RICKS CABARET INTERNATIONAL INC
Form 4
July 03, 2014

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
LANGAN ERIC SCOTT
(Last) (First) (Middle)
10959 CUTTEN ROAD
(Street)
HOUSTON, TX US 77066
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
RICKS CABARET INTERNATIONAL INC [RICK]

3. Date of Earliest Transaction (Month/Day/Year)
07/01/2014

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
President and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	07/01/2014		A		58,000	A	(1)	699,977	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LANGAN ERIC SCOTT 10959 CUTTEN ROAD HOUSTON, TX US 77066	X	X	President and CEO	

Signatures

/s/ Eric S. Langan	07/03/2014
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The issuer granted a bonus award to Mr. Langan of 58,000 restricted shares of unvested common stock. All 58,000 shares will vest on the second anniversary of the grant date if he is still employed by the issuer at that time.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nbsp;

Total assets

Ps.333,966,191 Ps.131,409,602 Ps.550,895,693 Ps.(580,816,016) Ps.435,455,470

Liabilities:

Short-term debt

Ps. 19,663,882 Ps. 7,067,473 Ps. 26,731,355

Current liabilities

56,657,539 95,720,683 158,218,380 (189,531,851) 121,064,751

Long-term debt

103,428,129 13,326,964 116,755,093

Other non-current liabilities

9,948,574 394,362 16,223,855 (587,069) 25,979,722

Total liabilities

189,698,124 96,115,045 194,836,672 (190,118,920) 290,530,921

Total majority shareholders equity

144,268,067 35,294,557 355,062,516 (390,357,073) 144,268,067

Non-controlling interest

996,505 (340,023) 656,482

Total shareholder s equity under Mexican FRS

144,268,067 35,294,557 356,059,021 (390,697,096) 144,924,549

Total liabilities and shareholders equity

Ps.333,966,191 Ps.131,409,602 Ps.550,895,693 Ps.(580,816,016) Ps.435,455,470

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	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	As of December 31, 2009				
Assets:					
Cash and cash equivalents	Ps. 2,115,451	Ps. 405,289	Ps. 24,925,140		Ps. 27,445,880
Accounts receivable, net	11,003,044	8,999,724	35,924,577		55,927,345
Related parties	862,444	43,082,824	167,163,838	Ps. (210,641,010)	468,096
Inventories, net		8,470,032	15,189,340	(2,123,354)	21,536,018
Other current assets		365,406	2,355,577		2,720,983
Plant, property and equipment, net		17,023,028	210,025,981		227,049,009
Investments in affiliates and others	374,613,243	36,066,547	42,938,417	(452,643,514)	974,693
Intangible assets and other non-current assets, net	261,055	5,268,087	111,356,795		116,885,937
Total assets	Ps. 388,855,237	Ps. 119,680,937	Ps. 609,879,665	Ps. (665,407,878)	Ps. 453,007,961
Liabilities:					
Short-term debt	Ps. 5,114,155		Ps. 4,053,786		Ps. 9,167,941
Current liabilities	115,500,051	70,956,173	155,273,526	(210,641,010)	131,088,740
Long-term debt	88,793,946		12,947,253		101,741,199
Other non-current liabilities	2,273,961	6,761,040	24,069,517		33,104,518
Total liabilities	211,682,113	77,717,213	196,344,082	(210,641,010)	275,102,398
Total majority shareholders equity	177,173,124	41,963,724	412,196,614	(454,160,338)	177,173,124
Non-controlling interest			1,338,969	(606,530)	732,439
Total shareholder s equity under Mexican FRS	177,173,124	41,963,724	413,535,583	(454,766,868)	177,905,563
Total liabilities and shareholders equity	Ps. 388,855,237	Ps. 119,680,937	Ps. 609,879,665	Ps. (665,407,878)	Ps. 453,007,961

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Condensed consolidating statements of income:

	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
For the year ended December 31, 2007					
Total revenues		Ps. 99,606,447	Ps. 287,132,153	Ps. (75,158,838)	Ps. 311,579,762
Total cost and operating expenses	Ps. 88,923	98,230,816	203,540,502	(75,474,817)	226,385,424
Operating (loss) income	(88,923)	1,375,631	83,591,651	315,979	85,194,338
Interest (expense) income, net	(6,028,566)	(1,190,976)	2,482,840		(4,736,702)
Exchange (loss) gain, net	(276,885)	287,693	2,452,634		2,463,442
Monetary effect, net	3,733,528	908,022	396,856		5,038,406
Other financing cost, net	(328,013)		(2,816,154)	(8,464)	(3,152,631)
Other income (expense), net	16,512	(399,206)	(3,330,180)		(3,712,874)
Taxes on profits	(2,131,098)	(690,032)	(19,633,137)		(22,454,267)
Equity interest in net (loss) income of affiliates	63,690,955	12,343,520	12,692,273	(88,669,127)	57,621
Net income (loss)	Ps. 58,587,510	Ps. 12,634,652	75,836,783	(88,361,612)	58,697,333
Distribution of the net income:					
Majority interest	Ps. 58,587,510	Ps. 12,634,652	Ps. 75,737,296	Ps. (88,371,947)	Ps. 58,587,511
Non-controlling interest			99,487	10,335	109,822
Net income	Ps. 58,587,510	Ps. 12,634,652	Ps. 75,836,783	Ps. (88,361,612)	Ps. 58,697,333
For the year ended December 31, 2008					
Total revenues		Ps. 114,269,248	Ps. 312,037,256	Ps. (80,651,596)	Ps. 345,654,908
Total cost and operating expenses	Ps. 241,634	99,473,200	230,926,164	(80,532,237)	250,108,761
Operating income (loss)	(241,634)	14,796,048	81,111,092	(119,359)	95,546,147
Interest income (expense), net	(7,983,819)	(1,529,055)	2,976,702		(6,536,172)
Exchange (loss) gain, net	(20,675,528)	(5,231,987)	12,221,092		(13,686,423)
Other financing cost, net	1,327,253		5,030,469		6,357,722
Other income (expense), net	1,662,073	(348,726)	(1,979,541)	(1,660,765)	(2,326,959)
Taxes on profits	(5,452,360)	(2,050,761)	(12,385,216)		(19,888,337)
Equity interest in net (loss) income of affiliates	90,849,517	4,598,414	10,343,350	(105,681,865)	109,416
Net income (loss)	Ps. 59,485,502	Ps. 10,233,933	Ps. 97,317,948	Ps. (107,461,989)	Ps. 59,575,394
Distribution of the net income:					
Majority interest	Ps. 59,485,502	Ps. 10,233,933	Ps. 97,224,779	Ps. (107,458,712)	Ps. 59,485,502
Non-controlling interest			93,169	(3,277)	89,892
Net income	Ps. 59,485,502	Ps. 10,233,933	Ps. 97,317,948	Ps. (107,461,989)	Ps. 59,575,394

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Condensed consolidating statements of income:

For the year ended December 31, 2009

	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
Total revenues		Ps. 110,286,765	Ps. 330,532,137	Ps. (46,107,871)	Ps. 394,711,031
Total cost and operating expenses	Ps. 182,117	101,052,799	238,781,871	(49,514,711)	290,502,076
Operating income (loss)	(182,117)	9,233,966	91,750,266	3,406,840	104,208,955
Interest income (expense), net	(9,729,782)	(2,259,976)	6,328,870	(57,497)	(5,718,385)
Exchange gain (loss), net	2,829,007	(422,441)	2,150,005		4,556,571
Other financing (cost) income, net	(4,731,976)	(282,351)	3,194,217		(1,820,110)
Other income (expense), net	(1,381,572)	2,488,203	(1,458,542)	(1,813,673)	(2,165,584)
Taxes on profits	653,814	(2,332,211)	(20,580,911)		(22,259,308)
Equity interest in net income (loss) of affiliates	89,456,080	3,284,783	9,905,686	(102,450,835)	195,714
Net income (loss)	Ps. 76,913,454	Ps. 9,709,973	Ps. 91,289,591	Ps. (100,915,165)	Ps. 76,997,853
Distribution of the net income:					
Majority interest	Ps. 76,913,454	Ps. 9,709,973	Ps. 91,192,317	Ps. (100,902,290)	Ps. 79,913,454
Non-controlling interest			97,274	(12,875)	84,399
Net income	Ps. 76,913,454	Ps. 9,709,973	Ps. 91,289,591	Ps. (100,915,165)	Ps. 76,997,853

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Condensed Consolidating Statement of Changes in Financial Position:

	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	For the year ended December 31, 2007				
Operating activities:					
Net income	Ps. 58,587,510	Ps. 12,634,652	Ps. 75,836,783	Ps. (88,361,612)	Ps. 58,697,333
Non-cash items	(58,775,022)	(6,432,623)	23,386,792	88,669,128	46,848,275
Changes in operating assets and liabilities:	17,550,628	3,879,664	(27,146,600)	750,385	(4,965,923)
Resources (used in) provided by operating activities	17,363,116	10,081,693	72,076,975	1,057,901	100,579,683
Financing activities:					
Bank loans, net	(18,078,839)	(94,050)	1,289,941		(16,882,948)
Dividends declared	(42,127,537)	(15,805,085)	(40,152,560)	55,957,645	(42,127,537)
Decrease in capital stock and retained earnings due to purchases of Company s own shares	(12,856,438)	12,496,523		(12,496,523)	(12,856,438)
Resources (used in) provided by financing activities	(73,062,814)	(3,402,612)	(38,862,619)	43,461,122	(71,866,923)
Investing activities:					
Investment in property, plant and equipment		(2,899,298)	(35,955,503)		(38,854,801)
Investment in subsidiaries and affiliates	40,161,394	(6,083,852)	9,429,260	(43,624,931)	(118,129)
Investment in securities available-for-sale			(789,100)		(789,100)
Acquisitions, net of cash acquired			(19,464,035)		(19,464,035)
Investment in trademarks			26,811		26,811
Investment in licenses			(499,145)		(499,145)
Resources provided by (used in) investing activities	40,161,394	(8,983,150)	(47,251,710)	(43,624,931)	(59,698,397)
Net (decrease) increase in cash and cash equivalents	(15,538,304)	(2,304,069)	(14,037,356)	894,092	(30,985,637)
Cash and cash equivalents at beginning of the period	16,138,446	2,778,859	24,934,543	(894,092)	42,957,756
Cash and cash equivalents at end of the period the period	Ps. 600,142	Ps. 474,790	Ps. 10,897,187	Ps.	Ps. 11,972,119

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Condensed Consolidating Statements of Cash Flows:

	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	For the year ended December 31, 2008				
Operating activities:					
Income before taxes on profits	Ps. 64,937,861	Ps. 12,284,695	Ps. 109,703,164	Ps. (107,461,989)	Ps. 79,463,731
Non-cash items	(85,864,452)	4,005,441	35,487,672	105,681,866	59,310,527
Changes in operating assets and liabilities:	3,306,588	(5,098,457)	(51,632,967)	2,114,586	(51,310,250)
Net cash flows (used in) provided by operating activities	(17,620,003)	11,191,679	93,557,869	334,463	87,464,008
Investing activities:					
Acquisition of plant, property and equipment		(4,602,427)	(22,341,530)		(26,943,957)
Acquisition of licenses			(13,736,502)		(13,736,502)
Dividends received	35,700,000	10,000,000	14,000,000	(59,700,000)	
Investment in subsidiaries and affiliated companies		(255,319)		255,319	
Fixed asset sales		1,250	74,288		75,538
Business acquisitions, net of cash			(479,090)		(479,090)
Net cash flows (used in) provided by investing activities	35,700,000	5,143,504	(22,482,834)	(59,444,681)	(41,084,011)
Financing activities:					
Bank loans, net	40,476,978	(2,508,000)	(17,646,953)		20,322,025
Interest Paid	(5,890,802)	(233,912)	(1,980,428)		(8,105,142)
Repurchase and others	(41,632,608)				(41,632,608)
Payment of dividends	(8,815,570)	(14,000,000)	(45,110,218)	59,110,218	(8,815,570)
Net cash flows (used in) provided by financing activities	(15,862,002)	(16,741,912)	(64,737,599)	Ps. 59,110,218	(38,231,295)
Net (decrease) increase in cash and cash equivalents	2,217,995	(406,729)	6,337,436		8,148,702
Adjustment to cash flow for exchange rate differences			1,971,318		1,971,318
Cash and cash equivalents at Beginning of the Period	600,142	474,790	10,897,187		11,972,119
Cash and cash equivalents at end of the period the period	Ps. 2,818,137	Ps. 68,061	Ps. 19,205,941	Ps.	Ps. 22,092,139

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Condensed Consolidating Statements of Cash Flows:

	Parent	Wholly-owned Guarantor Subsidiary	Combined non-guarantor Subsidiaries	Eliminations	Consolidated Total
	For the year ended December 31, 2009				
Operating activities:					
Income before taxes on profits	Ps. 76,259,640	Ps. 12,042,184	Ps. 111,870,502	Ps. (100,915,165)	Ps. 99,257,161
Non-cash items	(88,539,343)	6,116,211	36,003,368	102,450,836	56,031,072
Changes in operating assets and liabilities:	60,814,480	(13,883,127)	(47,705,616)	(1,705,016)	(2,479,279)
Net cash flows provided by (used in) operating activities	48,534,777	4,275,268	100,168,254	(169,345)	152,808,954
Investing activities:					
Acquisition of plant, property and equipment		(3,662,657)	(49,551,043)		(53,213,700)
Acquisition of licenses		27,119	(27,604)		(485)
Dividends received	31,362,000	5,500,000	3,180,000	(40,042,000)	
Investment in subsidiaries and affiliated companies		(169,345)		169,345	
Fixed asset sales			556,704		556,704
Net cash flows (used in) provided by Investing activities	31,362,000	1,695,117	(45,841,943)	(39,872,655)	(52,657,481)
Financing activities:					
Bank loans, net	(30,479,327)		(5,465,070)		(35,944,397)
Interest Paid		(2,453,157)	(6,097,866)		(8,551,023)
Repurchase and others	(24,657,808)				(24,657,808)
Payment of dividends	(25,462,328)	(3,180,000)	(36,862,000)	40,042,000	(25,462,328)
Net cash flows (used in) provided by financing activities	(80,599,463)	(5,633,157)	(48,424,936)	40,042,000	(94,615,556)
Net (decrease) increase in cash and cash equivalents	(702,686)	337,228	5,901,375		5,353,741
Adjustment to cash flow for exchange rate differences			(182,176)		(182,176)
Cash and cash equivalents at beginning of the period	2,818,137	68,061	19,205,941		22,092,139
Cash and cash equivalents at end of the period the period	Ps. 2,115,451	Ps. 405,289	Ps. 24,925,140	Ps.	Ps. 27,445,880

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Guarantor US GAAP reconciliation of net income and shareholder s equity

As discussed at the beginning of Note 21, the following reconciliation to US GAAP does not include the reversal of the adjustments to the financial statements for the effects of inflation required under Mexican FRS (Bulletin B-10).

Summary

The principal differences between Mexican FRS and U.S. GAAP, as they relate to the consolidating financial statements of the Company, and those of the Guarantor, are basically the same as those described in Note 21, except for the adjustments applied directly to the sub-holdings companies, such as the non-amortization of goodwill, non-controlling interest, gains or losses on sales to affiliates and the reversal of the impairment recognized under Mexican FRS.

Net income and total shareholders equity, adjusted to take into account the material differences between Mexican FRS and U.S. GAAP, are as follows:

	Year ended December 31,		
	2007	**2008**	**2009**
Net income as reported under Mexican FRS	Ps. 12,634,652	Ps. 10,233,934	**Ps. 9,709,973**
U.S. GAAP adjustments:			
Capitalized interest of net financing cost, net	(144,559)	(128,107)	**(94,093)**
Deferred income tax and employee profit sharing adjustments	387,873	(234,376)	**(312,006)**
Difference between the restatement of depreciation expense based on specific indexation factors and on the basis of the NCPI	(344,699)	(609,187)	**(644,408)**
Other items, net	(88,760)		
Effects of inflation accounting on U.S.GAAP adjustments	16,896		
Increase in value on licenses	127,525	127,525	**127,525**
Effects of U.S. GAAP adjustments on subsidiaries, net	(107,145)	129,627	**118,576**
Total U.S. GAAP adjustments, net	(152,869)	(714,518)	**(804,406)**
Net income under U.S. GAAP	Ps. 12,481,783	Ps. 9,519,416	**Ps. 8,905,567**

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	December 31,	
	2008	2009
Total shareholders equity under Mexican FRS	Ps. 35,294,558	**Ps. 41,963,724**
U.S. GAAP adjustments:		
Capitalized interest or net financing cost, net	149,600	**55,507**
Deferred income tax and employee profit sharing adjustments	(316,618)	**(628,624)**
Difference between the restatement of fixed assets based on specific indexation factors and on the basis of the NCPI	1,309,595	**665,187**
Multiple-element revenue arrangements	(437,739)	**(437,739)**
Reversal of net gain on licenses	(862,797)	**(735,271)**
Effect of U.S. GAAP adjustments on subsidiaries, net	(630,235)	**213,499**
Total U.S. GAAP adjustments, net	(788,194)	**(867,441)**
Total shareholders equity under U.S. GAAP	Ps. 34,506,364	**Ps. 41,096,283**

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h. Exhibit 25(h) TELINT s Recent Developments Report

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant To Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of March 2010

TELMEX INTERNACIONAL, S.A.B. DE C.V.

(Exact Name of the Registrant as Specified in the Charter)

Telmex International

(Translation of Registrant s Name into English)

Avenida de los Insurgentes Sur 3500

Colonia Peña Pobre

Delegación Tlalpan

14060 México, D.F., México

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

(Check One) Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

(Check One) Yes ______ No __X__

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82- .)

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Exhibits:	
Audited Consolidated Financial Statements as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008 and 2007	Exhibit 99.1

We have prepared this report to provide our investors with disclosure and financial information regarding recent developments in our business and results of operation for the year ended December 31, 2009.

The information in this report supplements information contained in our annual report on Form 20-F for the year ended December 31, 2008 (File No. 001-34086), filed with the Securities and Exchange Commission on June 26, 2009 (the 2008 Form 20-F).

The audited consolidated financial statements included in this report as Exhibit 99.1 supersede the audited consolidated financial statements included in the 2008 Form 20-F.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. We may from time to time make forward-looking statements in our periodic reports to the U.S. Securities and Exchange Commission (SEC,) on Forms 20-F, 6-K, in our annual report to shareholders, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by our officers, directors or employees to analysts, investors, representatives of the media and others. Examples of such forward-looking statements include:

- projections of operating revenues, net income, net income per share, capital expenditures, dividends, capital structure or other financial items or ratios;
- statements of our acquisition or divestiture plans;
- statements about the impact of our acquisition of businesses outside of Mexico;
- statements of our plans, objectives or goals relating to competition, regulation and rates;
- statements about competition in the business sectors in which we operate;
- statements about our future financial performance or the economic performance of Brazil, Mexico or other countries;
- statements about interest rates, currency exchange rates and foreign securities markets;
- statements about the availability and cost of external financing for our operations, which have been affected by the stress experienced by the global financial markets;
- statements about the future impact of regulations; and
- statements of assumptions underlying such statements.

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under Risk Factors in our 2008 Form 20-F, include technological improvements, customer demand, competition, economic and political conditions and government policies in the countries in which we operate or elsewhere, inflation rates, exchange rates and regulatory developments. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

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

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PRESENTATION OF FINANCIAL STATEMENTS

Our audited consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards, or Mexican FRS, which differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 19 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us; a reconciliation to U.S. GAAP of net income and total stockholders equity; and condensed financial statements under U.S. GAAP.

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Prior to 2008, inflation accounting had extensive effects on the presentation of our financial statements. Our financial information for periods prior to December 31, 2007 is presented in constant pesos as of December 31, 2007, while our financial information for 2009 and 2008 is presented in nominal pesos. See Note 2(c) to our audited consolidated financial statements. In our financial information for 2009 and 2008, inflation adjustments for prior periods have not been removed from stockholders equity, and the re-expressed amounts for non-monetary assets at December 31, 2007 became the accounting basis for those assets beginning on January 1, 2008 and for subsequent periods, as required by Mexican FRS.

We were established on December 26, 2007, pursuant to a procedure under Mexican law called an *escisión*, or the *Escisión*, which split off the Latin American and yellow pages businesses of Teléfonos de México, S.A.B de C.V., or Telmex. The audited consolidated financial statements and the summary financial data provided below for the dates and periods prior to the effective date of the *Escisión*, which was December 26, 2007, under Mexican FRS, include the historical operations of the entities transferred by Telmex to us in the *Escisión* that established us. See Note 1 to our audited consolidated financial statements.

References in this report to U.S. dollars or U.S.$ are to the lawful currency of the United States. References herein to pesos or P. are to the lawful currency of Mexico.

This report contains translations of various Mexican peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the nominal Mexican peso or constant Mexican peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from pesos at the exchange rate of P.13.0587 to U.S.$1.00, which was the rate reported by Banco de México for December 31, 2009. On March 23, 2010, the Banco de México exchange rate for pesos was P.12.5796 to U.S.$1.00, as published in the Official Gazette of the Federation (*Diario Oficial de la Federación*).

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the five years in the period ended December 31, 2009, which have been reported on by Mancera, S.C., a Member Practice of Ernst & Young Global, an independent registered public accounting firm. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and notes thereto included elsewhere in this report.

	Year ended December 31,				
	2009[1]	2008[1]	2007	2006[2]	2005
	(2009 and 2008 in millions of Mexican pesos; previous years in millions of constant Mexican pesos as of December 31, 2007, except share and per share data)				
Income Statement Data:					
Mexican FRS:					
Operating revenues	P. 92,540	P. 76,005	P. 67,760	P. 65,520	P. 61,346
Operating costs and expenses	81,488	67,082	57,430	62,204	54,177
Operating income	11,052	8,923	10,330	3,316	7,169
Net income	9,563	5,631	7,014	3,018	4,586
Majority interest	9,105	5,535	6,464	2,353	3,180
Earnings per share[3]	0.50	0.30	0.33	0.11	0.14
Weighted average number of shares outstanding (millions)	18,157	18,596	19,766	20,948	22,893
U.S. GAAP:					
Operating revenues	P. 92,540	P. 76,005	P. 67,760	P. 53,924	P. 46,349
Operating costs and expenses	82,313	67,716	58,172	51,641	41,169
Operating income	10,227	8,288	9,588	2,283	5,180
Net income[4]	8,587	3,277	6,163	1,702	2,955
Earnings per share[3]	0.46	0.18	0.29	0.08	0.13
Dividends per share[5]	0.17	0.15			
Balance Sheet Data:					
Mexican FRS:					
Plant, property and equipment, net	P. 80,124	P. 58,479	P. 50,494	P. 47,271	P. 44,198
Total assets	174,301	131,513	129,281	108,181	94,119
Short-term debt and current portion of long-term debt	12,667	14,728	4,713	4,932	1,711
Long-term debt	21,310	10,895	11,269	12,558	9,196
Total stockholders equity	99,485	80,125	85,534	61,697	61,898
Capital stock	16,978	17,173	17,829		
U.S. GAAP:					
Plant, property and equipment, net	P. 88,449	P. 65,349	P. 58,672	P. 42,053	P. 34,657
Total assets	186,841	135,141	136,177	89,340	67,470
Short-term debt and current portion of long-term debt	12,667	14,728	4,713	4,932	1,711
Long-term debt	20,677	10,411	10,855	9,923	6,645
Total stockholders equity[4]	111,948	85,837	91,563	51,956	44,504
Capital stock	16,978	17,173	17,829		

(1) New accounting pronouncements under Mexican FRS that became effective in 2009 and 2008 were applied on a prospective basis. As a result, the financial statements of prior years, which are presented for comparative purposes, have not been modified and may not be comparable to our financial statements for 2009 and 2008.

(2) Our results of operations in 2006 were affected by several items relating to Brazilian tax proceedings. Under commercial, general and administrative costs, we recorded (a) a charge of P.4,210 million related to Embratel s settlement of a dispute over its liability for value added tax and (b) a provision of P.1,467 million for penalties and monetary correction related to income tax on incoming international long-distance service. Under other expenses (income), net we recorded (a) other income of P.3,919 million representing the monetary gain and accrued interest related to taxes Embratel paid between 1990 and 1994 and became entitled to recover in 2006 and (b) other expenses of P.1,862 million representing the monetary gain and interest accrued related to back income tax Embratel was required to pay in 2006 on

incoming international long-distance service for prior periods.

(3) Based on the weighted average numbers of shares of Telmex in 2007 and prior years. We have not presented net income on a per ADS basis. Each L Share ADS represents 20 L Shares, and each A Share ADS represents 20 A Shares.

(4) Information for prior years was retrospectively adjusted for presentation and disclosure purposes, in accordance with amendments to Accounting Standards Codification (ASC) 810, *Consolidation*. See Note 19 to our audited consolidated financial statements. ASC 810 states that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest.

(5) The dividend of P.0.15 per share declared at the general shareholders meeting held in July 2008 was paid in equal installments of P.0.075 per share. Holders of ADSs were paid a U.S. dollar equivalent of U.S.$0.144 per ADS in September 2008 and U.S.$0.111 per ADS in December 2008 (based on the exchange rate applicable on each payment date). The dividend of P.0.17 per share declared at the general shareholders meeting held in April 2007 was paid in equal installments of P.0.085 per share. Holders of ADSs were paid a U.S. dollar equivalent of U.S.$0.128 per ADS in August 2009 and U.S.$0.131 per ADS in November 2009 (based on the exchange rate applicable on each payment date).

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratios of earnings to fixed charges for each year in the five-year period ended December 31, 2009, in accordance with Mexican FRS and U.S. GAAP.

	Year ended December 31,				
	2009	2008	2007	2006	2005
Mexican FRS(1)	6.1	5.4	7.0	3.1	3.5
U.S. GAAP(2)	5.8	5.0	6.2	2.3	2.6

(1) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges during the period. Fixed charges for this purpose consist of interest expense during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

(2) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Fixed charges for this purpose consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with the financial statements and notes thereto included in this report. Our financial statements for all dates and periods prior to our establishment in December 2007 have been prepared on a consolidated basis and include the historical operation of the subsidiaries transferred to us in the *Escisión*.

Our consolidated financial statements have been prepared in accordance with Mexican FRS, which differ in certain respects from U.S. GAAP. Note 19 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP as they relate to us, a reconciliation to U.S. GAAP of net income and total stockholders equity and condensed financial statements under U.S. GAAP.

Overview

The highlights of our results for the period from 2007 to 2009 included the following:

In 2009, we focused on increasing revenues from local service, data transmission and Internet access services, and pay television to reduce our dependence on revenues from long-distance service in Brazil.

In 2008, we maintained our leading franchise in Brazilian long-distance, despite an increase in competition.

In our corporate networks and Internet access businesses across Latin America, we had revenue growth in 2008.

Our Brazilian local service business, which started in late 2002, has successfully established itself with steady growth in customers and revenues. At year-end 2009, we had more than 6 million customers for a range of services, and for the year we had P.13 billion in operating revenues. This represented year-over-year customer increases at the end of 2009 of 7.8% in *Livre* service (residential telephony) and 46.6% in *Net Fone via Embratel* service (residential VoIP), which led to an increase in consolidated local service revenues of 20.4% for 2009.

Beginning in 2006, we made a series of acquisitions of cable television businesses in Colombia, giving us a 57% share of the pay television market by the end of 2009. We expect continued revenue growth and improved profitability from our Colombian operations. Our consolidated revenues from pay television surpassed P.3.2 billion in 2008 and reached P.5.4 billion 2009. In addition, our equity investee, Net Serviços de Comunicação S.A., or Net, continues to grow in the pay television business in Brazil.

Our financing cost increased significantly in 2008, due to the depreciation of the Brazilian *real* against the U.S. dollar. During 2009, the Brazilian *real* appreciated against the U.S. dollar, resulting in a decrease in our financing cost.

Effects of Exchange Rate Variations

Our financial statements are presented in Mexican pesos, but less than 10% of our revenues are from Mexico. Effective January 1, 2008, in each jurisdiction in which we operate, we treat the local currency as the functional currency for accounting purposes. In Brazil, for example, the Brazilian *real* is the functional currency.

The financial statements of our foreign subsidiaries and affiliates that are consolidated or accounted for based on the equity method first are adjusted to conform to Mexican FRS and then local currency amounts are translated into Mexican pesos as follows: assets and liabilities 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 are made and income is generated; and revenues, costs and expenses are translated using an average of the applicable historical exchange rates for the period.

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Changes in the average exchange rate of the Brazilian *real* against the peso can have a significant effect on our financial performance, since the majority of our revenues (78.2% in 2009) are generated in Brazil. If the Brazilian *real* appreciates against the peso from one year to the next, our revenues will tend to increase as reported in pesos. In 2009, the average exchange rate increased 10.0% compared to 2008 due principally to the appreciation of the Brazilian *real*, which caused our results, as reported in pesos, to improve from year to year. In 2008, the average exchange rate was virtually the same as in 2007. As a result, our performance in 2008 compared to 2007 was not significantly affected.

Exchange rate variations also affect our financial performance because of our U.S. dollar-denominated debt. We recognize an exchange gain or loss based on changes in the value of the U.S. dollar against the functional currencies of the primary operating environments of our subsidiaries that have debt denominated in U.S. dollars. Most of our U.S. dollar-denominated debt is in Brazil, and we have used derivative instruments to hedge against exchange loss on this debt. In 2009, the appreciation of the Brazilian *real* against the U.S. dollar resulted in an exchange gain of P.4,154 million, which was partly offset by a fair value loss of P.1,670 million on derivatives we entered into to convert our U.S. dollar exposure to Brazilian *reais*. In 2008, the appreciation of the dollar against the Brazilian *real* resulted in an exchange loss of P.4,177 million, which was partly offset by fair value gains in the amount of P.2,577 million on derivatives we entered into to convert our U.S. dollar exposure to Brazilian *reais*.

Effect of Inflation Accounting

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Prior to 2008, inflation accounting had extensive effects on the presentation of our financial statements. Our financial statements for periods through December 31, 2007 have been re-expressed in constant pesos as of December 31, 2007, using a factor that is based on the Mexican consumer price index. The value of the re-expression factor has a significant impact on the comparison between our results of operations for 2007 and for prior years. See Note 2(c) to our audited consolidated financial statements.

Effects of the *Escisión*

Telmex Internacional is a Mexican holding company that was established in December 2007. Our operating subsidiaries were all owned by Telmex prior to our establishment, and they were transferred to us on December 26, 2007 in the split-up that we refer to as the *Escisión*. We believe in general that our financial performance has not been materially affected by the separation from Telmex, and our historical financial statements for earlier dates and periods would not have been materially different if we had been separate from Telmex prior to the *Escisíon*.

Effects of Acquisitions

Prior to the *Escisión*, Telmex was engaged in the Mexican yellow pages business for many years. All of our other businesses, however, were acquired by Telmex after January 1, 2004, starting with the purchase of AT&T Latin America in February 2004 and the purchase of a controlling interest in Embratel in July 2004. Our past financial performance has been affected by the recent acquisitions made during those periods. The most significant recent acquisitions are listed below, together with the effective date as of which each has been reflected in our financial statements. These and other, less significant acquisitions are summarized in Note 5 to our audited consolidated financial statements.

Sección Amarilla USA, LLC (November 2006) producer of Spanish-language yellow pages directories in the United States; in December 2009, we acquired the remaining 20% non-controlling interest.

Boga (April 2007) cable television provider in Peru.

Ecutel (April 2007) telecommunications provider in Ecuador.

TV Cable S.A. and Cable del Pacífico (April 2007) two cable television companies in Colombia, now operating as Telmex Colombia, S.A.

Zap Television Directa al Hogar Ltda. (September 2007) satellite television services provider in Chile, now operating as Telmex TV, S.A.

Cablecentro, Megainvest Ltda., Comunicaciones Ver TV, S.A., Satelcaribe, S.A. (November 2007) cable television assets in Colombia.

Ertach (November 2007) Internet, data and voice services provider in Argentina.

Teledinámica, S.A., Organización Dinámica, S.A. and Telebarranquilla, S.A. (October 2008) cable television and Internet access assets in Colombia, now operating as New Dinamic Company, S.A.

Contenido Cultural y Educativo, S.A. de C.V. (March 2009) engaged in the sale of print advertising in Mexico.

Eidon Software, S.A. de C.V. (May 2009) provider of software services.

We have accounted for business acquisitions using the purchase method of accounting, which has resulted in the recognition of a substantial amount of goodwill. At December 31, 2009, the balance of goodwill was P.14,399 million. We have also allocated substantial value to the licenses and trademarks of acquired entities and prepaid indefeasible rights of use, which has resulted in a net balance of P.14,557 million on our balance sheet at December 31, 2009.

We will continue to evaluate possible acquisitions, particularly in the Latin American telecommunications business, and we may acquire businesses when we are presented with opportunities that are strategically complementary and reasonably priced. Any acquisitions we may make will affect our financial performance in future periods. We may incur additional debt to finance acquisitions, and we may acquire companies with pre-existing debt. Increased debt would also affect our financial condition and our results of operations.

Changes in Mexican FRS

Note 2(z) to our audited consolidated financial statements discusses new accounting pronouncements under Mexican FRS that became effective in 2009, and Notes 2(b), 2(c) and 2(u) to our audited consolidated financial statements discuss new accounting pronouncements under Mexican FRS that became effective in 2008. These accounting pronouncements were applied on a prospective basis. As a result, the financial statements of prior years, which are presented for comparative purposes, have not been modified and may not be comparable to our financial statements for 2009 and 2008. In 2010, other pronouncements might affect certain aspects of our consolidated financial statements.

Transition to IFRS

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

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Summary of Operating Income and Net Income

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

	Year ended December 31,					
	2009		2008		2007	
	(millions of pesos)	(percentage of operating revenues)	(millions of pesos)	(percentage of operating revenues)	(millions of pesos)	(percentage of operating revenues)
	(in millions of Mexican pesos for 2009 and 2008 and in millions of constant Mexican pesos as of December 31, 2007 for 2007)					
Operating revenues:						
Domestic long-distance service	P. 31,514	34.0%	P. 28,299	37.2%	P. 27,084	40.0%
Corporate networks	21,745	23.5%	16,757	22.1	15,390	22.7
Local service	15,255	16.5%	10,594	13.9	7,874	11.6
Yellow pages	4,930	5.3%	5,519	7.3	5,639	8.3
Internet access services	8,018	8.7%	5,496	7.2	4,381	6.5
International long-distance service	3,362	3.6%	3,294	4.3	3,605	5.3
Pay television	5,355	5.8%	3,203	4.2	1,044	1.5
Other	2,361	2.6%	2,843	3.8	2,743	4.1
Total operating revenues	92,540	100.0%	76,005	100.0	67,760	100.0
Operating costs and expenses:						
Transport and interconnection	32,726	35.4%	26,925	35.4	23,649	34.9
Cost of sales and services	15,695	17.0%	12,048	15.9	9,803	14.5
Commercial, administrative and general expenses	21,541	23.3%	19,141	25.2	16,207	23.9
Depreciation and amortization	11,526	12.4%	8,968	11.8	7,771	11.5
Total operating costs and expenses	81,488	88.1%	67,082	88.3	57,430	84.8
Operating income	11,052	11.9%	8,923	11.7%	10,330	15.2%
Other expenses, net	48		103		242	
Financing (income) cost:						
Interest income	(1,085)		(1,266)		(1,217)	
Interest expense	2,366		1,508		1,631	
Exchange loss, net	(2,373)		1,879		3	
Monetary gain, net[1]					(141)	
	(1,092)		2,121		276	
Equity interest in net income of affiliates	1,889		191		689	
Income before income tax	13,985		6,890		10,501	
Income tax	4,422		1,259		3,487	
Net income	9,563		5,631		7,014	
Distribution of net income:						

Majority interest	9,105	5,536	6,464
Non-controlling interest	458	95	550
	9,563	5,631	7,014
Earnings per share	P. 0.50	P. 0.30	P. 0.33

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

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Results of Operations for 2009, 2008 and 2007

Revenues

Domestic Long-distance Revenues

Operating revenues from domestic long-distance service consist of (a) revenues for carrying long-distance calls for customers and (b) amounts earned from other telecommunications operators for transporting their domestic long-distance calls. The amount of operating revenues from domestic long-distance service depends on rates and traffic volume. Domestic long-distance revenues increased by 11.4% in 2009 and by 4.5% in 2008. The increase in 2009 was primarily due to an exchange rate variation (a 10% increase) principally attributable to the appreciation of the Brazilian *real* against the Mexican peso and an increase in domestic long distance revenues at Embratel reflecting increased long-distance mobile traffic carried by Embratel for its customers and long distance traffic originating on other operators mobile networks and transported by Embratel. The increase in 2008 was principally due to a 4.7% increase in domestic long-distance revenues at Embratel, mainly as a result of increased traffic from Embratel s corporate customers and the growth of long-distance traffic originating on other operators mobile networks.

Revenues from Corporate Networks

Revenues from corporate networks are primarily from dedicated private lines and from providing virtual private network services. Revenues from corporate networks increased by 29.8% in 2009 and increased by 8.9% in 2008. The increase in 2009 was principally due to an increase of data network services subscribed to by corporate customers in Brazil (35.2% increase in 64 Kbps billed-line equivalents). The increase in 2008 was principally due to increased volume at Embratel (46.9% increase in 64 Kbps billed-line equivalents), which was partially offset by decreased rates.

Local Service Revenues

Operating revenues from local service include installation charges for new lines, monthly line rental charges and monthly measured service charges based on the number of minutes. These revenues depend on the number of lines in service, the number of new lines installed and the volume of minutes. Revenues from Embratel s residential and business local services, *Livre, Net Fone via Embratel* and *VipLine,* are accounted for under local service revenues. Revenues from local service increased by 44.0% in 2009 and by 34.5% in 2008. The increase in 2009 was principally due to an increase of 20.5% in the number of total lines in service in Brazil. The increase in 2008 was due primarily to the increase in Embratel s local services revenues as a result of an increase of 53.2% in 2008 in total lines. The increase in total lines in 2009 and 2008 was primarily from *Livre* and *Net Fone via Embratel* services.

Revenues from Yellow Pages

Operating revenues from yellow pages consist of sales of yellow pages advertising, principally in Mexico. Revenues from yellow pages decreased 10.7% in 2009 and 2.1% in 2008. The decrease in 2009 was principally due to a decrease in the sale of advertising in directories in Mexico. The decrease in 2008 was principally due to higher discounts offered to our key customers.

Revenues from Internet Access Services

Revenues from Internet access services include set-up and service fees for broadband and dial-up Internet access. Revenues from Internet access services increased by 45.9% in 2009 and increased by 25.5% in 2008. The increase in 2009 was principally due to a 100.4% increase in the number of users of our Internet access service in Brazil and a 22.8% increase in the number of users of our Internet access service in Colombia. The increase in 2008 was principally due to a 79.1% increase in the number of users of our Internet access service in Colombia, the expansion of Embratel s corporate services resulting from bundled solutions offered to our customers and a 19.2% increase in the number of users of our Internet access service in Brazil.

International Long-distance Revenues

Operating revenues from international long-distance service depend on the volume of traffic, the rates charged to our customers, the rates charged by each party under agreements with foreign carriers, principally in the United States, and the effects of competition. We generally settle on a net basis the amounts owing to and from each foreign carrier, but we report the amounts owed to us as revenues and the amounts we owe in cost or sales and services. Settlement payments under service agreements with foreign carriers are generally denominated in U.S. dollars.

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International long-distance revenues increased by 2.1% in 2009 and decreased by 8.6% in 2008. The increase in 2009 was primarily caused by an exchange gain principally due to the appreciation of the Brazilian *real* against the Mexican peso, partially offset by a decrease in international long distance revenues from residential customers in Brazil. The decrease in 2008 was primarily caused by a 9.7% decline in traffic in Brazil due to growing competition from new technologies, such as VoIP.

