A.B. de C.V. This split-up is presented as discontinued operations in the accompanying financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teléfonos de México, S.A.B. de C.V. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and changes in their stockholders' equity for the years then ended as well as their cash flows for the year ended December 31, 2008 and consolidated changes in their financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards.

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

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

C.P.C. Fernando Espinosa López
Mexico City, Mexico
March 17, 2009

Consolidated balance sheets

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

Assets		December 31 2008		2007
Current assets:				
Cash and cash equivalents	P.	**6,136,563**	P.	4,697,752
Marketable securities (Note 3)				718,144
Accounts receivable, net (Note 4)		**20,808,763**		19,293,911
Derivative financial instruments (Note 8)		**20,418,889**		1,313,955
Inventories for sale, net		**1,914,306**		2,191,110
Prepaid expenses and others		**2,900,790**		2,797,420
Total current assets		**52,179,311**		31,012,292
Plant, property and equipment, net (Note 5)		**112,865,377**		120,648,559
Inventories for operation of the telephone plant, net		**2,668,410**		1,747,582
Licenses, net (Note 6)		**1,025,027**		991,461
Equity investments (Note 7)		**1,494,133**		1,528,138
Net projected asset (Note 11)		**15,485,402**		15,621,167
Deferred charges, net		**1,407,687**		1,277,088
Total assets	P.	**187,125,347**	P.	172,826,287

Liabilities and stockholders' equity		2008		2007
Current liabilities:				
Short-term debt and current portion of long-term debt (Note 8)	P.	**22,883,092**	P.	12,282,260
Accounts payable and accrued liabilities (Note 9)		**15,918,106**		17,958,006
Taxes payable		**783,543**		1,400,422
Deferred credits (Note 10)		**1,780,115**		1,036,806
Total current liabilities		**41,364,856**		32,677,494
Long-term debt (Note 8)		**84,172,355**		79,179,854
Labor obligations (Note 11)		**4,997,540**		208,406
Deferred taxes (Note 16)		**16,808,391**		18,317,042
Deferred credits (Note 10)		**411,106**		284,683
Total liabilities		**147,754,248**		130,667,479
Stockholders' equity (Note 15):				
Capital stock		**9,138,632**		9,402,561
Retained earnings:				
Prior years		**7,197,720**		76,055,117
Current year		**20,176,936**		35,484,947
		27,374,656		111,540,064
Accumulated other comprehensive income items		**2,816,625**	(	78,822,851)
Majority stockholders' equity		**39,329,913**		42,119,774
Noncontrolling interest		**41,186**		39,034
Total stockholders' equity		**39,371,099**		42,158,808
Total liabilities and stockholders' equity	P.	**187,125,347**	P.	172,826,287

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

Consolidated statements of income

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

	Year ended December 31 2008	2007
Operating revenues:		
Local service	**P. 48,982,383**	P. 54,398,425
Long distance service:		
Domestic	**15,741,771**	17,348,649
International	**8,793,262**	9,678,537
Interconnection service	**19,139,692**	22,603,745
Corporate networks	**12,219,402**	11,339,790
Internet access services	**13,168,270**	10,940,226
Other	**6,060,455**	4,458,299
	124,105,235	130,767,671
Operating costs and expenses:		
Cost of sales and services	**32,806,088**	32,364,110
Commercial, administrative and general expenses	**19,831,144**	19,552,442
Interconnection	**13,759,965**	16,541,561
Depreciation and amortization (Notes 5 and 6)	**17,965,069**	18,425,285
	84,362,266	86,883,398
Operating income	**39,742,969**	43,884,273
Other expenses, net (Note 1 II.s)	**679,592**	44,361
Financing cost:		
Interest income	**(913,462)**	(1,396,088)
Accrued interest expense	**7,652,427**	6,615,400
Exchange loss, net	**2,493,729**	643,137
Monetary gain, net		(2,513,085)
	9,232,694	3,349,364
Equity interest in net (loss) income of affiliates	**(62,113)**	17,245
Income before taxes on profits	**29,768,570**	40,507,793
Provision for income tax (Note 16)	**9,591,659**	11,618,710
Income from continuing operations	**20,176,911**	28,889,083
Income from discontinued operations, net of income tax (Note 2)		7,166,312
Net income	**P. 20,176,911**	P. 36,055,395
Distribution of net income:		
Majority interest	**P. 20,176,936**	P. 35,484,947
Noncontrolling interest	**(25)**	570,448
	P. 20,176,911	P. 36,055,395
Weighted average number of shares issued and outstanding (millions)	**18,906**	19,766
Earnings per share from continuing operations	**P. 1.07**	P. 1.46
Earnings per share from discontinued operations	**P.**	P. 0.34
Earnings per share	**P. 1.07**	P. 1.80

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

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2008 and 2007
(In thousands of Mexican pesos, except for dividends per share, see Note 1 II.b)

	Capital stock	Premium on sale of shares	Retained: Legal reserve
Balance at December 31, 2006	P. 28,011,334	P. 20,919,197	P. 16,148,490
Appropriation of earnings approved at regular stockholders' meeting held in April 2007:			
Cash dividend declared at P.0.448 per share (P. 0.440 historical)			
Cash purchase of Company's own shares	(780,210)		
Acquisition of noncontrolling interest			
Gain on dilution of investment in affiliate spun-off			
Comprehensive income:			
Net income for the year			
Other comprehensive income items:			
Changes in fair value of swaps, net of deferred taxes			
Effect of translation of foreign entities			
Deficit from holding non-monetary assets, net of deferred taxes			
Comprehensive income			
Reduction due to the split-up of Telmex Internacional	(17,828,563)	(20,919,197)	(14,267,977)
Balance at December 31, 2007	9,402,561		1,880,513
Effect of adopting Mexican FRS B-10, net of deferred taxes			
Cumulative effect adjustment for recognition of deferred employee profit sharing, net of deferred taxes			
Appropriation of earnings approved at regular stockholders' meeting held in April 2008:			
Cash dividend declared at P. 0.413 per share			
Cash purchase of Company's own shares	**(263,929)**		
Comprehensive income:			
Net income for the year			
Other comprehensive income items:			
Changes in fair value of swaps, net of deferred taxes			
Deferred taxes			
Effect of translation of foreign entities			
Comprehensive income			
Balance at December 31, 2008 (Note 15)	**P. 9,138,632**		**P. 1,880,513**

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

earnings Unappropriated	Total	Accumulated other comprehensive income items	Majority stockholders' equity	Noncontrolling interest	Comprehensive income	Total stockholders' equity
P. 117,811,741	P. 133,960,231	P. (64,725,867)	P. 118,164,895	P. 3,156,340		P. 121,321,235
(8,820,074)	(8,820,074)		(8,820,074)			(8,820,074)
(15,002,629)	(15,002,629)		(15,782,839)			(15,782,839)
(164,575)	(164,575)		(164,575)	(450,572)		(615,147)
1,123,819	1,123,819		1,123,819			1,123,819
35,484,947	35,484,947		35,484,947	570,448	P. 36,055,395	36,055,395
		499,089	499,089		499,089	499,089
		(2,739,571)	(2,739,571)	(369,053)	(3,108,624)	(3,108,624)
		(927,126)	(927,126)	(184,575)	(1,111,701)	(1,111,701)
					P. 32,334,159	
(20,773,678)	(35,041,655)	(10,929,376)	(84,718,791)	(2,683,554)		(87,402,345)
109,659,551	111,540,064	(78,822,851)	42,119,774	39,034		42,158,808
(79,419,845)	**(79,419,845)**	**79,419,845**				
(4,136,583)	**(4,136,583)**	**(53,552)**	**(4,190,135)**			**(4,190,135)**
(7,774,143)	**(7,774,143)**		**(7,774,143)**			**(7,774,143)**
(12,607,913)	**(12,607,913)**		**(12,871,842)**			**(12,871,842)**
20,176,936	**20,176,936**		**20,176,936**	**(25)**	**P. 20,176,911**	**20,176,911**
		2,126,088	**2,126,088**		**2,126,088**	**2,126,088**
(403,860)	**(403,860)**		**(403,860)**	**2,177**	**(401,683)**	**(401,683)**
		147,095	**147,095**		**147,095**	**147,095**
					P. 22,048,411	
P. 25,494,143	**P. 27,374,656**	**P. 2,816,625**	**P. 39,329,913**	**P. 41,186**		**P. 39,371,099**

Consolidated statement of cash flows

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

		Year ended December 31, 2008
Operating activities		
Income before taxes on profits	P.	29,768,570
Add (deduct) items not requiring the use of cash:		
Depreciation		17,815,050
Amortization		101,702
Allowance for obsolete inventories for operation of the telephone plant		14,675
Equity interest in net loss of affiliates		62,113
Gain on valuation of disposed marketable securities	(	36,948)
Net periodic cost of labor obligations		5,742,803
Accrued interest expense		7,652,427
Exchange loss, net		3,322,871
Other		2,531
		64,445,794
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Marketable securities		760,420
Accounts receivable	(	1,514,850)
Inventories for sale		276,804
Prepaid expenses and others	(	103,370)
Deferred charges	(	130,599)
(Decrease) increase in		
Labor obligations:		
Contributions to trust fund	(	4,321,922)
Payments to employees	(	197,297)
Accounts payable and accrued liabilities	(	2,961,080)
Taxes on profits paid	(	11,711,906)
Taxes payable		493,448
Deferred credits		869,732
Net cash flows provided by operating activities		45,905,174
Investing activities		
Acquisition of plant, property and equipment	(	11,771,793)
Acquisition of inventories for operation of the telephone plant	(	935,503)
Acquisition of licenses	(	135,271)
Proceeds from sale of long-term equity investments		76,207
Other		40,811
Net cash flows used in investing activities	(	12,725,549)
Cash surplus to be applied to financing activities		33,179,625
Financing activities		
New loans		11,862,831
Repayment of loans	(	15,781,356)
Cash purchase of Company's own shares (Notes 2 and 15)	(	12,871,842)
Dividends paid	(	7,609,477)
Derivative financial instruments	(	2,291,873)
Interest paid	(	5,049,097)
Net cash flows used in financing activities	(	31,740,814)
Net increase in cash and cash equivalents		1,438,811
Cash and cash equivalents at beginning of year		4,697,752
Cash and cash equivalents at end of year	P.	6,136,563

The accompanying notes are an integral part of this financial statement.