Revenues from Pay Television

Our revenues from pay television amounted to P.5,355 million in 2009, compared to P.3,203 million in 2008 and P.1,044 million in 2007. The increase in revenues in 2009 was primarily the result of the launch in December 2008 of satellite television in Brazil (*Via Embratel*), a 36.5% increase in pay television customers in Chile consisting of subscribers to DTH services and subscribers to services through the HFC network and a 3.1% increase in cable television subscribers along with an increased average revenue per user in Colombia. The increase in revenues in 2008 is the result of a 27.6% increase in the number of subscribers in Colombia, a 313.4% increase in the number of subscribers in Chile and a 62.5% increase in the number of subscribers in Peru.

Other Revenues

The largest components of other revenues are revenues from interconnection (fees we charge other telecommunications operators for completing calls to our local network), provision of call center services (principally in Brazil) and sales of telecommunications equipment (principally handsets sold to our local service customers in Brazil). Other revenues decreased by 17.0% in 2009 and by 3.6% in 2008. The decrease in 2009 was principally due to decreased call center services contracted in Brazil. The increase in 2008 was principally due to an increase in other revenues in Chile resulting from network construction in connection with public works projects, partially offset by a decrease in other revenues in Brazil as the result of a decline in call center services and sales of handsets.

Operating Costs and Expenses

Transport and Interconnection

Costs from transport and interconnection consist primarily of payments to operators of mobile and local networks for the use of their facilities to complete calls to their customers and the rental of capacity from other operators in areas where we use rented capacity to complement our network. These costs are driven in large part by our traffic in Brazil. Transport and interconnection costs increased by 21.5% in 2009 and increased by 13.9% in 2008. The increase in 2009 was due to an increase in interconnection costs for mobile termination mainly in Brazil and higher costs associated with originating mobile traffic due to a rate increase adjustment, effective in January 2009. The increase in 2008 was due to growth in mobile call traffic, resulting in increased transport and interconnection costs, and an increase of mobile network interconnection rates in Brazil.

Cost of Sales and Services

Cost of sales and services increased by 30.3% in 2009 and increased by 22.9% in 2008. The increase in 2009 was due to (a) an increase in the cost of providing data and local services in Brazil, (b) the purchase of television content to increase programming offerings in Colombia, Chile and Peru and (c) the leasing of infrastructure facilities in Colombia. The increase in 2008 was due to increased costs for (a) television content, due to growth in the number of pay television subscribers in Colombia and Chile, (b) increased network maintenance in Colombia and Chile, (c) the leasing of infrastructure facilities in Colombia and (d) the hiring of additional technical and customer service personnel in Colombia.

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Commercial, Administrative and General Expenses

Commercial, administrative and general expenses increased by 12.5% in 2009 and increased by 18.1% in 2008. The increase in 2009 was due to higher expenses associated with (a) customer service call centers and (b) billing and collections services in Colombia and Chile, mainly as a result of increased revenues in these countries and specifically related to pay television revenues in Colombia . The increase in 2008 was due to the expansion of our operations in Colombia, the United States and Chile, including increased personnel and an increase in corporate expenses following the *Escisión*.

Depreciation and Amortization

Depreciation and amortization increased by 28.5% in 2009 and increased by 15.4% in 2008. The increase in 2009 was mainly due to the expansion of our network in Brazil, Colombia, Chile and Ecuador. The increase in 2008 was due to the expansion of our network in Colombia, Brazil, Argentina and Chile. As a result of Mexican FRS, changes in exchange rates affect the value of fixed assets and thus the amount of depreciation.

Operating Income

Operating income increased by 23.9% in 2009 primarily due to an increase in revenues of 21.8%. Our operating margin was 11.9% in 2009 compared to 11.7% in 2008.

Operating income decreased by 13.6% in 2008 due to an increase of 16.8% in costs and expenses, partially offset by an increase of 12.2% in revenues, with Brazilian revenues increasing 8.1% and Colombian revenues increasing 110.7%. Our operating margin was 11.7% in 2008 compared to 15.2% in 2007, due to an increase in costs and expenses principally resulting from the expansion of our network and our pay television and Internet access operations as well as an increase in depreciation caused by an increased investment in plant, property and equipment.

Financing (Income) Cost, Net

Financing (income) cost, net reflects interest income, interest expense, foreign exchange gain or loss and, through 2007, the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial amount of our indebtedness (37.1% at December 31, 2009), is denominated in U.S. dollars, so variations in the value of the U.S. dollar affect our foreign exchange gain or loss and interest expense. Approximately 6.6% of our monetary assets were denominated in U.S. dollars at December 31, 2009.

In each country in which we have monetary assets or liabilities, we determine foreign exchange gain or loss based on the functional currency of local operations, and, through 2007, we determined monetary gain or loss based on the local inflation rate. Because our subsidiary Embratel has 44.2% of our total indebtedness, exchange gain or loss is driven primarily by the value of the Brazilian *real* against the U.S. dollar.

We enter into derivative transactions to manage our exposure to changes in exchange rates, and the change in fair value of these derivative transactions is included in exchange gain or loss.

In 2009, financing (income) cost, net was P.(1,092) million compared with P.2,121 million in 2008 and P.276 million in 2007. The changes in each component were as follows:

Interest income decreased by 14.3% in 2009 after increasing by 4.0% in 2008. The decrease in 2009 was principally due to a lower average level of interest-generating financial assets. The increase in 2008 was principally due to an increase in cash equivalents following the *Escisión*.

Interest expense increased by 56.8% in 2009 after decreasing by 7.5% in 2008. The increase in 2009 was principally due to a higher average debt balance. The change in 2008 was due to a slight reduction in the average level of debt held by Embratel and a decrease in the average LIBOR interest rate.

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We recorded a net exchange gain of P.2,373 million in 2009, compared to net exchange losses of P.1,879 million in 2008 and P.3 million in 2007. In 2009, the gain was primarily due to the appreciation of the Brazilian *real* against the U.S. dollar during the period, which was partially offset by fair value losses of Embratel s Brazilian *real*/U.S. dollar cross-currency swaps. In 2008, the amount reflects the offsetting effects of exchange loss on dollar-denominated debt, primarily at Embratel, and fair value gains on cross-currency swaps, primarily entered into to cover our exposure from U.S. dollars to Brazilian *reais*. In 2007, the amount reflects the offsetting effects of exchange gain on dollar-denominated debt and fair value losses on cross-currency swaps.

Beginning in 2008, due to a change in Mexican FRS, we did not recognize the effects of inflation on monetary assets and liabilities. We had a net monetary loss of P.141 million in 2007. In 2007, we had a gain in Brazil, where we have substantial monetary liabilities, and a loss in Mexico, where we have substantial monetary assets. The inflation rate in Brazil was 7.8% in 2007.

Equity interest in net income of affiliates

Equity interest is the application of the equity method on the net income of affiliates, mainly in Net, the largest cable television operator in Brazil. Equity income increased 889% in 2009 and decreased 72.3% in 2008. The increase in 2009 was principally due to net income growth substantially as a result of an increase in subscribers in all of Net s products and the integration of companies acquired in recent years, as well as a net exchange gain due to the appreciation of the Brazilian *real* against the U.S. dollar. The decrease in 2008 was principally due to a higher net exchange loss due to the appreciation of the U.S. dollar against the Brazilian *real*, partially offset by an increase in operating income as a result of an increase in subscribers.

Income Tax

The statutory rate of the Mexican corporate income tax was 28% in 2009, 2008 and 2007. The statutory tax rate on our income in Brazil, which accounts for the majority of our taxable income, was 34% in 2009, 2008 and 2007. Our effective rate of corporate income tax as a percentage of pre-tax profit was 31.6% in 2009, 18.3% in 2008 and 33.2% in 2007. Our effective tax rate was higher in 2009 and 2007 than 2008 primarily because in 2008 we recognized the reversal of the valuation allowance on deferred tax assets in our Brazilian subsidiaries. The effective tax rates in 2009 and 2007 were virtually the same.

Net Income

Net income increased by 69.8% in 2009 and decreased by 19.7% in 2008. In 2009, the increase was primarily due to lower financing cost, higher operating income and an increase in equity interest in Net. In 2008, the decrease was due to lower operating margin and higher exchange losses, which more than offset increased revenues.

Results of Operations by Segment

We operate in eight geographic segments. Segment information is presented in Note 18 of our audited consolidated financial statements included in this report. Brazil is our principal geographic market, accounting for 78.2% of our total operating revenues in 2009 (compared to 78.9% in 2008 and 81.8% in 2007) and 75.3% of our total costs and expenses in 2009 (compared to 77.0% in 2008 and 83.8% in 2007). Colombia is our second most important geographic market, accounting for 8.0% of our total operating revenues in 2009 (compared to 7.5% in 2008 and 4.0% in 2007) and 9.0% of our total costs and expenses in 2009 (compared to 8.8% in 2008 and 4.4% in 2007).

The table below sets forth the percentage of our total revenues and total costs and expenses represented by each of our principal geographic segments for the periods indicated.

	2009		2008		2007	
	% of Total revenues	% of Total costs and expenses	% of Total revenues	% of Total costs and expenses	% of Total revenues	% of Total costs and expenses
Brazil	78.2	75.3	78.9	77.0	81.8	83.8
Colombia	8.0	9.0	7.5	8.8	4.0	4.4
Mexico	5.1	4.5	6.8	4.7	8.1	4.0
Chile	3.9	4.8	3.1	4.0	2.5	3.2
Argentina	2.4	2.7	2.4	3.1	2.1	2.6
Peru	2.0	2.3	1.7	2.1	1.5	1.7
Other[(1)]	0.4	1.4	(0.4)	0.3	0.0	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(1) Includes United States, Ecuador and consolidation adjustments.

Brazil

Operating revenues in Brazil increased by 20.6% in 2009, principally due to an increase in revenues from local services, domestic long distance, corporate networks and Internet access service, which was partially offset by decreases in revenues from international long distance and other revenue sources. Operating revenues in Brazil increased by 8.1% in 2008, due primarily to an increase in revenues from local, data and long-distance services. Measured in Brazilian *reais* without the effects of inflation accounting, currency translation or re-expression, operating revenues in Brazil increased by 8.4% from 2008 to 2009.

Total costs and expenses in Brazil increased by 18.7% in 2009 and by 7.3% in 2008. The increase in 2009 was mainly the result of higher costs associated with originating mobile traffic due to a rate increase adjustment, effective in January 2009 and an increase in depreciation due to an increased investment in plant, property and equipment. The increase in 2008 was primarily due to the growth in mobile call traffic, resulting in increased transport and interconnection costs.

Colombia

Operating revenue in Colombia increased by 31.0% in 2009, due mainly to an increase of 37.8% in local telephone service customers, an increase of 22.8% of users of our Internet access service and an increase of 3.1% of subscribers to our paid television services along with an increased average revenue per user. Operating revenues in Colombia increased by 110.7% in 2008, due mainly to an increase of 27.6% of subscribers to our paid television services and an increase of 79.1% of users of our Internet access service in Colombia.

Total costs and expenses in Colombia increased by 34.7% in 2009 and by 134.0% in 2008. The increase in 2009 was principally due to an increase in higher depreciation costs associated with the expansion of plant, property and equipment, increased costs to purchase television content resulting from the rise in the number of pay television subscribers, increased reserves for doubtful accounts and increased rent for infrastructure resulting from an expansion of our operations. The increase in 2008 was due to the hiring of additional sales personnel, increased network maintenance costs, increased costs to purchase television content resulting from the rise in the number of pay television subscribers and higher depreciation costs associated with greater capital expenditures.

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Mexico

Operating revenues in Mexico decreased by 9.3% in 2009 and decreased by 5.8% in 2008. Mexican operating revenues are principally attributable to our yellow pages business. The decrease in 2009 was due primarily to a decrease in the sale of advertising in our telephone directories. The decrease in 2008 was due primarily to greater discounts offered to our key customers.

Total costs and expenses increased by 15.9% in 2009 and increased by 36.9% in 2008. The increase in 2009 was due to an increase in U.S. dollar-denominated costs to produce our directories as a result of the appreciation of the U.S. dollar against the Mexican peso, increased expenses for software maintenance, publicity, fees and depreciation, and costs associated with the incorporation of Contenido Cultural y Educativo, S.A. de C.V. into our operations. The increase in 2008 was due to an increase in corporate expenses following the *Escisión*, an increase in the payment to Telmex of fees for the use of its customer database and costs associated with the development of enhanced information technology support and software for our growing online yellow pages business. In the future, we expect to continue to only pay Telmex an annual renewal fee for use of its customer database.

Other countries

The other countries in which we operate are Chile, Argentina, Peru, Ecuador and the United States. Together they represented 8.9% of 2009 revenues and an operating loss of P.1,117 million. In 2009, the decrease in operating loss was principally due to an increase in revenues from pay television in Chile resulting from an increase in the number of subscribers, partially offset by a higher cost of television content and higher expenses due to an increased allowance for doubtful accounts and increased depreciation due to an increase in plant, property an equipment. In 2008, revenues from these other countries represented less than 8% of 2008 revenues and an operating loss of P.1,169 million. In 2008, the increase in operating loss was principally due to a higher depreciation in Argentina and Chile generated by an increase in plant, property and equipment and an increase in expenses for advertising and advisory services in the United States.

Liquidity and Capital Resources

Our principal capital requirements are for capital expenditures and working capital. We generally plan for each of our major operating subsidiaries to meet its capital requirements from its operating cash flow. Our subsidiaries, other than those in Brazil, may not generate sufficient cash flow to meet their capital requirements and will rely on funding provided by us. Our cash flows provided by operating activities were P.19,724 million in 2009. In 2008, our cash flows provided by operating activities were P.14,077 million.

We had a working capital deficit of P.255 million as of December 31, 2009, a working capital deficit of P.1,889 million at December 31, 2008 and a working capital surplus of P.8,121 million at December 31, 2007. We expect our working capital to stabilize, and we believe our working capital is sufficient for our present requirements.

Our capital expenditures were P.15.8 billion in 2009, P.18.3 billion in 2008 and P.12.8 billion in 2007. We have budgeted capital expenditures in 2010 of approximately P.19.2 billion (U.S.$1.5 billion). Budgeted capital expenditures for 2010 exclude any other investments we might make to acquire other companies.

We also use funds to repurchase our shares. In July 2008, the ordinary shareholders meeting authorized share repurchases up to P.10 billion. The ordinary shareholders meeting held on April 29, 2009, approved up to an additional P.5 billion to be used for share repurchases, which, in addition to the approximately P.5 billion not utilized for share repurchases since July 2008 until the additional approval, provided us with approximately P.10 billion available for share repurchases in 2009. The amount spent on share repurchases is determined from time to time by our board of directors based on market conditions. The amount we spent on share repurchases after June 10, 2008, when our shares and those of Telmex began trading separately P.4,245 million in 2008, and we spent P.2,490 million on share repurchases in 2009. The amount spent on share repurchases is determined from time to time by our board of directors based on market conditions.

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In 2008, we paid dividends totaling P.2,786 million. In April 2009, we declared a dividend of P.0.17 per share, which was payable in equal installments of P.0.085 per share in August 2009 and November 2009, and we paid dividends totaling approximately P.3,000 million.

From the time of the *Escisión* through the separate trading of our shares on June 10, 2008, Telmex carried out repurchases of its shares. These transactions reduced the number of outstanding shares of Telmex Internacional by 414 million L Shares and 1 million A Shares. The repurchase transactions did not reduce the assets of Telmex Internacional because, as contemplated in the December 21, 2007 shareholder decisions, in May 2008 the Telmex board of directors approved the transfer to us of an additional amount of P.3,572 million. We paid Telmex P.3,572 million in July 2008 in respect of these repurchases.

We believe that the telecommunications industry in Latin America will continue to be characterized by growth, technological change, competition and consolidation. We may take advantage of these opportunities through direct or indirect investments or strategic alliances, but future investments may require substantial additional capital and expose us to new risks. Our expenditures for business acquisitions were P.431 million in 2009, P.507 million in 2008 and P.8,365 million in 2007.

Embratel has a substantial amount of tax-related contingencies. If a major part of the tax disputes were to be decided against Embratel, our liquidity could be materially affected even if we had previously established provisions. See Note 17 to our audited consolidated financial statements.

Outstanding Indebtedness

At December 31, 2009, we had total indebtedness of P.33,977 million (U.S.$2,602 million). Indebtedness of our Brazilian subsidiaries represented approximately 44% of our total indebtedness. At December 31, 2009, 48% was denominated in Mexican pesos, 37% of our total consolidated indebtedness was denominated in U.S. dollars, 8% was denominated in Brazilian *reais*, and 6% was denominated in other currencies. We have P.12,667 million (U.S.$970 million) in debt that will come due in 2010. Subject to market conditions, we plan to refinance this amount with new debt or partially repay it.

The major categories of our indebtedness are as follows:

U.S. dollar-denominated bank financing. We had U.S.$966 million (P.12,614 million) of U.S. dollar-denominated bank financing outstanding at December 31, 2009. Of this amount, approximately 59% was under loans from export credit and development agencies. Most of our bank borrowings bear interest at a spread over LIBOR. In March 2009, Embratel entered into a syndicated credit facility for an aggregate principal amount of U.S.$200 million due in 2014.

U.S. dollar-denominated export credit agency financing for satellites. We had U.S.$201.8 million (P.2,635 million) outstanding at December 31, 2009, in financing the acquisition of satellites Star One C-1 and Star One C-2. These loans bear interest at an average rate of 3.9% and mature in 2013.

Peso-denominated senior notes issued in Mexico. We have issued peso-denominated senior notes (*certificadoes bursátiles*) from time to time in the Mexican market through a five-year debt program registered with the *Comisión Nacional Bancaria y de Valores* (CNBV) for an amount of up to P.20,000 million. Of this amount, we issued P. 5,000 million in short-term notes, which have been renewed. Additionally, we have issued senior notes with maturities of five and three years as follows: P.5, 000 million issued in September 2009 and maturing in August 2012, and P.5,000 million issued in December 2009 and maturing in November 2014.

In January 2010, Embratel paid at maturity U.S.$100.5 million (P.1,312 million) aggregate principal amount of a one-year bank loan.

We also have other categories of outstanding indebtedness, including local currency-denominated loans from local banks, financial leases and supplier credits for equipment financing. We look for the best sources for borrowing in terms of cost and term, including sources within local and international capital markets as well as international and local banks.

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Most of our credit agreements include cross-default provisions and cross-acceleration provisions that would permit the holders of such indebtedness to declare the indebtedness to be in default and to accelerate the maturity thereof if a significant portion of the principal amount of our debt is in default or accelerated. The terms of these agreements restrict the ability of our subsidiaries to grant liens, pledge assets, sell or dispose of assets and make certain acquisitions, mergers or consolidations. Under a number of these agreements, we are required to maintain certain specified financial ratios, including EBITDA to payments of principal and interest expense of no less than 1.2 to 1.0 and net debt to EBITDA of no more than 3.5 to 1.00 (using terms defined in the credit agreements).

A number of Embratel s financing instruments are subject to either acceleration or repurchase at the holder s option if there is a change of control of Embratel, as defined in the respective instruments. The definitions of change of control vary, but most of them are not triggered so long as we continue to control a majority of Embratel s voting stock. The offer announced by América Móvil, S.A.B. de C.V. to acquire our outstanding shares could fall within the definition of change of control in certain of Enbratel s financing instruments, and we expect to seek waivers under such instruments.

Of our total debt outstanding as of December 31, 2009, approximately 65.1% of our bank facilities bear interest at specified spreads, mainly over LIBOR, and the remaining 34.9% bear interest at fixed rates. The weighted average cost of all borrowed funds at December 31, 2009 (including interest and taxes withheld, but excluding fees) was approximately 4.97%. The inclusion of fees in the calculation of weighted average cost of all borrowed funds at December 31, 2009 would increase such cost by 0.15% to 5.12%.

Risk Management

We regularly assess our interest rate and currency exchange exposures in order to determine how to manage the risk associated with these exposures. We use derivative financial instruments to hedge or adjust our exposures. Our practices vary from time to time depending on our judgment of the level of risk, expectations as to exchange or interest rate movements and the cost of using derivative instruments. We may stop using derivative financial instruments or modify our practices at any time. Currently, our derivative financial transactions relate entirely to Embratel s indebtedness and consist solely of cross-currency swaps (under which we generally pay amounts in Brazilian *reais* and receive U.S. dollars).

Because our U.S. dollar-denominated indebtedness far exceeds our U.S. dollar-denominated assets and revenues, from time to time we enter into derivative transactions to protect to some degree against the short-term risks of devaluation of the Brazilian *real.* Under Mexican FRS, we account for these transactions on a fair-value basis, and changes in such fair value offset gains and losses from the foreign currency-denominated liabilities that are hedged. We do not apply hedge accounting rules to our derivative financial instruments. We had cross-currency swaps covering U.S.$528 million of Embratel s indebtedness at December 31, 2009 (U.S.$217 million of Embratel s indebtedness at December 31, 2008). The fair value of our derivative financial instruments amounted to an liability of P.1,094 million at December 31, 2009 and an asset of P.1,025 million at December 31, 2008. We recognized a net loss of P.1,670 million in 2009 (compared to a gain of P.2,577 million in 2008), included under our financing cost, net, which reflects the effects of exchange rate variations under our derivative financial instruments.

Contractual Obligations

In the table below we set forth certain contractual obligations as of December 31, 2009 and the period in which the contractual obligations come due. The amount of our long-term debt reported in the table excludes interest and fee payments, which are primarily variable amounts, and does not reflect derivative financial instruments, which provide for payment flows that vary depending on exchange rates. Purchase obligations include commitments for the purchase of equipment and consulting and management services as well as payments for the right to use satellite orbital positions. The table below does not include pension liabilities, tax liabilities or accounts payable.

	Payments Due by Period (as of December 31, 2009)				
	Total	**2010**	**2011-2012**	**2013-2014**	**2015 and beyond**
	(in millions of Mexican pesos)				
Contractual obligations:					
Total debt[1]	P. 33,406	P. 12,562	P. 13,167	P. 7,529	P. 148
Capital Leases	572	106	211	150	105
Purchase obligations	2,065	2,065			
Total	P. 36,043	P. 14,733	P. 13,378	P. 7,679	P. 253

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

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Off-Balance Sheet Arrangements

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

U.S. GAAP Reconciliation

In December 2007, the FASB issued Accounting Standards Codification (ASC) 810, *Consolidation*, as amended by SFAS 160. This ASC establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary, effective beginning January 1, 2009, requiring retroactive presentation and disclosure of existing non-controlling interest. See Note 19 to our audited consolidated financial statements.

Net income under U.S. GAAP was P.8,587 million in 2009, P.3,277 million in 2008 and P.6,163 million in 2007. Compared to net income under Mexican FRS, net income under U.S. GAAP was 10.2% lower in 2009, 41.8% lower in 2008 and 12.1% lower in 2007.

There are certain differences between Mexican FRS and U.S. GAAP that affect our net income and stockholders equity. The most significant in their effects concern (i) elements of inflation accounting that are determined differently under U.S. GAAP than under Mexican FRS, (see Effect of Inflation Accounting above), (ii) differences in the application of purchase accounting to the successive transactions in which we increased our interest in Embratel, (iii) changes in the valuation allowance of deferred taxes after purchase price allocation and (iv) deferred tax effect on foreign translation effect.

Other differences that affected net income relate to accounting for business combinations and capitalization of interest on assets under construction. The differences in stockholders equity under Mexican FRS and U.S. GAAP reflect these same matters. For a discussion of the principal differences between Mexican FRS and U.S. GAAP, see Note 19 to our audited consolidated financial statements.

Use of Estimates in Certain Accounting Policies

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

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

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Estimated Useful Lives of Plant, Property and Equipment

We estimate the useful lives of particular classes of plant, property and equipment in order to determine the amount of depreciation expense to be recorded in each period. Depreciation expense is a significant element of our costs, amounting in 2009 to P.10,064 million, or 12.4% of our operating costs and expenses under Mexican FRS. See Note 6 to our audited consolidated financial statements.

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

Employee Pensions and Seniority Premiums

We recognize liabilities on our balance sheet and expenses in our income statement to reflect our obligations to pay employees under the defined-benefit and defined-contribution plans as well as a medical assistance plan for defined-benefit plan participants at Embratel. We also have a defined-benefit plan and termination benefits for our Mexican employees. The amounts we recognize are determined on an actuarial basis that involves many estimates and accounts for post-retirement and termination benefits in accordance with Mexican FRS. In 2009, we recognized net period cost relating to these obligations of P.39.2 million under Mexican FRS.

We use estimates in several specific areas that have a significant effect on these amounts: (a) the actual discount rates that we use to calculate the present value of our future obligations, (b) the actual rate of increase in salaries that we assume we will observe in future years, (c) long term average inflation, (d) health care cost trends and (e) the rate of return we assume our pension fund will achieve on its investments. The assumptions we have applied are identified in Notes 14 (Mexican FRS) and 19 (U.S. GAAP) to our audited consolidated financial statements. These estimates are based on our historical experience, on current conditions in the financial markets and on our judgments about the future development of our salary costs and the financial markets. We review the estimates each year, and if we change them, our reported expense for pension costs may increase or decrease. In 2008, we began using nominal rates instead of real rates in preparing these estimates as a result of the cessation of inflation accounting under Mexican FRS.

In 2009, we had a net increase in the unamortized balance of actuarial gain of P.980 million in the defined benefit pension plan (DBP) and a net increase in the unamortized balance of actuarial loss of P.31 million in the medical assistance plan (MAP) in Brazil, which will be amortized over the estimated average remaining working lifetime of Embratel s employees. The net increases were primarily attributable to the variations between actual experience and the actuarial assumptions used in the computation of Embratel s DBP and MAP. Actuarial assumptions were based on our experience and future expectations with respect to retirement as well as general trends in Brazil over the past several years, including interest rates, investment returns and level of inflation, mortality rates and future employment levels.

As of December 31, 2009, 89.0% of fund assets consisted of Brazilian *reais*-denominated fixed-income securities, 7.0% consisted of variable-income securities of Brazilian companies and 4.0% of other instruments. Our actuarial assumptions as of December 31, 2009 include an assumed annual return of 11.3% on plan assets.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts based on our estimates of losses that we may experience if our customers or other telecommunications operators do not pay the amounts they owe us. At December 31, 2009, the amount of the allowance was P.5,408 million. For our customers, we perform a statistical analysis based on our past experience, current delinquencies and economic trends. For operators, we make individual estimates that may reflect our evaluation of pending disputes over amounts owed. Our allowance could prove insufficient if our statistical analysis of our customer receivables is inadequate or if one or more operators refuse or are unable to pay us. See Note 3 to our audited consolidated financial statements.

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Impairment of Long-Lived Assets and Goodwill

We have large amounts of long-lived assets on our balance sheet. Under Mexican FRS and U.S. GAAP, we are required to test long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable for plant, property and equipment and licenses and trademarks. Impairment testing for goodwill is required to be performed on an annual basis. At December 31, 2009, long-lived assets include plant, property and equipment (P.80,124 million, net of accumulated depreciation), goodwill (P.14,399 million), licenses, trademarks and indefeasible rights of use (P.14,557 million, net of accumulated depreciation). To estimate the fair value of long-lived assets, we typically make various assumptions about the future prospects for the business to which the asset relates, consider market factors specific to that business and estimate future cash flows to be generated by that business. Based on these assumptions and estimates as well as guidance provided by Mexican FRS and U.S. GAAP relating to the impairment of long-lived assets, we determine whether we need to take an impairment charge to reduce the net carrying value of the asset as stated on our balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors, such as industry and economic trends, and internal factors, such as changes in our business strategy and our internal forecasts. Different assumptions and estimates could materially impact our reported financial results. More conservative assumptions of the anticipated future benefits from these businesses could result in impairment charges, which would decrease net income and result in lower asset values on our balance sheet. Conversely, less conservative assumptions could result in smaller or no impairment charges, higher net income and higher asset values. During 2009, 2008 and 2007, we did not recognize any impairment of long-lived assets or goodwill.

Purchase Accounting Purchase Price Allocation

During 2009, 2008 and 2007, we made a number of acquisitions applying the purchase method of accounting. Accounting for the acquisition of a business under the purchase method requires the determination of the fair values of the net assets acquired and then the allocation of the purchase price to the various assets and liabilities of the acquired business, which affects goodwill recognized on our balance sheet. The most difficult estimations of individual fair values are those involving plant, property and equipment and identifiable intangible assets, such as licenses and trademarks. We use all available resources to make these fair value determinations, including the retention of appraisers to determine the fair value of trademarks and an examination of the market value of licenses with similar characteristics to determine the fair value of licenses.

Realization of Net Deferred Tax Assets

The recognition of net deferred tax assets on temporary differences mainly due to Brazilian tax losses and to the negative basis for calculating social contribution in Brazil is supported by the history of taxable income and Embratel s estimate of future profitability. Mexican FRS D-4 and ASC 740 establish the conditions for measuring and recognizing deferred tax assets. Based on Embratel s financial projections, we believe that these assets will be realized over a period of approximately five years. A future change in these projections of profitability could result in the need to record a valuation allowance against these net deferred tax assets, resulting in a negative impact on future results.

Provision for Contingencies

We are subject to proceedings, lawsuits and other claims related to tax, labor and civil matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual matter based on advice of our legal counsel. We record provisions for contingencies only when we believe that it is probable that we will incur a loss in connection with the matter in dispute. In several tax disputes with the Brazilian tax authorities, we have recognized no provisions because we do not believe a loss is probable. The total balance of probable losses is recorded as a current liability because it is not

possible to estimate the time required to reach a settlement. The required reserves for these and other contingencies may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters. Such changes could have an adverse impact on future results and cash flows.

Fair Value of Derivatives

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Exchange Rate and Interest Rate Risks

We are exposed to exchange rate risk and interest rate risk related to our indebtedness. Exchange rate risk exists principally with respect to our indebtedness denominated in currencies other than the currencies of the primary operating environments for each of our subsidiaries. As of December 31, 2009, indebtedness denominated in foreign currencies was P.17,578 million, of which P.12,614 million was denominated in U.S. dollars. Interest rate risk exists principally with respect to our indebtedness that bears interest at floating rates. We had P.22,120 million of indebtedness bearing interest at floating rates at December 31, 2009.

We use derivative financial instruments to minimize the impact of fluctuations in exchange rates affecting our indebtedness. We regularly assess our exposure and monitor opportunities to manage these risks. See Operating and Financial Review and Prospects Risk Management.

Sensitivity Analysis Disclosures

Exchange Rates

The potential loss in fair value of financial instruments held at December 31, 2009 that would have resulted from a hypothetical, instantaneous and unfavorable 10% change in currency exchange rates, taking into account our derivative transactions, would have been approximately P.2,940 million. Such a change in currency exchange rates would also have resulted in additional interest expense of approximately P.402 million per year, assuming no change in the principal amount of such indebtedness, reflecting the increased costs in local currency of servicing foreign currency indebtedness. This sensitivity analysis assumes an instantaneous unfavorable 10% change in exchange rates affecting the foreign currencies in which our indebtedness is denominated.

Interest Rates

The potential loss in fair value of financial instruments (which consisted solely of indebtedness) held at December 31, 2009 that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to such financial instruments, taking into account our derivative transactions, would have been approximately P.132 million. This effect would be fully attributable to the impact of the interest rate change on fixed-rate financial liabilities. A hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rate applicable to floating-rate financial liabilities held at December 31, 2009, taking into account our derivative transactions, would have resulted in additional interest expense of approximately P.568 million per year, assuming no change in the principal amount of such indebtedness. The above sensitivity analyses are based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial liabilities. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement with each homogeneous category. As a result, interest rate risk sensitivity analysis may overstate the impact of interest rate fluctuations for such financial instruments as consistently unfavorable.

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RECENT DEVELOPMENTS

Changes in Tax Rates

In Mexico, a general tax reform become effective on January 1, 2010, pursuant to which there will be a temporary increase in the corporate income tax rate from 28% to 30% from 2010 through 2012. This increase will be followed by a reduction to 29% for the tax year 2013 and a further reduction in 2014 to return to the current rate of 28%.

Board of Directors Changes

At the ordinary shareholders meeting held on December 15, 2009, the shareholders accepted the resignation of Eric D. Boyer from the Board of Directors. Michael Bowling and Louis C. Camilleri were appointed as independent members of the Board of Directors at such meeting.

Acquisitions and Investments

In February 2009, we paid P.77.1 million (US$5.9 million) to Pedregales del Sur, S.A. de C.V. and Inmobiliaria Carso, S.A. de C.V., both related parties, to acquire 100% of the shares of Contenido Cultural y Educativo, S.A. de C.V., which sells print advertising. As a result of this acquisition, we recorded an amount of P.26,943 as a contribution to stockholders.

In April 2009, we paid P. 247.9 million (US$18.9 million) to Impulsora para el Desarrollo y el Empleo en America Latina, S.A.B. de C.V., a related party, to acquire 51% of the shares of Eidon Software, S.A. de C.V., a software services provider. As a result of this acquisition, we recorded an amount of P.91,434 as a contribution to stockholders.

In December 2009, we acquired the remaining 20% non-controlling interest of Sección Amarilla USA, LLC for P.106.3 million (US$8.1 million).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELMEX INTERNACIONAL, S.A.B. DE C.V.

Date: March 24, 2010

By:	/s/ OSCAR VON HAUSKE SOLÍS
Name:	**Oscar Von Hauske Solís**
Title:	**Chief Executive Officer**

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EXHIBIT INDEX

Exhibits

Document filed as an exhibit to this report:

99.1	Audited Consolidated Financial Statements as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008 and 2007.

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Exhibit 99.1

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008 AND

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Telmex Internacional, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Telmex Internacional, S.A.B. de C.V. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, and changes in stockholders equity for each of the three years in the period ended December 31, 2009, the consolidated statements of cash flows for each of the two years in the period ended December 31, 2009 and the consolidated statement 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 of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Telmex Internacional, S.A.B. de C.V. and subsidiaries at December 31, 2009 and 2008, and the consolidated results of their operations for each of the three years in the period ended December 31, 2009, their consolidated cash flows for each of the two years in the period ended December 31, 2009 and consolidated changes in their financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from U.S. generally accepted accounting principles (see Note 19 to the consolidated financial statements).

As discussed in Note 2(z) to the financial statements, as of January 1, 2009, the Company adopted the new Mexican Financial Reporting Standard B-8, *Consolidated and Combined Financial Statements*, with the effects described therein. Also, as discussed in Note 2 to the financial statements, as of January 1, 2008, the Company adopted the new Mexican Financial Reporting Standards B-10, *Effects of Inflation*; B-15, *Foreign Currency Translation*; and B-2, *Statement of Cash Flows*, with the effects described therein.

Mancera, S.C.

A Member Practice of

Ernst & Young Global

/s/ David Sitt Cofradía
C.P.C. David Sitt Cofradía

Mexico City, Mexico

March 23, 2010

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands of Mexican pesos, see Note 2c)

	December 31, 2009		December 31, 2008	
Assets				
Current assets:				
Cash and cash equivalents	**P.**	**10,699,224**	P.	7,510,575
Accounts receivable, net (Note 3)		**20,462,805**		20,290,321
Related parties (Note 4)		**4,000,119**		2,465,259
Inventories for sale		**675,859**		1,976,925
Prepaid expenses and other current assets		**2,346,295**		2,503,554
Total current assets		**38,184,302**		34,746,634
Plant, property and equipment, net (Note 6)		**80,123,766**		58,479,225
Inventories for operation of the telephone plant, net		**4,000,775**		4,178,872
Licenses, trademarks and prepaid indefeasible rights of use, net (Note 7)		**14,556,572**		6,071,282
Equity investments (Note 5)		**16,766,564**		11,193,739
Deferred taxes (Note 16)		**6,098,449**		5,703,932
Goodwill, net (Note 5)		**14,399,481**		11,006,692
Other non-current assets		**170,828**		132,888
Total assets	**P.**	**174,300,737**	P.	131,513,264
Liabilities and Stockholders equity				
Current liabilities:				
Short-term debt and current portion of long-term debt (Note 8)	**P.**	**12,667,266**	P.	14,727,645
Accounts payable and accrued liabilities (Note 12)		**15,966,673**		14,182,719
Related parties (Note 4)		**3,320,070**		2,227,341
Taxes payable		**468,842**		264,457
Deferred credits (Note 11)		**4,494,451**		4,009,739
Employee benefits (Note 14)		**1,522,305**		1,223,828
Total current liabilities		**38,439,607**		36,635,729
Long-term debt (Note 8)		**21,310,434**		10,894,623
Employee benefits (Note 14)		**2,778,593**		2,285,105
Deferred credits long-term (Note 11)		**4,991,473**		
Deferred taxes (Note 16)		**7,295,658**		1,572,557
Total liabilities		**74,815,765**		51,388,014
Stockholders equity (Note 15):				
Capital stock		**16,977,642**		17,172,810
Other capital contributions		**38,037,900**		38,037,900
Retained earnings:				
Prior years		**11,215,607**		11,518,574
Current year		**9,104,501**		5,535,476

		20,320,108		17,054,050
Accumulated other comprehensive income items (Note 2r)		**20,400,517**		5,531,032
Majority stockholders equity		**95,736,167**		77,795,792
Non-controlling interest		**3,748,805**		2,329,458
Total stockholders equity		**99,484,972**		80,125,250
Total liabilities and stockholders equity	**P.**	**174,300,737**	P.	131,513,264

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

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands of Mexican pesos, except earnings per share, see Note 2c)

		Year ended December 31,	
	2009	**2008**	**2007**
Operating revenues:			
Domestic long-distance service	**P. 31,514,115**	P. 28,298,510	P. 27,083,640
Corporate networks	**21,744,480**	16,757,327	15,390,235
Local service	**15,255,365**	10,593,515	7,873,585
Yellow pages	**4,930,218**	5,518,778	5,638,733
Internet access services	**8,017,708**	5,496,491	4,381,169
International long-distance service	**3,362,373**	3,294,264	3,604,967
Pay television	**5,354,872**	3,202,715	1,043,879
Other	**2,360,955**	2,843,141	2,743,963
	92,540,086	76,004,741	67,760,171
Operating costs and expenses:			
Transport and interconnection	**32,725,808**	26,925,068	23,649,023
Cost of sales and services	**15,695,224**	12,047,733	9,802,648
Commercial, administrative and general expenses	**21,540,979**	19,141,283	16,207,483
Depreciation and amortization (Notes 6 and 7) (includes P. 9,406,928 in 2009, P. 7,247,610 in 2008 and P. 6,285,879 in 2007, not included in the cost of sales and services)	**11,526,288**	8,967,605	7,770,805
	81,488,299	67,081,689	57,429,959
Operating income	**11,051,787**	8,923,052	10,330,212
Other expense, net	**47,973**	102,434	242,692
Financing cost:			
Interest income	**(1,085,044)**	(1,265,849)	(1,216,707)
Interest expense	**2,365,641**	1,508,463	1,630,535
Exchange (gain) loss, net	**(2,372,766)**	1,878,262	3,107
Monetary gain, net			(140,781)
	(1,092,169)	2,120,876	276,154
Equity interest in net income of affiliates	**1,889,386**	190,519	689,075
Income before income tax	**13,985,369**	6,890,261	10,500,441
Income tax (Note 16)	**4,422,481**	1,259,333	3,486,763
Net income	**P. 9,562,888**	P. 5,630,928	P. 7,013,678
Distribution of net income:			
Majority interest	**P. 9,104,501**	P. 5,535,476	P. 6,463,834
Non-controlling interest	**458,387**	95,452	549,844

	P.	**9,562,888**	P.	5,630,928	P.	7,013,678
Weighted average number of shares issued and outstanding (millions)		**18,157**		18,596		19,766
Earnings per share	**P.**	**0.50**	P.	0.30	P.	0.33

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

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity

For the years ended December 31, 2009, 2008 and 2007

(In thousands of Mexican pesos, see Note 2c)

	Parent investment	Capital stock	Other capital contributions	Retained earnings	Accumulated other comprehensive income items	Total majority stockholders equity	Non-controlling interest	Comprehensive income	Total stockholders equity
Balance at December 31, 2006	P. 35,620,168	P.	P.	P. 11,885,458	P. 10,715,509	P. 58,221,135	P. 3,475,639	P.	P. 61,696,774
Increase in parent investment	19,990,005					19,990,005			19,990,005
Effect of split-up	(55,610,173)	17,828,563	37,781,610						
Cash dividend paid to non-controlling interest in subsidiary							(122,703)		(122,703)
Acquisition of non-controlling interest				9,414		9,414	(388,348)		(378,934)
Gain on dilution of investment in affiliate				1,840,815		1,840,815			1,840,815
Comprehensive income:									
Net income of the year				6,463,834		6,463,834	549,844	P. 7,013,678	7,013,678
Other comprehensive income items:									
Effect of translation of foreign entities					652,182	652,182	70,482	722,664	722,664
Effect of labor obligations, net of deferred taxes					(33,610)	(33,610)		(33,610)	(33,610)
Deficit from holding non-monetary assets, net of deferred taxes					(4,251,420)	(4,251,420)	(943,013)	(5,194,433)	(5,194,433)
Comprehensive income								P. 2,508,299	
Balance at December 31, 2007		17,828,563	37,781,610	20,199,521	7,082,661	82,892,355	2,641,901		85,534,256
Effect of adopting Mexican FRS B-10, net of deferred taxes				(2,048,626)	2,048,626				
Effect of adopting Mexican FRS D-3					75,360	75,360			75,360
Dividend declared				(2,786,482)		(2,786,482)			(2,786,482)
Cash purchase of Company s own shares		(655,753)	256,290	(3,845,839)		(4,245,302)			(4,245,302)
Cash dividends paid to non-controlling							(195,208)		(195,208)

interest in subsidiary									
Comprehensive income:									
Net income of the year				5,535,476		5,535,476	95,452	P. 5,630,928	5,630,928
Other comprehensive income items:									
Effect of translation of foreign entities, net of deferred taxes					(3,675,615)	(3,675,615)	(212,687)	(3,888,302)	(3,888,302)
Comprehensive income								P. 1,742,626	
Balance at December 31, 2008 (Note 15)		17,172,810	38,037,900	17,054,050	5,531,032	77,795,792	2,329,458		80,125,250
Dividend declared				**(3,098,073)**		**(3,098,073)**			**(3,098,073)**
Cash purchase of Company s own shares		**(195,168)**		**(2,294,732)**		**(2,489,900)**			**(2,489,900)**
Cash dividends paid to non-controlling interest in subsidiary							**(52,291)**		**(52,291)**
Transaction between entities under common control				**(445,638)**		**(445,638)**	**221,011**		**(224,627)**
Comprehensive income:									
Net income of the year				**9,104,501**		**9,104,501**	**458,387**	**P. 9,562,888**	**9,562,888**
Other comprehensive income items:									
Effect of translation of foreign entities, net of deferred taxes					14,869,485	14,869,485	792,240	15,661,725	15,661,725
Comprehensive income								**P. 25,224,613**	
Balance at December 31, 2009 (Note 15)	**P.**	**P. 16,977,642**	**P. 38,037,900**	**P. 20,320,108**	**P. 20,400,517**	**P. 95,736,167**	**P. 3,748,805**		**P. 99,484,972**

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

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(In thousands of Mexican pesos, see Note 2c)

	Year ended December 31,	
	2009	**2008**
Operating activities		
Income before income tax	**P. 13,985,369**	P. 6,890,261
Items not requiring the use of cash:		
Depreciation and amortization	**11,526,288**	8,967,605
Net period cost of labor obligations	**39,243**	48,611
Exchange (gain) loss, net	**(2,566,789)**	1,556,944
Accrued interest expense	**2,365,641**	1,508,463
Equity interest in net income of affiliates	**(1,889,386)**	(190,519)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**84,757**	(2,821,747)
Inventories for sale	**1,006,697**	(959,703)
Other accounts receivable and other assets	**1,791,488**	1,915,543
(Decrease) increase in:		
Accounts payable and accrued liabilities	**(747,500)**	(910,213)
Other liabilities	**(2,441,721)**	(279,560)
Income tax paid	**(3,468,314)**	(1,627,237)
Benefits paid to employees	**39,035**	(21,810)
Net cash flow provided by operating activities	**19,724,808**	14,076,638
Investing activities		
Acquisition of property, plant and equipment	**(15,818,370)**	(18,317,821)
Investment in intangibles	**(2,369,349)**	(1,510,908)
Investment in affiliated company	**(156,401)**	(200,600)
Acquisition of companies	**(324,910)**	(507,340)
Net cash flow used in investing activities	**(18,669,030)**	(20,536,669)
Net cash flow before financing activities	**1,055,778**	(6,460,031)
Financing activities		
New loans	**28,093,304**	12,812,577
Repayment of loans	**(20,196,990)**	(6,583,944)
Derivative financial instruments	**571,348**	(528,868)
Dividends paid	**(3,000,328)**	(2,786,482)
Interest paid	**(1,976,135)**	(1,488,959)
Dividend paid to non-controlling stockholders in subsidiary	**(21,628)**	(195,208)
Acquisition of non-controlling interest	**(106,250)**	
Repurchase of shares	**(2,489,900)**	(4,245,302)
Net cash flow generated (used) in financing activities	**873,421**	(3,016,186)

Net increase (decrease) in cash and cash equivalents		**1,929,199**		(9,476,217)
Effect of changes in cash and cash equivalents value		**1,259,450**		(281,011)
Cash and cash equivalents at beginning of year		**7,510,575**		17,267,803
Cash and cash equivalents at end of year	**P.**	**10,699,224**	P.	7,510,575

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

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statement of Changes in Financial Position

(In thousands of Mexican pesos, see Note 2c)

	Year ended December 31, 2007
Operating activities	
Net income	P. 7,013,678
Add (deduct) items not requiring the use of resources:	
Depreciation	6,436,751
Amortization	1,334,054
Deferred taxes	1,430,443
Equity interest in net income of affiliates	(689,075)
Net period cost of labor obligations	145,575
	15,671,426
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	2,032,933
Related parties, net	(981,293)
Inventories for sale	(939,106)
Prepaid expenses and others	(427,157)
Decrease in:	
Labor obligations:	
Contributions to trust fund	(338)
Payments to employees	(13,184)
Accounts payable and accrued liabilities	(414,034)
Taxes payable	(408,691)
Deferred credits	(26,628)
Resources provided by operating activities	14,493,928
Financing activities	
New loans	5,280,218
Repayment of loans	(3,771,268)
Effect of exchange rate fluctuation and variance in re-expression of debt to constant pesos	(3,816,533)
Increase in holding company investment	19,990,005
Cash dividend paid to non-controlling stockholders in subsidiaries	(147,979)
Resources provided by financing activities	17,534,443
Investing activities	
Plant, property and equipment	(12,180,470)
Licenses and trademarks	(849,763)
Inventories for operation of the telephone plant	(623,430)
Subsidiaries and affiliated companies, net	(8,364,691)
Initial balance of cash investments in subsidiaries	352,276
Resources used in investing activities	(21,666,078)

Net increase in cash and cash equivalents		10,362,293
Cash and cash equivalents at beginning of year		6,905,510
Cash and cash equivalents at end of year	P.	17,267,803

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

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

(In thousands of Mexican pesos, see Note 2c)

1. Incorporation and Description of the Business

a) Incorporation

Telmex Internacional, S.A.B. de C.V. and subsidiaries (collectively the Company or Telmex Internacional) was incorporated under Mexican law on December 26, 2007 as a result of the split-up of Teléfonos de México, S.A.B. de C.V. (Telmex), at which time each of the holders of Telmex s shares became the owner of an equal number of Telmex Internacional s shares of the corresponding class. Carso Global Telecom, S.A.B. de C.V. (Carso Global Telecom) holds the majority of the Company s voting shares (71.6% as of December 31, 2009).

The split-up of the entities comprising Telmex Internacional, S.A.B. de C.V. and its subsidiaries was approved by Telmex s stockholders at the extraordinary stockholders meeting held on December 21, 2007. On December 26, 2007, Telmex contributed all of the outstanding shares of Controladora de Servicios de Telecomunicaciones, S.A. de C.V. (Telmex s former subholding company) to Telmex Internacional. The split-up was implemented using a procedure under Mexican corporate law called escision or split-up.

All of the entities that comprise Telmex Internacional have been operating on a stand-alone basis. Costs incurred or paid by Telmex on behalf of the split-up entities prior to the split-up were charged to each entity.

Ongoing relationships between Telmex and Telmex Internacional after the split-up are limited to: i) ordinary commercial relationships arising in the normal course of business; ii) agreements relating to the execution of the split-up such as indemnification, assistance in obtaining consents, exchange of information, covenants relating to the tax treatment of the split-up and similar matters; and iii) administrative service agreements. Telmex provides Telmex Internacional these services at a fixed price based on the specific costs plus a percentage.

Prior to its incorporation, the operations of Telmex Internacional were conducted through subsidiaries of Telmex. The accompanying financial statements for these periods are presented on a consolidated basis prepared from Telmex s historical accounting records, and include the historical operations of the entities transferred to Telmex Internacional by Telmex in the split-up. Telmex and its subsidiaries net investment in Telmex Internacional and its subsidiaries have been included in these financial statements at Telmex s cost plus its equity in the undistributed earnings or losses of the contributed entities.

On January 13, 2010, América Móvil, S.A.B. de C.V. (América Móvil) announced an exchange offer to the shareholders of Carso Global Telecom, S.A.B. de C.V. (Telmex Internacional s controlling stockholder) to acquire 100% of Carso Global Telecom, through which América Móvil would acquire indirectly 59.4% of the outstanding shares of Telmex and 60.7% of the outstanding shares of Telmex Internacional. América Móvil also announced its intention to file an offering for the exchange or purchase of all of Telmex Internacional s shares that are not already owned by Carso Global Telecom (39.3%).

In the event that, at completion of the processes described above, a sufficient number of shares are obtained, América Móvil has indicated that it intends to delist both Carso Global Telecom and Telmex Internacional from the various securities markets in which their shares are registered.

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Changes in stockholders equity under U.S. GAAP for the years ended December 31, 2009, 2008 and 2007

(In thousands of Mexican pesos, see Note 2c)

On February 11, 2010 the majority of the board of the Mexican Antitrust Regulator (Comisión Federal de Competencia) unconditionally authorized América Móvil to carry out an offer to purchase all outstanding shares of Carso Global Telecom with a reciprocal subscription of América Móvil s shares, and an offer to purchase all outstanding shares of Telmex Internacional, with a reciprocal subscription of América Móvil s shares.

b) Description of the Business

Telmex Internacional is engaged in providing a wide range of telecommunications services, including voice, data and video transmission, internet access, subscription television and integrated telecommunications solutions through its subsidiaries in Argentina, Brazil, Chile, Colombia, Ecuador, Peru and Uruguay, as well as services related to yellow pages directories in Mexico, the United States, Colombia, Argentina and Peru.

An analysis of the principal subsidiaries and affiliated companies at December 31, 2009, 2008 and 2007 follows:

		% equity interest at December 31		
Company	**Country**	**2009**	**2008**	**2007**
Subsidiaries:				
Controladora de Servicios de Telecomunicaciones, S.A. de C.V. (Consertel)	Mexico	**100.0%**	100.0%	100.0%
Soporte de Servicios Integrales, S.A. de C.V.	Mexico	**100.0**	100.0	
Latam Servicios Integrales, S.A. de C.V.	Mexico	**100.0**	100.0	
Soporte Comercial de Latam Negocios, S.A. de C.V.	Mexico	**100.0**	100.0	
Contenido Cultural y Educativo, S.A. de C.V.	Mexico	**100.0**[(1)]		
Anuncios en Directorios, S.A. de C.V.	Mexico	**100.0**	100.0	100.0
Sección Amarilla USA, LLC (SAUSA)	U.S.A.	**100.0**	80.0	80.0
Embratel Participações, S.A. (Embrapar)	Brazil	**98.1**	98.0	98.0
Empresa Brasileira de Telecomunicações S.A. (Embratel)	Brazil	**97.3**	97.2	97.0
Star One, S.A.	Brazil	**77.8**	77.8	77.6
Primesys Soluçoes Empresariais, S.A.	Brazil	**97.3**	97.2	97.0
Vésper S.A.	Brazil	**[(2)]**	[(2)]	97.0
Vésper São Paulo, S.A.	Brazil	**[(2)]**	[(2)]	97.0
Telmex do Brasil Ltda.	Brazil	**98.1**	98.0	98.0
Metrored Holdings, S.R.L. (formerly MetroRed Telecomunicaciones S.R.L.)	Argentina	**96.1**	95.7	95.0
Telmex Argentina, S.A.	Argentina	**96.7**[(3)]	96.4[(3)]	95.3[(3)]
Ertach, S.A.	Argentina	**96.9**[(4)]	96.8[(4)]	95.1[(4)]
Telmex Chile Holding, S.A.	Chile	**100.0**	100.0	100.0
Telmex Corp S.A. (formerly Chilesat Corp S.A.)	Chile	**99.7**	99.7	99.7
Telmex TV, S.A.	Chile	**100.0**	100.0	100.0
Superview Telecomunicaciones, S.A.	Colombia	**99.6**	99.6	99.6
Telmex Colombia, S.A.	Colombia	**100.0**[(5)]	100.0	100.0
Network and Operation, S.A.	Colombia	**100.0**	100.0	100.0
The Now Operation, S.A.	Colombia	**100.0**	100.0	100.0
Megacanales, S.A.	Colombia	**100.0**	100.0	100.0
Cablecaribe, S.A.	Colombia	**100.0**	100.0	100.0
New Dinamic Company, S.A.	Colombia	**100.0**	100.0	
Telmex Perú, S.A.	Peru	**100.0**	100.0	100.0
Boga Comunicaciones, S.A.	Peru	**[(6)]**	[(6)]	100.0
Ecuador Telecom, S.A. (Ecutel)	Ecuador	**100.0**	100.0	100.0
Telstar, S.A.	Uruguay	**100.0**	100.0	100.0

Affiliated companies:				
Net Serviços de Comunicação S.A. (Net)	Brazil	**34.6%(7)**	34.6%(7)	34.4%(7)
Eidon Software, S.A. de C.V.	Mexico	**51.0(1)**		

(1) Companies acquired in 2009 (see Note 5).

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(2) On February 29, 2008, these companies were merged into Embratel.
(3) Corresponds to the indirect equity interest of Telmex Internacional in Telmex Argentina; the direct equity interest of Metrored Holdings, S.R.L. and Controladora de Servicios de Telecomunicaciones, S.A. de C.V. in Telmex Argentina, S.A. is 100%.
(4) Corresponds to the indirect equity interest of Telmex Internacional in Ertach; the direct equity interest of Metrored Holdings, S.R.L. and Controladora de Servicios de Telecomunicaciones, S.A. de C.V. in Ertach is 100%.
(5) On September 21, 2009 Telmex Hogar, S.A. was merged into Telmex Colombia, S.A.
(6) On February 1, 2008, Boga Comunicaciones was merged into Telmex Perú.
(7) Corresponds to the direct and indirect equity interest of Telmex Internacional in Net; the direct and indirect equity interest of Embratel Participações S.A. in Net at December 31, 2009 and 2008 is 35.3% (35.1% in 2007).

Revenues are obtained primarily from telecommunications services, which are comprised of local telephone services, domestic and international long-distance services, as well as the interconnection of domestic long-distance operators , cellular telephone companies and local service operators networks with the Telmex Internacional local network and data transmission to corporate networks, internet access, cable and satellite television and published and on-line telephone directories. Other revenues are obtained from the sale of telephone equipment principally.

Empresa Brasileira de Telecomunicações S.A. (Embratel) is the Company s most significant subsidiary. Embratel provides domestic and international long-distance services, data transmission and other services, and through its subsidiary Star One S.A. (Star One), it provides satellite services. Both companies operate under two separate concessions granted by the Brazilian federal government via the Brazilian Telecommunications Agency (ANATEL).

Under the terms of telecommunications concessions in Brazil for domestic and international long-distance services starting January 1, 2006, Embratel obtained from the Federal Government a renewal for a 20-year term concession. The cost of this license is based on 2% of the total annual revenues from switched telephone service of the year prior to when the license payment is due, net of taxes and social contributions, and is paid on a bi-annual basis. For the years ended December 31, 2009, 2008 and 2007, the cost was P. 319,981, P. 282,314 and P. 251,364, respectively, and is included in cost of sales and services. The satellite licenses are in effect through December 31, 2025, and the related license costs are paid by Star One based on a fixed annual payment of approximately P. 13.0 million. Both concessions may be renewed upon expiration.

Additionally, Telmex Internacional, in other countries, has authorization, licenses, permits and concessions (hereinafter collectively referred to as licenses) to build, install, operate and use both public and private telecommunications networks and provide telecommunication services (long distance, fixed-line telephony, satellite service and cable television) in the countries in which the Company has presence, except for in the U.S. These licenses will expire on various dates between the years 2011 and 2025.

Some of these licenses require the payment to the respective governments of a share in sales determined as a percentage of revenues from services under concession. The percentage is set as either a fixed rate or in some cases based on the number of channels in operation.

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On March 2, 2010, the Company s Audit Committee, Chief Executive Officer, General Counsel and Chief Financial Officer authorized the issuance of the accompanying consolidated financial statements and these notes as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and Management evaluated subsequent events through March 23, 2010.

2. Significant Accounting Policies

The principal accounting policies followed by the Company in the preparation of the financial statements, which are in conformity with Mexican Financial Reporting Standards (Mexican FRS), are described below:

a) Basis of consolidation and equity method

The consolidated financial statements include the accounts of Telmex Internacional, S.A.B. de C.V. and those of the subsidiaries over which the Company exercises control. The financial statements of the subsidiaries have been prepared for the same reporting period and following the same accounting policies as those of the Company. All companies operate in the telecommunications sector or provide services to companies operating in this sector.

Subsidiaries are fully consolidated from the month following the date of acquisition, and cease to be consolidated when the Company no longer has control over the subsidiary.

The equity method of accounting is used for investments in affiliated companies over which the Company exercises significant influence. This accounting method consists in general terms of recognizing the Company s proportionate share in the net income and the stockholders equity of the investee after their conversion to Mexican Financial Reporting Standards (see Note 5).

The gains and losses arising from issuances by investees of their own stock are recognized in stockholders equity.

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

b) Translation of financial statements of foreign subsidiaries and affiliates

The financial statements of the subsidiaries and affiliates located abroad were translated into Mexican pesos, as follows:

Beginning January 1, 2008, the Company adopted B-15 *Foreign Currency Translation,* which incorporates the concepts of recording currency, functional currency and reporting currency, and eliminates the concepts 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 the changes of this standard resulted in a decrease in the translation of foreign entities for 2008 of approximately P. 410,000. After the adoption, the financial statements prepared under Mexican Financial Reporting Standards reported by the subsidiaries and affiliates abroad in their functional currency are translated as follows:

i) all assets and liabilities are translated at the prevailing exchange rate at year-end;

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ii) stockholders equity accounts are translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated;

iii) revenues, costs and expenses are translated using the weighted average exchange rates;

iv) the difference resulting from the translation process is called Effect of translation of foreign entities and is included in stockholders equity as part of the caption Accumulated other comprehensive income items; and

v) the statement of cash flows was translated using the weighted average exchange rate and the effect of exchange rate changes on cash balances is separately presented in the statement of cash flows under the caption Effect of exchange rate fluctuations on cash flows.

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 restated to constant monetary values based on the inflation rate of the country in which the subsidiary operates.

Once the financial information of foreign subsidiaries and affiliates was expressed in each country s currency in constant monetary values as of December 31, 2007, the financial statements were translated into Mexican pesos as follows:

i) all assets and liabilities were translated at the prevailing exchange rate at year-end;

ii) stockholders equity accounts were translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated;

iii) income statement amounts were translated at the prevailing exchange rate at the end of the year being reported on;

iv) exchange rate variances and effect of intercompany monetary items were recorded in the consolidated statements of income; and

v) the difference resulting from the translation process is called Effect of translation of foreign entities and was included in stockholders equity as part of the caption Accumulated other comprehensive income items.

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 cash items requiring the use of resources.

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c) Recognition of the effects of inflation on financial information

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

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 2009 and 2008 financial statements are expressed in nominal pesos, except for those non-monetary items that included inflation effects through December 31, 2007. Subsequent additions are recognized at historical cost.

Capital stock, premium on sale of shares and retained earnings were restated 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 of the Mexican subsidiaries at the time the provisions of Bulletin B-10 were first applied, 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, 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 in 2008.

The net monetary position gain (loss) 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.

d) 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, and other service charges to subscribers.

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 rates authorized by the relevant regulatory bodies of each country. Revenues from international long-distance service also include the revenues earned under agreements with foreign telephone service providers or operators for the use of facilities in interconnecting international calls. These agreements specify the rates for the use of such international interconnecting facilities.

Revenues and expenses resulting from the sale of advertising in the telephone directory are recognized ratably over the period the directory is in circulation, typically twelve months. Revenues from the sale of equipment are recorded when products are delivered.

Subscription television revenue includes fees from the subscription service, connection fees, and pay-per-view services. Revenue is recorded in the month the services are provided.

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Revenues related to the sale of capacity to the affiliate NET, under a long-term indefeasible rights of use agreement, is recognized on a straight line basis over the five-year term.

e) Use of estimates

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

f) Cash and cash equivalents

Cash and cash equivalents consist principally of bank deposits and highly liquid investments with original maturities of less than 90 days. Such investments are stated at acquisition cost plus accrued interest, which is similar to their market value.

g) 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 order to reduce the risks due to exchange rate and interest rate fluctuations, the Company utilizes cross-currency interest rate swaps to fix exchange rates and interest rates on foreign-currency denominated debt being hedged; however, the Company does not apply hedge accounting rules to its derivative financial instruments.

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 uses the fair values obtained from the financial institutions, as a reference to establish the basis for recognition of the derivative instruments. Changes in the fair value of derivatives are recognized in the income statement.

h) Allowance for doubtful accounts

The allowance for doubtful accounts is computed using a statistical analysis based on the Company s past experience, current delinquencies and economic trends. With respect to accounts due from operators, the Company makes individual estimates that reflect its evaluation of pending disputes over amounts owed.

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

i) Inventories

Inventories for sale are valued using the average cost method and, through December 31, 2007, they were restated for inflation based on the National Consumer Price Index of each country. The carrying value of inventories is not in excess of their net realizable value.

Inventories for the operation of the telephone plant are valued using the average cost method and, through December 31, 2007, were restated for inflation on the basis of specific indexes. The carrying value of inventories is not in excess of their net realizable value.

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j) Plant, property and equipment

Beginning January 1, 2008 plant, property and equipment are recorded at acquisition cost. Through December 31, 2007, plant, property and equipment acquired abroad were initially recorded at acquisition cost and were then restated for inflation based on the NCPI of each country, and acquisitions of imported telephone plant and equipment were restated based on the rate of inflation of its country of origin and the prevailing exchange rate at the balance sheet date.

At December 31, 2007, approximately 74% of the value of the plant, property and equipment was restated for inflation using specific indexation factors.

Depreciation is computed on the assets carrying values using the straight-line method, based on the estimated useful lives of the related assets (see Note 6).

The carrying value of plant, property, plant and equipment is reviewed whenever there are indicators of impairment in the carrying value of such assets. Whenever an asset s recovery value, which is the greater of the asset s selling price and its value in use (the present value of future cash flows) is less than the asset s net carrying amount, the difference is recognized as an impairment loss.

For the years ended December 31, 2009, 2008 and 2007, there were no indicators of impairment in the Company s plant, property and equipment.

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

k) Leases

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

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.

l) Licenses, Trademarks and Prepaid Indefeasible Rights of Use (IRU)

The Company recognizes licenses at acquisition cost. Through December 31, 2007, licenses were restated based on the rate of inflation of each country. The amortization period is based on the terms of the licenses, which range from 5 to 29 years (see Note 7).

The Company recognizes trademarks at their estimated fair values at the time of their acquisition. Through December 31, 2007, trademarks were restated based on the rate of inflation of each country. The amortization is calculated using the straight-line method over periods ranging from one to ten years (see Note 7).

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The Company recognizes prepaid indefeasible rights of use (IRU) at acquisition cost. The amortization is calculated using the straight-line method based on the terms of the agreements, which is 5 years.

The carrying value of intangible assets with defined useful lives is reviewed whenever there are indications of impairment in the value of such assets. When there are indications of impairment in the value of intangible assets, the related loss is determined based on the recoverable values of the related assets, which is defined as the higher of the asset s net selling price or its value in use computed based on discounted cash flows. When the net carrying amount of an asset exceeds its recoverable value, the difference is recognized as an impairment loss.

Intangible assets with indefinite useful lives, including those that are not yet available for use, and intangible assets with defined useful lives whose amortization period exceeds 20 years from the date they were available for use, are tested for impairment at the end of each year.

During the years ended December 31, 2009, 2008 and 2007, no impairment losses in the carrying amount of licenses, trademarks and prepaid rights of use have been recognized.

m) Business acquisitions and goodwill

Business acquisitions are recorded using the acquisition method. The acquisition of non-controlling interests is considered a transaction between entities under common control and any difference between the purchase price and the book 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 adjusted for any impairment loss that may be determined (see Note 5). Effective January 1, 2009, the Company adopted the changes in Mexican FRS B-8 *Consolidated and Combined Financial Statements,* in accordance with these changes, the goodwill is pushed-down to the subsidiaries and recorded in the subsidiaries functional currency and translated into the parent s reporting currency at year-end exchange rates. As a result of this adoption, the Company record an effect in goodwill and effect of translation of foreign entities of P. 3,388,371.

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

For the years ended December 31, 2009, 2008 and 2007, there was no impairment in the Company s goodwill.

n) Provisions

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.

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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.

o) Employee benefits

The cost of pension benefits, seniority premiums, the medical assistance plan and legal termination payments (dismissals) 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 14).

Contributions by the Company to the defined contribution plan are recognized as an expense.

As of January 1, 2008, the Company adopted Mexican FRS D-3 *Employee Benefits*, which replaced Mexican accounting Bulletin D-3, *Labor Obligations*. As a result of the MFRS D-3 adoption, the transition liability for labor obligations at December 31, 2007 is being amortized over a maximum period of five years. Prior to December 31, 2007, the transition liability was being amortized using the straight-line method over the estimated remaining working lifetime of Telmex Internacional s employees. Prior service costs and actuarial gains and losses are being amortized over the estimated average remaining working lifetime of the Company s employees (see Note 14).

The Company recognizes an accrual for the costs of paid absences, such as vacation time, based on the accrual method.

p) Employee profit sharing

Current-year and deferred employee profit sharing is included in Other expenses, net in the income statement.

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 profit sharing is computed by applying the 10% rate to all differences between the book and tax values of all assets and liabilities. 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.

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, only when there was an indication that the related liability or asset would be realized in the future.

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q) Foreign currency transactions

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 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 conversion of foreign currency denominated balances at the balance sheet date, are charged or credited to results of operations.

See Note 13 for the Company s consolidated foreign currency position as of December 31, 2009 and 2008, and the exchange rates used to translate foreign currency denominated balances.

r) Comprehensive income

Comprehensive income consists of the net income for the year, the effects of the translation of the financial statements of foreign entities, the changes in the result from holding non-monetary assets (prior to 2008), the effect of labor obligations (prior to 2008) and the deferred taxes related to those items.

Accumulated other comprehensive income items as of December 31, 2009, 2008 and 2007, are comprised of the following:

		2009		2008		2007
Effect of translation of foreign entities	**P.**	**28,334,052**	P.	7,707,843	P.	9,206,647
Deferred taxes		**(7,933,535)**		(2,176,811)		173,551
Deficit from re-expression of stockholders equity						(2,222,177)
Labor obligations						(75,360)
	P.	**20,400,517**	P.	5,531,032	P.	7,082,661

s) Income taxes

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.

As a result of the adoption of Mexican FRS B-10, as of January 1, 2008, the financial statement amounts are no longer adjusted for the effects of inflation. However, for income tax purposes the Company continues to recognize the effects of inflation on its reported taxable income as required by current Mexican tax legislation, as well as for determining its deferred income taxes.

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.

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t) Income statement presentation

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

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

u) Statement of Cash Flows

Effective January 1, 2008, the Company adopted Mexican FRS B-2 *Statement of Cash Flows*, which 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 both statements is 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.

The statement of cash flows for the years ended December 31, 2009 and 2008 were prepared using the indirect method. The statement of cash flows is not comparable to the statement of changes in financial position for the year ended December 31, 2007.

v) Earnings per share

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

For the year ended December 31, 2007, earnings per share have been determined by dividing net income by the weighted average number of Telmex s outstanding shares, since the split-up ratio was 1:1.

w) Concentration of risk

The Company s principal financial instruments consist of bank loans, derivative financial instruments, capital leases and accounts payable. The Company has other financial assets, such as accounts receivable and short-term deposits, that are directly related to its business.

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.

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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.

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

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

A portion of excess cash is invested in time deposits in financial institutions with strong credit ratings, and is therefore exposed to risk related to the viability of such financial institutions.

The Company operates internationally and is therefore exposed to market risks related to fluctuations in exchange rates.

The Company depends upon various key suppliers and vendors and accordingly, if any of these suppliers fail to provide the Company with services or equipment on a timely and cost effective basis, the Company s business and results of operations could be adversely affected.

x) Segment information

Segment information is prepared based on information used by the Company in its decision-making processes, based on the geographical areas in which it operates (see Note 18).

y) Reclassifications

Certain captions shown in the 2008 and 2007 financial statements as originally issued have been reclassified for uniformity of presentation with the 2009 financial statements. An analysis of the effects of such reclassifications is as follows:

	As originally issued 2008	Reclassification	As reclassified 2008
Assets			
Equity investments (1)	P. 5,714,639	P. 5,479,100	P. 11,193,739
Goodwill, net (1)	16,485,792	(5,479,100)	11,006,692

	As originally issued 2007	Reclassification	As reclassified 2007
Assets			
Equity investments (1)	P. 5,932,778	P. 5,629,732	P. 11,562,510

Goodwill, net (1)	16,297,953	(5,629,732)	10,668,221

(1) Reclassification of Goodwill to Equity investments in accordance with the adoption of MFRS C-7.

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z) 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, 2009 and that affected the Company s accounting policies:

Mexican FRS B-7, *Business Combinations*

In December 2008, the CINIF issued Mexican FRS B-7, which became effective for fiscal years beginning on or after January 1, 2009. Mexican FRS B-7 replaces Mexican accounting Bulletin B-7, *Business Combinations*.

Both Mexican FRS B-7 and Mexican accounting Bulletin B-7 require the application of the purchase method for the recognition of business combinations. However, unlike Mexican accounting Bulletin B-7, this new standard requires that all of the costs incurred in a business combination be recognized in the operating results of the acquiring entity.

In certain cases, this standard allows transactions between entities under common control to be treated as business combinations, unlike Mexican accounting Bulletin B-7, which required such transactions, without exceptions, to be recorded at book value. Regarding business combinations carried out in stages, this standard also clarifies that the values recognized in the balance sheet of the buyer for its investment, net of any depreciation, amortization or impairment adjustments, are to be considered as part of the consideration paid (and not at their fair value), when determining goodwill at the time control is acquired over the investee.

The adoption of this standard did not have a material effect on the Company s financial statements and results of operations as of and for the year ended December 31, 2009.

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 intermediary 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.

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 special purpose entities over which the Company exercises control must be consolidated.

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Mexican FRS B-8 adds to Mexican FRS B-15 the specific requirement that the goodwill be pushed-down to the subsidiaries and recorded in the subsidiaries functional currency and translated into the parent s reporting currency at year-end exchange rates.

The adoption of this standard did not have material effect on the Company s financial statements and results of operations as of and for the year ended December 31, 2009, except as described in Note 2(m) and 5.

Mexican FRS C-7, *Investments in Affiliates and Other Permanent 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 permanent 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 an entity holds 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 an SPE.

In identifying the existence of significant influence, both Mexican FRS B-8 and this standard requires 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 the 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 the affiliated company must be tested for impairment when indicators of impairment exists 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 net income of unconsolidated subsidiaries and affiliates.

The adoption of this standard did not have material effects on the Company s financial statements and results of operations as of and for the year ended December 31, 2009.

Mexican FRS C-8, *Intangible Assets*

Mexican FRS C-8 replaced Mexican accounting Bulletin C-8, *Intangible Assets*, and became effective for fiscal years beginning on or after January 1, 2009.

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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.

Finally, Mexican FRS C-8 establishes the accounting treatment for disposals of intangible assets resulting from sale, abandonment or exchange. The adoption of this standard did not have a material impact on the Company s financial statements as of December 31, 2009.

ii) The most significant new accounting pronouncements that will become effective on January 1, 2011, and that could affect the Company s accounting policies, are as follows:

Mexican FRS B-5, *Financial Information by Segment*

In November 2009, the CINIF issued Mexican FRS B-5, which is effective for fiscal years beginning on or after January 1, 2011. Mexican FRS B-5 will replace Mexican accounting Bulletin B-5.

Mexican FRS B-5 establishes the criteria for identifying the segments to be reported by an entity, as well as the standards for disclosing the financial information of such segments. The standard also contains the requirements applicable to the disclosure of certain information related to the entity as a whole.

The principal changes compared to Mexican accounting Bulletin B-5 are as follows:

- Information to be disclosed Mexican FRS B-5 is management-focused, since the segment information disclosures it requires refer to the information used by the entity s most-senior business decision makers. Mexican FRS B-5 also requires the disclosure of information related to an entity s products, geographic zones, customers and suppliers.

- Business risks In identifying operating segments, this standard does not require the different areas of the business to be subject to different risks.

- Segments in the pre-operating stage Under Mexican FRS B-5, the different areas of a business in its pre-operating stage can be classified as operating segments.

- Disclosure of financial results This standard requires disclosure of interest income and expense, as well as the other comprehensive financing items.

- Disclosure of liabilities Mexican FRS B-5 requires disclosure of the liabilities included in the regular information for the operating segment that is habitually used by the entity s most-senior business decision makers.

The Company expects that this standard will not have a material impact on its determination of segments and related disclosures.

Mexican FRS B-9, *Interim Financial Information*

In November 2009, the CINIF issued Mexican FRS B-9, which is effective for fiscal years beginning on or after January 1, 2011. Mexican FRS B-9 replaces Mexican accounting Bulletin B-9, *Interim Financial Information*.

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Mexican FRS B-9 establishes that interim financial information must contain, as a minimum for each interim period, the following comparative financial statements:

Condensed statement of financial position;

Condensed income statement or statement of activities, as applicable;

Condensed statement of changes in shareholders equity;

Condensed statement of cash flows;
Notes to financial statements with select disclosures.

Mexican FRS C-9 requires the interim financial information at the end of a period to be compared to the information at the closing of the immediately prior equivalent period (except for the statement of financial position), which makes it necessary to also include a comparison with the statement at the immediately prior annual closing date.

The Company expects that this standard will not have a material impact on its financial position and results of operations.

3. Accounts Receivable

a) An analysis of accounts receivable at December 31, 2009 and 2008 is as follows:

		2009		2008
Customers	**P.**	**20,565,851**	P.	18,663,948
Link-up services		**570,443**		672,019
Recoverable taxes		**1,847,697**		1,764,660
Derivative financial instruments (Note 10)				1,025,013
Sundry debtors		**2,886,905**		2,868,303
		25,870,896		24,993,943
Less:				
Allowance for doubtful accounts		**5,408,091**		4,703,622
Net	**P.**	**20,462,805**	P.	20,290,321

b) An analysis of activity in the allowance for doubtful accounts during the years ended December 31, 2009, 2008 and 2007 is as follows:

		2009		2008		2007
Beginning balance at January 1	**P.**	**4,703,622**	P.	4,520,257	P.	4,661,878
Effect of acquired companies				26,048		63,754
Increase charged to expenses		**3,676,161**		2,702,855		2,684,271
Translation and monetary effects		**1,474,843**		(320,704)		(315,900)
Applications to the allowance		**(4,446,535)**		(2,224,834)		(2,573,746)
Ending balance at December 31	**P.**	**5,408,091**	P.	4,703,622	P.	4,520,257

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4. Related Parties

The companies mentioned in this note are considered to be related parties, since the Company s main stockholders are also either direct or indirect stockholders in such companies.

a) An analysis of balances due from/to related parties at December 31, 2009 and 2008 is as follows:

		2009		2008
Due from:				
Affiliates:				
América Móvil, S.A.B. de C.V. (América Móvil)	**P.**	**1,442,522**	P.	992,805
Net Serviços de Comunicação S.A. (Net)		**2,240,507**		1,216,397
Teléfonos de México, S.A.B. de C.V. (Telmex)		**176,922**		145,708
AT&T Corp (AT&T)		**83,413**		39,909
Grupo Carso, S.A. de C.V. (Grupo Carso)		**56,568**		70,261
Other		**187**		179
	P.	**4,000,119**	P.	2,465,259

		2009		2008
Due to:				
Affiliates:				
América Móvil	**P.**	**1,946,130**	P.	1,233,931
Net		**869,403**		644,458
Telmex		**262,330**		173,833
AT&T		**14,294**		5,157
Grupo Carso		**227,795**		169,221
Other		**118**		741
	P.	**3,320,070**	P.	2,227,341

At December 31, 2009 and 2008, *Accounts Receivable* in Note 3 includes P. 2,100,846 and P. 961,951, respectively, with América Móvil related to co-billing.

b) For the years ended December 31, 2009, 2008 and 2007, the most significant transactions with related parties were:

	2009	2008	2007
Investment and expenses:			

Purchase of materials, inventories and fixed assets (1)	**P.**	**1,080,644**	P.	927,241	P.	259,790
Billing and services (2)		**1,397,101**		1,823,494		705,478
Interconnection expenses (3)		**11,593,590**		8,000,012		5,531,302
	P.	**14,071,335**	P.	10,750,747	P.	6,496,570
Revenues:						
Sale of long distance services and other telecommunications services (4)	**P.**	**6,139,939**	P.	3,501,475	P.	2,355,277
Printing and distribution of white pages directories (5)		**794,861**		830,828		1,658,084
Sale of materials and other services (6)		**259,222**		590,932		669,324
	P.	**7,194,022**	P.	4,923,235	P.	4,682,685

(*1*) *For all three years, these transactions are comprised solely of network construction services and purchase of materials from subsidiaries of Grupo Carso and América Móvil, which are entities under common control with Carso Global Telecom, the company that controls Telmex Internacional, S.A.B. de C.V.*

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(2) In 2009, Telmex Internacional, through its subsidiaries, paid P. 997,231 (P. 1,479,216 in 2008 and P. 494,948 in 2007) to Telmex for services related to the Yellow Pages business, which include billing and collections and other administrative services, as well as an arrangement whereby the Company has access to Telmex s customer database for agreed fees.

In 2009 and 2008, the Company reimbursed Telmex US$ 24.6 million (P. 334,188) and US $ 22.5 million (P. 243,997), respectively, of the amount Telmex paid Carso Global Telecom for consulting and administrative services.

No amounts were paid in 2009 and 2008 (P. 73,489 in 2007) for financial services from subsidiaries of Grupo Financiero Inbursa, S.A.B. de C.V.