Consolidated statement of changes in financial position

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

		Year ended December 31, 2007
Operating activities		
Net income	P.	36,055,395
Add (deduct) items not requiring the use of resources:		
Depreciation		18,290,793
Amortization		134,492
Deferred charges		949,862
Deferred income tax		1,206,747
Equity interest in net income of affiliates	(	17,245)
Net periodic cost of labor obligations		4,487,080
Net income from discontinued operations	(	7,166,312)
		53,940,812
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Marketable securities		2,212,415
Accounts receivable		1,223,280
Inventories for sale	(	2,583,474)
Prepaid expenses and others		72,918
(Decrease) increase in:		
Labor obligations:		
Contributions to trust fund	(	64,935)
Payments to employees	(	182,321)
Accounts payable and accrued liabilities	(	1,765,160)
Taxes payable	(	1,647,953)
Deferred credits		33,007
Resources provided by operating activities		51,238,589
Financing activities		
New loans		14,930,842
Repayment of loans	(	10,750,844)
Effect of exchange rate differences and variances in debt expressed in constant pesos	(	3,134,933)
Decrease in capital stock and retained earnings due to purchase of Company's own shares	(	15,782,839)
Payment of dividends	(	8,820,074)
Resources used in financing activities	(	23,557,848)
Investing activities		
Plant, property and equipment	(	13,846,483)
Inventories for operation of the telephone plant		406,826
Other	(	239,005)
Resources used in investing activities	(	13,678,662)
Net changes in operating assets and liabilities from discontinued operations	(	20,070,079)
Net decrease in cash and cash equivalents	(	6,068,000)
Cash and cash equivalents at beginning of year		10,765,752
Cash and cash equivalents at end of year	P.	4,697,752

The accompanying notes are an integral part of this financial statement.

Years ended December 31, 2008 and 2007
(In thousands of Mexican pesos, see Note 1 II.b)

1. Description of the Business and Significant Accounting Policies

I. Description of the Business

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

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

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

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

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

At an extraordinary meeting held on December 21, 2007, the stockholders of Teléfonos de México, S.A.B. de C.V. approved the split-up of the Company's entities with operations in Latin America, as well as its Yellow Pages business. As a result of the split-up, Telmex Internacional, S.A.B. de C.V. (Telmex Internacional) was incorporated and the outstanding shares of Controladora de Servicios de Telecomunicaciones, S.A. de C.V. (formerly the sub-holding company of TELMEX) were transferred to it (see Note 2 for additional information). The split-up was effective for accounting and tax purposes as of December 26, 2007, which was the date Telmex Internacional was legally incorporated and from which time the Company ceased to have control over the subsidiary mentioned above.

On March 17, 2009, TELMEX's Audit Committee and management authorized the issuance of the accompanying consolidated financial statements and these notes as of December 31, 2008 and 2007. These financial statements also must be approved by the Company's Board of Directors and stockholders at their next meetings.

At December 31, 2008 and 2007, TELMEX's equity interest in its principal subsidiaries and affiliated companies is as follows:

Company	Country	% equity interest at December 31	
		2008	2007
Subsidiaries:			
Integración de Servicios TMX, S.A. de C.V.	Mexico	**100%**	100%
Alquiladora de Casas, S.A. de C.V.	Mexico	**100%**	100%
Cía. de Teléfonos y Bienes Raíces, S.A. de C.V.	Mexico	**100%**	100%
Consorcio Red Uno, S.A. de C.V.	Mexico	**100%**	100%
Teléfonos del Noroeste, S.A. de C.V.	Mexico	**100%**	100%
Uninet, S.A. de C.V.	Mexico	**100%**	100%
Telmex USA, L.L.C.	U.S.A.	**100%**	100%
Affiliated companies:			
Grupo Telvista, S.A. de C.V.	Mexico	**45%**	45%
2Wire, Inc.	U.S.A.	**13%**	13%

II. Significant Accounting Policies and Practices

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

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

i) Consolidation and equity method

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

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

Equity investments in affiliated companies over which the Company exercises significant influence is accounted for using the equity method, which basically consists of recognizing TELMEX's proportional share in the net income or loss and the stockholders' equity of the investee (see Note 7).

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

ii) Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries and affiliates are either consolidated or accounted for based on the equity method, as the case may be, once the financial statements have been adjusted to conform to Mexican Financial Reporting Standards in the corresponding local functional currency, and are then translated into the reporting currency.

All the assets and liabilities of our foreign affiliate and subsidiary are translated into Mexican pesos at the prevailing exchange rate at year-end. Stockholders' equity accounts are translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. Revenues, costs and expenses are translated at the historical exchange rate. Translation differences are recorded in stockholders' equity in the line item "Effect of translation of foreign entities" under "Accumulated other comprehensive income items."

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

b) Recognition of the effects of inflation on financial information

Mexican FRS B-10, *Effects of Inflation*, which became effective on January 1, 2008, requires that once it has been confirmed that the economic environment in which the Company operates has changed from inflationary to non-inflationary as of the beginning of the period, the Company should cease to recognize the effects of inflation. The Company currently operates in a non-inflationary economic environment because the cumulative inflation rate over the past three years was 11.56%.

However, even though the economic environment in 2007 qualified as being non-inflationary, Mexican accounting Bulletin B-10, *Accounting Recognition of the Effects of Inflation on Financial Information*, was still effective. Accordingly, the financial statements for the year ended December 31, 2007 are presented in Mexican pesos with purchasing power at December 31, 2007, while the 2008 financial statements are expressed in nominal pesos, except for those non-monetary items that include inflation effects at December 31, 2007. Subsequent additions are recognized at historical cost.

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

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

The net monetary position gain shown in the 2007 income statement represents the effect of inflation on monetary assets and liabilities and is included as part of the caption "Financing cost."

The statement of changes in financial position for the year ended December 31, 2007 was prepared based on the financial statements expressed in constant Mexican pesos. The source and application of resources represent the differences between beginning and ending financial statement balances in constant Mexican pesos. Monetary and foreign exchange gains and losses are considered to be items requiring the use of resources.

c) Recognition of revenues

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

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

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

d) Use of estimates

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

e) Cash equivalents and marketable securities

Cash equivalents are represented principally by time deposits in financial institutions with maturities of less than 90 days at the date purchased.

Marketable securities were represented by equity securities and corporate bonds held for trading (see Note 3). These investments were recognized at market value, and changes in their market value are recognized in earnings.

f) Derivative financial instruments and hedging activities
The Company is exposed to interest rate and foreign currency risks, which are mitigated through a controlled risk management program that includes the use of derivative financial instruments. In recent years, the Company has contracted forwards to offset the short-term risk of exchange rate fluctuations. In 2008, since the market conditions were appropriate, cross-currency swaps have been used on a preferential basis, which has extended the term of the hedges. In order to reduce the risks due to fluctuations in interest rates, the Company utilizes interest-rate swaps, through which it either pays or receives the difference between the net amount of either paying or receiving a fixed interest rate and the cash flow from receiving or paying a floating interest rate, based on a notional amount denominated in Mexican pesos or U.S. dollars. Most of these derivative financial instruments qualify and have been designated as cash flow hedges.

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

The effectiveness of the Company's derivatives used for hedging purposes is evaluated prior to their designation as hedges, as well as during the hedging period, which is performed at least quarterly based on recognized statistical techniques. Whenever it is determined that a derivative is not highly effective as a hedge or that the derivative ceases to be a highly effective hedge, the Company ceases to apply hedge accounting for the derivative on a prospective basis. During the years ended December 31, 2008 and 2007, there were no gains or losses recognized due to changes in the accounting treatment for hedges.

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

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

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

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

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

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

Telephone plant and equipment are depreciated using the straight-line method based on the estimated useful lives of the related assets (see Note 5 b).

When there are indicators of impairment in the value of long-lived assets, the related loss is determined based on the recovery values of the related assets, which is defined as the greater of the asset's net selling price and its value in use, which is computed based on discounted cash flows. When the net carrying amount of an asset exceeds its recovery value, the difference is recognized as an impairment loss. For the years ended December 31, 2008 and 2007, there were no indicators of impairment in the value of the Company's long-lived assets.

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

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

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

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

Goodwill represents the difference between the acquisition cost and the fair value of the net assets acquired at the purchase date. Goodwill is not amortized; however, it is subject to annual impairment tests, or whenever there are indicators of impairment and is adjusted accordingly for any impairment loss that may be determined.

Impairment losses are recognized when the carrying amount of goodwill exceeds its recovery value. TELMEX determines the recovery value of goodwill based on its perpetuity value, which is computed by dividing the average excess value in use of the cash generating unit where the intangible is identified, by the average of the appropriate discount rates used in the projection of the present value of cash flows from the cash generating unit.

m) Accrued liabilities

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

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

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

n) Labor obligations

The cost of pension, seniority premium and termination benefits (severance) are recognized periodically during the years of service of personnel, based on actuarial computations made by independent actuaries using the projected unit-credit method (see Note 11).

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

As of January 1, 2008, the transition liability for labor obligations and prior service costs at December 31, 2007 are being amortized over a maximum period of 5 years. Prior to December 31, 2007, such amounts were being amortized over the estimated average remaining working lifetime of Company employees (12 years).

o) Employee profit sharing

Current-year and deferred employee profit sharing expense is presented as an ordinary expense in the income statement rather than as part of taxes on profits.