(3) Interconnection expenses include outgoing calls from fixed-line telephones to cellular telephones paid to subsidiaries of América Móvil. This includes P. 8,659,012 (P. 6,041,135 in 2008 and P. 4,949,030 in 2007) paid by Embratel for cellular interconnection to subsidiaries of América Móvil that operate under the trade name Claro in Brazil.

(4) Revenues from billings of long-distance services and other telecommunications services in 2009 include P. 3,308,185 (P. 1,854,633 in 2008 and P. 1,399,077 in 2007) from América Móvil s subsidiaries, P. 2,271,994 (P. 1,249,948 in 2008 and P. 588,542 in 2007) from Net and P. 196,462 (P. 141,467 in 2008 and P. 158,430 in 2007) from subsidiaries of AT&T.

(5) Service related to the printing and distribution of Telmex s white pages directories.

(6) In 2009 and 2008, these transactions are comprised solely of the call center services rendered to América Móvil and Net. In 2007, the transactions include P. 597,066 from the sale of construction materials to subsidiaries of América Móvil.

c) In December 2009, Embratel signed an agreement for sale of capacity for P. 6,372 million (US$ 487.9 million), through which it grants, a right to use its IP Backbone infrastructure. In addition, Embratel signed an agreement to obtain the right to use the network of local access transmission capacity from Net through its network for P.6,551 million (US$ 501.7 million). Both agreements are indefeasible rights of use (IRU) for 5 years with an option to renew them for an additional 5 years.

d) During 2009, the Company paid P. 52,046(P. 53,275 in 2008) in direct short-term benefits to its key managers and top executives.

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5. Investments

a) Equity investments

An analysis of the equity investments in affiliated companies at December 31, 2009 and 2008, and a brief description of each, is as follows:

		2009		2008
Equity investments in:				
Net Serviços de Comunicação S.A. (Net)	**P.**	**16,567,698**	P.	11,156,688
Other		**198,866**		37,051
Total	**P.**	**16,766,564**	P.	11,193,739

Net

The aggregate value of the Company s investment in Net at December 31, 2009 and 2008, based on the quoted market value of Net s shares and the number of shares held, is P. 19,246,342 and P. 14,078,035, respectively.

In February 2009, the Company paid P. 156,401 to directly and indirectly acquire additional shares in Net, to prevent the dilution of its equity interest in this affiliate resulting from the subscription of shares to other stockholders. As a result, the Company recorded goodwill in the amount of P. 156,401. Embratel s equity interest in Net is 35.3% as of December 31, 2009 and 2008.

In February 2008, Company paid P. 147,840 to directly and indirectly acquire additional shares in Net, to prevent the dilution of its equity interest in this affiliate resulting from the subscription of shares to other stockholders.

In November 2008, Company acquired 795 thousand preferred shares in Net, for which it paid P. 52,760, thus increasing its equity interest in Net to 35.3%. As a result of the 2008 acquisitions, the Company recorded goodwill in the amount of P. 162,983.

In February 2007, Company paid P. 184,094 to directly and indirectly acquire additional shares in Net, to prevent dilution of its equity interest in this affiliate resulting from the subscription of shares to other stockholders. As a result of 2007 acquisitions, the Company recorded goodwill in the amount of P. 184,094.

On June 11, 2007, following the regulatory approval granted by the Brazilian National Telecommunications Agency (ANATEL), Net completed the acquisition of the remaining 63.3% controlling interest in Vivax, S.A. (Vivax), the second largest cable television service provider in Brazil. This operation was carried out through an exchange of shares between Vivax s stockholders and Net, whereby Vivax s stockholders received 23 million shares of Net, with a market value of P. 8,625,212 (US$ 747.4 million) as payment for the shares they held in Vivax. As a result of this acquisition, Telmex Internacional s equity interest in Net was diluted from 39.9% to 35.1% on such date, giving rise to a credit of P. 1,840,815 to stockholders equity.

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Under current Brazilian law governing cable operators, Embratel is not permitted to control Net because it is itself controlled by a foreign entity. Globo Comunicação e Participações S.A. (Globo) owns a majority of the voting interests in GB Emprendimientos e Partipações, S.A., which in turn still holds the majority of the voting shares of Net. If Brazilian law changes to allow Embratel to control Net, Embratel will have the right to purchase an additional interest in GB to gain control of 51% of the voting shares of Net, and Globo shall have the right to cause Embratel to purchase such interest.

The difference between the carrying value and the Company s share of the net assets of Net corresponds to goodwill of P. 7,247,318 in 2009 and P. 5,479,100 in 2008.

b) Goodwill

Changes in the carrying amount of goodwill during the years ended December 31, 2009, 2008 and 2007 were as follows:

		2009		2008		2007
Balance at beginning of year	**P.**	**11,006,692**	P.	10,668,221	P.	3,951,987
Acquisitions				333,413		6,693,405
Purchase accounting adjustments		**4,418**		5,058		22,829
Translation effects		**3,388,371**				
Balance at end of year	**P.**	**14,399,481**	P.	11,006,692	P.	10,668,221

c) Investments in subsidiaries

As part of its strategy for expanding its business in Latin America, the Company made the investments during 2009, 2008 and 2007 shown in paragraphs d), e) and f) below. The Company pays a premium over the fair value of the net assets acquired for a variety of reasons, including the opportunity to take advantage of synergies, increase cost savings, and integrate and expand services and coverage in Latin America.

d) Investments in 2009

Contenido Cultural

In February 2009, the Company paid P. 77,050 (US$ 5.9 million) to Pedregales del Sur, S.A. de C.V. e Inmobiliaria Carso, S.A. de C.V. (related parties) to acquire 100% of the shares of Contenido Cultural y Educativo, S.A. de C.V., an entity that sells print advertising. As a result of this acquisition the Company recorded an amount of P. 26,943 as contribution to stockholders.

EIDON Software

In April 2009, Telmex Internacional paid P. 247,860 (US$ 18.9 million) to Impulsora para el Desarrollo y el Empleo en America Latina, S.A.B. de C.V. (related party) to acquire 51% of the shares of Eidon Software, S.A. de C.V., a software services provider. As a result of this acquisition the Company recorded an amount of P. 91,434 as contribution to stockholders.

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SAUSA

In December 2009, the Company acquired the remaining 20% non-controlling interest of Sección Amarilla USA, LLC for P. 106,250 (US$ 8.1 million).

e) Investments in 2008

New Dinamic

In September 2008, the Company acquired all of the assets and assumed a portion of the liabilities of Teledinámica, S.A., Organización Dinámica, S.A. and Telebarranquilla, S.A. (cable television and internet providers in Barranquilla) for P. 351,548 (US$ 30.9 million). These companies operate as New Dinamic Company S.A.

The following analysis shows the allocation of the acquisition cost over the final fair values of the net assets acquired.

	New Dinamic October 2008
Current assets	P. 14,723
Plant, property and equipment, net	68,661
Licenses and trademarks	3,015
Less:	
Current liabilities	68,264
Fair value of net assets acquired	18,135
% of equity acquired	100%
Total fair value of net assets acquired	18,135
Acquisition cost	351,548
Goodwill	P. 333,413

Pro forma financial data (unaudited)

The following unaudited pro forma consolidated financial data for 2008 and 2007 are based on the Company s historical financial statements, adjusted to give effect to (i) the acquisition mentioned in the preceding paragraphs and to (ii) certain accounting adjustments related to the net assets of the acquired companies.

The unaudited pro forma adjustments assume that the acquisition was made at the beginning of 2007 and is determined based upon available information and other assumptions that management believes are reasonable.

The unaudited consolidated pro forma financial information data does not purport to represent what the effect on the Company s consolidated operations would have been had the transactions occurred at the beginning of each year, nor are they intended to predict the Company s future results of operations.

	Unaudited pro forma consolidated Telmex Internacional information for the years ended December 31	
	2008	**2007**
Operating revenues	P. 76,016,167	P. 68,331,248
Majority net income	5,535,012	6,355,695
Earnings per majority share (in Mexican pesos):	0.30	0.32

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f) Investments in 2007

During 2007, the Company acquired several subsidiaries. The allocation of the acquisition cost over fair values of the net assets acquired at the acquisition date is as follows:

	Values at acquisition date								
	TV Cable S.A. (1) March 2007	**Cable Pacifico (1) March 2007**	**Boga March 2007**	**Ecutel March 2007**	**Telmex TV (formerly ZAPTV) August 2007**	**Ertach October 2007**	**Virtecom May 2007**	**Cable TV Companies (2) October 2007**	**Total**
Current assets	P. 422,641	P. 28,943	P. 37,473	P. 19,305	P. 47,052	P. 75,321	P.	P. 502,841	
Plant, property and equipment, net	780,806	232,109	32,535	53,379	77,456	112,736	6,867	77,810	
Licenses and trademarks	474,545	89,441	5,380	917	76,998	1,242			
Less:									
Current liabilities	1,173,450	273,726	84,183	32,410	235,710	100,066		24,274	
Long-term liabilities		3,144							
Fair value of net assets acquired	504,542	73,623	(8,795)	41,191	(34,204)	89,233	6,867	556,377	
% of equity acquired	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Total fair value of net assets acquired	504,542	73,623	(8,795)	41,191	(34,204)	89,233	6,867	556,377	P. 1,228,834
Acquisition cost	1,404,060	1,298,710	284,577	270,708	57,401	297,676	21,732	4,287,375	7,922,239
Goodwill	P. 899,518	P. 1,225,087	P. 293,372	P. 229,517	P. 91,605	P. 208,443	P. 14,865	P. 3,730,998	P. 6,693,405

(1) In November 2007, TV Cable was merged into Cable Pacífico, and the surviving company changed its name to Telmex Hogar, S.A.
(2) Network and Operation, Cable Caribe, Megacanales and The Now Operation

Embrapar

During 2007, Telmex Internacional made additional acquisitions of non-controlling interests in Embrapar totaling P. 378,934 (US$ 34.4 million), thereby increasing its ownership from 97% to 98% of all of Embrapar s ordinary shares, issued and outstanding. The aggregate carrying value of such acquisitions was P. 388,348, and the difference between the carrying value and the price paid was credited to stockholders equity.

TV Cable y Cable Pacífico

On March 13, 2007 and March 16, 2007, Telmex Internacional acquired 100% of the shares of TV Cable and Cable Pacífico for P. 1,404,060 (US$ 122.9 million) and P.1,298,710 (US$ 113 million), respectively. In November 2007, TV Cable was merged into Cable Pacífico, which then changed its name to Telmex Hogar, S.A. (Telmex Hogar), now Telmex Colombia, S.A. as of September 21, 2009.

TV Cable provides cable television, internet and IP voice services in Bogota and Cali, Colombia. Cable Pacífico operates in several states in Colombia, and has its main operation in Medellin (merged with Telmex Perú on February 1, 2008).

Boga

On March 9, 2007, Telmex Internacional paid P. 284,577 (US$ 25.0 million) to acquire 100% of the shares of Boga Comunicaciones, S.A., a cable television operator in Lima and Chiclayo in Peru.

Virtecom

On May 16, 2007, Boga Comunicaciones, S.A. acquired all the assets of Virtecom, S.A.C. and Virtecom Technology, S.R.L., which are cable television operators in Peru. The transfer of ownership of the assets included all the parts and accessories comprising the operations. The purchase price was P. 21,732 (US$ 2.0 million).

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Ecutel

On March 12, 2007, Telmex Internacional acquired 100% of the shares of Ecuador Telecom, S.A., which provides telecommunication services to corporate clients and to small and medium size companies in Guayaquil and Quito, Ecuador. The purchase price was P. 270,708 (US$ 23.6 million).

ZAP TV

On August 14, 2007, Telmex Internacional acquired 100% of the shares of ZAP TV Televisión Directa al Hogar, Ltda. (ZAP TV) for P. 57,401 (US$ 4.8 million). In December 2007, ZAP TV changed its name to Telmex TV, S.A. (Telmex TV). Telmex TV provides pay television services in Chile.

Ertach

On November 9, 2006, Telmex Internacional acquired 100% of the shares of Ertach, S.A. (Ertach) for which it paid P. 297,676 (US$ 28.3 million). This acquisition was closed in October 2007.

Ertach provides internet access and data and voice services in Argentina over a wireless network using Wireless Local Loop (WLL) and WiMax technology over the 3.5 GHz frequency.

Network and Operation, Cable Caribe, Megacanales and The Now Operation

In October 2007, through its subsidiaries, Telmex Internacional paid P. 3,733,092 (US$ 345.0 million) for all of the subscribers and 100% of the assets and a portion of the liabilities of Unión de Cableoperadores del Centro, Cablecentro, S.A., or Cablecentro (now operating as Network and Operation, S.A.), a cable television service provider. The Company also acquired 100% of the cable television subscribers of Megainvest Ltda. (now operating as Megacanales, S.A.), which produces content for cable television, and Comunicaciones Ver TV, S.A. (now operating as The Now Operation, S.A.), which publishes a television programming magazine. All of these companies operate in Colombia.

In October, 2007, the Company paid P. 554,283 (US$ 51 million) to acquire all of the subscribers, assets and a portion of the liabilities of Satelcaribe, S.A. (now operating as Cablecaribe, S.A.), a cable television service provider in Colombia.

6. Plant, Property and Equipment

a) A summary of this caption at December 31, 2009 and 2008 is as follows:

		2009		2008
Telephone plant and equipment	**P.**	**158,008,226**	P.	114,425,608
Computer equipment and other assets		**34,021,840**		23,498,881
Land and buildings		**19,432,912**		15,138,826
Construction in progress and advances		**6,178,125**		5,964,329
		217,641,103		159,027,644

Less:				
Accumulated depreciation		**137,517,337**		100,548,419
Total	**P.**	**80,123,766**	P.	58,479,225

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Construction in progress is comprised mainly of investments being made by Embratel and Star One.

In December 2009, Star One signed a contract denominated in U.S. dollars with a manufacturer for the construction and delivery in orbit of the satellite Star One C-3. The project cost is estimated to amount to approximately P. 3,526,000 (US$ 270 million).

b) Depreciation of telephone plant and equipment has been calculated at annual rates based on useful lives ranging from 5 to 30 years. The rest of the Company s assets are depreciated at rates based on useful lives ranging from 3 to 30 years. Depreciation expense charged to results of operations for the years ended December 31, 2009, 2008 and 2007 was P. 10,064,156, P. 7,695,564 and P. 6,436,751, respectively.

c) Plant, property and equipment, includes the following assets which are held under capital leases:

		2009		2008
Assets under capital leases	**P.**	**893,164**	P.	794,920
Less: Accumulated depreciation		**501,023**		225,280
Net	**P.**	**392,141**	P.	569,640

d) At December 31, 2009, Embratel has pledged property and other equipment with a carrying amount of P. 2,749,677 (P. 2,746,369 in 2008) in connection with certain legal proceedings. Also, at December 31, 2008, Star One had two fleet satellites pledged in guarantee to the Brazilian Federal Tax Agency (SRF) as a result of a review regarding the subsidiary s income tax (IRPJ) and social contributions (CSLL), with a carrying amount of P. 2,505,182.

7. Licenses, Trademarks and Prepaid Indefeasible Rights of Use

a) An analysis of licenses, trademarks and prepaid indefeasible rights of use at December 31, 2009 and 2008 is as follows:

		2009		2008
Licenses and prepaid indefeasible rights of use, net	**P.**	**12,740,656**	P.	4,336,372
Trademarks, net		**1,815,916**		1,734,910
Total	**P.**	**14,556,572**	P.	6,071,282

Amortization expense associated with licenses, trademarks and prepaid rights of use is expected to be approximately P. 2,700,000 in each of the next five years.

b) Licenses and prepaid indefeasible rights of use

Telmex Internacional has software licenses, licenses for use of point-to-point and point-to-multipoint links and the indefeasible right to use transmission capacity and databases.

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An analysis of these investments in 2009 is as follows:

	Balance at January 1, 2009	Acquisitions and amortization of the year	Translation effect	Balance at December 31, 2009
Investment	**P. 14,249,563**	**P. 8,781,014**	**P. 3,526,623**	**P. 26,557,200**
Accumulated amortization	**(9,913,191)**	**(1,178,178)**	**(2,725,175)**	**(13,816,544)**
Net	**P. 4,336,372**	**P. 7,602,836**	**P. 801,448**	**P. 12,740,656**

In 2009, the investment corresponds primarily to the acquisition of the indefeasible right to use transmission capacity and point-to-point links.

An analysis of these investments in 2008 is as follows:

	Balance at January 1, 2008	Effect of acquired companies	Acquisitions and amortization of the year	Translation effect	Balance at December 31, 2008
Investment	P. 13,270,780	P. 3,015	P. 1,510,908	P. (535,140)	P. 14,249,563
Accumulated amortization	(9,404,963)		(1,031,505)	523,277	(9,913,191)
Net	P. 3,865,817	P. 3,015	P. 479,403	P. (11,863)	P. 4,336,372

In 2008, the investment corresponds primarily to the acquisition of point-to-point links, the right to use databases and the acquisition of software licenses.

An analysis of these investments in 2007 is as follows:

	Balance at January 1, 2007	Effect of acquired companies	Acquisitions and amortization of the year	Translation effect	Balance at December 31, 2007
Investment	P. 12,346,197	P. 226,236	P. 615,050	P. 83,297	P. 13,270,780
Accumulated amortization	(8,223,108)		(1,115,693)	(66,162)	(9,404,963)
Net	P. 4,123,089	P. 226,236	P. (500,643)	P. 17,135	P. 3,865,817

In 2007, the investment corresponds primarily to the acquisition of rights-of-way and software licenses.

c) Trademarks

At December 31, 2009, the Company has recorded amounts for the trademarks of certain acquired foreign companies, which were recognized at their fair value at the date of acquisition.

An analysis of these investments in 2009 is as follows:

	Balance at January 1, 2009	Acquisitions and amortization of the year	Translation Effect	Balance at December 31, 2009
Investment	P. 2,480,796	P. 1,679	P. 560,944	P. 3,043,419
Accumulated amortization	(745,886)	(283,954)	(197,663)	(1,227,503)
Net	P. 1,734,910	P. (282,275)	P. 363,281	P. 1,815,916

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An analysis of these investments in 2008 is as follows:

	Balance at January 1, 2008	Purchase accounting adjustments	Acquisitions and amortization of the year	Translation Effect	Balance at December 31, 2008
Investment	P. 2,327,305	P. 193,326	P.	P. (39,835)	P. 2,480,796
Accumulated amortization	(471,788)		(240,536)	(33,562)	(745,886)
Net	P. 1,855,517	P. 193,326	P. (240,536)	P. (73,397)	P. 1,734,910

An analysis of the changes in 2007 is as follows:

	Balance at January 1, 2007	Effect of acquired companies	Purchase accounting adjustments	Acquisitions and amortization of the year	Translation effect	Balance at December 31, 2007
Investment	P. 1,772,413	P. 422,287	P. 75,902	P.	P. 56,703	P. 2,327,305
Accumulated amortization	(250,769)			(218,361)	(2,658)	(471,788)
Net	P. 1,521,644	P. 422,287	P. 75,902	P. (218,361)	P. 54,045	P. 1,855,517

8. Debt

a) An analysis of the Company's debt is as follows:

	Weighted-average interest rate at December 31,		Maturities from	Balance at December 31,	
	2009	2008	2010 through	2009	2008
U.S. dollar denominated debt:					
Banks	**2.6%**	3.4%	2014	**P. 12,209,057**	P. 13,053,784
Suppliers credit lines	**4.3%**	5.8%	2014	**351,186**	397,492
Capital leases	**7.0%**	6.7%	2011	**53,378**	71,592
Total U.S. dollar denominated debt:				**12,613,621**	13,522,868
Debt denominated in Brazilian reals:					
Banks	**9.4%**	17.0%	2019	**2,800,105**	4,924,091

Total Brazilian real denominated debt				**2,800,105**	4,924,091
Mexican peso denominated debt:					
Banks (domestic senior notes):	**5.9%**	10.1%	2014	**15,000,000**	5,500,000
Banks:	**5.8%**		2010	**1,400,000**	
Total Mexican peso denominated				**16,400,000**	5,500,000
Debt denominated in other foreign currencies:					
Banks	**4.9%**	11.7%	2018	**1,645,089**	1,140,906
Capital leases	**8.4%**	15.3%	2019	**518,885**	534,403
Total debt denominated in other foreign currencies				**2,163,974**	1,675,309
Total debt				**33,977,700**	25,622,268
Less: Short-term debt and current portion of long-term debt				**12,667,266**	14,727,645
Long-term debt				**P. 21,310,434**	P. 10,894,623

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The amount of the Company s consolidated debt is within the cap set by the Board of Directors.

The rates shown in the table above are subject to market variances and do not include the effect of the Company s agreement to reimburse certain lenders for Mexican taxes withheld.

The Company s short-term debt and the current portion of long-term debt is P. 12,667,266 at December 31, 2009 and P. 14,727,645 at December 31, 2008.

The weighted average cost of borrowed funds at December 31, 2009 and 2008 (including interest, fees, commissions and taxes withheld) was approximately 5.1% and 8.3%, respectively.

b) Domestic senior notes

On November 27, 2008, the National Banking and Securities Commission of Mexico (CNBV) authorized the Company to open a revolving dual domestic senior note program (Certificados Bursátiles). The amount authorized under the program is P. 10,000,000 or its equivalent in monetary investment units (UDIs) on the date of issuance. This program is revolving, though the sum of outstanding issuances on a given date may not exceed the authorized amount.

On September 4, 2009 the Company issued its first series of the year of peso-denominated senior notes (Certificados Bursátiles) authorized by CNBV, in an aggregate principal amount of P. 5,000,000 which will mature in August 2012. The interest rate of this issue is TIIE (Tasa de Interés Interbancaria de Equilibrio) for 28 days plus 135 base points. Interest is paid every 28 days.

On December 4, 2009, the Company issued a second series of the year 2009, of peso-denominated senior notes (Certificados Bursátiles) authorized by CNBV, in an aggregate principal amount of P. 5,000,000 which will mature in November 2014. The interest rate of this issue is TIIE (Tasa de Interés Interbancaria de Equilibrio) for 28 days plus 150 base points. Interest is paid every 28 days.

On November 27, 2009, CNBV authorized the increase of the original amount of the senior notes up to P. 20,000,000, or its equivalent in UDI s (Unidades de Inversión). On December 11, 2009, the Company issued peso-denominated short-term senior notes (Certificados Bursátiles) in an aggregate principal amount of P. 5,000,000 which matured in January 2010. The interest rate of this issue is 5.07% for 40 days.

The maximum term for issuing domestic senior notes under the program is five years as of the authorization date.

Maturities of each long-term issuance shall be between one and forty years. Maturities of short-term senior notes shall not exceed 365 days.

At December 31, 2009, the Company has outstanding the following domestic senior notes:

Amount	Issuance date	Maturity date	Term (days)	Interest rate
P. 5,000,000	**Sep-4-09**	**Aug-30-12**	**3 years**	**TIIE+135 bps**
5,000,000	**Dec-4-09**	**Nov-27-14**	**5 years**	**TIIE+150 bps**
5,000,000	**Dec-11-09**	**Jan-20-10**	**40 days**	**5.07%**
P. 15,000,000				

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c) Restrictions

A portion of Embratel s debt is subject to certain restrictive covenants 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, 2009, the subsidiary has complied with all these restrictions.

A portion of Embratel s 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 subsidiary.

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 the Company or Carso Global Telecom (Telmex Internacional s controlling stockholder) or its controlling current stockholders continue to control the majority of Embratel s voting shares.

d) Lines of credit

At December 31, 2009, Embratel had unused lines of credit of P. 248,000 (US$ 19 million) available with a 4.5% annual interest.

e) Foreign currency denominated debt

An analysis of the foreign currency denominated debt at December 31, 2009, is as follows:

Currency	Foreign currency (in thousands)	Exchange rate at December 31, 2009 (in units)	Equivalent in Mexican pesos
U.S. dollar	**965,917**	**P. 13.0587**	**P. 12,613,621**
Brazilian real	**373,356**	**7.4998**	**2,800,105**
Other currency			**2,163,974**
Total			**P. 17,577,700**

f) Long-term debt

Maturities of long-term debt at December 31, 2009 are as follows:

Year	Total
2011	**P. 5,174,517**
2012	**8,204,035**
2013	**1,906,033**
2014	**5,772,506**

2015		**145,837**
2016 and thereafter		**107,506**
Total	**P.**	**21,310,434**

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g) Credit agreements

Most of the Company s credit agreements include cross-default provisions and cross-acceleration provisions that would permit the holders of such indebtedness to declare the indebtedness to be in default and to accelerate the maturity thereof if a significant portion of the principal amount of the Company s debt is in default or accelerated. The terms of these agreements restrict the ability of the Company s subsidiaries to grant liens, pledge assets, sell or dispose of assets and make certain acquisitions, mergers or consolidations. Under a number of these agreements, the Company is required to maintain certain specified financial ratios. At December 31, 2009, the Company has complied with all these financial ratios.

h) Subsequent event - Embratel

In January 2010, Embratel paid at maturity of P. 1,312 million (US$ 100.5 million) aggregate principal amount of a one-year bank loan.

In January 2010, Embratel signed a loan agreement with Banco Safra (BNDES FINAME) for P.71,300 (R$ 9.5 million) for a period of 5 years with an annual interest fixed rate equal to 4.5%.

9. Capital Leases

a) At December 31, 2009 and 2008, the Company has capital leases for machinery and equipment.

b) Minimum lease payment obligations of future years under the leases at December 31, 2009 are as follows:

		2009
2010	P.	156,943
2011		163,530
2012		119,562
2013		116,497
2014		67,065
2015 and thereafter		146,471
Total		770,068
Less: unaccrued interest		197,805
Present value of minimum payments		572,263
Less: Short-term portion of capital lease obligations		105,796
Long-term capital lease obligations	P.	466,467

10. Derivative Financial Instruments

Embratel uses derivative financial instruments (cross-currency interest rate swaps) to protect itself from the financial effects of Brazilian real/U.S. dollar exchange rate and interest rate fluctuations in connection with its U.S. dollar denominated loans. For the years ended

December 31, 2009, 2008 and 2007, Embratel recognized a loss (gain) of P. 1,670,060, P. (2,576,776), and P. 2,828,752, respectively, in results of operations in exchange (gain) loss, net for changes in the fair value of such instruments.

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At December 31, 2009 and 2008, the financial instruments contracted by the Company are as follows:

2009

Financial instrument	Notional amount	Fair value
Cross-Currency swaps	**US$ 528,083**	**P. (1,094,223)**

2008

Financial instrument	Notional amount	Fair value
Cross-Currency swaps	US$ 216,871	P. 1,025,013

The Company s financial derivative instruments are acquired in the over-the-counter markets. The Company and its subsidiaries have entered into agreements only with well-known and financially strong financial institutions and counterparties. As a result, Telmex Internacional is able to balance its risk positions with its counterparties. The Company s counterparties are local banks in the countries in which Telmex Internacional operates and have at least credit ratings of A on the Fitch scale, A2 on the Moody s scale, and A on the Standard & Poor s scale.

The Company and its subsidiaries have no contractual obligations for derivative financial instruments for which they must provide pledges to guarantee margin calls.

11. Deferred Credits

At December 31, 2009 and 2008, deferred credits consist of the following:

	2009	2008
Advance billings	**P. 2,497,110**	P. 3,412,003
Advances from services (IRU)	**6,265,892**	
Advances from subscribers and others	**722,922**	597,736
Total	**9,485,924**	4,009,739
Less: Short-term deferred credits	**4,494,451**	4,009,739
Long-term deferred credits	**P. 4,991,473**	P.

12. Accounts payable and Accrued Liabilities

An analysis of accounts payable and accrued liabilities at December 31, 2009 and 2008 is as follows:

		2009		2008
Suppliers	**P.**	**11,519,806**	P.	11,312,769
Accruals for contingencies		**1,979,784**		1,969,999
Derivative financial instruments (Note 10)		**1,094,223**		
Sundry creditors		**125,436**		74,596
Link-up services		**418,032**		437,036
Accrued interest		**274,412**		236,628
Other		**554,980**		151,691
	P.	**15,966,673**	P.	14,182,719

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Changes in the Company s principal accruals for contingencies during the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Balance at beginning of year	**P. 1,969,999**	P. 5,399,516	P. 8,386,396
Increase through charge to expenses	**814,278**	354,137	350,832
Payments	**(1,390,565)**	(3,466,215)	(2,941,183)
Translation effects	**586,072**	(317,439)	(396,529)
Balance at end of year	**P. 1,979,784**	P. 1,969,999	P. 5,399,516

13. Foreign Currency Position and Transactions

At December 31, 2009 and 2008, the Company had the following foreign currency denominated assets and liabilities:

	Foreign currency (in millions)			
	2009	Exchange rate at December 31, 2009	2008	Exchange rate at December 31, 2008
Assets:				
U.S. dollars	**194**	**P. 13.06**	234	P. 13.54
Argentinean peso	**171**	**3.44**	247	3.92
Brazilian real	**4,289**	**7.50**	4,107	5.79
Chilean peso	**45,282**	**0.03**	60,172	0.02
Colombian peso	**287,209**	**0.01**	144,363	0.01
Peruvian sol	**189**	**4.52**	350	4.31
Liabilities:				
U.S. dollars	**1,165**	**P. 13.06**	1,312	P. 13.54
Argentinean peso	**172**	**3.44**	182	3.92
Brazilian real	**3,687**	**7.50**	2,516	5.79
Chilean peso	**64,797**	**0.03**	51,031	0.02
Colombian peso	**469,644**	**0.01**	355,663	0.01
Peruvian sol	**148**	**4.52**	99	4.31

At March 23, 2010, the exchange rates are as follows:

Currency	Exchange rate
U.S. dollars	P. 12.58
Argentinean peso	3.26
Brazilian real	6.98
Chilean peso	0.02
Colombian peso	0.01

Peruvian sol	4.43
Euro	17.02

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14. Employee Benefits

a) Short-term

An analysis of short-term employee benefits at December 31, 2009 and 2008 is as follows:

		2009		2008
Vacation accrual	**P.**	**665,930**	P.	544,011
Sundry contractual benefits		**668,776**		492,811
Other employee benefits		**187,599**		187,006
Total	**P.**	**1,522,305**	P.	1,223,828

b) Long-term

Brazil

Embratel has established a defined-benefit pension plan (DBP) and a defined-contribution plan (DCP) that covers substantially all of its employees, as well as a medical assistance plan (MAP) for its DBP participants. Liabilities (assets) recorded at December 31, 2009 and 2008 for such plans are as follows:

		2009		2008
Defined-benefit pension plan (DBP)	**P.**	**(531,903)**	P.	(169,498)
Medical assistance plan (MAP)		**2,871,369**		1,973,695
Defined-contribution plan (DCP)		**435,173**		477,763
Total	**P.**	**2,774,639**	P.	2,281,960

DBP is determined on the basis of compensation of employees in their final year of employment, their seniority, and their age at the time of retirement. The Company has established funds for these labor obligations through Fundação Embratel de Seguridade Social - Telos, an independent entity that manages these types of funds.

Unrecognized gains and losses are being amortized over a period of 14 years, the estimated average remaining working lifetime of the Company s employees.

Defined-benefit and medical assistance plans

An analysis of net period cost of Embratel s benefit plans for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009		2008		2007	
	DBP	**MAP**	**DBP**	**MAP**	**DBP**	**MAP**
Labor cost	**P. 195**	**P. 135**	P. 382	P. 52	P. 368	P. 49
Financial cost of benefit obligation	**1,016,279**	**322,635**	701,779	243,232	749,691	256,807
Expected return on plan assets	**(1,235,739)**	**(11,475)**	(876,485)	(16,614)	(849,446)	(26,121)
Amortization of (gains) losses	**(92,893)**	**4,905**	(43,494)	7,207	(9,447)	10,828
Net period (benefit) cost	**P. (312,158)**	**P. 316,200**	P. (217,818)	P. 233,877	P. (108,834)	P. 241,563

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A summary of the defined-benefit plan and medical assistance plan obligation at December 31, 2009 and 2008 is as follows:

	2009		2008	
	DBP	**MAP**	**DBP**	**MAP**
Present value of labor obligations:				
Vested benefit obligation	**P. 9,385,959**	**P. 3,173,777**	P. 7,598,503	P. 2,365,848
Defined benefit obligation	**P. 9,385,959**	**P. 3,173,777**	P. 7,598,503	P. 2,365,848

An analysis of changes in defined-benefit plan and medical assistance plan obligations during the years ended December 31, 2009 and 2008 is as follows:

	2009		2008	
	DBP	**MAP**	**DBP**	**MAP**
Defined benefit obligation at beginning of year	**P. 7,598,503**	**P. 2,365,848**	P. 7,204,148	P. 2,443,216
Labor cost	**195**	**135**	382	52
Financial cost on obligations	**1,016,279**	**322,635**	701,779	243,232
Actuarial (gain) loss	**(579,422)**	**(73,858)**	675,890	(96,535)
Payments from trust fund	**(888,347)**	**(138,034)**	(582,570)	(88,077)
Translation effects	**2,238,751**	**697,051**	(401,126)	(136,040)
Defined-benefit plan obligation and obligations under medical assistance plan at end of year	**P. 9,385,959**	**P. 3,173,777**	P. 7,598,503	P. 2,365,848

An analysis of changes in plan assets for the years ended December 31, 2009 and 2008 is as follows:

	2009		2008	
	DBP	**MAP**	**DBP**	**MAP**
Fair value of plan assets at beginning of year	**P. 9,172,387**	**P. 128,408**	P. 8,921,064	P. 214,975
Expected return on plan assets	**1,235,739**	**11,475**	876,485	16,614
Actuarial gain (loss)	**79,281**	**(31,694)**	453,797	(3,163)
Payments from trust fund	**(888,347)**	**(138,034)**	(582,570)	(88,077)
Contributions to fund	**442**	**37**	337	29
Translation effects	**2,702,465**	**37,833**	(496,726)	(11,970)
Fair value of plan assets at end of year	**P. 12,301,967**	**P. 8,025**	P. 9,172,387	P. 128,408

At December 31, 2009, 89% (81% in 2008) of plan assets were invested in fixed-yield securities, 7% (14% in 2008) in variable-yield securities, and the remainder in other investments.

An analysis of the net projected liability for the pension plan and medical assistance plan for the years ended December 31, 2009 and 2008 is as follows:

	2009		2008	
	DBP	**MAP**	**DBP**	**MAP**
(Overfunding) underfunding of obligation	**P. (2,916,008)**	**P. 3,165,752**	P. (1,573,884)	P. 2,237,440
Unamortized actuarial gain (loss)	**2,384,105**	**(294,383)**	1,404,386	(263,745)
Net projected (asset) liability	**P. (531,903)**	**P. 2,871,369**	P. (169,498)	P. 1,973,695

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The rates used in the actuarial calculations at December 31, 2009, 2008 and 2007 are as follows:

	2009 Nominal rates %	2008 Nominal rates %	2007 Real rates %
Discount of labor obligations:			
Long-term average	**11.3**	10.8	6.0
Salary increase:			
Long-term average	**4.5**	4.5	
Return on plan assets	**11.3**	10.8	6.0
Annual inflation:			
Long-term average	**4.5**	4.5	

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).

Defined contribution plan

Embratel makes contributions to its defined contribution plan through Embratel Social Security Fund Telos. Plan contributions are computed based on the salary of each employee. Participants choose their own contribution percentage (between 3% and 12% of the worker s salary), and Embratel matches the employee s percentage, though its contribution is capped at 8% of the participant s salary. All employees are eligible to participate in this plan.

The unfunded liability represents Embratel s obligation for those participants that migrated from the DBP to the DCP. Such liability is being amortized over a period of 20 years starting on January 1, 1999. Unpaid balances are adjusted monthly based on the return on the portfolio assets at that date, which is subject to a yearly increase based on the Brazilian general price index plus 6 percentage points per annum. At December 31, 2009, the balance of the DCP obligation amounted to P. 435,173 (P. 477,763 in 2008).

Pensions and seniority premiums - Mexico

Substantially all of the Company s employees in Mexico are covered under defined benefit retirement and seniority premium plans. Pension benefits are determined on the basis of compensation of employees in their final year of employment, their seniority, and their age at the time of retirement.

The Company has set up an irrevocable trust fund to finance its plans and has adopted the policy of making annual contributions to such fund.

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The transition liability, prior service cost and unrecognized actuarial gains and losses are being amortized over 5 years, which is the average remaining service period of the covered employees. The most relevant information related to employee benefits is as follows:

Analysis of net period cost

	2009	2008	2007
Labor cost	**P. 19,665**	P. 20,053	P. 6,784
Financing cost on projected benefit obligation	**58,000**	55,098	22,146
Expected return on plan assets	**(52,132)**	(50,236)	(18,582)
Amortization of past services	**1,391**	1,429	1,049
Amortization of variances in actuarial assumptions	**7,688**	5,679	1,253
Net period cost	**P. 34,612**	P. 32,023	P. 12,650

Analysis of the defined benefit obligation

	2009	2008
Actuarial present value of labor obligation:		
Vested benefit obligation	**P. 292,512**	P. 298,174
Unvested benefit obligation	**403,510**	344,257
Defined benefit obligation	**P. 696,022**	P. 642,431

Analysis of changes in the defined benefit obligation

	2009	2008
Defined benefit obligation at beginning of year	**P. 642,431**	P. 367,972
Labor cost	**19,665**	20,053
Financial cost on defined benefit obligation	**58,000**	55,098
Actuarial loss	**2,187**	14,287
Direct payments to employees	**(26,261)**	(21,801)
Transfers		206,822
Defined benefit obligation at end of year	**P. 696,022**	P. 642,431

Analysis of changes in plan assets

	2009	2008
Established fund at beginning of year	**P. 540,362**	P. 278,279
Expected return on plan assets	**52,133**	50,236
Actuarial loss	**(23,864)**	(4,451)
Contributions to trust fund	**7,948**	
Transfers		216,298
Established fund at end of year	**P. 576,579**	P. 540,362

Analysis of the net projected liability

	2009	2008
Unfunded defined benefit obligation	**P. 119,443**	P. 102,069
Transition liability	**(4,316)**	(5,536)
Unamortized actuarial loss	**(114,513)**	(96,139)
Net pension and seniority premium liability	**P. 614**	P. 394

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The rates used in the actuarial calculations at December 31, 2009, 2008 and 2007 are as follows:

	2009 Nominal rates %	2008 Nominal rates %	2007 Real rates %
Discount of labor obligations:			
Long-term average	**9.2**	9.2	5.51
Salary increase:			
Long-term average	**4.5**	4.5	0.97
Return on plan assets	**9.2**	9.2	5.51

Dismissals

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

Analysis of net period cost

	2009	2008	2007
Labor cost	**P. 299**	P. 190	P. 178
Financing cost on projected benefit obligation	**223**	130	90
Actuarial loss	**67**		
Amortization of past services		209	(72)
Net period cost	**P. 589**	P. 529	P. 196

Analysis of labor obligations for dismissals

	2009	2008
Defined benefit obligation	**P. 3,340**	P. 2,751
Net projected liability	**P. 3,340**	P. 2,751

A reconciliation of the recorded liability is as follows:

	2009	2008

Balance at beginning of year	**P.**	**2,751**	P.	2,222
Net period cost		**589**		529
Balance at end of year	**P.**	**3,340**	P.	2,751

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15. Stockholders Equity

a) The shares of Telmex Internacional were authorized and issued pursuant to the Telmex stockholders meeting held on December 21, 2007, in which the split-up was approved (see Note 1a). At December 31, 2009 and 2008, capital stock is represented by 18,015 million and 18,323 million common shares issued and outstanding, respectively, with no par value, representing the Company s fixed capital. An analysis is as follows:

		2009		2008
8,115 million Series AA shares	**P.**	**10,555,469**	P.	10,555,469
394 million Series A shares (415 in 2008)		**600,472**		633,651
9,506 million Series L shares with limited voting rights (9,793 in 2008)		**5,821,701**		5,983,690
Total	**P.**	**16,977,642**	P.	17,172,810

An analysis of the changes in 2009 and 2008 is as follows:

	Capital stock (1)								
	Series AA			Series A			Series L		
	No. of shares		Amount	No. of shares		Amount	No. of shares		Amount
Balance at December 31, 2007	8,115	P.	10,555,469	430	P.	655,799	10,815	P.	6,617,295
Cash purchase of Company s own shares (2)				(3)		(4,937)	(1,034)		(650,816)
Conversion of shares				(12)		(17,211)	12		17,211
Balance at December 31, 2008	8,115	P.	10,555,469	415	P.	633,651	9,793	P.	5,983,690
Cash purchase of Company s own shares				**(5)**		**(8,131)**	**(303)**		**(187,037)**
Conversion of shares				**(16)**		**(25,048)**	**16**		**25,048**
Balance at December 31, 2009	**8,115**	**P.**	**10,555,469**	**394**	**P.**	**600,472**	**9,506**	**P.**	**5,821,701**

(1) Number of shares in millions

(2) Includes 414 million Series L shares and 1 million Series A shares, acquired through Telmex, as explained in paragraph c) of this Note.

Each A share can be converted into one L share at the option of the holder at any time. Each AA share is convertible into one L share at the option of the holder at any time, provided that the AA shares do not represent less than 20% of the total capital stock. The AA shares may be owned only by holders that qualify as Mexican investors as provided in the bylaws of the Company. Series A common shares, which may be freely subscribed, must not exceed more than 19.6% of capital stock and no more than 49% of the common shares of total capital stock. Series L shares, which have limited voting rights may be freely subscribed and, in a percentage when combined with the Series A shares, may not exceed 80% of capital stock.

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Voting rights

Each 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 any stockholders meeting 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 have the right to vote on the following matters:

The transformation of Telmex Internacional from one type of entity to another;

Any merger in which Telmex Internacional is not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of Telmex Internacional (when Telmex Internacional is the surviving entity); and

Cancellation of the registration of Telmex Internacional s shares in the securities or special sections of the Mexican National Securities Registry and in any other foreign stock exchanges in which they are registered.

On the basis of a resolution passed by Special Stockholders Meeting called for such purpose, holders of Series L shares shall be entitled to appoint up to two directors and their corresponding alternate directors.

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, 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 would be entitled to request judicial relief against any stockholders resolution with respect to those resolutions for which such stockholders have the right to vote. The determination of whether a matter requires the vote by the holders of Series L under such basis would initially be made by the board of directors or by any other party that calls a stockholders meeting to decide on the resolution. A negative decision would be subject to judicial challenge by any affected stockholder, and a court would ultimately determine the necessity for a class vote. There are no other procedures for determining whether a proposal requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

b) At a regular meeting held on April 29, 2009, the stockholders agreed to declare a cash dividend of P. 3,098,073, equal to P. 0.17 per outstanding share, payable in two installments on August 20 and November 5, 2009.

At a regular meeting held on July 9, 2008, the shareholders agreed to declare a cash dividend of P. 2,786,482, equal to P. 0.15 per outstanding common share, payable in two installments on August 26 and November 22, 2008.

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c) From the date on which Telmex Internacional was incorporated until the date the shares of Telmex Internacional and Telmex began to trade separately, Telmex continued acquiring both its own shares, which at the time represented both shares of Telmex and shares of Telmex Internacional, by an amount equivalent to P. 3,571,744 corresponding to 414 million Series L shares and 1 million Series A shares of 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 of Telmex were transferred by Telmex to Telmex Internacional as part of the split-up in cash and cash equivalents (inflow). Telmex Internacional then paid Telmex for the value of the shares that Telmex acquired in the name of Telmex Internacional (outflow), and the related amounts and treasury shares of both companies were adjusted accordingly. At a regular stockholders meeting held on July 9, 2008, the stockholders authorized P. 10,000,000 for the purchase of the Company s own shares and as of such date, the Company initiated a program to purchase its own shares.

In addition, during 2008, the Company acquired 620.1 million Series L shares for P. 4,230,648 and 2.2 million Series A shares for P. 14,654. The cost of the repurchased shares, in the amount that exceeds the portion of capital stock corresponding to the repurchased shares, is allocated to retained earnings.

At a regular stockholders meeting held on April 29, 2009, the stockholders authorized an increase of P. 5,000,000 for the purchase of the Company s own shares.

In addition, during 2009, the Company acquired 303.4 million Series L shares for P. 2,448,413 and 5.3 million Series A shares for P. 41,487. The cost of the repurchased shares, in the amount that exceeds the portion of capital stock corresponding to the repurchased shares, is allocated to retained earnings.

d) In conformity with the Mexican Corporations Act, at least 5% of net income of the year approved by the stockholders must be appropriated to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of capital stock. At December 31, 2009, the legal reserve is P. 2,910,431 and is included in retained earnings.

e) The terms of the split-up established that neither Telmex Internacional nor Telmex 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 as they held in Telmex. Consequently, both companies were owned by the same stockholders.

16. Income Tax and Flat-rate Business Tax

a) The Mexican Flat-rate Business Tax (FRBT) Law was published on October 1, 2007. On January 1, 2008, the Law became effective and abolished the Asset Tax Law. This FRBT law is only applicable to income generated in Mexico.

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

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FRBT is payable only to the extent it exceeds income tax for the same period.

For the years ended December 31, 2009 and 2008, the Company had no FRBT payable and, based on its taxable income projections, estimates that it will not be subject to the payment of FRBT in subsequent years.

On December 7, 2009, a decree amending the Mexican Income Tax Law for 2010 was enacted, and it became effective as of January 1, 2010. The main change applicable to the Company is related to the tax rate, which includes a temporary increase of 2% for all taxpayers. The Corporate income tax rate will increase to 30% from 2010 to 2012, decrease to 29% in 2013 and then return to 28% in 2014.

b) For the years ended December 31, 2009 , 2008 and 2007 income tax expense is as follows:

Income tax (*Foreign entities*):

	2009	2008	2007
Current	**P. 3,564,738**	P. 117,360	P. 1,139,840
Deferred	**767,428**	552,828	1,415,789
Total income tax of foreign entities	**P. 4,332,166**	P. 670,188	P. 2,555,629

Income tax (*Mexican entities*):

	2009	2008	2007
Current	**P. 113,297**	P. 328,142	P. 916,480
Deferred	**(22,982)**	261,003	14,654
Total income tax of Mexican entities	**P. 90,315**	P. 589,145	P. 931,134
Total income tax of foreign and Mexican entities	**P. 4,422,481**	P. 1,259,333	P. 3,486,763

c) At December 31, 2009 and 2008, the foreign entities recognized deferred taxes on the following temporary differences:

	2009	2008
Deferred tax assets:		
Tax loss carryforwards	**P. 6,123,064**	P. 6,144,768
Accrued liabilities	**3,031,827**	1,795,560
Plant, property and equipment	**953,821**	1,481,653
Other	**3,876**	

Allowances and other reserves	**1,415,042**	1,146,298
Valuation allowance on tax loss carryforwards and other assets	**(5,081,775)**	(4,070,496)
	6,445,855	6,497,783
Deferred tax liabilities:		
Licenses	**(347,406)**	(603,051)
Other		(190,800)
	(347,406)	(793,851)
Deferred tax asset, net	**P. 6,098,449**	P. 5,703,932

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d) At December 31, 2009 and 2008, the Mexican entities recognized deferred taxes on the following temporary items:

		2009		2008
Deferred tax assets				
Advance billings	**P.**	**418,716**	P.	718,471
Allowance for doubtful accounts		**43,886**		29,174
Tax loss carryforwards		**159,380**		
Plant, property and equipment		**7,818**		
Accrued liabilities		**31,948**		6,883
	P.	**661,748**	P.	754,528
Deferred tax liabilities:				
Deferred assets	**P.**		P.	(141,949)
Deferred tax liabilities		**(23,871)**		(6,915)
Effect of translation of investments		**(7,933,535)**		(2,176,811)
Plant, property and equipment				(1,410)
		(7,957,406)		(2,327,085)
Deferred tax liabilities net	**P.**	**(7,295,658)**	P.	(1,572,557)
Total Consolidated deferred tax asset, net	**P.**	**1,197,209**	P.	4,131,375

e) The income tax rates applicable in 2009 in the countries where the Company operates and the years in which tax loss carryforwards may be applied are as follows:

	Statutory tax rate	Carryforward period
Mexico	**28%**	**10 years**
Brazil	**34%**	**No expiration**
Argentina	**35%**	**5 years**
Chile	**17%**	**No expiration**
Colombia	**33%**	**No expiration**
Ecuador	**25%**	**5 years**
U.S.A.	**35%**	**10 years**
Peru	**30%**	**4 years**

The foreign subsidiaries determine their income tax based on the individual results of each subsidiary and in conformity with the specific tax regimes of each country. The pretax income of foreign subsidiaries in 2009, 2008 and 2007 was P. 13,644,749, P. 4,686,318 and P. 7,418,436, respectively. The pretax income of Mexican subsidiaries in 2009, 2008 and 2007 was P. 340,620, P. 2,203,943 and P. 3,082,005, respectively.

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At December 31, 2009 and 2008, Embratel and subsidiaries have available tax loss carryforwards of P. 10,580,422 and P. 12,292,491, respectively, and negative social contribution bases of P. 10,121,220 and P. 11,674,340, respectively. Under Brazilian tax legislation, tax losses may be carried forward in future years and never expire; however, the tax loss carryforward applied in each year may not exceed 30% of the tax base. The tax rates applicable to the tax loss carryforwards and negative social contribution bases are 25% and 9%, respectively.

Also, at December 31, 2009 and 2008, subsidiaries of the following countries have available tax loss carryforwards that may be utilized in future years (see table above for carryforward period of each country):

	2009	2008
Chile	**P. 6,643,910**	P. 5,485,088
Argentina	**1,000,241**	1,188,338
Colombia	**2,801,280**	1,725,158
Ecuador	**198,975**	206,289

f) A reconciliation of the statutory corporate income tax rate to the effective income tax rate recognized by the Company for financial reporting purposes for the years ended December 31, is as follows:

	2009	2008	2007
Income before income tax	**P. 13,985,369**	P. 6,890,261	P. 10,500,441
Statutory Mexican income tax rate	**28.0%**	28.0%	28.0%
Income tax at statutory rate	**3,915,903**	1,929,273	2,940,123
Difference with enacted rates in Mexico	**927,601**	392,752	474,544
Non-taxable income	**(342,338)**	(164,354)	(110,731)
Other tax deductions	**77,454**	39,749	6,190
Tax inflation effect	**(61,238)**	(128,091)	(126,215)
Valuation allowance on tax loss carryforwards and other assets		(750,961)	139,384
Other differences	**(94,901)**	(59,035)	163,468
Income tax	**P. 4,422,481**	P. 1,259,333	P. 3,486,763
Effective income tax rate	**31.6%**	18.3%	33.2%

g) At December 31, 2008 and 2009, the balance of the Restated contributed capital account (CUCA) and the Net tax profit account (CUFIN) was P. 21,687,700 and P. 8,275,198, respectively. These amounts correspond to Telmex Internacional, S.A.B. de C.V. on a stand-alone basis.

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17. Commitments and Contingencies

a) Commitments

At December 31, 2009, the Company has non-cancelable commitments of P. 2,065,332 (P. 3,215,137 in 2008) for the purchase of equipment, consulting and management services, and rights of exploitation for orbital positions. Payments made under purchase agreements aggregated to P. 2,232,962 in 2009 (P. 2,275,215 in 2008 and P. 181,783 in 2007).

The Company s subsidiary Consertel conducted a split-up in December 2007, which gave rise to a new company called Integración de Servicios TMX, S.A. de C.V. that remained as a subsidiary of Telmex when the new corporation Telmex Internacional was established. A certain amount of Consertel s obligations were transferred to Integración de Servicios TMX. Under Mexican law, if Integración de Servicios TMX defaults on any of those obligations, the claimant may assert a claim against Consertel. The Company considers the risk of assertion of any such claim to be remote.

b) Contingencies in Brazil

Brazilian value-added goods and services tax (ICMS)

In August 2006, an agreement was published granting a proportional reduction of Embratel s liability plus re-expression penalties and surcharges generated through July 2006 related to the Brazilian ICMS tax on communication services. The provisions of this agreement are applicable throughout all the states of Brazil, and the Federal District (Brasilia). In 2007, Embratel settled claims totaling of P. 5,353,156, which included the State of Sao Paulo, thus resolving any disputes related to the matter in the states that implemented the benefits of this agreement.

Embratel, Primesys Soluções Empresariais, S.A. and Telmex do Brasil Ltda. received assessments by the tax authorities related to alleged undue ICMS tax credits of P. 52,851 at December 31, 2009 (P. 133,547 in 2008) not addressed by the agreement referred to above that are considered by the Company s external lawyers as probable losses. Contingencies from the legal proceedings that are considered to be possible losses aggregate to P. 3,288,862 at December 31, 2009 (P. 2,489,332 in 2008).

Star One has tax contingencies of P. 8,811,473 at December 31, 2009 (P. 4,447,242 in 2008) for unpaid ICMS on internet and satellite use, which the Company considers as a possible loss; consequently, the Company has not provided for such contingencies in the financial statements.

Brazilian Social Welfare Tax on Service Exports (PIS)

Embratel, Primesys Soluções Empresariais, S.A. and Telmex do Brasil Ltda. have total tax contingencies of P. 1,393,445 at December 31, 2009 (P. 1,056,538 in 2008), related to the contributions of PIS prior to 1995, which were offset in conformity with Brazilian tax laws. Based on the known facts and arguments and on the opinion of legal consul, only P. 53,774 at December 31, 2009 (P. 3,655 in 2008) of this contingency was considered as a probable loss and P. 1,339,672 at December 31, 2009 (P. 1,052,802 in 2008) as a possible loss.

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Brazilian Social Welfare Tax for Service Export Security Tax (COFINS)

Embratel, Star One and Telmex do Brasil Ltda. have tax contingencies of P. 151,617 at December 31, 2009 (P. 110,125 in 2008) related to the payment of COFINS from 1999, considered as a probable loss, as well as P. 1,270,958 at December 31, 2009 (P. 2,297,788 in 2008), considered as a possible loss.

Other tax contingencies

Embratel, Embratel Participações, S.A., Telmex do Brasil Ltda., Brasil Center Comunicações Ltda. and Primesys Soluções Empresariais S.A. have other on-going tax litigations involving the Brazilian Social Security Institute (INSS), Income Tax and Social Contribution on Net Income (IRPJ/CSLL), Telecommunications Systems Universalization Fund (FUST), Telecom Development Fund (FUNTTEL) and Income Tax on Payments Abroad (IRRF), among others. The total amount of the claim status that is considered as a probable loss at December 31, 2009 is zero (P. 24,950 in 2008), and P. 5,431,938 at December 31, 2009 (P. 3,042,072 in 2008) was considered as a possible loss.

Additionally, Embratel received assessments by the Brazilian tax authorities in the form of a fine for not filing electronic files from 2001 through 2005 of P. 3,514,554 at December 31, 2009 (P. 2,714,716 in 2008), which are considered as a possible loss.

Embratel and Star One have other on-going litigation relating to the offsetting of IRPJ, PIS, COFINS, CIDE (Contribuição de Intervenção do Domínio Econômico), CSLL and IRRF on allegedly improper IRPJ and ILL (Imposto sobre lucro líquido) credits of P. 2,927,910 at December 31, 2009 (P. 2,261,570 in 2008), which are considered as a possible loss.

Disputes with third parties

Certain cases on a number of different matters are in advanced stages of the litigation process and, according to Embratel s external lawyers, the subsidiary stands a chance of losing at least some of these suits; consequently, P. 1,136,216 at December 31, 2009 (P. 810,682 in 2008) has been accrued for probable unfavorable rulings.

Additionally, Embratel, Telmex do Brasil Ltda., BrasilCenter Comunicações Ltda. and Primesys Soluções Empresariais S.A. have other on-going litigation with claims totalling of P. 1,442,419 at December 31, 2009 (P. 1,156,670 in 2008), which are considered as a possible loss.

Other civil and labor contingencies

Embratel is party to claims filed by its telephone service customers, for which it has accrued P. 163,174 in 2009 (P. 112,784 in 2008), since such amount was considered as a probable loss, and P. 385,754 at December 31, 2009 (P. 297,708 in 2008) was considered as a possible loss.

Additionally, Embratel received a fine from Anatel of P. 2,140,676 at December 31, 2009 (P. 1,033,604 in 2008), of which P. 1,986,607 at December 31, 2009 (P. 912,473 in 2008) was considered to be a possible loss, and P. 154,069 at December 31, 2009 (P. 121,131 in 2008) was considered as a probable loss.

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18. Segments

Telmex Internacional operates in various countries in Latin America. Additional information related to the Company s operations is provided in Note 1. The most relevant segment information, which has been prepared based on the accounting policies described in Note 2, is as follows:

(2009 and 2008 in millions of nominal Mexican pesos; 2007 in millions of Mexican pesos with purchasing power at December 31, 2007)

	Mexico	Brazil	Argentina	Chile	Colombia	Peru	Ecuador	U.S.A.	Eliminations	Consolidated total
December 31, 2009										
Operating revenues	**P. 4,690**	**P. 72,325**	**P. 2,176**	**P. 3,652**	**P. 7,441**	**P. 1,827**	**P. 243**	**P. 312**	**P. (126)**	**P. 92,540**
Depreciation and amortization	**126**	**8,225**	**468**	**727**	**1,479**	**342**	**135**	**24**		**11,526**
Operating income	**1,032**	**10,990**	**(10)**	**(240)**	**147**	**(67)**	**(276)**	**(524)**		**11,052**
Segment assets	**947**	**184,110**	**4,542**	**9,940**	**14,881**	**5,735**	**1,450**	**37**		**221,642**
Goodwill		**3,392**	**424**	**1,738**	**7,826**	**409**	**269**	**341**		**14,399**
December 31, 2008										
Operating revenues	P. 5,171	P. 59,954	P. 1,799	P. 2,380	P. 5,678	P. 1,270	P. 63	P. 300	P. (610)	P. 76,005
Depreciation and amortization	73	6,773	449	494	883	248	29	19		8,968
Operating income	2,015	8,303	(290)	(299)	(226)	(120)	(136)	(324)		8,923
Segment assets	424	135,599	4,502	6,169	11,081	4,228	1,170	34		163,207
Goodwill		1,866	438	1,436	6,374	309	230	354		11,007
December 31, 2007										
Operating revenues	P. 5,490	P. 55,457	P. 1,445	P. 1,695	P. 2,695	P. 987	P. 29	P. 111	P. (149)	P. 67,760
Depreciation and amortization	66	6,442	263	344	434	189	17	16		7,771
Operating income	3,184	7,334	(37)	(149)	172	13	(23)	(164)		10,330
Segment assets	402	134,688	3,304	3,972	6,119	2,143	231	15		150,874
Goodwill		1,897	408	1,487	6,055	308	230	283		10,668

Intersegmental income by country is omitted as it is considered immaterial.

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.

19. Differences between Mexican FRS and U.S. GAAP

The Company s consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS), which differ in certain respects from accounting principles generally accepted in the United States (U.S. GAAP).

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As described in Note 2c, effective January 1, 2008, the Company ceased to recognize the effects of inflation in its financial statements as required by Mexican FRS B-10. However, as required by such new standard, the financial statement amounts that were previously reported remained unchanged, and the inflation adjustments previously recognized have been maintained in their corresponding caption. This new standard required that the re-expressed amounts of non-monetary assets as reported at December 31, 2007 to become the carrying amounts for those assets effective January 1, 2008. The carrying amounts will also affect net income in subsequent periods. For example, depreciation expense after the adoption of Mexican FRS B-10 is based on carrying amounts of fixed assets that include inflation adjustments recorded prior to the adoption of Mexican FRS B-10.

The Mexican FRS and US GAAP amounts included in this Note, as they relate to the years ended December 31, 2009 and 2008, are presented using the carrying amounts as required by MFRS B-10. The effects of inflation that were recorded prior to 2008 have not been reversed in the reconciliations to US GAAP.

Through December 31, 2007 the consolidated financial statements prepared under Mexican FRS included the effect of inflation as provided by Bulletin B-10 and, in the case of foreign operations, as provided by Bulletin B-15, *Transactions in Foreign Currency and Translation of Financial Statements of Foreign Operations*. The reconciliation to U.S. GAAP includes a reconciling item for the reversal of the effect of applying Bulletin B-15 for the re-expression into constant pesos as of December 31, 2007, because the application of such provisions was equivalent to not presenting the comparative financial statements in the same currency for all periods presented, as required by the United States Securities and Exchange Commission (SEC) rules.

The Mexican FRS and U.S. GAAP amounts, included throughout Note 19 for the year ended December 31, 2007, are presented in constant Mexican pesos as of December 31, 2007. The reconciliation to U.S. GAAP for the year ended December 31, 2007 does not include the reversal of the adjustments to the financial statements for the effects of inflation required under Mexican FRS (Bulletin B-10), because the application of Bulletin B-10 represented a comprehensive measure of the effects of price level changes in the Mexican economy as permitted by the SEC.

The principal differences between Mexican FRS and U.S. GAAP, as they relate to the Company, are described below together with an explanation, where appropriate, of the method used to determine the adjustments that affect net income, stockholders equity and resources provided by operating and financing activities.

Cash flow information:

The cash flow statements as prepared by the Company under Mexican FRS for the years ended December 31, 2009 and 2008 complies with International Accounting Standard No. 7, *Cash Flow Statements*, as issued by the International Accounting Standards Board; therefore, no reconciliation is presented.

However, the financial statements under Mexican FRS for the year ended December 31, 2007, include the presentation of the statement of changes in financial position as provided for under Bulletin B-12. The changes in the consolidated financial statement balances included in this statement constitute resources provided by and used in operating, financing and investing activities stated in constant pesos (including monetary and foreign exchange gains and losses).

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Accounting Standards Codification (ASC) 230, *Statement of Cash Flows*, does not provide guidance with respect to inflation adjusted financial statements. For 2007, in accordance with Mexican FRS, the changes in current and long-term debt due to re-expression into constant pesos, including the effect of exchange differences, are presented in the statement of changes in financial position in the financing activities section. Also, under U.S. GAAP non-cash investing activities are not reported in the statement of cash flows, whereas in the statement of changes in financial position prepared under Mexican FRS, non-cash transactions that affect the financial structure of an entity must be presented separately.

If the monetary gain and the exchange gain or loss related to the debt reported in the year ended December 31, 2007 were treated as components of operating activities, summarized consolidated statements of cash flows derived from information prepared in accordance with U.S. GAAP would be as follows:

		Year ended December 31, 2007
Cash flows from operating activities:		
Net income under U.S.GAAP	P.	6,163,008
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		7,381,955
Amortization		1,068,839
Effect of exchange rate differences on debt		(2,789,199)
Monetary gain, net		141,051
Deferred taxes		1,883,584
Deferred revenues and deferred credits		(26,267)
Equity interest in net income of affiliates		(717,730)
Net periodic cost of labor obligations		145,575
Change in operating assets and liabilities		(728,494)
Total adjustments		6,359,314
Net cash provided by operating activities		12,522,322
Cash flows from investing activities:		
Investment in plant, property and equipment and inventories		(14,679,007)
Initial cash from subsidiaries acquired		352,276
Investment in subsidiaries and affiliates		(10,336,068)
Other assets		(1,921,005)
Net cash used in investing activities		(26,583,804)
Cash flows from financing activities:		
Proceeds from new loans		6,079,868
Repayment of loans		(3,771,268)

Capitalized interest		(113,153)
Cash dividends paid to non-controlling interest		(27,403)
Increase in parent investment		19,990,005
Net cash provided by financing activities		22,158,049
Effect of inflation accounting on cash and cash equivalents		3,178,444
Net increase in cash and cash equivalents		11,275,011
Cash and cash equivalents at beginning of year		5,992,792
Cash and cash equivalents at end of year	P.	17,267,803

Supplemental disclosure of cash flow information:		**2007**
Income taxes paid	P.	1,385,028
Interest paid		3,194,300
Employee profit sharing paid		51,733

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Noncash transactions related to investment in plant, property and equipment and intangible assets as of December 31, 2009, 2008 and 2007 were P. 6,119,886, P. 281,181 and P. 200,067, respectively.

Capitalized interest:

Under U.S. GAAP, financing cost incurred during the construction period must be considered as an additional cost of constructed assets to be capitalized in plant, property and equipment and depreciated over the lives of the related assets. The amount of capitalized financing cost for U.S. GAAP purposes was determined by applying the weighted-average rate of interest.

Under Mexican FRS in force through December 31, 2006, the Company did not capitalize financing cost in its Mexican FRS financial statements. Starting January 1, 2007, although Telmex Internacional adopted the policy of capitalizing financing costs on assets under construction started on or after January 1, 2007, as a result of adopting Mexican FRS D-6, it did not capitalize any financing cost since it has not had significant qualifying assets with prolonged acquisition periods. The reconciling items for 2009, 2008 and 2007 show the capitalized interest and the related depreciation, as required under U.S. GAAP.

Valuation of inventories and plant, property and equipment:

As previously discussed in Note 2i and Note 2j, through December 31, 2007, the re-expression of inventories and plant, property and equipment was based on the rate of inflation in the respective country of origin. This method is not acceptable for U.S. GAAP purposes; consequently, the difference between this method and the re-expression of inventories and plant, property and equipment based on the NCPI was taken to the U.S. GAAP reconciliations subsequently presented.

As a result of this comparison, inventories, plant, property and equipment and stockholders equity increased by P. 10,419,221 in 2009 (P. 8,935,167 in 2008), and the depreciation expense for 2009 increased by P. 1,255,506 (P. 1,468,915 and P. 1,674,019 in 2008 and 2007, respectively).

Deferred income tax and deferred employee profit sharing:

As mentioned in Note 2s, under Mexican FRS, deferred income tax is determined on all differences in balance sheet accounts for financial and tax reporting purposes, using the enacted income tax rate at the balance sheet date, which is substantially in conformity with ASC 740, *Income Taxes*, except for the treatment of deferred taxes on effect of translation of foreign entities.

The Company is required to pay employee profit sharing in accordance with Mexican labor law. Deferred employee profit sharing under U.S. GAAP is determined following the guidelines of ASC 740, *Income Taxes*; however, through December 31, 2007, under Mexican FRS the deferred consequences of employee profit sharing were determined only on temporary differences considered non-recurring with a known turnaround time. The reconciliation between Mexican FRS and U.S. GAAP in 2007 does not include deferred employee profit sharing as related amounts are not significant.

Under Mexican FRS employee profit sharing is presented as other (expenses), net; whereas under US GAAP, such expenses are presented in operating costs and expenses.

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As described in Note 2p, under Mexican FRS the Company began recognizing deferred employee profit sharing, using the asset and liability method, beginning January 1, 2008. Under this method, deferred profit sharing is computed by applying the 10% rate to all differences between the values of all assets and liabilities for financial and tax reporting purposes, which is consistent with ASC 740 *Income Taxes.*

In accordance with Mexican FRS D-4 effective as of January 1, 2008, Telmex Internacional recognized deferred taxes on the cumulative effect of translation of foreign entities, which for the year ended December 31, 2009 was a decrease in stockholders equity of P. 5,756,724. However, under US GAAP, deferred tax consequences on unremitted foreign earnings that are considered to be permanently invested are not recognized. Therefore, the Company has eliminated the deferred tax consequences on the effect of translation of its foreign operations in the reconciliation of stockholders equity between Mexican FRS and US GAAP. In the event that Company repatriated these earnings, incremental taxes may be incurred. The Company has determined that it is not practicable to determine the amount of these incremental taxes.

The deferred tax adjustment included in the net income and stockholders equity reconciliations, includes the effect of deferred taxes on all U.S. GAAP adjustments reflected in the reconciliation between Mexican FRS and U.S. GAAP.

The differences in the recognition of deferred income tax between Mexican FRS and U.S. GAAP for purposes of the income statement were as follows:

2007	P.	(453,141)
2008		(2,013,208)
2009		**(166,504)**

The effect of deferred income tax on the difference between the indexed cost and the specific indexation factor valuation of plant, property and equipment and inventories, primarily for operation of the telephone plant, is applied as an adjustment to stockholders equity. The related accumulated amounts at December 31, 2009 and 2008 that decreased stockholders equity were P. (3,499,067) and P. (2,852,202), respectively.

The yearly changes in the accumulated amount for deferred taxes applied to stockholders equity as a result of this effect from 2007 through 2009 are the following:

2007	P.	(651,267)
2008		471,331
2009		**(646,865)**

In 2007, monetary gains of P. 267,411 on the deferred taxes balance related to the difference between the indexed cost and specific indexation cost valuation of fixed assets and inventories, primarily for operation of the telephone plant, were taken to stockholders equity, as part of the change of the year.

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Deferred taxes from our foreign operations under U.S. GAAP at December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred tax assets:		
Tax loss carryforwards	**P. 6,123,064**	P. 6,144,768
Accrued liabilities	**3,131,920**	1,255,264
Allowance and other reserves	**1,415,042**	1,146,298
Other	**6,043**	
Valuation allowance on tax loss carryforwards and other assets	**(5,081,775)**	(4,070,496)
	5,594,294	4,475,834
Deferred tax liabilities:		
Plant, property and equipment	**(4,710,361)**	(2,617,905)
Licenses	**(130,819)**	(462,133)
Other		(190,800)
	(4,841,180)	(3,270,838)
Deferred tax asset, net	**P. 753,114**	P. 1,204,996

For Mexican FRS purposes, as discussed earlier in Note 16, the net deferred income tax assets recognized for the foreign operations amounted to P. 6,098,449 and P. 5,703,932 at December 31, 2009 and 2008, respectively.

Deferred taxes from our Mexican operations under U.S. GAAP at December 31, 2009 and 2008 are as follows:

	2009	2008
Deferred tax assets:		
Advance billings	**P. 418,716**	P. 718,471
Allowance for doubtful accounts	**43,886**	29,174
Plant, property and equipment	**7,818**	
Tax loss carryforwards	**159,380**	
Accrued liabilities	**31,948**	6,883
	661,748	754,528
Deferred tax liabilities:		
Deferred assets	**(15,826)**	(22,598)
Deferred tax liabilities	**(23,871)**	(6,915)
Plant, property and equipment		(1,410)

		(39,697)		(30,923)
Deferred tax assets, net	**P.**	**622,051**	P.	723,605
Total consolidated deferred tax asset, net	**P.**	**1,375,165**	P.	1,928,601

For Mexican FRS purposes, as discussed in Note 16, the net deferred income tax liability recognized for the Mexican operations amounted to P. 7,295,658 and P. 1,572,557 at December 31, 2009 and 2008, respectively.

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Under U.S. GAAP, deferred tax assets and liabilities are classified as current or non-current, based on the classification of the asset or liability that originated it. A deferred tax asset or liability that is not related to an asset or liability for financial reporting purposes, including deferred tax assets related to carryforwards, is classified in accordance to its expected reversal date. For a particular tax-paying component and within a particular tax jurisdiction, (a) all current deferred tax assets and liabilities are offset and presented as a single amount and (b) all noncurrent deferred tax assets and liabilities are offset and presented as a single amount. However, deferred tax assets and liabilities attributable to different tax-paying components of the enterprise or to different tax jurisdictions are not offset.

Under Mexican FRS, deferred tax assets and liabilities are classified as noncurrent and are presented in one net amount in the balance sheet. The consolidated amounts of deferred taxes are not offset if they do not belong to the same taxable entity and to the same taxing authority.

Employee benefit obligation:

Brazil Defined Contribution Plan as of December 31, 2009 and 2008 is as follows:

		2009		**2008**
Unfunded liability (*):				
Beginning balance	**P.**	**477,763**	P.	605,961
Plus adjustments for percentage yield on plan assets		**70,735**		48,186
Less gain on long and short term investments		**(92,019)**		
Less payments during the year		**(120,695)**		(142,862)
Effect of translation		**99,389**		(33,522)
Ending balance	**P.**	**435,173**	P.	477,763
Total expense:				
Matching contribution plus risk benefits	**P.**	**120,908**	P.	117,042

(*) The unfunded liability represents Embratel s obligation for those participants that migrated from the defined-benefit plan to the defined-contribution plan. Any unpaid balance is adjusted monthly based on the return on the portfolio assets at that time, subject to a minimum increase based on the Brazilian general price index plus 6% per annum.

Plan assets:

The plan assets to cover pension and other post-retirement benefits totaled P. 12,309,992 and P. 9,300,795 at December 31, 2009 and 2008, respectively. The Telos fund managers seek to match the plan assets with benefit obligations over the long-term. Brazilian pension funds are subject to certain restrictions relating to their ability to invest in foreign assets and consequently, the funds are primarily invested in Brazilian securities. Under its current investment strategy, pension assets of Telos are allocated with a goal to achieve the following distribution:

89% in fixed income

7% in stocks

3% in real estate

1% in beneficiary loans

seek the duration and convexity matching between its assets and liabilities

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The actual allocations for the pension assets as of December 31, 2009 and 2008 are as follows:

	2009		
	Defined benefit plan	Medical plan	Total
Fixed income	**89%**	**100%**	**89%**
Stocks	**7%**	**0%**	**7%**
Real estate	**3%**	**0%**	**3%**
Beneficiary loans	**1%**	**0%**	**1%**
Total	**100%**	**100%**	**100%**

	2008		
	Defined benefit plan	Medical plan	Total
Fixed income	81%	100%	81%
Stocks	14%	0%	14%
Real estate	4%	0%	4%
Beneficiary loans	1%	0%	1%
Total	100%	100%	100%

The table below presents the fair value hierarchy of the plan assets as of December 31, 2009.

The assumed Medical Plan cost trend rates, are as follows:

	December 31,	
	2009	2008
Current trend rate	**12%**	12%
Ultimate trend rate	**6%**	6%
Year of ultimate trend rate	**2022**	2021

There are three broad levels to the fair value hierarchy of inputs to fair value (Level 1 being the highest priority and Level 3 being the lowest priority):

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs (e.g., a reporting entity s own data).

	Level 1	Level 2	Level 3	Total
Fixed income	P. 10,911,258			P. 10,911,258
Stocks	896,813			896,813
Real estate			P. 401,044	401,044
Beneficiary loans			100,877	100,877
Established fund	P. 11,808,071		P. 501,921	P. 12,309,992

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Estimated future benefit payments:

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years	Defined benefit plan	Medical plan	Total per year
2010	P. 668,034	P. 123,021	P. 791,055
2011	691,276	139,699	830,975
2012	714,344	157,779	872,123
2013	736,635	177,052	913,687
2014	759,587	197,496	957,083
2015 to 2019	4,122,745	1,319,628	5,442,373
Total	P. 7,692,621	P. 2,114,675	P. 9,807,296

ASC 715 Compensation Retirement Benefits:

ASC 715 *Compensation Retirement Benefits*, (ASC 715) requires (1) recognition on the balance sheet of an asset for a defined benefit plan s overfunded status or a liability for a plan s underfunded status, (2) measurement of a defined benefit plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year, and (3) recognition of the changes in the funded status of a defined benefit postretirement plan as a component of other comprehensive income in the year the changes occur.

The requirement to recognize the funded status of a defined benefit plan and the disclosure requirements were effective for fiscal years ending after December 15, 2006.

The components of the plan s funded status reflected in the consolidated statements of financial position as of December 31, 2009 and 2008 are as follows:

	2009		**2008**	
	DBP	**MAP**	**DBP**	**MAP**
Projected benefit obligation	**P. (9,385,959)**	**P. (3,173,777)**	P. (7,598,503)	P. (2,365,848)
Fair value of plan assets	**12,301,967**	**8,025**	9,172,387	128,408
Over (under) funded status	**P. 2,916,008**	**P. (3,165,752)**	P. 1,573,884	P. (2,237,440)

Amounts recognized in other accumulated other comprehensive income consist of the following:

	2009				2008			
		DBP		**MAP**		**DBP**		**MAP**
Unrecognized actuarial (gain) loss	**P.**	**(2,337,854)**	**P.**	**288,672**	P.	(1,376,017)	P.	248,417
Total	**P.**	**(2,337,854)**	**P.**	**288,672**	P.	(1,376,017)	P.	248,417

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Through December 31, 2007, for MFRS reporting purposes, labor obligations were accounted for under rules similar to ASC 715 prior to its amendment by SFAS 158 *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective December 31, 2006, which requires companies to recognize changes in the funded status (benefit obligation less fair value of plan assets) in the year in which the changes occur through other comprehensive income to the extent those changes are not included in the net periodic cost. Under Mexican FRS, such items are being amortized over the estimated average remaining working lifetime of the Company s employees.

Effects of inflation accounting on U.S. GAAP adjustments:

Through December 31, 2007, to determine the net effect on the consolidated financial statements of recognizing the U.S. GAAP adjustments described throughout this Note, it was also necessary to recognize the effects of inflation on such adjustments as described in Note 2c. These effects were taken into consideration in the preparation of the U.S. GAAP reconciliations of net income and stockholders equity.

However, the Company has reversed the re-expression of the financial information for prior periods, as related to its foreign operations, into constant Mexican Pesos at December 31, 2007, using a weighted-average inflation factor of 1.2607, and re-expressed such period into constant Mexican Pesos at December 31, 2007 using the Mexican only inflation factor of 1.0376, in order to present its financial statements in the same reporting currency for all periods included in this Note.

Effective January 1, 2008, and as a result of adopting MFRS B-10, *Effects of inflation*, the Company ceased recognizing the effects of inflation in its financial statements and considered the re-expressed amounts of all non-monetary items as its carrying basis as of January 1, 2008. The Company has not reconciled the inflation adjustments still included in its non-monetary items, with one exception for the adjustments in the valuation of plant, property and equipment and related depreciation expense, previously mentioned in this Note.

Business combinations:

Business combinations achieved in stages (step acquisitions):

Under Mexican FRS, business acquisitions are recorded using the acquisition method. The acquisition method requires the determination of the fair value of net assets acquired and the allocation of the acquisition cost to the estimated fair value of the net assets acquired. Non-controlling interest is measured based on its proportionate share of the fair value of the net assets of the acquired entity.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (codified primarily in* ASC 805, *Business Combinations*), which replaced SFAS No. 141, *Business Combinations*. The changes effected by the new standard include accounting for business combinations achieved in stages (step acquisitions). Under the new standard, it requires that identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree be recognized and measured at fair value as of the acquisition date, which is the date an acquirer takes control and begins to consolidate an acquiree. The Company adopted the revised ASC 805 as of January 1, 2009. However, the provisions of ASC 805 are applied prospectively. Thus, business combinations with an acquisition date before January 1, 2009, which were accounted for in accordance with the provisions of SFAS No. 141, have not been modified as a result of adoption of ASC 805. The adoption of this accounting pronouncement did not have any impact on the Company s financial position or results of operations.

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Under the prior accounting method in accordance with SFAS 141, it required a step-acquisition model under which the fair value of net assets acquired were recorded only with respect to the percentage acquired in each step acquisition. Non-controlling interest is recorded based on the carrying value of the entity acquired; consequently, the non-controlling interest is not adjusted to reflect the adjustments to fair value of its shares of net assets.

The difference in the application of the acquisition method under Mexican FRS and the step-acquistion model under the prior standard in U.S. GAAP creates reconciling adjustments principally on the following:

Difference on the measurement of fair value for Mexican FRS and U.S. GAAP

a) Under Mexican FRS, assets acquired and liabilities assumed and their corresponding effect on depreciation and amortization in income are recognized at their full estimated fair values as of the date control is obtained. Under U.S. GAAP the estimated fair value of assets acquired and liabilities assumed was measured by the percentage acquired in each step acquisition using the estimated fair value at each acquisition date.