Beginning January 1, 2008, in connection with the adoption of Mexican FRS D-3, *Employee Benefits*, the Company recognizes deferred employee profit sharing using the asset and liability method. Under this method, deferred employee profit sharing is computed by applying the 10% profit sharing rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes. The Company periodically evaluates the possibility of recovering deferred employee profit sharing assets and, if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized (see Note 11).

Through December 31, 2007, deferred employee profit sharing was recognized only on temporary differences in the reconciliation of current year net income to taxable income for employee profit sharing purposes and only when there was no indication that the related liability or asset would not be realized in the future.

p) Exchange differences

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

See Note 12 for the Company's consolidated foreign currency position at the end of each year and the exchange rates used to translate foreign currency denominated balances.

q) Comprehensive income

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

r) Taxes on profits

Beginning January 1, 2008, deferred taxes on profits are recognized using the asset and liability method established in Mexican FRS D-4, *Taxes on Profits*. Under this method, deferred taxes on profits are recognized on all differences between the financial reporting and tax bases of assets and liabilities, applying the enacted income tax rate effective as of the balance sheet date, or the enacted rate at the balance sheet date that will be in effect when the deferred tax assets and liabilities are expected to be recovered or settled.

Through December 31, 2007, the method mentioned in the preceding paragraph was applied to all the temporary differences between the values of all assets and liabilities for financial and tax reporting purposes.

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

s) Statement of income presentation

Costs and expenses shown in the Company's income statement are presented in a manner that combines their nature and function in accordance with industry practices, since such classification allows for an appropriate evaluation of gross profit and operating margin.

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

An analysis of the "Other expenses, net" caption for the years ended December 31, 2008 and 2007 is as follows:

		2008		2007
Employee profit sharing, current	**P.**	**2,548,762**	P.	2,867,019
Other income	**(**	**1,869,170)**	(	2,822,658)
Other expenses, net	**P.**	**679,592**	P.	44,361

As a result of a ruling in favor of the Company related to the deductibility for income tax purposes of employee profit sharing paid in 2004 and 2005, the "Other income" line shown above for 2007 includes a non-recurring gain of P. 1,653,123.

t) Earnings per share

Earnings per share are determined by dividing majority net income from continuing operations, majority net income from discontinued operations and total majority net income by the weighted average number of shares outstanding during the year. In determining the weighed average number of shares outstanding during the year, shares repurchased by the Company have been excluded.

u) Concentration of risk

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

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

Financial instruments that may potentially subject the Company to concentrations of credit risk are cash and cash equivalents, trade accounts receivable, and debt and derivative financial instruments. The Company's policy is designed to avoid being overly exposed to any one financial institution; therefore, the Company's financial instruments are maintained with different financial institutions located in different geographical areas.

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

v) Segments

Segment information is presented based on information used by the Company in its decision-making processes (see Note 17).

w) Reclassifications

Certain captions shown in the 2007 financial statements as originally issued have been reclassified for uniformity of presentation with the 2008 financial statements. The effects of these reclassifications were recognized retrospectively in the 2007 balance sheet, in conformity with Mexican FRS B-1, *Accounting Changes and Error Corrections*.

An analysis is as follows:

		As originally reported 2007	Reclassifications	As reclassified 2007
Assets				
Current assets:				
Accounts receivable, net	(1)	P. 20,210,704	P. (916,793)	**P. 19,293,911**
Derivative financial instruments	(1)		1,313,955	**1,313,955**
Prepaid expenses and others	(2)	2,838,094	(40,674)	**2,797,420**
Licenses, net	(2)	903,961	87,500	**991,461**
Deferred charges, net	(2)	1,323,914	(46,826)	**1,277,088**
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	(1) (3)	16,952,481	1,005,525	**17,958,006**
Taxes payable	(3)	2,008,785	(608,363)	**1,400,422**
Deferred credits	(4)	1,321,489	(284,683)	**1,036,806**
Deferred credits	(4)		284,683	**284,683**

(1) Reclassification of derivative financial instruments
(2) Reclassification of licenses
(3) Reclassification of employee benefits
(4) Reclassification of long-term deferred credits

x) New accounting pronouncements

I) Following is a discussion of the new accounting pronouncements issued by the Mexican Financial Reporting Standards Research and Development Board (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.* or "CINIF") that became effective on January 1, 2008 and that affected TELMEX's accounting policies:

Mexican FRS B-2, *Statement of Cash Flows*

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

As required under the transitory paragraphs of Mexican FRS B-2, the statement of cash flows is presented for the year ended December 31, 2008, which was prepared using the indirect method; and a statement of changes in financial position is presented for the year ended December 31, 2007.

Mexican FRS B-10, *Effects of Inflation*

Mexican FRS B-10 superseded Mexican accounting Bulletin B-10, *Accounting Recognition for the Effects of Inflation on Financial Information*. Mexican FRS B-10 defines the two economic environments that will be the basis on which to determine whether or not entities must recognize the effects of inflation on their financial information: i) inflationary, when cumulative inflation in the preceding three fiscal years is equal to or greater than 26%; and ii) non-inflationary, when cumulative inflation for the preceding three fiscal years is less than the aforementioned 26%. This standard requires that the effects of inflation on financial information must be recognized only when entities operate in an inflationary environment. Mexican FRS B-10 abolishes the use of the specific-indexation method for the valuation of imported fixed assets and the replacement-cost method for the valuation of inventories. Consequently, the result from holding non-monetary assets included in the excess (deficit) from the re-expression of stockholders' equity must be identified with the assets giving rise to them. When it is not possible to identify such assets, the cumulative result from holding non-monetary assets, together with the initial effect from the adoption of Bulletin B-10, is reclassified to retained earnings.

The effect of the adoption of this standard on the Company's 2008 financial statements was to cease recognizing the effects of inflation on its financial information and to reclassify the total amount of the result from holding non-monetary assets, net of deferred taxes, and the accumulated monetary position loss to retained earnings.

Mexican FRS B-15, *Foreign Currency Translation*

Mexican FRS B-15 replaced the previous Mexican accounting Bulletin B-15, *Transactions in Foreign Currency and Translation of Financial Statements of Foreign Operations*, incorporating the concepts of recording currency, functional currency and reporting currency, and eliminates the concept of integrated foreign operations and foreign entity established in Mexican accounting Bulletin B-15. This standard also establishes new procedures for translating financial information of a company's foreign operations from its recording currency to its functional currency, and from the functional currency to the reporting currency.

The application of Mexican FRS B-15 is prospective; therefore, the financial statements from prior years have not been modified.

Mexican FRS D-3, *Employee Benefits*

Mexican FRS D-3, *Employee Benefits*, replaced Mexican accounting Bulleting D-3, *Labor Obligations*. The most significant changes contained in Mexican FRS D-3 are as follows: i) shorter periods for the amortization of unamortized items, with the option to credit or charge actuarial gains or losses directly to results of operations, as they are incurred; ii) elimination of the recognition of the additional minimum pension liability and the related recognition of intangible asset and comprehensive income item.

The scope of this standard includes the accounting treatment of employee profit sharing and requires the use of the asset and liability method in the computation of deferred taxes on profits to determine the deferred employee profit sharing asset or liability, as well as its effect on results of operations. This standard also establishes that the initial effect of recognizing deferred employee profit sharing is to be presented as an adjustment to retained earnings, unless it is related to other comprehensive income items not yet reclassified to income. Current-year and deferred employee profit sharing are recognized as an ordinary expense in the statement of income.

The application of this standard is prospective; therefore, the financial statements from prior years have not been modified. The effects of adopting Mexican FRS D-3 are disclosed in Note 11.

Mexican FRS D-4, *Taxes on Profits*

Mexican FRS D-4 replaced Mexican accounting Bulletin D-4, *Accounting for Income Tax, Asset Tax and Employee Profit Sharing*. The most significant changes included in this new standard with respect to Mexican accounting Bulletin D-4 are as follows: i) the concept of permanent differences is eliminated, since the use of the asset and liability method established in the new standard requires the recognition of deferred taxes on all differences in balance sheet accounts for financial and tax reporting purposes, regardless of whether they are permanent or temporary; ii) since current-year and deferred employee profit sharing is considered as an ordinary expense, it is excluded from this standard and is now addressed under Mexican FRS D-3; iii) asset tax is required to be recognized as a tax credit and, consequently, as a deferred income tax asset only in those cases in which there is certainty as to its future realization; and iv) the cumulative effect of adopting the prior Mexican accounting Bulletin D-4 must be reclassified to retained earnings, unless it is identified with items recognized in stockholders' equity that are included in Accumulated other comprehensive items not yet reclassified to income.

The Company has presented the cumulative effect of the initial adoption of Mexican accounting Bulletin D-4 in retained earnings. The application of Mexican FRS D-4 is prospective and so the financial statements of prior years presented for comparative purposes have not been modified.

II) Following is a discussion of the new accounting pronouncements that became effective on January 1, 2009, and that could affect TELMEX's accounting policies:

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

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

Unlike Mexican accounting Bulletin B-8, Mexican FRS B-8 does not require sub-holding companies to present consolidated financial statements under certain circumstances. In such cases, the investments in subsidiaries of these sub-holding companies are accounted for using the equity method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Discontinued Operations

On December 21, 2007, the stockholders of TELMEX approved the split-up of the Company's subsidiaries with operations in Latin American, as well as its Yellow Pages business. As a result of the split-up, Telmex Internacional, S.A.B. de C.V. (Telmex Internacional) was incorporated on December 26, 2007 and the outstanding shares of Controladora de Servicios de Telecomunicaciones, S.A. de C.V. (formerly the sub-holding company of TELMEX) were transferred to it. The split-up was effective for legal, accounting and tax purposes as of December 26, 2007, on which date Telmex Internacional was legally incorporated as a separate Mexican company and from which time the Company ceased to have control over the subsidiary mentioned above.

At the same stockholders' meeting held on December 21, 2007, it was determined that the entities would adjust their stockholders' equity to recognize the treasury resources including cash and cash equivalents used in the purchase of the shares of TELMEX, until the date on which the shares of Telmex Internacional commenced to trade separately.

The terms of the split-up established that neither TELMEX nor Telmex Internacional would hold shares of the other. At the time of the split-up, each TELMEX stockholder became an owner of the same number and class of shares in Telmex Internacional that they held in TELMEX. Consequently, both companies were then controlled by the same group of stockholders.

From the date on which Telmex Internacional was incorporated until the date the shares of TELMEX and Telmex Internacional began to trade separately, TELMEX continued acquiring both its own shares and shares in Telmex Internacional.

The shares acquired by TELMEX in the name of Telmex Internacional amounted to P.3,571,744, which in conformity with the resolutions adopted by the Board of Directors were transferred to Telmex Internacional as part of the split-up in cash and cash equivalents. Telmex Internacional then paid TELMEX for the value of the shares that TELMEX acquired in the name of Telmex Internacional, and the related amounts and treasury shares of both companies were adjusted accordingly.

The relationship between TELMEX and Telmex Internacional is limited to: i) ordinary commercial relationships, such as those related to international traffic termination services and the preparation and distribution of telephone directories; ii) agreements relating to the execution of the split-up; and iii) certain temporary agreements that will remain in force until Telmex Internacional has developed its own administrative structure.

In these financial statements, all income and expenses of Telmex Internacional are presented in the statement of income under the caption "Income from discontinued operations, net of income tax." The amounts included in the 2007 financial statements prior to the split-up and their corresponding notes were restructured to present only the assets and liabilities and revenues, costs and expenses of the continuing operations of TELMEX, excluding the amounts from the discontinued operations.

All the assets and liabilities of the split-up operations were transferred to Telmex Internacional at book value. The amount of stockholders' equity transferred to Telmex Internacional in the split-up represents the difference between the assets and liabilities that were transferred and was recognized as a reduction in the stockholders' equity of TELMEX at the date of the split-up.

A summary of the statement of income of the split-up operations for the twelve-month period ended December 31, 2007 is as follows:

Statement of Income	Year ended December 31, 2007
Operating revenues	P. 68,042,515
Operating costs and expenses	57,545,898
Operating income	10,496,617
Employee profit sharing	62,279
Other expenses, net	180,413
Comprehensive financing cost, net	297,876
Equity interest in net income of affiliates	(689,075)
Income before taxes on profits	10,645,124
Provision for income tax	3,478,812
Net income	P. 7,166,312
Distribution of net income:	
Majority interest	P. 6,595,675
Noncontrolling interest	570,637
	P. 7,166,312
Earnings per share	P. 0.34

3. Marketable Securities

An analysis of the Company's investments in marketable securities at December 31, 2007 is as follows:

	Cost	Market value
Shares	P. 621,253	P. 709,346
Corporate bonds	11,050	8,798
Total	P. 632,303	P. 718,144

At December 31, 2007, the net unrealized gain on marketable securities was P. 85,841.

The gain on the sale of shares in 2008 was P. 129,668 (P. 192,643 in 2007), which corresponds to the difference between the original cost of the shares and their market value at the time of the sale.

In 2006, the Company acquired 20.7 million common shares in Portugal Telecom, (Portugal Telecom) for P. 2,956,819 (U.S.$ 252.3 million) and sold 0.7 million shares for P. 99,684 (U.S.$ 8.7 million). In 2008 and 2007, the Company sold 5.0 million shares for P. 750,921 (U.S.$ 68.7 million) and 15.0 million shares for P. 2,236,333 (U.S.$ 204.8 million) respectively.

4. Accounts Receivable

An analysis of accounts receivable at December 31, 2008 and 2007 is as follows:

	2008	2007
Customers	**P. 18,335,111**	P. 17,851,875
Related parties (Note 14)	**975,362**	750,908
Net settlement receivables	**478,991**	406,297
Other	**3,403,969**	2,010,800
	23,193,433	21,019,880
Less:		
Allowance for doubtful accounts	**2,384,670**	1,725,969
Total	**P. 20,808,763**	P. 19,293,911

An analysis of activity in the allowance for doubtful accounts for the years ended December 31, 2008 and 2007 is as follows:

	2008	2007
Beginning balance at January 1	**P. 1,725,969**	P. 1,808,773
Increase charged to expenses	**1,551,988**	1,349,248
Charges to allowance	**(893,287)**	(1,373,875)
Monetary effect		(58,177)
Ending balance at December 31	**P. 2,384,670**	P. 1,725,969

5. Plant, Property and Equipment

a) An analysis of plant, property and equipment at December 31, 2008 and 2007 is as follows:

	2008	2007
Telephone plant and equipment	**P. 314,077,075**	P. 310,040,259
Land and buildings	**36,987,698**	36,845,783
Computer equipment and other assets	**47,564,938**	43,021,758
	398,629,711	389,907,800
Less:		
Accumulated depreciation	**286,221,263**	269,684,433
Net	**112,408,448**	120,223,367
Construction in progress and advances to equipment suppliers	**456,929**	425,192
Total	**P. 112,865,377**	P. 120,648,559

b) Depreciation of the telephone plant is calculated at annual rates ranging from 3.3% to 20.0%. The rest of the Company's assets are depreciated at rates ranging from 10% to 33.3%. Depreciation charged to operating costs and expenses was P. 17,815,050 in 2008 and P. 18,290,793 in 2007.

6. Licenses

An analysis of licenses cost and their amortization at December 31, 2008 and 2007 is as follows:

	2008	2007
Investment	**P. 1,763,296**	P. 1,627,992
Less:		
Accumulated amortization	**738,269**	636,531
Net	**P. 1,025,027**	P. 991,461

An analysis of the changes in 2008 and 2007 is as follows:

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

	Balance at January 1, 2007	Investment and amortization for the year	Effect of translation	Balance at December 31, 2007
Investment	P. 1,534,141	P. 93,766	P. 85	P. 1,627,992
Accumulated amortization	544,970	91,446	115	636,531
Net	P. 989,171	P. 2,320	P.(30)	P. 991,461

The amortization expense of other deferred charges was P. 48,316 and P. 43,046 for the years ended December 31 2008 and 2007, respectively.

7. Equity Investments

An analysis of equity investments in affiliates and other companies at December 31, 2008 and 2007, and a brief description of each, is as follows:

	2008	2007
Equity investments in:		
Grupo Telvista, S.A. de C.V.	**P. 726,342**	P. 502,419
2Wire, Inc.	**276,000**	542,568
Other	**491,791**	483,151
	P. 1,494,133	P. 1,528,138

Investments in affiliates

Grupo Telvista

TELMEX holds 45% of the capital stock of Grupo Telvista, S.A. de C.V. which, through its subsidiaries, provides telemarketing services in Mexico and the U.S.A. For the year ended December 31, 2008, TELMEX's equity interest in the net income of Grupo Telvista gave rise to a credit to results of operations of P. 154,795 (P. 57,474 in 2007) and a credit to stockholders' equity of P. 69,128.

2Wire

TELMEX holds 13% of the capital stock of 2Wire, Inc. (2Wire), which is a broadband platform service provider for homes and businesses located in the U.S.A. For the year ended December 31, 2008, TELMEX's equity interest in the net loss of 2Wire gave rise to a charge to results of operations of P. 266,568 (P. 78,726 in 2007).

Equity method

For the years ended December 31, 2008 and 2007, equity interest in other affiliates represented a credit to results of operations of P. 49,660 and P. 38,497, respectively, and credits to stockholders' equity of P. 37,718 and P. 1,703, respectively.

8. Long-term Debt

Long-term debt consists of the following:

	Weighted average interest rate at December 31		Maturities from	Balance at December 31	
	2008	2007	2009 through	2008	2007
Debt denominated in foreign currency:					
Senior notes	**5.1%**	4.9%	2015	**P. 23,670,364**	P. 29,882,050
Banks	**1.8%**	5.0%	2018	**61,013,202**	43,331,074
Other	**2.0%**	2.0%	2022	**271,881**	248,990
Total debt denominated in foreign currency				**84,955,447**	73,462,114
Debt denominated in Mexican pesos:					
Senior notes	**8.8%**	8.8%	2016	**4,500,000**	4,500,000
Domestic senior notes	**8.8%**	8.2%	2037	**14,800,000**	10,700,000
Banks	**8.6%**	7.6%	2010	**2,800,000**	2,800,000
Total debt denominated in Mexican pesos				**22,100,000**	18,000,000
Total debt				**107,055,447**	91,462,114
Less short-term debt and current portion of long-term debt				**22,883,092**	12,282,260
Long-term debt				**P. 84,172,355**	P. 79,179,854

The above-mentioned rates are subject to market variances and do not include the effect of the Company's agreement to reimburse certain lenders for Mexican withholding taxes. The Company's weighted average cost of debt at December 31, 2008 (including interest expense, interest rate swaps, fees and withholding taxes, and excluding exchange rate variances) was approximately 6.2% (6.9% in 2007).

The Company's short-term debt and the current portion of long-term debt at December 31, 2008 is P. 22,883,092 (P. 12,282,260 in 2007), which primarily includes P. 19,983,092 in bank loans (P. 1,392,557 in 2007) and domestic senior notes of P. 2,900,000 (senior notes of P. 10,866,200 in 2007).

Senior notes:

a) In November 2008, TELMEX repaid a bond of P. 13,151,147 (U.S.$ 1,000 million, nominal amount) that was issued in November 2003 and bore an annual interest of 4.5%, payable semiannually. For the year ended December 31, 2008, interest expense on the bond was P. 442,078 (P. 524,959 in 2007).

b) On January 27, 2005, TELMEX issued bonds in the amount of P. 16,348,066 (U.S.$ 1,300 million) divided into two issuances of P. 8,174,033 (U.S.$ 650 million) each. The first matures in 2010 and bears an annual interest of 4.75%, and the second matures in 2015 and bears an annual interest of 5.5%. Interest is payable semiannually. On February 22, 2005, the bond offerings were reopened and the first issuance was increased from P. 8,174,033 to P. 11,870,243 and the second was increased to P. 10,022,138 (U.S.$ 950 million and U.S.$ 800 million, respectively). For the year ended December 31, 2008, interest expense on these bonds was P. 1,025,848 (P. 1,046,639 in 2007).

c) On January 26, 2006, TELMEX issued a bond denominated in Mexican pesos abroad in the amount of P. 4,500,000 (nominal amount), which matures in 2016 and bears an annual interest of 8.75%. For the year ended December 31, 2008, interest expense on the bond was P. 409,655 (P. 414,940 in 2007).