In the Company s case, step-acquisitions under U.S. GAAP prior to adoption of ASC 805, as amended by SFAS No. 141(R) as of January 1, 2009, imply the determination of fair values using step-acquisition model at each acquisition date, which differs from the fair value used under Mexican FRS. As a result it created a reconciling item for the effects on income of the depreciation of plant, property and equipment, amortization of intangible assets and interest expense. The change in fair value of the percentage acquired at each acquisition date implies the reclassification between stockholders equity recognized under Mexican FRS and the fair value of the net assets acquired.

b) Under Mexican FRS, non-controlling interests are recorded at their estimated fair value at the date of acquisition, whereas under U.S. GAAP prior to adoption of ASC 805, as amended by SFAS No. 141(R), it was based on the historical carrying values of the acquired entity. This difference in the measurement of non-controlling interest affects the values assigned to plant, property and equipment, intangible assets, goodwill, debt and non-controlling interest on the balance sheet and the related depreciation and amortization, interest expense and non-controlling interest on the income statement.

Excess of fair value of acquired net assets over cost treated as equity transaction under Mexican FRS in a series of acquisitions.

Mexican FRS requires that acquisitions of non-controlling interests be considered as transactions between entities under common control and thus are treated as equity transactions. Any difference between the acquisition cost and the carrying value of the net assets acquired is recognized in equity, whereas under the prior step-acquisition model of U.S. GAAP, any difference between the acquisition cost paid and the fair value of the net assets acquired at each acquisition date was treated as goodwill.

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In summary, due to the differences mentioned above, the reconciliations between net income and stockholders equity include the following adjustments:

In order to recognize the differences between the full fair value utilized for Mexican FRS and the fair value at each acquisition date for U.S. GAAP prior to adoption of ASC 805, as amended by SFAS No. 141(R), and between the full fair value utilized for Mexican FRS and the carrying value for non-controlling interest under U.S. GAAP, the reconciliation of stockholders equity for 2009 and 2008 includes a decrease of P. (661,492) and P. (356,814), respectively, for accumulated depreciation and amortization. For the years ended December 31, 2009, 2008 and 2007, the impact on the reconciliation of net income to recognize the difference in depreciation and amortization expense is P. (205,352), P. (79,670) and P. 82,780, respectively.

As of December 31, 2009 and 2008, the reconciliation of stockholders equity includes decreases of P. (65,324) and P. (50,458) respectively, to recognize the difference on the carrying value of fixed assets attributable to the non-controlling interest and its related fair value as recognized under Mexican FRS. For the years ended December 31, 2009, 2008 and 2007, the net income reconciliation includes P. (16,331), P. (12,615) and P. (13,362), respectively, related to the difference in depreciation and amortization on the carrying values of the non-controlling interest and its related fair value under Mexican FRS.

As result of the acquisitions of Embrapar s non-controlling shares in 2005, 2006 and 2007, the Company has determined an excess of fair value of acquired net assets over cost at each acquisition transaction date, which according to Mexican FRS were treated as an equity transaction (equity increase) since they were acquisitions of a non-controlling interest; whereas for U.S. GAAP purposes the acquisitions of non-controlling interest are treated as step acquisitions giving rise to negative goodwill that have been accounted for as a reduction of non-current assets.

As of December 31, 2009 and 2008, the reconciliation of stockholders equity includes P. (4,951,724) related to the reversal of the equity increase recognized under Mexican FRS for the acquisition of Embrapar s non-controlling shares, and P. 4,530,885 and P. 3,840,520, respectively, to recognize the effect on accumulated depreciation and amortization due to the reduction of non-current assets under U.S. GAAP derived from the negative goodwill. For the years ended December 31 2009, 2008 and 2007, the reconciliation of net income includes P.690,365, P. 1,092,398 and P. 1,092,398, respectively, to recognize the effect of negative goodwill on depreciation and amortization expense under US GAAP.

In addition, gains or losses on dilution of investment in affiliate under Mexican FRS have been included in retained earnings, whereas under U.S. GAAP these gains were included in other capital contributions.

Excess of cost over the fair value of acquired net assets

In 2005, the Company acquired the remaining equity interest of a subsidiary. This transaction resulted in an excess of cost over the carrying value of net assets acquired, which was recognized as an equity transaction as required by Mexican FRS for acquisitions of non-controlling interest. As of December 31, 2009 and 2008, the reconciliation of stockholders equity includes a credit of P. 296,601 due to the reversal of the decrease to equity recognized under Mexican FRS.

Impairment on Goodwill

Under Mexican FRS, an impairment loss on goodwill must be recognized if its carrying value exceeds its recoverable value, which is the greater of its net selling price, if it can be obtained, and its value in use.

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The value in use can be determined through valuation techniques or, in a more practical manner, through its perpetuity value. Goodwill s net selling price shall be determined in the same manner that goodwill is obtained in a business acquisition. In this case, the net selling price of the business unit must be determined through the use of market values or through valuation techniques.

The determination of the value in use of goodwill through the determination of perpetuity values is made in two steps. In the first step the Company must determine the excess of the value in use of the cash generating unit s assets other than intangible assets with indefinite lives and goodwill, where value in use is the projected discounted cash flows of the cash generating unit. In the second step, the Company must measure the perpetuity value of the excess value in use of the cash generating unit, which is determined by dividing the average of the excess of the value in use determined in step 1 by the average of the appropriate discount rates used in the cash projections.

For US GAAP purposes the impairment test on goodwill requires a two-step process to identify and quantify the amount of impairment loss to be recognized. The first step of this test requires the comparison of the fair value of the reporting unit against its carrying value. The fair value of a reporting unit is the amount at which the unit as a whole could be bought or sold in a current transaction between willing parties. In some instances quoted market prices in active markets provide the best evidence of fair value and should be used as the basis for the measurement, if available. However, there are instances when the market price of an individual equity security may not be representative of the reporting unit s fair value taken as a whole.

The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit. When quoted market prices are not available, the fair value can be estimated using the best information that is available. US GAAP allows the use of present value techniques, and if used, the estimates of future cash flows used shall be consistent with the objective of measuring fair value.

As of December 31, 2009 and 2008, the reconciliation of stockholders equity includes P. 305,304 to recognize the effect of the reversal of an impairment loss on goodwill recognized in the previous periods for Mexican FRS. In the determination of fair values, Telmex Internacional used the perpetuity values for Mexican FRS and the discounted cash flows technique for US GAAP purposes. Both techniques give different measurements and results, which in Telmex Internacional s case, gave rise to an impairment charge under Mexican FRS for goodwill recognized for the acquisitions in Chile, whereas for US GAAP purposes no impairment charge was determined. Therefore, the reconciliations between Mexican FRS and US GAAP show the reversal of P. 305,304 impairment loss recognized under Mexican FRS in 2006.

Goodwill translation

Through December 31, 2008, for Mexican FRS purposes, the goodwill related to the foreign subsidiaries was recorded at the parent level and maintained in the parent s functional currency. Under U.S. GAAP, the goodwill was pushed-down to the subsidiaries and recorded in the subsidiaries functional currency and translated into the parent s reporting currency at year-end exchange rates.

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Goodwill effect of change in valuation allowance of deferred income tax assets

For Mexican FRS purposes, a change in the valuation allowance of deferred income tax assets after the end of the purchase price allocation period that was originally recorded in a business combination using the purchase method is included in the determination of net income in the period in which the adjustment is determined, whereas for US GAAP prior to adoption of ASC 805, as modified by SFAS 141(R), the adjustment was recorded as reduction of the goodwill determined in the business combination. In 2009 and 2008 the related adjustment of P. 2,158,090 and P. 1,666,954, respectively, was included in the reconciliation of stockholders equity as of December 31, 2009 and 2008, and resulted in a decrease to goodwill and an increase in income tax expense of P. 1,666,954 in 2008.

Exchange of long-lived assets between entities under common control:

Mexican FRS requires that an exchange of assets between entities under common control be recognized based on the carrying value of the assets acquired and any difference with the carrying value of the assets transferred being treated as a capital transaction. For U.S. GAAP, the exchange of assets between entities under common control is accounted for at the lower of fair value or the carrying amount of the assets transferred. As of December 31, 2009 and 2008, the U.S. GAAP condensed balance sheets, include an increase in non-controlling interest of P. 1,170,300 and a decrease in stockholders equity for the same amount, related to the exchange of Telmex do Brasil and Net shares between Embrapar and Telmex Internacional which resulted in an increase in Telmex Internacional s participation in Embrapar in October 2005.

Equity method in net income of affiliate:

For Mexican FRS purposes, the equity method in the net income of Net Serviços de Comunicação S.A. was based on its net income after its conversion to Mexican FRS (see Note 2a), while for U.S. GAAP purposes, the equity method in the net income of this affiliate is determined based on net income reconciled to U.S. GAAP. The differences in 2009, 2008 and 2007 of (P. 37,711) , P. 117,500 and P. 28,655, respectively, shown in the net income reconciliation represent the equity method in the differences applicable in Net, between Mexican FRS and U.S. GAAP, which consist principally of valuation of plant, property and equipment, as previously described.

Condensed Balance Sheets as of December 31, 2009 and 2008, and Income Statements for the three years in the period ended December 31, 2009, 2008 and 2007 of Net Serviços de Comunicação S.A. under Mexican FRS are as follows:

Condensed Balance Sheets

	December 31,			
		2009		**2008**
Assets				
Current assets	**P.**	**17,007,418**	P.	10,910,362
Non-current assets		**38,397,310**		24,069,603
Total assets	**P.**	**55,404,728**	P.	34,979,965
Liabilities and Stockholders equity				
Current liabilities	**P.**	**7,548,164**	P.	4,996,090
Non-current liabilities		**21,509,806**		13,934,103

Total liabilities		**29,057,970**		18,930,193
Stockholders equity		**26,346,758**		16,049,772
Total liabilities and stockholders equity	**P.**	**55,404,728**	P.	34,979,965

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Condensed Income Statements

			Year ended			
		2009		**2008**		**2007**
Operating revenues	**P.**	**28,810,704**	P.	20,831,191	P.	12,924,219
Operating costs and expenses		**(24,788,693)**		(18,030,916)		(10,495,050)
Operating income		**4,022,011**		2,800,275		2,429,169
Net income	**P.**	**4,622,785**	P.	284,453	P.	1,709,953

Transaction between entities under common control:

In 2008, Telmex provided the Company access to its customer database for use in its yellow pages directories for a payment of P. 452,160. Since both entities are subsidiaries of Carso Global Telecom, this transaction was considered a transaction between entities under common control and was recognized as a charge to retained earnings for US GAAP purposes net of a tax benefit of P. 126,605. However, under Mexican FRS, the transaction was considered as an acquisition of a definite-lived intangible asset, which is being amortized over an eight-year period. Therefore, an adjustment of P. 369,735 in 2009 and P. 426,255 in 2008 was included in the US GAAP reconciliation which represents the excess over Telmex s carrying value as of December 31, 2009 and 2008, respectively. For the years ended December 31, 2009 and 2008, the Company reversed the amortization expense related to the intangible asset of Ps. 56,520 and P. 25,905, respectively recorded under Mexican FRS and included an adjustment in net income of the US GAAP reconciliation.

Offsetting of assets and liabilities:

Under Mexican FRS, in the case of the existence of accounts receivable and accounts payable balances to the same person or entity, such balances, when applicable, a Company may offset for purposes of its presentation in the balance sheet. Accordingly, the net amount may be presented as either an asset or liability, while for U.S. GAAP purposes the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists. A right of setoff is a debtor s legal right, by contract or otherwise, to discharge all or a portion of the debt owed to another party by applying against the debt an amount that the other party owes to the debtor. As of December 31, 2009 for U.S. GAAP the balance sheet includes an account receivable from Net of P. 6,372 million and an account payable to Net of P. 6,551 million, while for Mexican FRS these balances were presented net in the balance sheet.

Other income (expenses):

Under Mexican FRS current and deferred employee profit sharing are presented as other income (expense), net; whereas under US GAAP they are presented in operating expenses. For the years ended December 31, 2009, 2008 and 2007, the amounts reclassified for this item amounted to (P. 44,854), (P. 55,734) and (P. 62,279), respectively.

Accounting for uncertainty in income taxes:

The Company adopted the provisions of ASC 740, *Income Tax*es, with respect to the accounting for uncertainty in income taxes for U.S. GAAP purposes as of January 1, 2007.

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The Company establishes reserves to remove some or all of the tax benefit of any of its tax positions at the time management determines that it becomes uncertain based upon one of the following conditions: (1) the tax position is not more likely than not to be sustained, (2) the tax position is more likely than not to be sustained, but for a lesser amount, or (3) the tax position is more likely than not to be sustained, but not in the financial period in which the tax position was originally taken.

For purposes of evaluating whether or not a tax position is uncertain, (1) management presumes the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken.

A number of years may elapse before a particular uncertain tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments varies depending on the tax jurisdiction and is generally five years for the countries in which the Company principally operates. The tax benefit that has been previously reserved because of a failure to meet the more likely than not recognition threshold would be recognized in the Company s income tax expense in the first period when the uncertainty disappears under any one of the following conditions: (1) the tax position is more likely than not to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired.

The adoption of the provisions with respect to the accounting for uncertainty in income taxes in ASC 740, *Income Tax*es, as of January 1, 2007 did not have a material impact on the Company s financial statements and did not result in a cumulative adjustment to retained earnings at adoption, because all uncertain tax positions not more likely than not to be sustained were reserved in prior years. As of December 31, 2009 and 2008, there are no uncertain tax positions that are not more likely than not to be sustained.

ASC 605, Revenue Recognition:

The Company presents taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer, such as sales, use, value-added and certain excise taxes on a net basis in operating revenues.

Fair value measurements:

On January 1, 2008, the Company adopted ASC 820, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value for all financial assets and liabilities and for non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis (at least annually). For all other assets and liabilities, these requirements became effective on January 1, 2009. The adoption of ASC 820 did not have a significant impact on the Company s consolidated financial statements.

Accounting principles generally accepted in United States define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quote prices in active markets for identical assets or liabilities.

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Level 2 Observable inputs other than quoted priced included in Level 1. We value assets and liabilities included in this level using dealer and broker quotations, bid prices for similar assets and liabilities in active markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

In accordance with U.S. G.A.A.P., certain assets and liabilities are required to be recorded at fair value on a recurring basis. For the Company, the only assets and liabilities that are adjusted to fair value on a recurring basis are the debt and the derivative financial instruments.

The following tables summarize those assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Liabilities				
Derivative financial instruments	P.	P. 1,094,222	P.	P. 1,094,222
Debt	P. 5,000,000	P. 28,338,329	P.	P. 33,338,329

The following table provides a summary of significant assets and liabilities at December 31, 2008 that are measured at fair value on a recurring basis:

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
Assets				
Derivative financial instruments	P.	P. 1,025,013	P.	P. 1,025,013
Liabilities				
Debt	P. 5,500,000	P. 19,953,276	P.	P. 25,453,276

In accordance with ASC 825, *Financial Instruments*, under U.S. GAAP it is necessary to provide information about the fair value of certain financial instruments for which it is practicable to estimate that value. The carrying amounts of cash, accounts receivable and accounts payable and accrued liabilities approximate fair values due to the short-term maturity of these instruments.

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The fair value of total debt, excluding capital leases, is estimated using discounted cash flow analyses based on estimated borrowing rates that the Company would be offered for debt of the same remaining maturities and the market value for the senior notes at December 31, 2009 and 2008. Since the Company primarily uses observable inputs in its valuation of its debt, they are considered Level 2. The Company uses quoted prices in active markets in its valuation of senior notes and domestic senior notes, which are considered Level 1. As of December 31, 2009, the carrying value of total debt is P. 33,977,700 (P. 25,622,268 at December 31, 2008) and the fair value is P. 33,338,329 (P. 25,453,276 at December 31, 2008).

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Company records assets and liabilities at fair value on a nonrecurring basis as required by accounting principles generally accepted in the United States. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. During the year ended December 31, 2009, there were no changes in carrying value as a result of impairment charges.

Short-term debt:

The Company s short-term debt at December 31, 2009 and 2008 is P. 6,806,126, and P. 11,016,031, represented principally by domestic senior notes in 2009.

Advertising:

Advertising costs are expensed as incurred. For the years ended December 31, 2009, 2008 and 2007, advertising expense aggregated to P. 1,546,244, P. 1,520,582 and P. 1,185,779, respectively.

A summary of the most significant new pronouncements in U.S. GAAP that became effective in 2009 or after and may apply to the Company is as follows:

Accounting Standards Codification

On July 1, 2009, FASB Accounting Standards Codification (ASC) became the sole source of authoritative U.S. GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC did not change U.S. GAAP, but rather combined the sources of U.S. GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company.

ASC 605-25, *Multiple-Element Arrangements*

On September 23, 2009, the FASB ratified Emerging Issues Task Force Issue No. 08-1, *Revenue Arrangements with Multiple Deliverables* (EITF 08-1). EITF 08-1 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC 605-25, which originated primarily from EITF 00-21, also titled *Revenue Arrangements with Multiple Deliverables*. EITF 08-1 will be effective for annual reporting periods beginning January 1, 2011 for calendar-year entities. The Company is currently evaluating the impact of EITF 08-1 on its financial position, results of operations, cash flows, and disclosures.

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ASC 350, *Intangibles Goodwill & Other*

In November 2008, the FASB ratified ASC 350, *Intangibles Goodwill & Other*. ASC 350 requires that a defensive intangible asset be accounted for as a separate unit of accounting and assigned a useful life which reflects the entity s consumption of the expected benefits related to that asset. A defensive intangible asset is an acquired intangible asset which the acquirer does not intend to actively use, but intends to hold to prevent others from obtaining access to the asset, excluding intangible assets that are used in research and development. An entity s benefit from holding a defensive intangible asset is the direct and indirect cash flows resulting from the entity preventing others from realizing any value from the intangible assets. The period over which a defensive asset diminishes in fair value can be used as a proxy for the entity s consumption of the expected benefits related to the asset. This guidance is effective for defensive intangible assets acquired on or after January 1, 2009. Also in April 2008, the FASB issued and update to this ASC, that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset and expanded disclosure related to the determination of intangible asset useful lives is required, effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

ASC 810, *Consolidation*

In December 2007, the FASB issued ASC 810, *Consolidation,* as amended by SFAS 160. This ASC establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary, effective beginning January 1, 2009, requiring retroactive presentation and disclosure of existing non-controlling interest. ASC 810 clarifies that changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest and requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. The gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. This standard includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The adoption of this new guidance resulted in a retrospective adjustment of the Balance Sheet, Income Statement and Stockholders Equity for the prior years, for presentation and disclosures purposes as follows:

	As originally issued 2008	Reclassification	As reclassified 2008
Non-controlling interest	P. 4,307,931	P. (4,307,931)	P.
Stockholders equity	81,529,277	4,307,931	85,837,208
Net income	3,328,579	(51,743)	3,276,836

	As originally issued 2007	Reclassification	As reclassified 2007
Non-controlling interest	P. 4,790,947	P. (4,790,947)	P.
Stockholders equity	86,771,564	4,790,947	91,562,511
Net income	5,739,051	423,957	6,163,008

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ASC 815, *Derivatives and Hedging*

In March 2008, the FASB issued ASC 815, *Derivatives and Hedging,* as amended by SFAS 161. This ASC requires enhanced disclosures about an entity s derivative and hedging activities. Under ASC 815, as amended by SFAS 161, entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations; and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. ASC 815 is effective beginning January 1, 2009 and encourages comparative disclosures for earlier periods at initial adoption. The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

ASC 715, *Compensation Retirement Benefits*

In December 2008, the FASB issued ASC 715, *Compensation Retirement Benefits*. This ASC requires plan sponsors to provide improved disclosures about plan assets, including categories of plan assets, nature and amount of concentrations of risk and disclosure about fair value measurements of plan assets, similar to those required by ASC 820. These new disclosures are required for fiscal years ending after December 15, 2009. The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

ASC 855, Subsequent Events

In May 2009, the FASB issued ASC 855, *Subsequent Events*. ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, ASC 855 sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. In accordance with ASC 855, an entity should apply the requirements to annual financial periods ending after June 15, 2009. The adoption of this new guidance had no impact on the Company.

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Summary:

Net income and total stockholders equity, adjusted to take into account the material differences between Mexican FRS and U.S. GAAP, are as follows:

	Year ended December 31,		
	2009	**2008 Retrospectively adjusted**	**2007 Retrospectively adjusted**
Net income as reported under Mexican FRS	**P. 9,562,888**	P. 5,630,928	P. 7,013,678
U.S. GAAP adjustments:			
Capitalized interest on net financing cost		22,252	113,153
Reversal of amortization of intangible asset acquired in transaction between entities under common control	**56,520**	25,905	
Depreciation of capitalized interest	**(41,848)**	(37,739)	(26,863)
Deferred income tax under U.S. GAAP included in this reconciliation	**(166,504)**	(346,254)	(453,141)
Goodwill effect of change in valuation allowance of deferred income tax asset		(1,666,954)	
Difference between the re-expression of depreciation expense based on specific indexation factors and on the basis of the NCPI	**(1,255,506)**	(1,468,915)	(1,674,019)
Equity interest in net income of affiliate	**(37,711)**	117,500	28,655
Negative goodwill effect on depreciation and amortization	**690,365**	1,092,398	1,092,398
Difference between the measurement of depreciation and amortization expense due to step acquisitions	**(205,352)**	(79,670)	82,780
Difference between the carrying value and fair value of non-controlling interest	**(16,331)**	(12,615)	(13,361)
Effects of inflation accounting on U.S. GAAP adjustments			(272)
Total U.S. GAAP adjustments	**(976,367)**	(2,354,092)	(850,670)
Net income under U.S. GAAP	**P. 8,586,521**	P. 3,276,836	P. 6,163,008
Distribution of net income:			
Majority interest	**8,312,253**	3,328,579	5,739,051
Non-controlling interest	**274,268**	(51,743)	423,957
	8,586,521	3,276,836	6,163,008
Weighted average outstanding shares (millions)	**18,157**	18,596	19,766
Earnings per share under U.S. GAAP (in pesos)	**P. 0.46**	P. 0.18	P. 0.29

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Years Ended December 31, 2009 and 2008

(In thousands of Mexican pesos, see Note 2c)

	Year ended December 31,	
	2009	**2008 Retrospectively Adjusted**
Total stockholders equity under Mexican FRS	**P.99,484,972**	P.80,125,250
U.S. GAAP adjustments, net of effects of inflation on monetary items:		
Capitalized interest on net financing cost	**604,531**	468,205
Accumulated depreciation of capitalized interest or net financing cost	**(139,803)**	(77,791)
Deferred income tax on U.S.GAAP adjustments included in this reconciliation	**(1,862,094)**	(1,527,383)
Transaction between entities under common control	**(369,735)**	(426,255)
Deferred income tax on effect of translation of foreign subsidiaries	**7,933,535**	2,176,811
Goodwill effect of change in valuation allowance of deferred income tax asset	**(2,158,090)**	(1,666,954)
Deferred taxes on the difference between the indexed cost and specific indexation factor valuation of inventories and plant, property and equipment	**(3,499,067)**	(2,852,202)
Difference between the re-expression of inventories and plant, property and equipment based on specific indexation factors and on the basis of the NCPI	**10,419,221**	8,935,167
Labor obligations (ASC 715)	**2,014,362**	1,065,281
Equity investment in affiliated company	**65,849**	86,600
Reversal of goodwill impairment	**305,304**	305,304
Goodwill translation		447,050
Reversal of capital gain due to negative goodwill	**(4,951,724)**	(4,951,724)
Negative goodwill effect on depreciation and amortization	**4,530,885**	3,840,520
Difference between the measurement of accumulated depreciation and amortization due to step acquisitions	**(661,492)**	(356,814)
Reversal of capital loss for acquisition of non-controlling interest	**296,601**	296,601
Difference between the carrying value and fair value of non-controlling interest	**(65,324)**	(50,458)
Total U.S. GAAP adjustments net	**12,462,959**	5,711,958
Total stockholders equity under U.S. GAAP	**P.111,947,931**	P.85,837,208

Condensed financial information under U.S. GAAP

The following table presents consolidated condensed income statements for the years ended December 31, 2009, 2008 and 2007, prepared under U.S. GAAP, including the differences and reclassifications as compared to Mexican FRS described in this Note:

	2009	**2008**	**2007**
Operating revenues	**P.92,540,086**	P.76,004,741	P.67,760,171
Operating costs and expenses	**82,313,044**	67,716,273	58,172,227
Operating income	**10,227,042**	8,288,468	9,587,944
Other expenses, net	**(3,119)**	(46,700)	(180,413)
Financing income (cost), net	**1,099,908**	(2,000,410)	(22,348)

Equity interest in net income of affiliates	**1,851,675**	308,019	717,729
Income before income tax	**13,175,506**	6,549,377	10,102,912
Income tax	**4,588,985**	3,272,541	3,939,904
Net income	**P.8,586,521**	P.3,276,836	P.6,163,008

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

(In thousands of Mexican pesos, see Note 2c)

The following table presents consolidated condensed balance sheets at December 31, 2009 and 2008, prepared under U.S. GAAP, including the differences and reclassifications as compared to Mexican FRS described in this Note:

	2009	2008 Retrospectively adjusted
Assets		
Current assets	**P. 49,580,079**	P. 37,705,009
Plant, property and equipment, net	**88,448,843**	65,349,309
Goodwill, net	**12,843,296**	10,220,378
Equity investments	**16,832,412**	11,448,654
Other non-current assets	**19,135,878**	10,417,161
Total assets	**P. 186,840,508**	P. 135,140,511
Liabilities and stockholders equity		
Short-term debt and current portion of long-term debt	**P. 12,667,266**	P. 14,727,645
Other current liabilities	**37,135,907**	21,908,084
Total current liabilities	**49,803,173**	36,635,729
Long-term debt	**20,676,654**	10,411,056
Employee benefits	**764,231**	1,226,744
Deferred taxes	**3,648,519**	1,029,774
Total liabilities	**74,892,577**	49,303,303
Stockholders equity	**106,096,325**	81,529,277
Non-controlling interest	**5,851,606**	4,307,931
Total Stockholders equity	**111,947,931**	85,837,208
Total liabilities and stockholders equity	**P. 186,840,508**	P. 135,140,511

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TELMEX INTERNACIONAL, S.A.B. DE C.V. AND SUBSIDIARIES

Changes in stockholders equity under U.S. GAAP for the years ended December 31, 2009, 2008 and 2007

(In thousands of Mexican pesos, see Note 2c)

	Total
Balances at December 31, 2006	P. 51,956,347
Increase in parent investment	19,990,005
Cash dividend paid to non-controlling interest in subsidiary	(122,763)
Acquisition of non-controlling interest	(388,348)
Gain on dilution of investment in affiliate	1,840,815
Comprehensive income:	
Net income of the year	6,163,008
Other comprehensive income items:	
Effect of translation of foreign entities	11,268,001
Effect of labor obligations, net of deferred taxes	855,446
Balances at December 31, 2007	91,562,511
Dividend declared	(2,786,482)
Repurchase of Company s own shares in cash	(4,245,302)
Cash dividend paid to non-controlling interest in subsidiary	(195,208)
Related parties transactions	(325,555)
Comprehensive income:	
Net income of the year	3,276,836
Other comprehensive income items:	
Deferred taxes allocated to equity	471,331
Effect of translation of foreign entities	(1,716,016)
Effect of ASC 715, net of deferred taxes	(204,907)
Balances at December 31, 2008	85,837,208
Dividend declared	**(3,098,073)**
Repurchase of Company s own shares in cash	**(2,489,900)**
Cash dividend paid to non-controlling interest in subsidiary	**(52,291)**
Transactions between entities under common control and acquisition of non-controlling interest	**(224,627)**
Comprehensive income:	
Net income of the year	**8,586,521**
Other comprehensive income items:	
Deferred taxes allocated to equity	**193,473**
Effect of translation of foreign entities	**22,242,210**
Effect of ASC 715, net of deferred taxes	**953,410**
Balances at December 31, 2009	**P. 111,947,931**

	2009	2008	2007
Comprehensive income for the year	**P. 31,975,614**	P. 1,827,244	P. 18,286,455

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i. Exhibit 25(i) Telmex s Recent Developments Report

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant To Rule 13a-16 or 15d-16

of the Securities Exchange Act of 1934

For the month of March 2010

Commission File Number: 333-13580

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

(Exact Name of the Registrant as Specified in the Charter)

Telephones of Mexico

(Translation of Registrant s Name into English)

Parque Vía 190

Colonia Cuauhtémoc

06599 México, D.F., México

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

(Check One) Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

(Check One) Yes ______ No __X__

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82-____)

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Operating and Financial Review and Prospects	462
Recent Developments	473
Exhibits:	

Consent of Independent Registered Public Accounting Firm	Exhibit 23.1
Audited Consolidated Financial Statements as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008 and 2007	Exhibit 99.1

We have prepared this report to provide our investors with disclosure and financial information regarding recent developments in our business and results of operation for the year ended December 31, 2009.

The information in this report supplements information contained in our annual report on Form 20-F for the year ended December 31, 2008 (File No. 1-32741), filed with the Securities and Exchange Commission (the SEC) on May 29, 2009 (our 2008 Form 20-F).

INCORPORATION BY REFERENCE

This report on Form 6-K is hereby incorporated by reference into our registration statement on Form F-3 (Registration No. 333-160114), filed with the Securities and Exchange Commission on June 19, 2009. The audited consolidated financial statements included in this report as Exhibit 99.1 supersede the audited consolidated financial statements included in the 2008 Form 20-F.

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FORWARD-LOOKING STATEMENTS

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

- projections of operating revenues, net income (loss), net income (loss) per share, capital expenditures, indebtedness levels, dividends, capital structure or other financial items or ratios;
- statements of our acquisition or divestiture plans;
- statements about the impact of our acquisition of businesses;
- statements about our plans, objectives or goals, including those relating to competition, regulation and rates;
- statements about competition in the business sectors in which we operate;
- statements about our future financial performance or the economic performance of Mexico or other countries;
- statements about interest rates, currency exchange rates and foreign securities markets;
- statements about the availability and cost of external financing for our operations, which have been affected by the stress experienced by the global financial markets;
- statements about the renewal, revocation or expropriation of our concessions, decisions of regulatory and judicial authorities, and the future impact of regulations; and
- statements of assumptions underlying such statements.

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

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors, some of which are discussed under Item 3. *Risk Factors* in our 2008 Form 20-F, include regulatory developments, economic and political conditions, which have been affected by the global economic crisis, competition, customer demand, government policies, inflation rates, exchange rates and technological changes. We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

Forward-looking statements speak only as of the date they are made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or future events or for any other reason.

You should evaluate any statements made by us in light of these important factors.

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PRESENTATION OF FINANCIAL STATEMENTS

Our consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards, or Mexican FRS, which differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. Note 17 to our audited consolidated financial statements provides a description of the principal differences between Mexican FRS and U.S. GAAP, as they relate to us; a reconciliation to U.S. GAAP of net income and total stockholders equity; and condensed financial statements under U.S. GAAP.

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Prior to 2008, inflation accounting had extensive effects on the presentation of our financial statements. Our financial information for periods through December 31, 2007 is presented in constant pesos as of December 31, 2007, while our financial information for 2009 and 2008 is presented in nominal pesos. See Note 1(II)(b) to our audited consolidated financial statements. In our financial information for 2009 and 2008, inflation adjustments for prior periods have not been removed from stockholders equity, and the re-expressed amounts for non-monetary assets at December 31, 2007 became the accounting basis for those assets beginning on January 1, 2008 and for subsequent periods, as required by Mexican FRS.

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

References in this report to U.S. dollars or U.S.$ are to the lawful currency of the United States. References herein to pesos or P. are to the lawful currency of Mexico.

This report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the nominal peso or constant peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollar amounts at the rate indicated. Unless otherwise indicated, we have translated U.S. dollar amounts from pesos at the exchange rate of P.13.0587 to U.S.$1.00, which was the rate reported by Banco de México for December 31, 2009. On March 23, 2010, the applicable Banco de México exchange rate for pesos was P.12.5796 to U.S.$1.00.

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SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The selected consolidated financial data set forth below have been derived from our audited consolidated financial statements for each of the five years in the period ended December 31, 2009, which have been reported on by Mancera, S.C., a Member Practice of Ernst & Young Global, an independent registered public accounting firm. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our consolidated financial statements and notes thereto included elsewhere in this report.

	As of and for the year ended December 31,					
	2009[1]	2009[2]	2008[2]	2007	2006	2005
	(millions of U.S. dollars)	(2009 and 2008 in millions of pesos, previous years in millions of constant pesos as of December 31, 2007)				
Income Statement Data:						
Mexican FRS:						
Operating revenues	U.S. 9,120	P. 119,100	P. 124,105	P. 130,768	P. 129,755	P. 131,449
Operating costs and expenses	6,489	84,736	84,362	86,884	83,491	85,210
Operating income	2,631	34,364	39,743	43,884	46,264	46,239
Financing cost, net	330	4,314	9,233	3,349	3,770	5,699
Income from continuing operations, net of income tax	1,567	20,469	20,177	28,889	27,701	27,263
Income from discontinued operations, net of income tax				7,166	2,615	4,926
Net income	1,567	20,469	20,177	36,055	30,316	32,189
U.S. GAAP:						
Operating revenues	U.S. 9,120	P. 119,100	P. 124,105	P. 130,768	P. 129,755	P. 131,449
Operating costs and expenses	6,672	87,128	85,749	89,983	87,676	89,782
Operating income	2,448	31,972	38,356	40,785	42,079	41,667
Income from continuing operations, net of income tax	1,518	19,818	19,782	28,985	27,087	26,221
Income from discontinued operations, net of income tax			2,173	6,848	1,081	3,100
Net income[3]	1,518	19,818	21,955	35,833	28,168	29,321
Balance Sheet Data:						
Mexican FRS:						
Plant, property and equipment, net	U.S. 7,987	P. 104,305	P. 112,865	P. 120,649	P. 124,613	P. 130,088
Total assets from continuing operations	13,658	178,355	187,125	172,826	188,182	200,793
Total assets from discontinued operations					107,366	93,980
Total assets	13,658	178,355	187,125	172,826	295,548	294,773
Short-term debt and current portion of long-term debt	1,514	19,769	22,883	12,282	9,041	14,501
Long-term debt	6,364	83,105	84,172	79,180	81,376	75,696
Total stockholders equity	2,935	38,321	39,371	42,159	121,321	135,879
Capital stock	691	9,020	9,139	9,403	28,011	29,728
U.S. GAAP:						
Plant, property and equipment, net	U.S. 8,152	P. 106,453	P. 115,676	P. 124,825	P. 130,215	P. 136,824
Total assets from continuing operations	12,823	167,453	177,033	163,263	183,815	207,272
Total assets from discontinued operations				132,191	87,807	70,466
Total assets	12,823	167,453	177,033	295,454	271,622	277,738
Short-term debt and current portion of long-term debt	1,514	19,769	22,883	12,282	9,041	14,501
Long-term debt	6,364	83,105	84,172	79,180	81,376	75,696
Total stockholders equity[3]	572	7,465	11,309	122,414	103,195	117,935
Capital stock	691	9,020	9,139	27,231	28,011	29,728

(See footnotes on following page)

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	December 31,				
	2009	2008	2007	2006	2005
Operating Data:					
Billed lines (thousands) [4]	15,882	17,589	17,800	18,251	18,375
Internet access accounts (thousands)	6,651	5,217	3,320	2,660	2,116
Billed lines per employee [4]	384.5	413.8	401.8	402.0	399.6
Domestic long-distance call minutes for the year (millions)	19,837	19,687	18,275	18,108	17,853
International long-distance call minutes for the year (millions)[5]	7,526	8,733	9,531	8,997	7,131
Total local calls (millions)	20,835	22,583	24,892	26,575	26,680
Prepaid telephone service cards sold (millions)	83	120	187	230	258

(1) U.S. dollar amounts provided are translations from the peso amounts, solely for the convenience of the reader, at an exchange rate of P.13.0587 per U.S. dollar, the exchange rate reported by Banco de México for December 31, 2009.

(2) Note 1 to our audited consolidated financial statements describes new accounting pronouncements under Mexican FRS that became effective in 2009 and 2008. The pronouncements that became effective on January 1, 2009 and 2008, were fully implemented in the financial statements included in this Report. These new accounting pronouncements were applied on a prospective basis. As a result, the financial statements of prior years, which are presented for comparative purposes, have not been modified and may not be comparable to our financial statements for 2009 and 2008.

(3) Prior years were retrospectively adjusted for presentation and disclosure purposes, in accordance with amendments to ASC 810 Consolidation. See Note 17. *Differences between Mexican FRS and U.S. GAAP* to our audited consolidated financial statements. ASC 810 states that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest.

(4) Until 2008, includes lines with at least two months behind on bill payments.

(5) Includes incoming and outgoing traffic.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our consolidated ratios of earnings to fixed charges for each year in the five-year period ended December 31, 2009, in accordance with Mexican FRS and U.S. GAAP.

	Year ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Mexican FRS(1)	5.7	4.9	7.1	6.7	7.0
U.S. GAAP(2)	5.6	4.9	7.0	6.7	6.8

(1) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges during the period. Fixed charges for this purpose consist of interest expense during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

(2) Earnings for this purpose consist of earnings from continuing operations before provision for income tax and equity interest in net income of affiliates, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Fixed charges for this purpose consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

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OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

Our total revenues have fallen in recent years, as declining revenues from local, interconnection and long-distance services have been only partly offset by increasing revenues from data services. In response to competitive market pressures, we have not raised our nominal rates since 2001, and we have given discounts for our services. Revenue has also declined, partly because we provide our customers with packages of a range of services that effectively provide larger discounts.

Competition and changing technologies have had extensive effects on our financial performance. We expect continued pressure on prices for basic telephone services. In local service, rapid growth in mobile telecommunications has made mobile phone operators the main competitors for local networks. In addition, local and long-distance services face competition from other means of communication such as cable providers, private circuits and the Internet, including VoIP, a technology that transmits ordinary telephone calls over the Internet. On the other hand, the number of our broadband Internet access subscribers (Infinitum ADSL) grew by 30.2% in 2009 and 71.3% in 2008, and we expect that it will continue to grow and could affect the usage of other services.

Our mix of revenues has been changing as a result. Revenues from voice services represented 69.2% of our total revenues in 2009 compared to 74.7% in 2008, while revenues from data services represented 25.9% of our total revenues in 2009 compared to 20.4% in 2008. These changes have also affected our profit margins. In 2009, total revenues decreased by 4.0%, but our operating income decreased by 13.5%. Our operating margin decreased to 28.9% in 2009 from 32.0% in 2008, because of the changing mix of our revenues.

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

Our future results may be affected significantly by factors beyond our control, including general economic and financial conditions in Mexico, exchange rate variations and regulatory developments. The current recessionary environment may further exacerbate the impact of these factors on us. Our performance may also be affected by acquisitions and other investments we may make. Exchange rate variations on our U.S. dollar-denominated indebtedness contribute to the volatility of our financing cost, which we manage through the use of derivative instruments. Exchange gain, net, was P.1,097 million in 2009 and exchange loss, net, was P.2,494 million in 2008. Finally, we may be affected by actions taken by regulatory authorities and by judicial decisions on regulatory matters.

Effect of Inflation Accounting

Due to the adoption of Mexican FRS B-10, effective January 1, 2008, we ceased to recognize the effects of inflation on our financial information. Prior to 2008, inflation accounting had extensive effects on the presentation of our financial statements. Our financial statements for periods through December 31, 2007 have been re-expressed in constant pesos as of December 31, 2007, using a factor that is based on the Mexican consumer price index. The value of the re-expression factor has a significant impact on the comparison between our results of operations for 2007 and for prior years. See Note 1(II)(b) to our audited consolidated financial statements.