Syndicated loan:

In 2004, the Company entered into a syndicated loan, which was restructured in 2005 and 2006 to improve the credit conditions and increase the total loan amount to P. 34,531,521 (U.S.$ 3,000 million), split into three tranches. The first tranche is for P. 14,963,659 (U.S.$ 1,300 million) and has a three-year maturity. The second tranche is for P. 11,510,507 (U.S.$ 1,000 million) and has a five-year maturity. The third tranche is for P. 8,057,355 (U.S.$ 700 million) with a seven-year maturity. The balance of these loans at December 31, 2008 is included under Bank loans (debt denominated in foreign currency).

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

Substantially all of the bank loans bear interest equal to the London Inter-Bank Offered Rate (LIBOR) plus a specified margin. For the year ended December 31, 2008, interest expense on these loans was P. 1,425,514 (P. 2,341,463 in 2007).

Domestic senior notes ("Certificados Bursátiles"):

On September 30, 2005, TELMEX obtained authorization from the National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores or "CNBV") for a program to issue long-term domestic senior notes in a total amount of P. 10,000,000 (nominal amount). At December 31, 2006, TELMEX had issued domestic senior notes in the amount of P. 518,800 (P. 500,000 nominal amount) under this program. At December 31 2007, the full amount of the domestic senior notes authorized under the program had been issued.

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

Some domestic senior notes bear fixed-rate interest, while others bear interest equal to a specified margin below the Mexican interbank equilibrium interest rate ("TIIE"). For the year ended December 31, 2008, interest expense on long-term domestic senior notes was P. 1,004,242 (P. 1,011,961 in 2007).

Debt prepayments:

In 2007, TELMEX prepaid a portion of its debt with various financial institutions in the amount of P. 2,596,637 (approximately U.S.$ 239.1 million) for which it paid P. 1,861 (U.S.$ 171 thousand) as a prepayment premium that is included in financing cost.

Restrictions:

The above-mentioned debt is subject to certain restrictions with respect to maintaining certain financial ratios, as well as restrictions on selling a significant portion of groups of assets, among others. At December 31, 2008, the Company was in compliance with all these requirements.

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

Foreign currency debt:

An analysis of the foreign currency denominated debt at December 31, 2008 is as follows:

	Foreign currency (in thousands)		Exchange rate at December 31, 2008 (in units)		Equivalent in Mexican pesos
U.S. dollar	6,034,576	**P.**	**13.5383**	P.	81,697,897
Japanese yen	19,891,200		**0.1501**		2,985,669
Euro	14,201		**19.1432**		271,881
Total				P.	84,955,447

Long-term debt maturities at December 31, 2008 are as follows:

Years		Amount
2010	P.	20,275,977
2011		15,268,317
2012		12,504,485
2013		7,722,535
2014 and thereafter		28,401,041
Total	P.	84,172,355

Hedges:

At December 31, 2008 and 2007, the financial instruments held by the Company are as follows:

	2008								2007					
Financial instrument	Notional (in millions)		Fair value			Notional (in millions)		Fair value		
Cross currency swaps	**U.S.$**	**5,451**	**P.**		**20,913**	U.S.$	3,420	P.		1,605
Forwards dollar-peso						U.S.$	3,160		(	216)
Interest-rate swaps in pesos	**P.**	**23,752**		**(**	**369)**	P.	23,752		(	82)
Interest-rate swaps in dollars	**U.S.$**	**100**		**(**	**30)**	U.S.$	1,150			123
Interest-rate swaps in dollars						U.S.$	1,050		(	72)
Cross currency coupon swaps	**U.S.$**	**350**		**(**	**95)**	U.S.$	300		(	260)
Total			**P.**		**20,419**			P.		1,098

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

Cross currency swaps

At December 31, 2008, the Company has cross currency swaps that hedge foreign currency denominated liabilities of P. 73,799,967 (U.S.$ 5,451 million) (P. 37,162,404 or U.S.$ 3,420 million in 2007). These cross currency swaps hedge the exchange rate and interest rate risks associated with bonds that mature in 2010 and 2015 in the total amount of U.S.$ 1,750 million and bank loans that mature from 2009 to 2018 in the total amount of U.S.$ 3,701 million. These agreements allow TELMEX to fix the parity of such debt at a weighted average exchange rate of P. 10.6889 per U.S. dollar, as well as establish a fixed interest rate of 7.52% for the bonds maturing in 2010 and 8.57% for the bonds maturing in 2015, and a fixed rate equal to the average 28-day TIIE, less a specified margin, for the bank loans.

For the year ended December 31, 2008, the Company recognized a credit of P. 15,989,651 (P. 93,087 in 2007) in financing cost for these cross currency swaps due to the changes in their fair value. Additionally, the Company recognized a net credit of P. 292,223 for the early termination of cross currency swaps.

Forwards dollar-peso

In 2008, the Company settled its short-term foreign currency forwards of P. 34,331,759 (U.S.$ 3,160 million). In response to current market conditions, the Company replaced the forwards with cross currency swaps, but maintained U.S.$ 625 million in foreign currency forwards through November 2008 to hedge the payment of the bond of U.S.$ 1,000 million at that date. Consequently, at December 31, 2008, the Company had no forward contracts outstanding. At December 31, 2007, the Company had forward contracts outstanding in the amount of P. 34,331,759 (U.S.$ 3,160 million). For the year ended December 31, 2008, the Company recognized a net charge of P. 1,690,380 (P. 578,926 in 2007) as part of financing cost due to changes in the fair value of these forwards.

Interest rate swaps

At December 31, 2008 and 2007, the Company had interest rate swaps for an aggregate notional amount of P. 23,752,125 to hedge the floating rate risk of its debt in Mexican pesos, fixing such rate at an average of 8.19%. Additionally, at December 31, 2008, the Company had interest rate swaps in U.S. dollars for an aggregate notional amount of P. 1,353,830 (U.S.$ 100 million), paying a fixed rate of 4.47% and receiving the three-month LIBOR rate, to cover U.S. dollar denominated debt with a floating interest rate that matures in October 2009. These interest rate swaps expire in August 2009 and changes in their fair value is recognized in financing cost.

At December 31, 2007, the Company had interest rate swaps in U.S. dollars for an aggregate notional amount of P. 12,496,130 (U.S.$ 1,150 million), paying a fixed rate and receiving the six-month LIBOR rate, as well as for an aggregate notional amount of P. 11,409,510 (U.S.$ 1,050 million), paying the six-month LIBOR rate and receiving a fixed rate. For both swaps, U.S.$ 1,050 million expired in 2008.

During 2008, the Company entered into currency coupon swaps that cover interest payments of P. 4,738,405 (U.S.$ 350 million) (P. 3,259,860, or U.S.$ 300 million, for 2007).

For the year ended December 31, 2008, the Company recognized a net expense for these swaps in financing cost of P. 2,282,554 (P. 673,874 in 2007). Additionally, for the year ended December 31, 2007, the Company recognized an expense of P. 267,047 due to the replacement of interest rate swap contracts denominated in Mexican pesos.

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

Several of the Company's agreements under which it has negotiated its derivative financial instruments require margin calls when the fair value of the derivatives exceeds the Company's existing credit lines of U.S.$ 290 million. At December 31, 2008, 63% of the Company's outstanding derivatives correspond to these types of agreements; however, no margin calls had been required at such date.

9. Accounts Payable and Accrued Liabilities

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

	December 31 2008		2007
Suppliers	**P. 4,471,128**	P.	5,549,068
Employee benefits	**3,012,967**		3,252,390
Related parties (Note 14)	**1,993,079**		2,822,351
Accrual for other contractual employee benefits	**1,310,570**		1,151,700
Vacation accrual	**1,287,747**		1,256,783
Interest payable	**1,187,525**		1,142,003
Sundry creditors	**277,838**		336,922
Derivative financial instruments (Note 8)			215,876
Other	**2,377,252**		2,230,913
	P. 15,918,106	P.	17,958,006

The activity in the main accruals for the years ended December 31, 2008 and 2007 is as follows:

Accrual for other contractual employee benefits:

	2008		2007
Beginning balance at January 1	**P. 1,151,700**	P.	1,131,334
Increase charged to expenses	**3,588,400**		3,434,180
Payments	**(3,429,530)**		(3,371,492)
Monetary effect			(42,322)
Ending balance at December 31	**P. 1,310,570**	P.	1,151,700

Vacation accrual:

	2008		2007
Beginning balance at January 1	**P. 1,256,783**	P.	1,234,716
Increase charged to expenses	**1,656,930**		2,690,063
Payments	**(1,625,966)**		(2,621,810)
Monetary effect			(46,186)
Ending balance at December 31	**P. 1,287,747**	P.	1,256,783

10. Deferred Credits

Deferred credits consist of the following at December 31, 2008 and 2007:

	2008		2007
Short-term:			
Advance billings	**P. 1,044,877**	P.	1,010,148
Advances from customers	**735,238**		26,658
	1,780,115		1,036,806
Long-term:			
Advance billings	**411,106**		284,683
Total	**P. 2,191,221**	P.	1,321,489

11. Labor Obligations

a) Pensions plans and seniority premiums

Substantially all of the Company's employees are covered under defined benefits pension plans and seniority premiums. 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.

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

Analysis of net periodic cost:

	2008	2007
Labor cost	**P. 4,333,194**	P. 3,672,437
Financial cost on defined benefit obligation	**14,344,072**	9,013,577
Projected return on plan assets	**(15,571,525)**	(9,585,397)
Amortization of past services	**1,344,971**	1,339,448
Amortization of variances in assumptions [(1)]	**201,412**	55,701
Net periodic cost	**P. 4,652,124**	P. 4,495,766

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

Analysis of the defined benefit obligation:

	2008	2007
Present value of labor obligations:		
Vested benefit obligation	**P. 93,175,620**	P. 75,647,910
Non-vested benefit obligation and effect of salary projection	**83,007,215**	83,836,131
Defined benefit obligation at end of year	**P. 176,182,835**	P. 159,484,041

Analysis of changes in the defined benefit obligation:

	2008	2007
Defined benefit obligation at beginning of year	**P. 159,484,041**	P. 135,374,665
Labor cost	**4,333,194**	3,672,437
Financial cost on defined benefit obligation	**14,344,072**	9,013,577
Actuarial loss	**6,662,976**	18,706,480
Benefits paid to employees	**(194,437)**	(159,139)
Payments from trust fund	**(8,447,011)**	(7,123,979)
Defined benefit obligation at end of year	**P. 176,182,835**	P. 159,484,041

Analysis of changes in plan assets:

	2008	2007
Established fund at beginning of year	**P. 156,979,097**	P. 143,585,989
Projected return on plan assets	**15,571,525**	9,585,397
Actuarial (loss) gain	**(22,949,640)**	10,866,755
Contributions to trust fund	**4,321,922**	64,935
Payments from trust fund	**(8,447,011)**	(7,123,979)
Established fund at end of year	**P. 145,475,893**	P. 156,979,097

Analysis of the net projected asset:

	2008	2007
Insufficiency of plan assets for defined benefit obligation	**P.(30,706,942)**	P.(2,504,944)
Unamortized actuarial loss	**45,870,415**	16,459,211
Transition liability	**156,395**	1,466,562
Past service cost and changes to plan	**165,534**	200,338
Net projected asset	**P. 15,485,402**	P. 15,621,167

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

In 2007, the net actuarial loss of P. 7,839,725 resulted from (i) the effect of a favorable actuarial difference of P. 10,866,755 due to the behavior of the plan assets invested in shares of companies listed on the Mexican Stock Exchange, and (ii) an actuarial loss of P. 18,706,480 attributable principally to changes made to the discount rates of the obligations based on long-term and low-risk financial instruments, changes in the experience with retired personnel, and differences between the inflation rate and the increase in salaries.

At December 31, 2008 and 2007, the rates used in the actuarial study are as follows:

	2008 Nominal rates %	2007 Real rates %
Discount of labor obligations:		
Long-term average	**9.20**	5.51
Increase in salaries:		
Long-term average	**4.50**	0.97

Based on the provisions of Mexican FRS D-3, as of January 1, 2008, the actual financial valuation rates were replaced with nominal rates. This change has no effect on the calculation of labor obligations, since these rates are consistent with the rates used in the actuarial valuation at December 31, 2007 (i.e., the long-term inflation rate, discount rate and salary increase rate are the same as those selected for 2007).

At December 31, 2008, 45.9% (53.8% in 2007) of plan assets were invested in fixed-yield securities and the remaining 54.1% (46.2% in 2007) in variable-yield securities.

b) Termination benefits

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

Analysis of net periodic cost:

	2008	2007
Labor cost	**P. 15,188**	P. 13,371
Financial cost on defined benefit obligation	**14,599**	9,623
Amortization of variances in assumptions [1]	**(87,699)**	(31,680)
Net periodic gain	**P.(57,912)**	P.(8,686)

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

The activity in the termination pay liability is as follows:

	2008	2007
Balance at beginning of year	**P. 208,406**	P. 240,274
Net periodic gain	**(57,912)**	(8,686)
Payments	**(2,860)**	(23,182)
Balance at end of year	**P. 147,634**	P. 208,406

Analysis of labor obligations for termination benefits:

	2008	2007
Unfunded defined benefit obligation	**P. 147,634**	P. 172,200
Unamortized actuarial gain		36,206
Net projected liability	**P. 147,634**	P. 208,406

c) Employee profit sharing

TELMEX is obligated to pay profit sharing to its employees in Mexico, in addition to their contractual compensation and benefits. For the years ended December 31, 2008 and 2007, employee profit sharing was based on 10% of the Company's taxable income, excluding certain inflation effects and the re-expression of depreciation expense.

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

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

		2008
Deferred employee profit sharing assets:		
Allowance for bad debts and slow-moving inventories	**P.**	**210,874**
Advance billings		**184,219**
Accrued liabilities		**372,944**
Exchange loss on debt		**409,247**
		1,177,284
Deferred employee profit sharing liabilities:		
Fixed assets		**(3,842,874)**
Inventories		**(9,139)**
Licenses		**(49,900)**
Labor obligations		**(1,538,794)**
Prepaid expenses		**(167,311)**
Derivative financial instruments		**(419,172)**
		(6,027,190)
Deferred employee profit sharing liability, net	**P.**	**(4,849,906)**

12. Foreign Currency Position and Transactions

a) At December 31, 2008 and 2007, the Company had the following foreign currency denominated assets and liabilities:

	Foreign currency in millions					
	2008		Exchange rate at December 31, 2008	2007		Exchange rate at December 31, 2007
Assets:						
U.S. dollar	**183**	**P.**	**13.54**	202	P.	10.87
Liabilities:						
U.S. dollar	**6,235**		**13.54**	7,028		10.87
Japanese yen	**19,891**		**0.15**			
Euro	**14**		**19.14**	16		15.88

At March 17, 2009, the exchange rates are as follows:

Foreign currency		Exchange rate
U.S. dollar	**P.**	**14.91**
Japanese yen		**0.15**
Euro		**19.10**

b) For the years ended December 31, 2008 and 2007, the Company had the following transactions denominated in foreign currencies. Currencies other than the U.S. dollar were translated to U.S. dollars using the average exchange rate for the year.

	Millions of dollars			
	2008		2007	
Revenues	**U.S.$**	**514**	U.S.$	492
Operating costs and expenses		**329**		335
Interest income		**4**		4
Interest expense		**297**		393

13. Commitments and Contingencies

Commitments

At December 31, 2008, TELMEX has non-cancelable commitments for the purchase of equipment of P. 4,520,320 (P. 5,170,915 in 2007), which include P. 798,792 (P. 1,561,647 in 2007) for non-cancelable commitments with related parties. Payments made under the related purchase agreements aggregated to P. 3,173,710 in 2008 (P. 4,169,109 in 2007).

Contingencies

a) In December 1995, a company that provides cellular telephone services filed a formal complaint against Teléfonos de México, S.A.B. de C.V. with the Federal Commission of Economic Competition (“COFECO”) for alleged monopolistic practices and unjust concentration.

In July 2001, COFECO ruled that TELMEX is responsible for monopolistic practices and unjust concentration. TELMEX filed a motion to reconsider against the ruling, but COFECO ruled that the motion was unfounded and the original ruling was therefore upheld.

The Company filed an action for annulment against COFECO’s ruling with the Federal Tax and Administrative Court, but the filing was declared to be unfounded. Accordingly, TELMEX filed for a petition for protection (*amparo*) against the ruling, which was resolved favorably for TELMEX. In compliance with the ruling, the court declared the resolution issued by COFECO to be null and void. As a result, COFECO filed an appeal, which the Company believes, based on the advice of external lawyers who are handling this matter, will be ruled inadmissible.

b) In November 2005, COFETEL issued the guidelines that TELMEX must abide by for making changes to local service areas. In March 2007, COFETEL ordered the consolidation of a package of 70 local service areas and, in September 2008, another package of 125 local service areas, each with its own schedule. Teléfonos de México, S.A.B. de C.V. has challenged COFETEL's orders through the corresponding legal procedures, which is currently still pending.

The Company believes, based on the advice of external lawyers who are handling this matter, that although the Company's arguments are well-founded, there is no guarantee that TELMEX will actually obtain favorable results.

c) Between November 2007 and February 2008, COFECO initiated seven inquests to evaluate if there are any operators that have substantial control in certain markets. The preliminary findings of four of these inquests have been issued, in which COFECO has determined that Teléfonos de México, S.A.B. de C.V. has substantial control in the following areas: (i) termination of public switched traffic; (ii) origination of public switched traffic; (iii) local transit services; and (iv) leasing of lines or circuits. TELMEX has expressed its disagreement with the proceedings, objected to the findings and has submitted evidence against the allegations. These proceedings are in the stage of hearing the evidence and allegations. The final report for each one of the proceedings is currently pending.

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

In the first four cases of the investigations mentioned above, COFECO could rule that Teléfonos de México, S.A.B. de C.V. could be deemed an economic agent that exercises substantial control over these relevant markets and then issue a statement of dominance. Consequently, through an additional proceeding with COFETEL, Teléfonos de México, S.A.B. de C.V. could be subject to specific obligations imposed by COFECO regarding rates, the quality of services and other information. In the last three cases, COFECO could determine that Teléfonos de México, S.A.B. de C.V. engages in monopolistic practices and eventually impose fines against the Company.

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

d) The Mexican Social Security Institute (IMSS) audited Teléfonos de México, S.A.B. de C.V. for the period from 1997 to 2001. As a result of the audit, IMSS determined that Teléfonos de México, S.A.B. de C.V. owed approximately P. 330,000 (historical amount) as of July 2, 2003 in past due obligations, fines, surcharges, re-expression for inflation and interest. Teléfonos de México, S.A.B. de C.V. filed an appeal to nullify these findings and related assessment with the Federal Court of Justice for Tax and Administrative Matters. In accordance with Mexican law, by means of a trust fund established with a banking institution, the Company guaranteed payment of the tax assessment in the amount of P. 512,546 through July 19, 2009.

The Company believes, based on the advice of external lawyers who are handling this matter, that although the reasons for the Company's appeal are well-founded, there is no guarantee that the final resolution will be favorable.