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Summary of Operating Income and Net Income

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

	Year ended December 31,					
	2009		**2008**		**2007**	
	(millions of pesos)	**(percentage of operating revenues)**	**(millions of pesos)**	**(percentage of operating revenues)**	**(millions of pesos)**	**(percentage of operating revenues)**
	(in millions of pesos in 2009 and 2008 and in millions of constant pesos as of December 31, 2007 for 2007)					
Operating revenues:						
Local service	P. 45,028	37.8%	P. 48,982	39.5%	P. 54,398	41.6%
Domestic long-distance service	14,143	11.9	15,742	12.7	17,349	13.3
International long-distance service	6,662	5.6	8,793	7.1	9,678	7.4
Interconnection service	16,573	13.9	19,140	15.4	22,604	17.3
Data services	30,817	25.9	25,387	20.4	22,280	17.1
Other	5,877	4.9	6,061	4.9	4,459	3.3
	119,100	100.0	124,105	100.0	130,768	100.0
Operating costs and expenses:						
Cost of sales and services	34,159	28.7	32,523	26.2	32,364	24.7
Commercial, administrative and general expenses	20,830	17.5	19,863	16.0	19,553	15.0
Interconnection	11,796	9.9	14,043	11.3	16,542	12.6
Depreciation and amortization	17,951	15.0	17,933	14.5	18,425	14.1
	84,736	71.1	84,362	68.0	86,884	66.4
Operating income	34,364	28.9%	39,743	32.0%	43,884	33.6%
Other expenses, net	1,350		679		44	
Financing cost:						
Interest income	(711)		(913)		(1,396)	
Interest expense	6,122		7,652		6,615	
Exchange (gain) loss, net	(1,097)		2,494		643	
Monetary gain, net[1]					(2,513)	
	4,314		9,233		3,349	
Equity interest in net income (loss) of affiliates	255		(62)		17	
Income before income tax	28,955		29,769		40,508	
Income tax	8,486		9,592		11,619	
Income from continuing operations	20,469		20,177		28,889	

Income from discontinued operations, net of income tax			7,166
Net income	P. 20,469	P. 20,177	P. 36,055
Distribution of net income:			
Controlling interest	P. 20,469	P. 20,177	P. 35,485
Non-controlling interest			570
	P. 20,469	P. 20,177	P. 36,055
Earnings per share from continuing operations	P. 1.11	P. 1.07	P. 1.46
Earnings per share from discontinued operations	P.	P.	P. 0.34
Earnings per share	P. 1.11	P. 1.07	P. 1.80

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

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Revenues

Total revenues in 2009 were P.119,100 million, a decrease of 4.0% compared to 2008, primarily due to a decline in revenues from local services, long-distance services and the calling party pays service, partly offset by the increase in revenues generated from data services. The percentage of our revenues attributable to voice services (including local, long-distance and interconnection services) declined from 74.7% in 2008 to 69.2% in 2009, while revenues from data services grew to 25.9% of our revenues in 2009 compared to 20.4% in 2008.

Local Service Revenues

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

Revenues from local service decreased by 8.1% in 2009 and 10.0% in 2008. The decreases in 2009 and 2008 were principally due to a decrease in billed lines, lower average revenue per local billed call and reductions in local traffic due to competition from both wireless and other fixed-line service providers.

Domestic Long-distance Revenues

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

Domestic long-distance revenues decreased by 10.2% in 2009 and by 9.3% in 2008. The decrease in 2009 was primarily due to lower average revenue per minute. The decrease in 2008 was primarily because the increase in traffic was not enough to offset the lower average revenue per minute. Lower average revenue per minute in both 2009 and 2008 was due to our increased offerings of multi-service packages that include long-distance minutes, which promote traffic volume but reduce average revenue per minute.

International Long-distance Revenues

Operating revenues from international long-distance service consist of (a) amounts earned from our customers and (b) amounts earned from foreign telecommunications carriers for terminating international calls. The amount of operating revenues from international long-distance service depends on the volume of traffic, the rates charged to our customers, the rates charged by each party under agreements with foreign carriers, principally in the United States, and the effects of competition. We report international long-distance revenues gross of the settlement amounts payable to foreign carriers, which are recorded in cost of sales and services. In 2009, settlement payments from foreign carriers represented 2.2% of our consolidated revenues and 38.7% of our international long-distance revenues. Settlement payments under service agreements with foreign carriers are generally denominated in U.S. dollars.

International long-distance revenues decreased by 24.2% in 2009 and by 9.1% in 2008. The decrease in 2009 was primarily due to a decline in outgoing traffic of 31.8%, reflecting a decrease in Mexico s economic activity as well as a decrease in traffic from mobile operators, partially offset by an increase in average revenue per minute. Revenues from incoming international long-distance traffic decreased by 22.8% in 2009, mainly due to an 8.6% decline in incoming traffic and a reduction in average revenue per minute. The decrease in 2008 was primarily due to lower average revenue per minute and a decline of incoming traffic. Outgoing billed minutes increased by 2.1% and incoming billed minutes decreased by 11.1%.

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Revenues from Interconnection Service

Revenues from interconnection service are comprised of fees for connection with our network of fixed-to-mobile, mobile-to-fixed and long-distance calls. Calls between fixed and mobile telephones are subject to the calling party pays service, which covers long-distance calls as well as local calls. In the case of local and domestic long-distance service, under the calling party pays service, our fixed-line customers pay us an interconnection charge when they call a mobile telephone. Of that amount, we pay a percentage to the mobile carrier that completed the call (68.1% in 2009). We recognize the amount paid to us under interconnection revenue, and we recognize the amount we pay under interconnection cost.

Revenues from interconnection service decreased by 13.4% in 2009 and by 15.3% in 2008. The decreases in 2009 and 2008 were primarily due to a decrease of the calling party pays rates and a decline in traffic due to increased market penetration by mobile phone carriers. In 2009, revenues from fixed-to-mobile calls represented 84.2% of interconnection revenues (88.2% in 2008) and revenues from local and long-distance operators represented 10.6% of interconnection revenue (8.2% in 2008). The balance of interconnection revenues represented payments from mobile phone carriers for mobile-to-fixed calls. Pursuant to an agreement with all mobile phone operators in Mexico concluded in 2006, the calling party pays rate for local, domestic long-distance and international long-distance services declined from 2006 to 2010.

Revenues from Data Services

Revenues from data services consist of revenues from Internet access service and corporate networks. Revenues from Internet access service include service fees for broadband and dial-up Internet access. Revenues from corporate networks mainly consist of revenues from installing and leasing dedicated private lines, revenues from virtual private network (VPN) services and revenues from the sale of value-added services to these customers.

Revenues from data services increased by 21.4% in 2009 and by 13.9% in 2008. The increases in 2009 and 2008 were primarily due to increases in the number of Internet access accounts by 30.2% in 2009 and 71.3% in 2008 (totaling 6.5 million in 2009 and 5.0 million in 2008), partially offset by lower average revenues per Internet access account. Revenue from data services also increased in 2009 and 2008 due to higher revenues from VPN services and data-related value-added services for the corporate market.

Other Revenues

The main components of other revenues are sales of computers, telephones and accessories at Telmex stores and billing and collection services offered to third parties. Other revenues decreased by 3.0% in 2009 and increased by 35.9% in 2008. The decrease in 2009 was mainly due to lower revenues from our billing and collection services, partially offset by increased sales of computers at Telmex stores. The increase in 2008 was primarily due to higher sales of computers at Telmex stores.

Operating Costs and Expenses

Cost of Sales and Services

Cost of sales and services increased by 5.0% in 2009 and by 0.5% in 2008. The increase in 2009 was primarily due to higher labor costs, cost of goods sold attributable to higher sales of computers and telecommunications equipment and third party services for corporate customers. The increase in 2008 was due to cost of goods sold attributable to higher sales of computers, higher utilities expenses, and higher expenses for maintenance and third party services related to our corporate customers networks as well as our data network.

Commercial, Administrative and General Expenses

Commercial, administrative and general expenses increased by 4.9% in 2009 and 1.6% in 2008. The increase in 2009 was primarily due to higher charges for doubtful accounts receivable, higher labor costs and higher sales activities related to the growth of Internet broadband services, effects partially offset by various initiatives to reduce costs. The increase in 2008 was primarily due to increased expenses related to sales activities and a higher charge for doubtful accounts receivable, partially offset by lower expenses related to a lower number of prepaid cards sold in 2008.

Interconnection Costs

Interconnection costs include payments to mobile phone carriers for calling party pays services. Interconnection costs decreased by 16.0% in 2009 and by 15.1% in 2008. The decreases in 2009 and 2008 were due to both a decline in the rate paid to mobile phone operators for calls under the calling party pays services and a decline in fixed-to-mobile traffic.

Depreciation and Amortization

Depreciation and amortization remained stable in 2009 and decreased by 2.7% in 2008. The decrease in 2008 was due to a decrease in the amount of our depreciable assets. According to Mexican FRS applicable through 2007, we adjusted imported fixed assets based on the rate of inflation in the country of origin of the asset and the prevailing exchange rate. Fixed assets acquired in Mexico were adjusted based on the rate of Mexican inflation.

Operating Income

In 2009, operating income decreased by 13.5%, reflecting a 4.0% decrease in revenues and a 0.4% increase in operating costs and expenses. Operating margin decreased to 28.9% in 2009 from 32.0% in 2008.

In 2008, operating income decreased by 9.4%, reflecting a 5.1% decrease in revenues and a 2.9% decrease in operating costs and expenses. Operating margin decreased to 32.0% in 2008 from 33.6% in 2007. The decrease in operating margins in both periods reflects a continuing shift in our mix of revenues, with voice services representing a lower proportion of revenues and data services representing a higher proportion.

Other Expenses, Net

Other expenses, net, amounted to P.1,350 million in 2009, P.679 million in 2008 and P.44 million in 2007. Other expenses, net, mainly consist of the net amount we are required to recognize under our employee profit sharing obligations. Telmex, like other Mexican companies, is required by law to pay to its employees, in addition to their agreed compensation and benefits, profit sharing in an aggregate amount equal to 10% of our taxable income (calculated without reference to inflation adjustments).

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

Financing Cost, Net

Under Mexican FRS, net financing cost reflects interest income, interest expense, and foreign exchange gain or loss. Through 2007, it also included the gain or loss attributable to the effects of inflation on monetary liabilities and assets. A substantial proportion of our indebtedness (64.8% at December 31, 2009) is denominated in U.S. dollars, and we engage in derivative transactions to manage our exposure to exchange rate variation.

In 2009, net financing cost was P.4,314 million compared with P.9,233 million in 2008. The changes in each component were as follows:

Interest income decreased by 22.1% in 2009 and by 34.6% in 2008. The decreases in 2009 and 2008 were both due to a lower average level of interest-bearing assets.

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Interest expense decreased by 20.0% in 2009 and increased by 15.7% in 2008. The decrease in 2009 was primarily due to a lower average level of debt. The increase in interest expense in 2008 was partly due to the losses on interest-rate swaps, offset by a lower average interest rate and a lower average level of debt. In each year, we recognized net losses on interest-rate swaps (P.2,057 million in 2009, P.2,440 million in 2008 and P.176 million in 2007).

We recorded net exchange gain of P.1,097 million in 2009 and net exchange loss of P.2,494 million in 2008. In 2009, the net exchange gain was due to a gain caused by the appreciation of the peso against the U.S. dollar by approximately 3.5% during 2009, partly offset by net fair value losses on currency hedging instruments. In 2008, the net exchange loss was due to a loss caused by the depreciation of the peso against the U.S. dollar by approximately 24.6% during 2008, offset by a net fair value gain on currency hedging instruments.

Beginning 2008, we did not recognize the effects of inflation because of a change in Mexican FRS. Through 2007, we recognized a net gain in our monetary position because average monetary liabilities exceeded average monetary assets.

Income Tax

The statutory rate of the Mexican corporate income tax was 28% in 2009, 2008 and 2007. Under the Mexican Tax Reform Law approved in December , 2009, the corporate income tax rate will be increased from 28% to 30% for 2010 through 2012, and will be scaled back to 29% in 2013 and to 28% in 2014 and future years. Our effective rate of corporate income tax as a percentage of pre-tax profit was 29.3% in 2009, 32.2% in 2008 and 28.7% in 2007. Although after 2007 we no longer recognize the effects of inflation in our financial statements, we do continue to recognize the impact of inflation for tax reporting purposes. This causes our pretax income to be affected by taxable monetary gain on our net monetary liabilities and by higher depreciation due to the application of inflation indexation on our assets. As a result, our effective tax rate in 2009 was lower than in 2008 due to a lower rate of inflation of 3.6% in 2009 compared to 6.5% in 2008. In 2008, as a result of the impact of inflation for tax purposes, our taxable income was higher than our income under Mexican FRS, and our effective tax rate was higher in 2008 than in 2007.

On October 1, 2007, the Flat-Rate Business Tax Law (FRBT or Impuesto Empresarial a Tasa Única) was published and became effective as of January 1, 2008. Beginning January 1, 2008, the FRBT is computed by applying the applicable rate to income determined on the basis of cash flows, which is determined by deducting authorized deductions from all income collected from those activities that are subject to the tax. As established under the FRBT, certain FRBT credits also may be deducted from the FRBT payable. Under the FRBT s transitory provisions, the FRBT rate is 16.5% in 2008, 17% in 2009 and 17.5% in 2010 and succeeding years.

Income from Continuing Operations, Net

Income from continuing operations, net, increased by 1.4% in 2009 and decreased by 30.2% in 2008. The increase in 2009 was due to lower financing cost and income taxes, offset by the decline in revenues from voice services. The decrease in 2008 was due to a decline in revenues from voice services and an increase in the financing cost, partly offset by a decrease in income taxes.

Liquidity and Capital Resources

Our main capital requirements are capital expenditures, dividend payments, share repurchases and the repayment of debt. We have generally met our capital requirements primarily from operating cash flows and some limited borrowing. Cash flows provided by operating activities were P.40,235 million in 2009 and P.45,905 million in 2008.

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We had a working capital surplus of P.14,547 million at December 31, 2009. We believe that our working capital is sufficient to cover our current requirements.

Our capital expenditures were P.8,998 million in 2009, P.10,081 million in 2008 and P.13,440 million in 2007. In 2009, we used 67.4% of our capital expenditures for projects in data, connectivity and transmission networks, and the balance for other projects. We expect that our capital expenditures in 2010 will be approximately P.10.2 billion (U.S.$761 million), excluding expenditures for any business acquisitions we may make. If we receive authorization to provide triple-play services, we will evaluate whether to increase our capital expenditures to invest in related equipment.

The amount we spent on share repurchases was P.4,095 million in 2009, P.12,872 million in 2008 and P.15,783 million in 2007. The amount spent on share repurchases is determined from time to time by the Board of Directors taking into account factors including the price of our shares and our capital resources.

Dividends paid totaled P.15,093 million in 2009, P.7,609 million in 2008 and P.8,630 million in 2007.

In the table below we set forth certain contractual obligations as of December 31, 2009, consisting of debt and purchase obligations, and the period in which the contractual obligations come due. The amount of our long-term debt reported in the table excludes interest and fee payments, which are primarily variable amounts, and does not reflect derivative instruments, which provide for payment flows that vary depending on exchange rates and interest rates. Purchase obligations include capital commitments primarily for equipment supply and maintenance contracts. The table below does not include pension liabilities, deferred taxes or current accounts payable.

	Payments Due by Period (as of December 31, 2009)				
	Total	**2010**	**2011-2012**	**2013-2014**	**2015 and beyond**
	(in millions of pesos)				
Contractual obligations:					
Total debt[1]	P.102,874	P.19,769	P.31,201	P.19,725	P.32,179
Purchase obligations	3,373	2,133	1,240		
Total	P.106,247	P.21,902	P.32,441	P.19,725	P.32,179

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

At December 31, 2009, we had total indebtedness of P.102,874 million (approximately U.S.$7,878 million) compared to total indebtedness of P.107,055 million (approximately U.S.$7,908 million) at December 31, 2008. In 2009, we incurred additional U.S. dollar and peso-denominated debt and reduced our debt by repaying P. 22,052 million (approximately U.S.$1,689 million).

We have a total amount of P.19,769 million (U.S.$1,514 million) in debt that has come, or will come, due in 2010, part of which has been financed with debt incurred in 2009 and part of which we plan to refinance with new debt in 2010. Of that total amount, we already repaid P.12,294 (U.S.$950 million) in senior notes that came due in January 2010.

The major categories of indebtedness are as follows:

U.S. dollar-denominated bank loans. These include two syndicated loan facilities, loans with support from export credit agencies and other loans. Most of our bank facilities bear interest at specified spreads over LIBOR. The weighted average interest rate at December 31, 2009 was approximately 0.7%. We had U.S.$2,855 million (P.37,282 million) in bank loans outstanding at December 31, 2009. The largest component is a credit facility that we obtained in August 2006, of which U.S.$1,700 million remain outstanding in two tranches: U.S.$1,000 million maturing in 2011 and U.S.$700 million maturing in 2013. In June 2006, we obtained a U.S.$500 million syndicated loan facility divided into two equal tranches maturing in 2010 and 2012.

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

Senior notes issued outside Mexico. We had U.S.$2,248 million (P.29,361 million) and P.4,500 million aggregate principal amounts of senior notes outstanding at December 31, 2009. After repayment of P.12,294 million (U.S.$950 million) in senior notes that came due in January 2010, we have three outstanding series of senior notes issued outside of Mexico:

Maturity	Issuance	Interest	Outstanding Amount (millions)	
January 2015	January/February 2005	5.50%	U.S.$	798
January 2016	January 2006	8.75%	P.	4,500
November 2019	November 2009	5.50%	U.S.$	500

Peso-denominated senior notes issued in Mexico. We have issued peso-denominated senior notes (*certificados bursátiles*) from time to time in the Mexican market. Some of these notes bear interest at fixed rates and some bear interest at specified spreads based on the Mexican interbank equilibrium interest rate (*Tasa de Interés Interbancaria de Equilibrio*). At December 31, 2009, we had P.25,900 million of such notes outstanding, maturing from 2011 to 2037, and the weighted average interest rate was 6.3%.

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

At December 31, 2009, 64.8% of our total consolidated indebtedness was denominated in U.S. dollars, 32.3% was denominated in Mexican pesos and the remainder was denominated in other currencies. Our currency hedging practices are described below.

At December 31, 2009, 59.1% of our debt obligations bore interest at floating rates. The weighted average cost of all borrowed funds at December 31, 2009 (including interest and reimbursement of certain lenders for Mexican taxes withheld, but excluding fees and the effect of interest-rate swaps) was approximately 4.0% (compared to approximately 4.1% at December 31, 2008). The inclusion of fees and the effect of interest-rate swaps in the calculation of weighted average cost of all borrowed funds at December 31, 2009 would increase such cost by 1.9% to approximately 5.9% (compared to approximately 6.2% at December 31, 2008). Such cost does not include the effect of exchange rate variations. We have not pledged any assets as security for our debt.

Derivatives and Hedging

A substantial part of our indebtedness is denominated in U.S. dollars (64.8% as of December 31, 2009), and we have relatively limited assets and revenues denominated in U.S. dollars. As of December 31, 2009, our U.S. dollar-denominated indebtedness amounted to P.66,643 million. In addition, a substantial part of our indebtedness bears interest at variable rates (59.1% as of December 31, 2009). As a result, we are exposed to risks from changing currency exchange rates and interest rates.

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

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Our use of derivatives varies from time to time, depending on our judgment about our level of exposure to exchange rate and interest rate risk, and the costs of derivative instruments. The aggregate notional amount of our interest-rate swaps may be greater or less than the principal amount of our debt, and we may discontinue hedging at any time. We review and change our derivatives positions regularly, and our derivatives policies change from time to time. Under Mexican FRS, we account for the derivative instruments on a fair value basis. See Note 7 to our audited consolidated financial statements.

We have engaged in derivatives transactions to reduce our exposure to changes in exchange rates. As of December 31, 2009, our cross-currency swaps covered foreign currency liabilities of U.S.$4,178 million and short-term forwards contracts covered U.S. dollar liabilities of U.S.$245 million, although the amount of our derivatives position varies substantially from time to time.

We have also engaged in derivatives transactions to reduce our exposure to changes in interest rates. Specifically, we have entered into interest-rate swaps in which we pay interest at a fixed rate and receive interest at a variable rate, on a notional amount in Mexican pesos or U.S. dollars. From time to time, we have also entered into interest-rate swaps in which we pay variable rates and receive fixed rates, as part of the management of our overall position. The general effect of these swaps is to replace an obligation to pay variable-rate interest on our debt with an obligation to pay fixed-rate interest. As of December 31, 2009, the aggregate notional amount of our peso-denominated variable rate to fixed rate interest-rate swaps was P.23,752 million. In the past, we entered into U.S. dollar-denominated interest rate swaps, including U.S.-dollar-denominated fixed rate to variable rate interest-rate swaps in the aggregate notional amount of P.1,354 million, which matured during 2009.

The fair value of our derivative instruments was an asset of P.11,377 million as of December 31, 2009.

Off-Balance Sheet Arrangements

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

U.S. GAAP Reconciliation

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

Net income under U.S. GAAP was P.19,818 million in 2009, P.21,955 million in 2008 and P.35,833 million in 2007. Compared to Mexican FRS, net income under U.S. GAAP was 3.2% lower in 2009, 8.8% higher in 2008 and 0.6% lower in 2007.

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

Other differences that affected net income relate to accounting for costs of pension and seniority premium plans, capitalization of interest on assets under construction and deferred profit sharing. The differences in stockholders equity under Mexican FRS and U.S. GAAP reflect these same matters. For a discussion of the principal differences between Mexican FRS and U.S. GAAP, see Note 17 to our audited consolidated financial statements.

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Use of Estimates in Certain Accounting Policies

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

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

Estimated Useful Lives of Plant, Property and Equipment

We estimate the useful lives of particular classes of plant, property and equipment in order to determine the amount of depreciation expense to be recorded in each period. Depreciation expense is a significant element of our costs, amounting in 2009 to P.17,828 million, or 21.0% of our operating costs and expenses, under Mexican FRS, and P.18,491 million, or 21.2% of our operating costs and expenses, under U.S. GAAP. See Notes 4 and 17 to our audited consolidated financial statements.

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

Employee Pensions and Seniority Premiums

We recognize liabilities on our balance sheet and expenses in our income statement to reflect our obligations to pay employees under defined benefit retirement and seniority premium plans. The amounts we recognize are determined on an actuarial basis that involves many estimates and accounts for post-retirement and termination benefits in accordance with Mexican FRS. In 2009, we recognized net period cost relating to these obligations of P.5,022 million under Mexican FRS and P.5,208 million under U.S. GAAP.

We use estimates in four specific areas that have a significant effect on these amounts: (a) the discount rates that we use to calculate the present value of our future obligations, (b) the rate of increase in salaries that we assume we will observe in future years, (c) the rate of return we assume our pension fund will achieve on its investments and (d) the expected rate of inflation. The assumptions we have applied are identified in Note 10 (Mexican FRS) and Note 17 (U.S. GAAP) to our audited consolidated financial statements. These estimates are based on our historical experience, on current conditions in the financial markets and on our judgments about the future development of our salary costs and the financial markets. We review the estimates each year, and if we change them, our reported expense for pension costs may increase or decrease. In 2008, we began using nominal rates instead of real rates in preparing these estimates as a result of the cessation of inflation accounting under Mexican FRS.

Our liability for future pensions and seniority premiums is also affected by our estimate of the number of retired employees, and our pension fund is affected by the estimated rate of return on investments. Actual results may vary from these estimates. In 2009, the net actuarial loss of P.5,829 million was due to (i) the effect of an actuarial gain of P.4,372 million due to variations in reference rates that resulted in an increase in the value of plan assets invested in equity securities and fixed-income instruments, offset by (ii) an actuarial loss of P.10,201 million attributable principally to a higher than estimated number of employees retiring and higher than estimated salaries and pension benefits of retired employees.

As of December 31, 2009, 45.9% of fund assets consisted of peso-denominated fixed-income securities and 54.1% consisted of variable-income securities. The fund has experienced volatile returns on its investments in equity securities, which resulted in net losses on plan assets in prior years.

Allowance for Doubtful Accounts Receivable

We maintain an allowance for doubtful accounts receivable based on our estimates of losses we may experience because our customers or other telecommunications carriers do not pay the amounts they owe us. At December 31, 2009, the amount of the allowance was P.3,621 million. For our customers, we perform a statistical analysis based on our past experience, current delinquencies and economic trends. For carriers, we make individual estimates that may reflect our evaluation of pending disputes over amounts owed. Our allowance mainly consists of accounts that are over 90 days delinquent. Our allowance could prove insufficient if our statistical analysis of our customer receivables is inadequate, or if one or more carriers refuse or are unable to pay us. See Note 3 to our audited consolidated financial statements.

Revenues from Prepaid Telephone Cards

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

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

Impairment of Long-Lived Assets

We have large amounts of long-lived assets on our balance sheet. Under Mexican FRS and U.S. GAAP, we are required to test long-lived assets for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable for plant, property and equipment and licenses. Impairment testing for goodwill is required to be performed on an annual basis. At December 31, 2009, these include plant, property and equipment (P.104,305 million, net of accumulated depreciation), licenses (P.918 million, net of accumulated amortization) and goodwill (P.276 million, included in our equity investments). To estimate the fair value of long-lived assets, we typically make various assumptions about the future prospects for the business that the asset relates to, consider market factors specific to that business and estimate future cash flows to be generated by that business. Based on these assumptions and estimates, and guidance provided by Mexican FRS and U.S. GAAP relating to the impairment of long-lived assets, we determine whether we need to take an impairment charge to reduce the net carrying value of the asset stated on our balance sheet to reflect its estimated fair value. Assumptions and estimates about future values and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts.

During 2009, 2008 and 2007 we did not recognize any impairment of long-lived assets, licenses or goodwill.

Fair Value of Derivatives

Under Mexican FRS (Bulletin C-10, *Instrumentos Financieros Derivados y Operaciones de Cobertura* (Derivative Financial Instruments and Hedging Activities)) and U.S. GAAP (*ASC 815, Derivatives and Hedging*), we are required to recognize all derivatives as either assets or liabilities on our balance sheet and measure those instruments at fair value. Accounting for derivative transactions allows us to use the fair values as determined by the financial institutions with whom we enter into these transactions, which we use as the basis for recognition of the derivative instruments in our financial statements. The fair value of derivative financial instruments is based on estimated settlement costs or quoted market prices supported by confirmations of these values received from the counterparties to these financial instruments and by determinations of independent third parties applying technical models based on statistical and market data. Changes in the fair value of derivative financial instruments are recorded each year in net income or as a component of accumulated other comprehensive income, based on the type of hedging instrument and the effectiveness of the hedge and whether or not the derivative has been designated, and qualifies, as an accounting hedge.

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RECENT DEVELOPMENTS

Regulatory Matters

Between November 2007 and February 2008, the Mexican Federal Competition Commission (Comisión Federal de Competencia, or Competition Commission) began seven industry-wide investigations to determine whether any telecommunications operators, including Telmex and certain of our affiliates, possess substantial market power or are engaged in monopolistic practices in certain segments of the Mexican telecommunications market. In four of these investigations, the Competition Commission determined in a final resolution that, in the geographic areas covered by our network, Telmex and our subsidiary Teléfonos del Noroeste, S.A. de C.V. have substantial power in certain markets. We filed with the Competition Commission administrative appeals for reconsideration of these four resolutions. The Competition Commission rejected our appeals and we filed petitions for constitutional protection (*amparo*), which are pending. Based on these final resolutions, the Mexican Federal Telecommunications Commission (*Comisión Federal de Telecomunicaciones*) could impose specific tariff requirements or other special regulations such as additional requirements regarding disclosure of information or quality of service. The outcome of these matters, the timing for their ultimate resolution and the consequences for us are uncertain. Findings adverse to us in any of the Competition Commission proceedings may lead to the imposition of regulations, prohibitions or monetary penalties, which in turn could have an adverse effect on our business and results of operations.

We are also subject to certain other ongoing regulatory proceedings that may affect our financial results. See Note 12. *Commitments and Contingencies Contingencies* to our audited consolidated financial statements.

Tax on Telecommunications Services

Effective January 1, 2010, the Mexican government imposed a new tax of 3% on the revenues of certain telecommunication services we provide. We cannot yet predict the effects of this tax will have on our financial performance.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

	By:	/s/ ADOLFO CEREZO PÉREZ
	Name:	**Adolfo Cerezo Pérez**
Date: March 23, 2010	Title:	**Chief Financial Officer**

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EXHIBIT INDEX

Exhibits

Documents filed as exhibits to this report:

23.1	Consent of Mancera, S.C.
99.1	Audited Consolidated Financial Statements as of December 31, 2009 and 2008 and for the Years Ended December 31, 2009, 2008 and 2007.

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Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form F-3 No. 333-160114) of Teléfonos de México, S.A.B. de C.V. and in the related Prospectus of our report dated March 23, 2010, with respect to the consolidated financial statements of Teléfonos de México, S.A.B. de C.V. and subsidiaries, included in this Report of Foreign Private Issuer (Form 6-K) of Teléfonos de México, S.A.B. de C.V., dated March 23, 2010.

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

/s/ C.P.C. David Sitt Cofradía
C.P.C. David Sitt Cofradía

Mexico City, Mexico

March 23, 2010

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Exhibit 99.1

AUDITED CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008 AND

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Teléfonos de México, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Teléfonos de México, S.A.B. de C.V. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income and changes in stockholders equity for each of the three years in the period ended December 31, 2009, the consolidated statements of cash flows for each of the two years in the period ended December 31, 2009 and the consolidated statement 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 of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 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, 2009 and 2008, the consolidated results of their operations for each of the three years in the period ended December 31, 2009, their cash flows for each of the two years in the period ended December 31, 2009 and changes in their financial position for the year ended December 31, 2007, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from U.S. generally accepted accounting principles (see Note 17 to the consolidated financial statements).

As discussed in Note 1 to the consolidated financial statements, as of January 1, 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*.

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

/s/ C.P.C. David Sitt Cofradía
C.P.C. David Sitt Cofradía

Mexico City, Mexico

March 23, 2010

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Balance Sheets

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

	December 31	
	2009	**2008**
Assets		
Current assets:		
Cash and cash equivalents	**P. 14,379,768**	P. 6,136,563
Accounts receivable, net (Note 3)	**21,113,323**	20,808,763
Derivative financial instruments (Note 7)	**11,496,359**	20,418,889
Inventories for sale, net	**1,543,648**	1,914,306
Prepaid expenses and others	**3,303,275**	2,839,702
Total current assets	**51,836,373**	52,118,223
Plant, property and equipment, net (Note 4)	**104,304,749**	112,865,377
Inventories for operation of the telephone plant, net	**1,647,347**	2,668,410
Licenses, net (Note 5)	**918,341**	1,025,027
Equity investments (Note 6)	**1,775,380**	1,494,133
Net projected asset (Note 10)	**16,430,857**	15,485,402
Deferred charges, net	**1,442,330**	1,468,775
Total assets	**P. 178,355,377**	P. 187,125,347
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 7)	**P. 19,768,894**	P. 22,883,092
Accounts payable and accrued liabilities (Note 8)	**14,204,188**	15,918,106
Taxes payable	**2,211,626**	783,543
Deferred credits (Note 9)	**1,104,175**	1,780,115
Total current liabilities	**37,288,883**	41,364,856
Long-term debt (Note 7)	**83,105,454**	84,172,355
Labor obligations (Note 10)	**4,113,513**	4,997,540
Deferred taxes (Note 15)	**15,060,058**	16,808,391
Deferred credits (Note 9)	**466,696**	411,106
Total liabilities	**140,034,604**	147,754,248
Stockholders equity (Note 14):		
Capital stock	**9,020,300**	9,138,632
Retained earnings:		
Prior years	**7,907,079**	7,197,720
Current year	**20,468,689**	20,176,936
	28,375,768	27,374,656
Accumulated other comprehensive income items	**883,225**	2,816,625
Controlling interest	**38,279,293**	39,329,913

Noncontrolling interest	**41,480**	41,186
Total stockholders equity	**38,320,773**	39,371,099
Total liabilities and stockholders equity	**P. 178,355,377**	P. 187,125,347

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

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Income

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

	Year ended December 31		
	2009	**2008**	**2007**
Operating revenues:			
Local service	**P. 45,027,811**	P. 48,982,383	P. 54,398,425
Long distance service:			
Domestic	**14,142,688**	15,741,771	17,348,649
International	**6,662,102**	8,793,262	9,678,537
Interconnection service	**16,572,941**	19,139,692	22,603,745
Data	**30,817,715**	25,387,672	22,280,016
Other	**5,876,955**	6,060,455	4,458,299
	119,100,212	124,105,235	130,767,671
Operating costs and expenses:			
Cost of sales and services	**34,158,977**	32,522,668	32,364,110
Commercial, administrative and general expenses	**20,830,245**	19,863,006	19,552,442
Interconnection	**11,796,163**	14,043,385	16,541,561
Depreciation and amortization (Notes 4 and 5) (includes P.17,152,939 in 2009, P.16,961,597 in 2008 and P.17,434,266 in 2007, not included in cost of sales and services)	**17,950,768**	17,933,207	18,425,285
	84,736,153	84,362,266	86,883,398
Operating income	**34,364,059**	39,742,969	43,884,273
Other expenses, net (Note 1 II.s)	**1,349,680**	679,592	44,361
Financing cost:			
Interest income	**(711,243)**	(913,462)	(1,396,088)
Interest expense	**6,122,328**	7,652,427	6,615,400
Exchange (gain) loss, net	**(1,096,531)**	2,493,729	643,137
Monetary gain, net			(2,513,085)
	4,314,554	9,232,694	3,349,364
Equity interest in net income (loss) of affiliates	**254,680**	(62,113)	17,245
Income before taxes on profits	**28,954,505**	29,768,570	40,507,793
Provision for income tax (Note 15)	**8,485,522**	9,591,659	11,618,710
Income from continuing operations	**P. 20,468,983**	P. 20,176,911	P. 28,889,083
Income from discontinued operations, net of income tax			7,166,312
Net income	**P. 20,468,983**	P. 20,176,911	P. 36,055,395

Distribution of net income:			
Controlling interest	**P. 20,468,689**	P. 20,176,936	P. 35,484,947
Noncontrolling interest	**294**	(25)	570,448
	P. 20,468,983	P. 20,176,911	P. 36,055,395
Weighted average number of shares issued and outstanding (millions)	**18,383**	18,906	19,766
Earnings per share from continuing operations	**P. 1.11**	P. 1.07	P. 1.46
Earnings per share from discontinued operations	**P.**	P.	P. 0.34
Earnings per share	**P. 1.11**	P. 1.07	P. 1.80

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

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders Equity for the years ended December 31, 2007, 2008 and 2009

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

	Capital stock	Premium on sale of shares	Legal reserve	Retained earnings: Unappropriated	Retained earnings: Total	Accumulated other comprehensive income items	Controlling interest	Noncontrolling interest	Comprehensive income	sto
	P. 28,011,334	P. 20,919,197	P. 16,148,490	P. 117,811,741	P. 133,960,231	P. (64,725,867)	P. 118,164,895	P. 3,156,340		P.
of										
n										
				(8,820,074)	(8,820,074)		(8,820,074)			
	(780,210)			(15,002,629)	(15,002,629)		(15,782,839)			
				(164,575)	(164,575)		(164,575)	(450,572)		
n n ff				1,123,819	1,123,819		1,123,819			
e										
				35,484,947	35,484,947		35,484,947	570,448	P. 36,055,395	
						499,089	499,089		499,089	
						(2,739,571)	(2,739,571)	(369,053)	(3,108,624)	
						(927,126)	(927,126)	(184,575)	(1,111,701)	
e									P. 32,334,159	
	(17,828,563)	(20,919,197)	(14,267,977)	(20,773,678)	(35,041,655)	(10,929,376)	(84,718,791)	(2,683,554)		

of								
	9,402,561	1,880,513	109,659,551	111,540,064	(78,822,851)	42,119,774	39,034	
			(79,419,845)	(79,419,845)	79,419,845			
t			(4,136,583)	(4,136,583)	(53,552)	(4,190,135)		
of								
n								
e			(7,774,143)	(7,774,143)		(7,774,143)		
	(263,929)		(12,607,913)	(12,607,913)		(12,871,842)		
e								
,			20,176,936	20,176,936		20,176,936	(25)	P. 20,176,911
.								
.								
,					2,126,088	2,126,088		2,126,088
			(403,860)	(403,860)		(403,860)	2,177	(401,683)
					147,095	147,095		147,095
e								P. 22,048,411
	P. 9,138,632	P. 1,880,513	P. 25,494,143	P. 27,374,656	P. 2,816,625	P. 39,329,913	P. 41,186	P.
n								
ls			**(15,447,559)**	**(15,447,559)**		**(15,447,559)**		
,								

e s	(118,332)		(3,976,988)	(3,976,988)		(4,095,320)			
e es n n			(43,030)	(43,030)		(43,030)			
ve									
r			20,468,689	20,468,689		20,468,689	294	P. 20,468,983	
e									
r s, d					(1,866,847)	(1,866,847)		(1,866,847)	
s, d					(66,553)	(66,553)		(66,553)	
ve								P. 18,535,583	
)	P. 9,020,300	P. 1,880,513	P. 26,495,255	P. 28,375,768	P. 883,225	P. 38,279,293	P. 41,480		P.

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

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

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

	Year ended December 31	
	2009	**2008**
Operating activities		
Income before taxes on profits	**P. 28,954,505**	P. 29,768,570
Add (deduct) items not requiring the use of cash:		
Depreciation	**17,828,006**	17,815,050
Amortization	**120,854**	101,702
Allowance for obsolete inventories for operation of the telephone plant	**69,669**	14,675
Equity interest in net (income) loss of affiliates	**(254,680)**	62,113
Gain on valuation of marketable securities		(36,948)
Net periodic cost of labor obligations	**6,646,858**	5,742,803
Accrued interest expense	**6,122,328**	7,652,427
Exchange (gain) loss, net	**(1,232,671)**	3,322,871
Other		2,531
	58,254,869	64,445,794
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Marketable securities		760,420
Accounts receivable	**(304,561)**	(1,514,850)
Inventories for sale	**370,658**	276,804
Prepaid expenses and others	**(463,577)**	(103,370)
Deferred charges	**26,445**	(130,599)
(Decrease) increase in:		
Labor obligations:		
Contributions to trust fund	**(5,751,947)**	(4,321,922)
Payments to employees	**(218,816)**	(197,297)
Accounts payable and accrued liabilities	**(2,924,775)**	(2,961,080)
Taxes on profits paid	**(10,649,903)**	(11,711,906)
Taxes payable	**2,517,125**	493,448
Deferred credits	**(620,350)**	869,732
Net cash flows provided by operating activities	**40,235,168**	45,905,174
Investing activities		
Acquisition of plant, property and equipment	**(10,613,208)**	(11,771,793)
Inventories for operation of the telephone plant	**951,394**	(935,503)
Acquisition of licenses	**(14,168)**	(135,271)
(Acquisition) sale of long-term equity investments	**(116,640)**	76,207
Other	**33,494**	40,811
Net cash flows used in investing activities	**(9,759,128)**	(12,725,549)
Cash surplus to be applied to financing activities	**30,476,040**	33,179,625

Financing activities

New loans		**23,689,235**		11,862,831
Repayment of loans		**(24,552,238)**		(15,781,356)
Cash purchase of Company s own shares		**(4,095,320)**		(12,871,842)
Dividends paid		**(15,093,082)**		(7,609,477)
Derivative financial instruments		**2,019,050**		(2,291,873)
Interest paid		**(4,200,480)**		(5,049,097)
Net cash flows used in financing activities		**(22,232,835)**		(31,740,814)
Net increase in cash and cash equivalents		**8,243,205**		1,438,811
Cash and cash equivalents at beginning of year		**6,136,563**		4,697,752
Cash and cash equivalents at end of year	**P.**	**14,379,768**	P.	6,136,563

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

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

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 share	(15,782,839)
Cash dividends declared	(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.