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

Subsequent event

f) On February 10, 2009, COFETEL published the Fundamental Technical Interconnection and Interoperability Plan in the *Official Gazette*. Such plan could have a negative impact on Teléfonos de México, S.A.B. de C.V. and on the telecommunications sector in general, since it establishes certain obligations that are not part of interconnection services. Teléfonos de México, S.A.B. de C.V. is evaluating what effect such plan could have on its operations to determine the best legal means for challenging the plan.

14. Related Parties

a) An analysis of balances due from/to related parties at December 31, 2008 and 2007 is provided below. All the companies are considered affiliates of TELMEX since the Company's primary stockholders are also either direct or indirect stockholders of the related parties:

		December 31 2008		2007
Accounts receivable:				
Sercotel, S.A. de C.V.	**P.**	**262,732**	P.	212,647
AT&T Inc.		**218,718**		143,744
Alestra, S. de R.L. de C.V.		**114,625**		88,496
Banco Inbursa, S.A.		**89,267**		143,343
Sanborn Hermanos, S.A.		**62,837**		27,822
Controladora de Servicios de Telecomunicaciones, S. A. de C.V.		**29,628**		
Anuncios en Directorios, S.A. de C.V.		**28,477**		34,165
Sears Roebuck de México, S.A. de C.V.		**27,893**		4,579
Sección Amarilla USA, L.L.C.		**20,768**		
Other		**120,417**		96,112
	P.	**975,362**	P.	750,908
Accounts payable:				
Radiomóvil Dipsa, S.A. de C.V.	**P.**	**1,000,739**	P.	1,234,776
Carso Infraestructura y Construcción, S.A.B. de C.V.		**208,559**		451,030
2Wire, Inc.		**190,266**		337,379
Inversora Bursátil, S.A.		**121,383**		88,612
Microm, S.A. de C.V.		**119,631**		76,509
PC Industrial, S. A. de C.V.		**69,950**		55,649
Sigmatao Factory, S.A. de C.V.		**27,002**		82,661
Sinergía Soluciones Integrales de Energía, S.A. de C.V.		**17,283**		57,398
Controladora de Servicios de Telecomunicaciones, S.A. de C.V.				119,823
Other		**238,266**		318,514
	P.	**1,993,079**	P.	2,822,351

b) For the years ended December 31, 2008 and 2007, the Company had the following transactions with related parties:

		2008		2007
Investment and expenses:				
Construction services, purchase of materials, inventories and fixed assets (1)	**P.**	**3,958,756**	P.	3,928,422
Insurance premiums, fees for administrative and operating services, security trading and others (2)		**3,389,572**		5,106,398
Calling Party Pays interconnection fees and other telecommunication services (3)		**9,959,288**		12,976,239
Cost of termination of international calls (6)		**685,100**		612,594
Revenues:				
Sale of materials and other services (4)		**2,091,927**		1,540,633
Sale of long distance and other telecommunications services (5)		**6,211,439**		5,844,988
Revenues from termination of international calls (6)		**2,428,631**		1,920,392

(1) Includes P. 2,190,819 in 2008 (P. 2,824,739 in 2007) for network construction services and purchase of construction materials from subsidiaries of Grupo Carso, S.A.B. de C.V. (Carso Group). Also includes P. 1,652,662 in 2008 (P. 1,047,685 in 2007) for the purchase of equipment for broadband platform services from 2Wire.

(2) Includes P. 563,331 in 2008 (P. 1,216,067 in 2007) for network maintenance services from subsidiaries of Carso Group; P. 632,970 in 2008 (P. 847,605 in 2007) for software services received from subsidiaries of Impulsora del Desarrollo y el Empleo en América Latina, S.A.B. de C.V.; P. 805,703 in 2008 (P. 1,450,330 in 2007) for the production and distribution of white pages telephone directories and advertising in the yellow pages with subsidiaries of Telmex Internacional; P. 392,170 in 2008 (P. 431,074 in 2007) for insurance premiums with Seguros Inbursa, S.A., which, in turn, places most of this amount in reinsurance with third parties; P. 222,963 in 2008 (P. 188,425 in 2007) for telemarketing services with Grupo Telvista; P. 71,668 in 2008 (P. 93,162 in 2007) for security trading fees with Inversora Bursátil, S.A.; and P. 243,999 in 2008 (P. 571,544 in 2007) for fees paid for administrative and operating services to AT&T and Carso Global Telecom. AT&T Inc. is a noncontrolling stockholder of the Company.

(3) Includes P. 9,959,018 in 2008 (P. 12,810,940 in 2007) for interconnection expenses under the "Calling Party Pays" program for outgoing calls from fixed line telephones to cellular telephones paid to subsidiaries of América Móvil, S.A.B. de C.V. (América Móvil).

(4) Includes P. 84,654 in 2008 (P. 253,095 in 2007) for the sale of materials and other services rendered to subsidiaries of Carso Group; P. 206,634 in 2008 (P. 335,480 in 2007) for billing and collection services rendered to subsidiaries of Grupo Financiero Inbursa, S.A.B. de C.V.; P. 753,600 in 2008 for the use and updating of the telephone directory customer database, as well as P. 411,956 in 2008 (P. 363,529 in 2007) for billing, collection, and administrative services rendered to subsidiaries of Telmex Internacional; and P. 451,686 (P. 439,660 in 2007) for property leases and other services rendered to subsidiaries of América Móvil.

(5) Includes P. 5,072,839 in 2008 (P. 4,662,247 in 2007) for revenues invoiced to a subsidiary of América Móvil for the rental of private circuits and long distance services.

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

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

	2008	2007
Short- and long-term direct benefits	**P. 41,636**	P. 46,375
Post-retirement benefits	**3,060**	2,536
Total	**P. 44,696**	P. 48,911

15. Stockholders' Equity

a) As described in Note 2, at an extraordinary stockholders' meeting held on December 21, 2007, the stockholders of TELMEX approved the split-up of the subsidiaries with operations in Latin America, as well as the Company's Yellow Pages business. After the split-up took effect and TELMEX made the contribution to Telmex Internacional, the capital stock of TELMEX was represented by the same number of shares of the three series, with no change in the number of shares that represent its capital.

b) At December 31, 2008, capital stock is represented by 18,555 million common shares issued and outstanding with no par value, representing the Company's fixed capital (19,360 million in 2007). An analysis is as follows:

	2008	2007
8,115 million Series "AA" shares	**P. 5,569,721**	P. 5,569,721
407 million Series "A" shares (430 in 2007)	**327,734**	345,936
10,033 million Series "L" shares with limited voting rights (10,815 in 2007)	**3,241,177**	3,486,904
Total	**P. 9,138,632**	P. 9,402,561

At December 31, 2008 and 2007, the historical value of the Company's capital stock was P. 80,113 and P. 83,590, respectively.

An analysis of the changes in 2008 and 2007 is as follows:

	Capital stock [1]					
	Series "AA"		Series "A"		Series "L"	
	Number	Amount	Number	Amount	Number	Amount
Balance at January 1, 2007	8,115	P. 16,125,189	446	P. 1,038,553	11,642	P. 10,847,592
Cash purchase of Company's own shares			(3)	(6,423)	(840)	(773,787)
Conversion of shares			(13)	(30,395)	13	30,395
Reduction due to the split-up of Telmex Internacional		(10,555,468)		(655,799)		(6,617,296)
Balance at December 31, 2007	8,115	5,569,721	430	345,936	10,815	3,486,904
Cash purchase of Company's own shares			**(9)**	**(6,934)**	**(796)**	**(256,995)**
Conversion of shares			**(14)**	**(11,268)**	**14**	**11,268**
Balance at December 31, 2008	**8,115**	**P. 5,569,721**	**407**	**P. 327,734**	**10,033**	**P. 3,241,177**

[1] Number of shares in millions

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

Voting rights

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

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

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

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

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

At a regular stockholders' meeting held on April 27, 2007, the stockholders approved an increase of P. 15,000,000 (historical) to the total authorized nominal amount for the repurchase of the Company's own shares, bringing the total maximum amount to be used for this purpose to P. 23,046,597 (historical).

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

In 2007, the Company acquired 839.9 million Series "L" shares for P. 15,729,975 (historical cost of P. 15,423,889) and 2.8 million Series "A" shares for P. 52,864 (historical cost of P. 51,902).

At December 31, 2008 and 2007, the Company had 13,677 (13,637 Series "L" and 40 Series "A") and 12,872 (12,840 Series "L" and 32 Series "A") million treasury shares, respectively.

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.

e) At December 31, 2008, Accumulated other comprehensive income items include P. 2,615,521 for the effect of the market valuation of swaps designated as cash flow hedges, net of deferred taxes, and P. 201,104 for the effect of translation of foreign entities. At December 31, 2007, Accumulated other comprehensive income items include (P. 79,419,845) for the deficit from the re-expression of stockholders' equity, P. 535,119 for the effect of the market valuation of swaps designated as cash flow hedges, net of deferred taxes, and P. 61,875 for the effect of translation of foreign entities.

f) Subsequent event

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

16. Income Tax, Asset Tax and Flat-Rate Business Tax

a) Beginning January 1, 2007, asset tax was payable at 1.25% of the average value of most assets. Through December 31, 2006, asset tax was payable at 1.80% of the average value of most assets net of certain liabilities. Asset tax for the year ended December 31, 2007 was P. 1,838,181. Such amount was remitted through the crediting of income tax paid in such year. As of January 1, 2008, the Asset Tax Law was abolished.

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

Current-year FRBT is computed by applying the 17.5% rate (16.5% for 2008) to an income base determined on the basis of cash flows, net of authorized credits.

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

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

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

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

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

	2008	2007
Income tax, current	**P. 10,606,003**	P. 10,411,963
Deferred tax (net of related monetary position gain of P. 744,406 in 2007)	**(1,014,344)**	1,206,747
Total	**P. 9,591,659**	P. 11,618,710

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

	2008 %	2007 %
Statutory income tax rate	**28.0**	28.0
Depreciation	**(3.9)**	
Social security benefits	**1.1**	1.1
Employee profit sharing		0.1
Monetary gain	**6.0**	0.3
Other	**1.0**	(0.8)
Effective income tax rate	**32.2**	28.7

At December 31, 2008 and 2007, the Company recognized temporary items that gave rise to deferred income taxes are as follows:

	2008	2007
Deferred tax assets:		
Allowance for bad debts and slow-moving inventories	**P. 599,582**	P. 495,246
Tax loss carryforwards	**75,394**	6,851
Advance billings	**529,417**	416,980
Accrued liabilities	**1,084,274**	963,942
Employee profit sharing	**2,071,573**	786,677
	4,360,240	2,669,696
Deferred tax liabilities:		
Fixed assets	**(15,386,755)**	(15,777,011)
Inventories	**(25,589)**	(97,529)
Licenses	**(132,936)**	(113,219)
Labor obligations	**(4,304,012)**	(4,325,241)
Prepaid expenses	**(189,628)**	(302,572)
Derivative financial instruments	**(1,129,711)**	(371,166)
	(21,168,631)	(20,986,738)
Deferred tax liability, net	**P.(16,808,391)**	P.(18,317,042)

d) At December 31, 2008, the balance of the re-expressed contributed capital account (CUCA) and the net taxed profits account (CUFIN) was P. 11,068,732 and P. 17,561,194, respectively. These amounts correspond to Teléfonos de México, S.A.B. de C.V. on an individual basis.

17. Segments

Subsequent to the split-up described in Note 2, TELMEX primarily operates in two segments: local and long distance telephone service. The local telephone service segment corresponds principally to local fixed-line wired service. The long distance service segment includes domestic and international service. Other segments include long distance calls made from public and rural telephones, corporate networks, Internet and other services. Additional information related to the Company's operations is provided in Note 1. The following summary shows the most important segment information, which has been prepared on a consistent basis:

	(Amounts in millions of Mexican pesos)				
	Local service	Long distance	Other segments	Adjustments	Consolidated total
December 31, 2008					
Revenues:					
External revenues	**P. 70,801**	**P. 27,454**	**P. 25,850**		**P. 124,105**
Intersegment revenues	**10,600**		**993**	**P. (11,593)**	
Depreciation and amortization	**11,260**	**2,211**	**4,494**		**17,965**
Operating income	**19,552**	**6,169**	**14,022**		**39,743**
Segment assets	**284,502**	**53,932**	**63,321**		**401,755**
December 31, 2007					
Revenues:					
External revenues	P. 76,151	P. 31,032	P. 23,585		P. 130,768
Intersegment revenues	10,438		1,096	P.(11,534)	
Depreciation and amortization	11,901	2,331	4,193		18,425
Operating income	23,233	8,695	11,956		43,884
Segment assets	283,463	53,766	54,852		392,081

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

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

Proposal to the shareholders' meeting *

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

With regards to the dividend payments for the 2008 fiscal year, and according to clause forty-five of Teléfonos de México, S.A.B. de C.V's bylaws, the following amounts are available to the shareholders:

Retained earnings of prior years (without including legal reserve)	P.	5,317,207
Plus: Net income for 2008		20,176,936
Unappropriated retained earnings, according to the balance sheet at December 31, 2008		25,494,143
Less: Separation for the fourth dividend payment in cash to shareholders beginning on March 26, 2009 of P. 0.10 per share presenting coupon 49, according to the Ordinary Shareholders' Meeting held on April 25, 2008.		1,848,570
Less: Earnings applied for the purchase of Company's own shares in the period from January 1 through March 31, 2009, according to the maximum amount of the Company's resources of P. 23,046,597 (1) and P. 10,340,868 (2) approved by the Ordinary Shareholders' Meetings held on April 27, 2007 and March 3, 2009, respectively.		871,917
Total	P.	22,773,656

It is proposed that the balance of P. 22,773,656 made available to shareholders be allocated as follows:

There will be no increase to the legal reserve, due to the fact that complies with the requirements of the Article 20 of the Mexican Corporation Act.		
To pay a cash dividend of P. 0.46 per outstanding share, coming from the Net Tax profit Account, in four equal payments of P. 0.1150 each.	P.	8,500,176 (3)
To the retained earnings account		14,273,480 (4)
Total	P.	22,773,656

The corresponding cash dividend payments proposed to the Shareholders' Meeting will be paid starting June 18, 2009, September 18, 2009, December 17, 2009 and March 26, 2010, by presenting coupons 50,51,52 and 53, respectively, of the outstanding shares in effect at the time the corresponding payments are made. While the amounts of the dividend are not distributed to shareholders, they will continue in the Company's retained earnings account.

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

(1) This figure was reduced by P. 22,705,729 for purchases of Company's own shares in the period from April 27, 2007 through March 2, 2009. The remaining balance was included as part of the new authorization as of March 3, 2009.

(2) This figure was reduced by P. 296,375 for purchases of Company's own shares in the period from March 3 through March 31, 2009.

(3) Estimated amount considering a total of 18,478,644,060 outstanding shares at March 31, 2009.

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

Significant results of accounting separation
of local and long distance telephone services in Mexico

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

Based on Condition 7-5 of the Amendment to the Concession Title, the commitment to present the accounting separation of the local and long distance services for 2008 and 2007 is presented below..

	Local service		Long distance service	
Years ended December 31,	2008	2007	2008	2007
Operating revenues:				
Access, rents and measured service	**P. 48,363**	P. 53,314		
Domestic long distance service			**P. 18,316**	P. 20,461
International long distance service			**9,138**	10,571
LADA interconnection	**4,145**	3,964		
Interconnection with operators	**1,560**	1,636		
Interconnection with cellular companies	**12,397**	14,560		
Other	**14,936**	13,115		
Total	**81,401**	86,589	**27,454**	31,032
Operating costs and expenses:				
Costs of sales and services	**23,444**	23,053	**5,391**	5,353
Commercial, administrative and general	**18,605**	18,059	**5,783**	5,984
Depreciation and amortization	**11,260**	11,901	**2,211**	2,331
Interconnection	**8,540**	10,343		
Interconnection to the local network			**7,900**	8,669
Total	**61,849**	63,356	**21,285**	22,337
Operating income	**P. 19,552**	P. 23,233	**P. 6,169**	P. 8,695

At December 31 of each year				
Assets by segment	**P. 284,502**	P. 283,463	**P. 53,932**	P. 53,766
Personnel	**35,505**	37,683	**4,801**	5,016

Notes:

This information varies to the one presented in the consolidated financial statements of this annual report due to:

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

Board of Directors

Board Members Appointed by Common Shares

Jaime Chico Pardo (r) (1)
Chairman of the Board
Teléfonos de México, S.A.B. de C.V.
Born in Mexico City, Mexico.
Experience: telecommunications and automotive.

Carlos Slim Domit (r, p) (1)
Co-Chairman of the Board
Teléfonos de México, S.A.B. de C.V.
Born in Mexico City, Mexico.
Experience: telecommunications, commercial and construction.

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

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

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

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

Ángel Losada Moreno (i)
Chaiman of the Board and Executive
Grupo Gigante, S.A.B. de C.V.
Born in Mexico City, Mexico.
Experience: commercial.

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

Marco Antonio Slim Domit (r, p) (1)
Chairman of the Board and Chief Executive Officer
Grupo Financiero Inbursa, S.A.B. de C.V.
Born in Mexico City, Mexico.
Experience: finance and telecommunications.

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

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

*The Shareholders' Meeting held on March 3, 2009, ratified Michael J. Viola as a board member due to the resignation of John Stephens.

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

Board Members Appointed by Series "L"

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

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

Secretary

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

Common Share Alternates

Jaime Alverde Goya (i) (3)
Chairman of the Board
Hoteles Presidente Intercontinental, S.A. de C.V.
Born in Mexico City, Mexico.
Experience: tourism and commercial.

Antonio Cosío Pando (i) (3)
Chief Executive Officer
Compañía Industrial Tepeji del Río, S.A. de C.V.
Born in Mexico City, Mexico.
Experience: textiles.

Jorge A. Chapa Salazar (r)
Board Member
Grupo Chapa, S.A. de C.V.
Born in Monterrey, N.L., Mexico.
Experience: commercial.

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

José Humberto Gutiérrez Olvera Zubizarreta (r) (1)
Chief Executive Officer
Grupo Carso, S.A.B. de C.V.
Born in Mexico City, Mexico.
Experience: construction, telecommunications and electronics.

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

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

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

Series "L" Alternates

Jorge C. Esteve Recolons (i)
Chief Executive Officer
HSBC Previsión América Latina
Born in Mexico City, Mexico.
Experience: finance.

Assistant Secretary

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

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

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

Advisory Board

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

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

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

José Joaquín Arizpe y de la Maza (Saltillo)
Vice Chairman of the Board
Embotelladora El Carmen, S.A. de C.V.
Beverages

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

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

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

José Berrondo Mir (Querétaro)
Vice President of Technology and Projects
Mabe México, S. de R.L. de C.V.
Home Appliances

Marcelo Canales Clariond
(San Pedro Garza García)
Co-Chairman of the Board
Profesionales en Tesorería, S.A. de C.V.
Finance

Luis Germán Cárcoba García (Guadalajara)
Businessman

Raúl E. Cásares G. Cantón (Mérida)
Chairman of the Board and Chief Executive Officer
Productos Prácticos de Madera, S.A. de C.V.
Industrial Wood

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

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

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

Antonio Chedraui Obeso (Xalapa)
Chairman of the Board
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Shares Traded in Mexico
"A": Bolsa Mexicana de Valores Symbol: TELMEX A
"L": Bolsa Mexicana de Valores Symbol: TELMEX L

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

ADS: NASDAQ
Symbol: TFONY
One ADS represents 20 "A" shares

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Ticker Symbols:

TELMEX :	BMV
TMX :	NYSE
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