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

1. Description of the Business and Significant Accounting Policies

I. Description of the Business

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

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

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

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

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

On January 13, 2010 América Móvil, S.A.B. de C.V. (América Móvil) announced that it will launch an exchange offer to the stockholders of Carso Global Telecom, S.A.B. de C.V. (Carso Global Telecom) (TELMEX s controlling stockholder), pursuant to which the shares of Carso Global Telecom would be exchanged for shares issued by América Móvil. If Carso Global Telecom s stockholders tender all their shares, América Móvil would acquire indirectly 59.4% of the outstanding shares of TELMEX and 60.7% of the outstanding shares of Telmex Internacional, S.A.B. de C.V. (Telmex Internacional). América Móvil also announced its intention to launch an offering for the exchange or purchase of all of the Telmex Internacional s shares that are not already owned by Carso Global Telecom (39.3%).

On March 9, 2010, TELMEX s Audit Committee, Chief Executive Officer, General Counsel and Chief Financial Officer authorized the issuance of the accompanying consolidated financial statements and these notes as of December 31, 2009 and 2008, and for each of the three years in the period ended December 31, 2009, and Management evaluated subsequent events through March 23, 2010.

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

At December 31, 2009, 2008 and 2007, TELMEX s equity interest in its principal subsidiaries and affiliated companies is as follows:

		% equity interest at December 31		
Company	**Country**	**2009**	**2008**	**2007**
Subsidiaries:				
Integración de Servicios TMX, S.A. de C.V.	Mexico	**100%**	100%	100%
Alquiladora de Casas, S.A. de C.V.	Mexico	**100%**	100%	100%
Cía. de Teléfonos y Bienes Raíces, S.A. de C.V.	Mexico	**100%**	100%	100%
Consorcio Red Uno, S.A. de C.V.	Mexico	**100%**	100%	100%
Teléfonos del Noroeste, S.A. de C.V.	Mexico	**100%**	100%	100%
Uninet, S.A. de C.V.	Mexico	**100%**	100%	100%
Telmex USA, L.L.C.	U.S.A.	**100%**	100%	100%
Affiliated companies:				
Grupo Telvista, S.A. de C.V.	Mexico	**45%**	45%	45%
2Wire, Inc.	U.S.A.	**13%**	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 6).

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

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

ii) Translation of financial statements of foreign subsidiary and affiliate

Beginning January 1, 2008, the financial statements of the foreign subsidiary and affiliate are either consolidated or accounted for based on the equity method, as the case may be, once the financial statements have been adjusted to conform to Mexican Financial Reporting Standards in the corresponding local currency, and are then translated to the reporting currency.

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

Through December 31, 2007, the financial statements as reported by the foreign subsidiary were converted to conform to Mexican Financial Reporting Standards, in the local currency, and subsequently re-expressed to constant pesos 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

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

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 2009 and 2008 financial statements are expressed in nominal pesos, except for those non-monetary items that included inflation effects through December 31, 2007. Subsequent additions are recognized at historical cost.

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Capital stock, premium on sale of shares and retained earnings were restated 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 consisted 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 was 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, which amounted to P. (79,419,845), net of deferred taxes, were reclassified from accumulated other comprehensive income items to retained earnings in stockholders equity.

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 as 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.

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

d) Use of estimates

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

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e) Cash and cash equivalents

Cash and cash equivalents are represented by time deposits and highly liquid investments in financial institutions with maturities of less than 90 days at the date purchased. Such investments are stated at acquisition cost plus accrued interest, similar to market value.

f) Derivative financial instruments and hedging activities

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

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

The effectiveness of the Company s derivatives used for hedging purposes is evaluated prior to their designation as hedges, as well as during the hedging period, which is performed at least quarterly based on recognized statistical techniques. Whenever it is determined that a derivative is not highly effective as a hedge or that the derivative ceases to be a highly effective hedge, the Company ceases to apply hedge accounting for the derivative on a prospective basis. During the years ended December 31, 2009, 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 items in stockholders equity, while the ineffective portion is recognized in current year earnings. Changes in the fair value of derivatives that do not qualify as hedges are immediately recognized in earnings.

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

g) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the Company s experience, the aging 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.

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

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

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

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

The carrying value of plant, property, plant and equipment is reviewed whenever there are indicators of impairment in the carrying value of such assets. Whenever an asset s recovery value, which is the greater of the asset s selling price and its value in use (the present value of future cash flows) is less than the asset s net carrying amount, the difference is recognized as an impairment loss.

For the years ended December 31, 2009, 2008 and 2007, there were no indicators of impairment in the value of the Company s plant, property and equipment.

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.

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

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k) Licenses

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

l) Business acquisitions

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

m) Accrued liabilities

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

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

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

n) Labor obligations

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

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

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

o) Employee profit sharing

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

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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 profit sharing is computed by applying the 10% rate to all temporary differences between the values of all assets and liabilities for financial and tax reporting purposes. The Company periodically evaluates the possibility of recovering deferred employee profit sharing assets and, if necessary, creates a valuation allowance for those assets that do not have a high probability of being realized (see Note 10).

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

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

q) Comprehensive income

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

r) Taxes on profits

Deferred taxes on profits are recognized using the asset and liability method. Under this method, deferred taxes on profits are recognized on all differences between the financial reporting and tax 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.

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

s) Statement of income presentation

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

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

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An analysis of the Other expenses, net caption for the years ended December 31, 2009, 2008 and 2007 is as follows:

		2009		2008		2007
Employee profit sharing, current	**P.**	**2,217,482**	P.	2,548,762	P.	2,867,019
Other income (Note 10)		**(867,802)**		(1,869,170)		(2,822,658)
Other expenses, net	**P.**	**1,349,680**	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) Statement of cash flows

Effective January 1, 2008, 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 both 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 presents first income before taxes on profits, followed by cash flows from operating activities, then cash flows from investing activities and finally cash flows from financing activities.

The statement of cash flows for the years ended December 31, 2009 and 2008 were prepared using the indirect method. The statements of cash flows are not comparable to the statement of changes in financial position for the year ended December 31, 2007.

u) Earnings per share

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

v) Concentration of risk

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

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

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Financial instruments which 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 not restrict its exposure to any one financial institution; therefore, the Company s financial instruments are maintained in different financial institutions located in different geographical areas.

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

w) Segments

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

Local and long distance segment information varies to the one presented in the consolidated financial statements due to:

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.

Local service includes: revenues from basic rent, measured service, installation charges, equipment sales and interconnection.

Long distance service includes: revenues from basic services of domestic and international long distance services; it does not include revenues from rural and public telephony and data services.

The services being disclosed consider the corresponding attributes for interconnection, billing, collecting, co-location and leased lines.

Interconnection with cellular operators includes revenues from calling party pays.

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x) Reclassifications

Certain captions shown in the 2008 financial statements as originally issued have been reclassified for uniformity of presentation with the 2009 financial statements.

An analysis is as follows:

		As originally reported 2008	Reclassifications	As reclassified 2008
Assets				
Current assets:				
Prepaid expenses and others	(1)	P. 2,900,790	P. (61,088)	**P. 2,839,702**
Deferred charges, net	(1)	1,407,687	61,088	**1,468,775**
Statement of income				
Operating revenues:				
Corporate networks	(2)	12,219,402	(12,219,402)	
Internet	(2)	13,168,270	(13,168,270)	
Data	(2)		25,387,672	**25,387,672**
Operating costs and expenses:				
Cost of sales and services	(3)	32,806,088	(283,420)	**32,522,668**
Commercial, administrative and general expenses	(4)	19,831,144	31,862	**19,863,006**
Interconnection	(3)	13,759,965	283,420	**14,043,385**
Depreciation and amortization	(4)	17,965,069	(31,862)	**17,933,207**

(1) Reclassification of deferred charges.
(2) Reclassification to Data revenues.
(3) Reclassification of interconnection.
(4) Reclassification of administrative expenses.

y) 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, 2009 and that affected TELMEX s accounting policies:

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

In November 2008, the CINIF issued Mexican FRS B-8, which became 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.

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.

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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 special 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 FRS.

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.

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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 became 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.

The adoption of the new accounting standards mentioned above did not have any impact on the Company s financial statements and did not result in a cumulative adjustment to retained earnings at adoption.

ii) The most important new accounting pronouncements that will become effective on January 1, 2010 or 2011, and that could affect the Company s accounting policies, are as follows:

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

Mexican FRS C-1 was issued by the CINIF in November 2009 to replace Mexican accounting Bulletin C-1, *Cash*, and is effective for fiscal years beginning on or after January 1, 2010. The purpose of this standard is to establish guidelines for the valuation, presentation and disclosure of items comprising the cash and cash equivalents caption in the statement of financial position.

Mexican FRS C-1 establishes that restricted cash is to be presented in the cash and cash equivalents caption in the statement of financial position (under the former standard it was shown separately) and substitutes the term short-term demand investments with the new term liquid demand investments , which, among other characteristics, must be readily convertible to cash and have maturities of no more than three months.

Mexican FRS C-1 also defines the following terms: acquisition costs, cash equivalents, restricted cash and cash equivalents, liquid demand investments, net realization value, nominal value and fair value.

Mexican FRS B-5, *Financial Information by Segment*

In November 2009, the CINIF issued Mexican FRS B-5, which will become effective for fiscal years beginning on or after January 1, 2011. Mexican FRS B-5 will replace Mexican accounting Bulletin B-5.

Mexican FRS B-5 establishes the criteria for identifying the segments to be reported by an entity, as well as the standards for disclosing the financial information of such segments. The standard also contains the requirements applicable to the disclosure of certain information related to the entity as a whole.

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The principal changes compared to Mexican accounting Bulletin B-5 are as follows:

Information to be disclosed Mexican FRS B-5 is management-focused, since the segment information disclosures it requires refer to the information used by the entity s most-senior business decision makers. Mexican FRS B-5 also requires the disclosure of information related to entity s products, geographic zones, customers and suppliers.

Business risks In identifying operating segments, this standard does not require the different areas of the business to be subject to different risks.

Segments in the pre-operating stage Under Mexican FRS B-5, the different areas of a business in its pre-operating stage can be classified as operating segments.

Disclosure of financial results This standard requires disclosure of interest income and expense, as well as the other comprehensive financing items.

Disclosure of liabilities Mexican FRS B-5 requires disclosure of the liabilities included in the regular information for the operating segment that is habitually used by the entity s most-senior business decision makers.

The Company expects that these standards will not have a material impact on its financial statements.

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 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.

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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 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
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:	

Controlling interest	P.	6,595,675
Noncontrolling interest		570,637
	P.	7,166,312
Earnings per share	P.	0.34

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

3. Accounts Receivable

An analysis of accounts receivable at December 31, 2009 and 2008 is as follows:

	2009	2008
Customers	P. 19,112,062	P. 17,761,170
Recoverable taxes	2,316,472	2,061,818
Related parties (Note 13)	894,535	975,362
Net settlement receivables	417,152	478,991
Other	1,994,215	1,916,092
	24,734,436	23,193,433
Less:		
Allowance for doubtful accounts	3,621,113	2,384,670
Total	P. 21,113,323	P. 20,808,763

An analysis of activity in the allowance for doubtful accounts for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
Beginning balance at January 1	P. 2,384,670	P. 1,725,969	P. 1,808,773
Increase charged to expenses	2,437,296	1,551,988	1,349,248
Charges to allowance	(1,200,853)	(893,287)	(1,373,875)
Monetary effect			(58,177)
Ending balance at December 31	P. 3,621,113	P. 2,384,670	P. 1,725,969

4. Plant, Property and Equipment

a) An analysis of plant, property and equipment at December 31, 2009 and 2008 is as follows:

	2009	2008
Telephone plant and equipment	P. 315,548,924	P. 314,077,075
Land and buildings	37,128,186	36,987,698
Computer equipment and other assets	49,952,667	47,564,938
	402,629,777	398,629,711
Less:		

Accumulated depreciation		**298,734,102**		286,221,263
Net		**103,895,675**		112,408,448
Construction in progress and advances to equipment suppliers		**409,074**		456,929
Total	**P.**	**104,304,749**	P.	112,865,377

Construction in progress refers mainly to projects related to telephone plant, which are scheduled to be completed and transferred to the plant mostly during the first half of 2010.

b) Depreciation of the telephone plant and equipment is calculated at annual rates ranging from 3.3% to 20.0%. The rest of the Company s assets, excluding land, are depreciated at rates ranging from 10% to 33.3%. Depreciation charged to operating costs and expenses was P.17,828,006 in 2009, P.17,815,050 in 2008 and P.18,290,793 in 2007.

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5. Licenses

An analysis of licenses cost and their amortization at December 31, 2009 and 2008 is as follows:

		2009		2008
Investment	**P.**	**1,777,464**	P.	1,763,296
Less:				
Accumulated amortization		**859,123**		738,269
Net	**P.**	**918,341**	P.	1,025,027

An analysis of the changes in 2009, 2008 and 2007 is as follows:

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

		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.1,908, P.16,454 and P.43,046 for the years ended December 31 2009, 2008 and 2007, respectively.

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6. Equity Investments

An analysis of equity investments in affiliates and other companies at December 31, 2009 and 2008, and a brief description of each, is as follows:

		2009		2008
Equity investments in:				
Grupo Telvista, S.A. de C.V.	**P.**	**907,973**	P.	726,342
2Wire, Inc.		**301,035**		276,000
Other affiliates		**566,372**		491,791
	P.	**1,775,380**	P.	1,494,133

Investments in affiliates

Grupo Telvista

TELMEX holds 45% of the capital stock of Grupo Telvista, S.A. de C.V. (Grupo Telvista) which, through its subsidiaries, provides telemarketing services in Mexico and the U.S.A. For the year ended December 31, 2009, TELMEX s equity interest in the net income of Grupo Telvista gave rise to a credit to results of operations of P. 195,498 (P. 154,795 in 2008 and P. 57,474 in 2007) and a charge to stockholders equity of P. 13,867 (credit of P. 69,128 in 2008).

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, 2009, TELMEX s equity interest in the results of 2Wire gave rise to a credit to results of operations of P. 25,035 (charge of P. 266,568 in 2008 and P. 78,726 in 2007).

Other affiliates

For the year ended December 31, 2009, equity interest in other affiliates represented a net credit to results of operations of P. 34,147 (net credit of P. 49,660 in 2008 and P. 38,497 in 2007) and a charge to stockholders equity of P. 4,427 (credits of P. 37,718 in 2008 and P. 1,703 in 2007).

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7. Long-term Debt

Long-term debt consists of the following:

	Weighted-average interest rate at December 31		Maturities from	Balance at December 31	
	2009	2008	2010 through	2009	2008
Debt denominated in foreign currency:					
Senior notes	**5.2%**	5.1%	2019	**P. 29,361,181**	P. 23,670,364
Bank loans	**0.7%**	1.8%	2018	**40,074,814**	61,013,202
Other	**2.0%**	2.0%	2022	**238,353**	271,881
Total debt denominated in foreign currency				**69,674,348**	84,955,447
Debt denominated in Mexican pesos:					
Senior notes	**8.8%**	8.8%	2016	**4,500,000**	4,500,000
Domestic senior notes	**6.3%**	8.8%	2037	**25,900,000**	14,800,000
Bank loans	**4.8%**	8.6%	2010	**2,800,000**	2,800,000
Total debt denominated in Mexican pesos				**33,200,000**	22,100,000
Total debt				**102,874,348**	107,055,447
Less short-term debt and current portion of long-term debt				**19,768,894**	22,883,092
Long-term debt				**P. 83,105,454**	P. 84,172,355

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, 2009 (including interest expense, interest rate swaps, fees and withholding taxes, and excluding exchange rate variances) was approximately 5.9% (6.2% in 2008).

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

	Balance at December 31	
	2009	2008
Short-term debt:		
Domestic senior notes		P. 2,500,000
Current portion of long-term debt:		
Senior notes	**P. 12,405,765**	
Domestic senior notes		400,000
Bank loans	**7,363,129**	19,983,092

	P.	**19,768,894**	P.	20,383,092
Total	**P.**	**19,768,894**	P.	22,883,092

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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) In the first quarter of 2005, TELMEX issued bonds in the amount of P.21,892,381 (U.S.$ 1,750 million) divided into two issuances of P. 11,870,243 and P. 10,022,138 (U.S.$ 950 million and U.S.$ 800 million, respectively), 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. For the year ended December 31, 2009, interest expense on these bonds was P. 1,274,163 (P. 1,025,848 in 2008 and P. 1,046,639 in 2007).

On January 27, 2010, TELMEX repaid the first issuance of the bonds issued in 2005 for P.12,294,140 (U.S.$950 million).

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, 2009, interest expense on the bond was P. 407,708 (P. 409,655 in 2008 and P. 414,940 in 2007).

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

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. In August 2009, TELMEX repaid the total amount of the first tranche, for which the original maturity was scheduled for October 2009. The balance of these loans at December 31, 2009 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.

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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, 2009, interest expense on these loans was P. 556,305 (P. 1,425,514 in 2008 and P. 2,341,463 in 2007).

Domestic senior notes (Certificados Bursátiles):

On December 19, 2007, 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). In April 2008, domestic senior notes in the amount of P. 1,600,000 were issued. In July 2009, TELMEX placed domestic senior notes in two issuances for a total amount of P. 8,000,000.

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

Some domestic senior notes bear fixed-rate interest, while others bear interest equal to a specified margin in respect of the Mexican interbank equilibrium interest rate (TIIE). For the year ended December 31, 2009, interest expense on long-term domestic senior notes was P. 1,194,213 (P. 1,004,242 in 2008 and P. 1,011,961 in 2007).

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, 2009, the Company was in compliance with all these requirements.

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

Foreign currency debt:

An analysis of the foreign currency denominated debt at December 31, 2009 is as follows:

	Foreign currency (in thousands)	Exchange rate at December 31, 2009 (in units)	Equivalent in Mexican pesos
U.S. dollar	**5,103,362**	**P. 13.0587**	**P. 66,643,271**
Japanese yen	**19,891,200**	**0.1404**	**2,792,724**
Euro	**12,722**	**18.7353**	**238,353**
Total			**P. 69,674,348**

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Long-term debt maturities at December 31, 2009 are as follows:

Years	Amount
2011	**P. 18,857,154**
2012	**12,343,560**
2013	**11,560,972**
2014	**8,164,639**
2015 and thereafter	**32,179,129**
Total	**P. 83,105,454**

Hedges:

At December 31, 2009 and 2008, the financial instruments held by the Company are as follows:

	2009		**2008**	
Financial instrument	**Notional**	**Fair value asset (liability)**	**Notional**	**Fair value asset (liability)**
	(in millions)		**(in millions)**	
Cross currency swaps	**U.S.$ 4,178**	**P. 12,226**	U.S.$ 5,451	P. 20,913
Forwards dollar-peso (Note 8)	**U.S.$ 245**	**(120)**		
Interest-rate swaps in pesos	**P. 23,752**	**(729)**	P. 23,752	(369)
Interest-rate swaps in dollars			U.S.$ 100	(30)
Cross currency coupon swaps	**U.S.$ 50**		U.S.$ 350	(95)
Total		**P. 11,377**		P. 20,419

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, 2009, the Company has cross currency swaps that hedge foreign currency denominated liabilities of P. 54,557,723 (U.S.$ 4,178 million) (P. 73,799,967 or U.S.$ 5,451 million in 2008). 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.$ 1,495 million and bank loans that mature from 2010 to 2018 in the total amount of U.S.$ 2,683 million. These agreements allow TELMEX to fix the parity of such debt at a weighted-average exchange rate of P. 10.5892 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 floating rate equal to the average 28-day TIIE, less a specified margin for the bank loans.

The change in the fair value of these cross currency swaps recognized for the year ended December 31, 2009 was P. 5,682,263 (P. 16,281,874 in 2008 and P. 93,087 in 2007).

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Forwards dollar-peso

At December 31, 2009, the Company had short-term foreign currency forwards with a notional amount of P. 3,199,382 (U.S.$ 245 million). At December 31, 2008, the Company had no forward contracts outstanding. For the year ended December 31, 2009, the Company recognized a net charge of P. 520,733 (charge of P. 1,690,380 in 2008 and P. 578,926 in 2007) as part of exchange (gain) loss, net due to changes in the fair value of these forwards.

Interest-rate swaps

At December 31, 2009 and 2008, 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%. At December 31, 2009, the Company had no interest rate swaps in U.S. dollars. 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 matured in October 2009.

At December 31, 2009, the Company had cross currency coupon swaps that cover interest payments of P. 652,935 (U.S.$ 50 million) (P. 4,738,405, or U.S.$ 350 million for 2008).

For the year ended December 31, 2009, the Company recognized a net expense for these swaps in interest expense of P. 2,056,839 (net expense of P. 2,439,778 in 2008 and net credit of P. 90,712 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 P. 3,787 million (U.S.$ 290 million). At December 31, 2009, 65% of the Company s outstanding derivatives correspond to these types of agreements; however, no margin calls have been required at such date.

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8. Accounts Payable and Accrued Liabilities

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

	December 31	
	2009	**2008**
Suppliers	**P. 2,100,036**	P. 4,285,331
Employee benefits	**2,804,324**	3,012,967
Sundry creditors	**1,838,250**	1,439,394
Related parties (Note 13)	**1,602,128**	1,993,079
Vacation accrual	**1,284,578**	1,287,747
Accrual for other contractual employee benefits	**1,230,645**	1,310,570
Dividend pending payment	**1,106,119**	899,541
Interest payable	**936,550**	1,187,525
Derivative financial instruments (Note 7)	**119,719**	
Other	**1,181,839**	501,952
	P. 14,204,188	P. 15,918,106

The activity in the main accruals for the years ended December 31, 2009, 2008 and 2007 is as follows:

Vacation accrual:

	2009	**2008**	**2007**
Beginning balance at January 1	**P. 1,287,747**	P. 1,256,783	P. 1,234,716
Increase charged to expenses	**1,619,979**	1,656,930	2,690,063
Payments	**(1,623,148)**	(1,625,966)	(2,621,810)
Monetary effect			(46,186)
Ending balance at December 31	**P. 1,284,578**	P. 1,287,747	P. 1,256,783

Accrual for other contractual employee benefits:

	2009	**2008**	**2007**
Beginning balance at January 1	**P. 1,310,570**	P. 1,151,700	P. 1,131,334
Increase charged to expenses	**3,725,372**	3,588,400	3,434,180
Payments	**(3,805,297)**	(3,429,530)	(3,371,492)
Monetary effect			(42,322)

Ending balance at December 31	**P. 1,230,645**	P. 1,310,570	P. 1,151,700

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9. Deferred Credits

Deferred credits consist of the following at December 31, 2009 and 2008:

		2009		2008
Short-term:				
Advance billings	**P.**	**1,009,603**	P.	1,044,877
Advances from customers		**94,572**		735,238
		1,104,175		1,780,115
Long-term:				
Advance billings		**466,696**		411,106
Total	**P.**	**1,570,871**	P.	2,191,221

10. Labor Obligations

a) Pensions plans and seniority premiums

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

TELMEX has set up an irrevocable trust fund to finance these labor obligations and has adopted the policy of making 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:

		2009		2008		2007
Labor cost	**P.**	**4,431,755**	P.	4,333,194	P.	3,672,437
Finance cost on defined benefit obligation		**15,861,542**		14,344,072		9,013,577
Projected return on plan assets		**(17,524,795)**		(15,571,525)		(9,585,397)
Amortization of past services		**69,526**		1,344,971		1,339,448
Amortization of variances in actuarial assumptions (1)		**2,183,763**		201,412		55,701
Net periodic cost	**P.**	**5,021,791**	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.

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Analysis of the defined benefit obligation:

	2009	2008
Present value of labor obligations:		
Vested benefit obligation	**P. 105,002,007**	P. 93,175,620
Non-vested benefit obligation and effect of salary projection	**92,330,826**	83,007,215
Defined benefit obligation at end of year	**P. 197,332,833**	P. 176,182,835

Analysis of changes in the defined benefit obligation:

	2009	2008
Defined benefit obligation at beginning of year	**P. 176,182,835**	P. 159,484,041
Labor cost	**4,431,755**	4,333,194
Finance cost on defined benefit obligation	**15,861,542**	14,344,072
Actuarial loss	**10,200,996**	6,662,976
Benefits paid to employees	**(215,298)**	(194,437)
Payments from trust fund	**(9,128,997)**	(8,447,011)
Defined benefit obligation at end of year	**P. 197,332,833**	P. 176,182,835

Analysis of changes in plan assets:

	2009	2008
Established fund at beginning of year	**P. 145,475,893**	P. 156,979,097
Projected return on plan assets	**17,524,795**	15,571,525
Actuarial gain (loss)	**4,371,737**	(22,949,640)
Contributions to trust fund	**5,751,947**	4,321,922
Payments from trust fund	**(9,128,997)**	(8,447,011)
Established fund at end of year	**P. 163,995,375**	P. 145,475,893

Analysis of the net prepaid benefit obligation:

	2009	2008

Insufficiency of plan assets for defined benefit obligation	**P.**	**(33,337,458)**	P.	(30,706,942)
Unamortized actuarial loss		**49,515,770**		45,870,274
Transition liability		**121,815**		156,536
Past service cost and changes to plan		**130,730**		165,534
Net prepaid benefit obligation	**P.**	**16,430,857**	P.	15,485,402

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

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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.

At December 31, 2009, 2008 and 2007, the rates used in the actuarial study are as follows:

	2009 Nominal rates %	2008 Nominal rates %	2007 Real rates %
Discount of labor obligations:			
Long-term average	**9.20**	9.20	5.51
Increase in salaries:			
Long-term average	**4.50**	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 had no effect on the calculation of labor obligations, since these rates were 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 were the same as those selected for 2007).

At December 31, 2009 and 2008, 45.9% of plan assets were invested in fixed-yield securities and the remaining 54.1% 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:

	2009	2008	2007
Labor cost	**P. 12,630**	P. 15,188	P. 13,371
Finance cost on defined benefit obligation	**12,498**	14,599	9,623
Amortization of variances in assumptions (1)	**(9,867)**	(87,699)	(31,680)
Net periodic cost (gain)	**P. 15,261**	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.

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The activity in the termination pay liability is as follows:

	2009	2008
Balance at beginning of year	**P. 147,634**	P. 208,406
Net periodic cost (gain)	**15,261**	(57,912)
Payments	**(3,518)**	(2,860)
Balance at end of year	**P. 159,377**	P. 147,634

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, 2009 and 2008, 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, 2009, the deferred employee profit sharing provision represented a credit to results of operations of P. 607,676 (P. 1,400,171 in 2008), which was recognized in the statement of income under the caption Other expenses, net.

At December 31, 2009 and 2008, the Company recognized deferred employee profit sharing on the following temporary items:

	2009	2008
Deferred employee profit sharing assets:		
Allowance for bad debts and slow-moving inventories	**P. 310,287**	P. 210,874
Advance billings	**147,750**	184,219
Accrued liabilities	**515,522**	372,944
Exchange loss on debt	**347,123**	409,247
	1,320,682	1,177,284
Deferred employee profit sharing liabilities:		
Fixed assets	**(3,437,606)**	(3,842,874)
Inventories	**(4,881)**	(9,139)
Licenses	**(44,852)**	(49,900)
Labor obligations	**(1,609,552)**	(1,538,794)
Prepaid expenses	**(86,043)**	(167,311)

Derivative financial instruments		**(91,884)**		(419,172)
		(5,274,818)		(6,027,190)
Deferred employee profit sharing liability, net	**P.**	**(3,954,136)**	P.	(4,849,906)

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11. Foreign Currency Position

a) At December 31, 2009 and 2008, the Company had the following foreign currency denominated assets and liabilities:

	Foreign currency in millions			
	2009	Exchange rate at December 31, 2009	2008	Exchange rate at December 31, 2008
Assets:				
U.S. dollar	**669**	**P. 13.06**	183	P. 13.54
Liabilities:				
U.S. dollar	**5,205**	**13.06**	6,235	13.54
Japanese yen	**19,891**	**0.14**	19,891	0.15
Euro	**13**	**18.74**	14	19.14

At March 23, 2010, the applicable exchange rates are as follows:

Foreign currency	Exchange rate
U.S. dollars	P. 12.58
Japanese yen	0.14
Euro	17.02

12. Commitments and Contingencies

Commitments

At December 31, 2009, TELMEX has non-cancelable commitments for the purchase of equipment of P. 3,372,975 (P. 4,520,320 in 2008), which include P. 977,637 (P. 798,792 in 2008) for non-cancelable commitments with related parties. Payments made under the related purchase agreements aggregated to P. 2,858,996 in 2009 (P. 3,173,710 in 2008 and P. 4,169,109 in 2007).

Contingencies

a) In November 2005, COFETEL issued the guidelines for making changes to local service areas. In April 2006, Teléfonos de México, S.A.B. de C.V. contested the guidelines to modify local service areas via an administrative proceeding that was discarded by the Communications Ministry, and at present it is being litigated before the Third Metropolitan Regional Federal Court of Justice for Tax and Administrative Matters.

In the interim, pursuant to the aforementioned guidelines COFETEL has ordered the consolidation of a package of 70 local service areas and a package of 2 local service areas in March 2007, another package of 125 local service areas in September 2008 and finally the consolidation of 1 local service area in December 2008, each with its own schedule. Teléfonos de México, S.A.B. de C.V. challenged COFETEL s orders through applicable legal procedures.

In November 2009, a resolution of a Federal Court nullified the consolidation of local service areas ordered by COFETEL.

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If the guidelines resolution becomes effective, COFETEL may start again procedures to consolidate local service areas.

If such consolidation is implemented, it may have an adverse impact on the Company s long distance revenues.

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 certainty that Teléfonos de México, S.A.B. de C.V. will obtain favorable results.

b) Between November 2007 and February 2008, the Federal Commission of Economic Competition (COFECO) initiated seven inquiries to determine whether Teléfonos de México, S.A.B. de C.V. has substantial control or engages in monopolistic practices in certain markets.

Preliminary resolutions in four of these inquiries have been issued, in which COFECO has determined that Teléfonos de México, S.A.B. de C.V. has substantial control in the following markets: (i) termination of public switched traffic; (ii) origination of public switched traffic; (iii) local transit services; and (iv) leasing of lines or circuits. Teléfonos de México, S.A.B. de C.V. expressed its disagreement with the proceedings, contested the preliminary resolutions and submitted evidence against them.

In the four inquiries indicated above, COFECO has already confirmed its resolutions, and Teléfonos de México, S.A.B. de C.V. filed the corresponding recourses, which COFECO denied. Against these resolutions, Teléfonos de México, S. A. B. de C. V. filed for constitutional protection (amparo) which is still pending. If these resolutions prevail, COFETEL could impose specific obligations on tariffs, quality of service and information in these markets.

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

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

c) 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. 568,869 through July 19, 2010. The regional metropolitan court declared the resolution to be null, but the administrative authorities filed an appeal. In October 2009, Teléfonos de México, S.A.B. de C.V. obtained favorable results through a final resolution that nullifies the schedule of rate payments; therefore the Company commenced proceedings to liquidate the trust fund that was guaranteeing the payment of this contingency, which was finalized on January 22, 2010, at which time the Company recognized the gain on settlement of this contingency.

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On January 22, 2010, Teléfonos de México, S.A.B. de C.V. was entitled to a refund equivalent to the amount set up as guaranteed payment.

Since tax credits did not take effect and Teléfonos de México, S.A.B. de C.V. obtained reimbursement for the guaranteed payment, this matter was resolved and concluded with favorable results.

d) In accordance with Mexican law, Teléfonos de México, S.A.B. de C.V. shall be severally liable for all of the obligations transferred to Telmex Internacional, S.A.B. de C.V. as a result of the split-up, for a three-year period, with respect to the terms of the split-up agreement approved by the 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.

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

Teléfonos de México, S.A.B. de C.V. has filed for constitutional protection (amparo) against this plan, providing all necessary arguments to demonstrate illegality and unconstitutionality of such plan.

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

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13. Related Parties

a) An analysis of balances due from/to related parties at December 31, 2009 and 2008 is provided below. All the companies are considered affiliates since TELMEX s primary stockholders are also either direct or indirect stockholders of the related parties:

	December 31	
	2009	**2008**
Accounts receivable:		
Alestra, S. de R.L. de C.V.	**P. 454,762**	P. 114,625
Sercotel, S.A. de C.V.	**193,316**	262,732
AT&T Inc.	**87,885**	218,718
Anuncios en Directorios, S.A. de C.V.	**27,662**	28,477
Controladora de Servicios de Telecomunicaciones, S. A. de C.V.	**18,235**	29,628
Sears Roebuck de México, S.A. de C.V.	**14,231**	27,893
Sanborn Hermanos, S.A.	**6,397**	62,837
Banco Inbursa, S.A.	**4,256**	89,267
Sección Amarilla USA, LLC	**54**	20,768
Other	**87,737**	120,417
	P. 894,535	P. 975,362
Accounts payable:		
Radiomóvil Dipsa, S.A. de C.V.	**P. 1,027,048**	P. 1,000,739
Inversora Bursátil, S.A.	**127,472**	121,383
Eidon Software, S.A. de C.V.	**103,738**	
Microm, S.A. de C.V.	**65,349**	119,631
Grupo Financiero Inbursa, S.A.B. de C.V.	**50,695**	46,710
Conductores Mexicanos Eléctricos y de Telecomunicaciones, S.A. de C.V.	**34,161**	6,538
PC Industrial, S. A. de C.V.	**29,614**	69,950
Carso Infraestructura y Construcción, S.A.B de C.V.	**25,459**	208,559
Sinergía Soluciones Integrales de Energía, S.A. de C.V.	**23,629**	17,283
2Wire, Inc.		190,266
Sigmatao Factory, S.A. de C.V.		27,002
Other	**114,963**	185,018
	P. 1,602,128	P. 1,993,079

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b) For the years ended December 31, 2009, 2008 and 2007, the Company had the following transactions with related parties:

	2009	2008	2007
Investment and expenses:			
Construction services, purchase of materials, inventories and fixed assets (1)	**P. 2,163,205**	P. 3,958,756	P. 3,928,422
Insurance premiums, fees for administrative and operating services, security trading and others (2)	**3,318,218**	3,389,572	5,106,398
Calling Party Pays interconnection fees and other telecommunication services (3)	**7,944,362**	9,959,288	12,976,239
Cost of termination of international calls (6)	**715,780**	685,100	612,594
Revenues:			
Sale of materials and other services (4)	**1,879,051**	2,091,927	1,540,633
Sale of long distance and other telecommunications services (5)	**5,727,833**	6,211,439	5,844,988
Revenues from termination of international calls (6)	**1,074,419**	2,428,631	1,920,392

(1) Includes P. 1,591,531 in 2009 (P .2,190,819 in 2008 and 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), which is an entity under common control with Carso Global Telecom, the company that controls Teléfonos de México, S.A.B. de C.V.. Also includes P. 453,348 in 2009 (P. 1,652,662 in 2008 and P. 1,047,685 in 2007) for the purchase of equipment for broadband platform services from 2Wire.

(2) Includes P. 571,338 in 2009 (P. 563,331 in 2008 and P.1, 216,067 in 2007) for network maintenance services from subsidiaries of Carso Group; P. 714,242 in 2009 (P. 632,970 in 2008 and P. 847,605 in 2007) for software services received from subsidiaries of Telmex Internacional; P. 327,500 in 2009 (P. 805,703 in 2008 and 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. 482,598 in 2009 (P. 392,170 in 2008 and P. 431,074 in 2007) for insurance premiums with Seguros Inbursa, S.A. (Seguros), which, in turn, places most of this amount in reinsurance with third parties; P. 208,942 in 2009 (P. 222,963 in 2008 and P. 188,425 in 2007) for telemarketing services with Grupo Telvista; P. 40,602 in 2009 (P. 71,668 in 2008 and P. 93,162 in 2007) for security trading fees with Inversora Bursátil, S.A. (Inversora); and P. 335,975 in 2009 (P. 243,999 in 2008 and P. 571,544 in 2007) for fees paid for administrative and operating services to AT&T and Carso Global Telecom. Telmex Internacional, Seguros, Grupo Telvista and Inversora are entities under common control with Carso Global Telecom. AT&T Inc. is a noncontrolling stockholder of the Company.

(3) Includes P. 7,944,083 in 2009 (P. 9,959,018 in 2008 and 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. América Móvil is an entity under common control with Carso Global Telecom.

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(4) Includes P. 47,462 in 2009 (P. 84,654 in 2008 and P. 253,095 in 2007) for the sale of materials and other services rendered to subsidiaries of Carso Group; P. 230,397 in 2009 (P. 206,634 in 2008 and P. 335,480 in 2007) for billing and collection services rendered to subsidiaries of Grupo Financiero Inbursa, S.A.B. de C.V. (Inbursa); P. 301,440 in 2009 (P. 753,600 in 2008) for the use and updating of the telephone directory customer database, as well as P. 373,648 in 2009 (P. 411,956 in 2008 and P. 363,529 in 2007) for billing, collection, administrative services and others rendered to subsidiaries of Telmex Internacional; and P. 494,785 (P. 451,686 in 2008 and P. 439,660 in 2007) for property leases and other services rendered to subsidiaries of América Móvil. Inbursa is an entity under common control with Carso Global Telecom.

(5) Includes P. 4,397,574 in 2009 (P. 5,072,839 in 2008 and 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:

	2009	2008	2007
Short- and long-term direct benefits	**P. 51,371**	P. 41,636	P. 46,375
Post-retirement benefits	**3,154**	3,060	2,536
Total	**P. 54,525**	P. 44,696	P. 48,911

14. 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, 2009, capital stock is represented by 18,192 million shares issued and outstanding with no par value, representing the Company s fixed capital (P. 18,555 million in 2008). An analysis is as follows:

	2009	2008
8,115 million Series AA common shares	**P. 5,569,721**	P. 5,569,721
395 million Series A common shares (407 million in 2008)	**317,792**	327,734
9,682 million Series L shares with limited voting rights (10,033 in 2008)	**3,132,787**	3,241,177
Total	**P. 9,020,300**	P. 9,138,632

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At December 31, 2009 and 2008, the historical value of the Company s capital stock was P. 78,545 and P. 80,113, respectively.

An analysis of the changes in 2009, 2008 and 2007 is as follows:

	Capital stock (1)					
	Series AA		Series A		Series L	
	Number	Amount	Number	Amount	Number	Amount
Balance at December 31, 2006	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	5,569,721	407	327,734	10,033	3,241,177
Cash purchase of Company s own shares			**(2)**	**(1,551)**	**(361)**	**(116,781)**
Conversion of shares			**(10)**	**(8,391)**	**10**	**8,391**
Balance at December 31, 2009	**8,115**	**P. 5,569,721**	**395**	**P. 317,792**	**9,682**	**P. 3,132,787**

(1) Number of shares in millions

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

Voting rights

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

The transformation of TELMEX from one type of entity to another;

Any merger in which TELMEX is not the surviving entity or any merger with an entity whose principal corporate purposes are different from those of TELMEX (when TELMEX is the surviving entity); and

Cancellation of the registration of the TELMEX s shares in the securities or special sections of the Mexican National Securities Registry and in any foreign stock exchanges in which they are registered.

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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 shareholder, 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 March 3, 2009, the stockholders approved an increase of P. 10,000,000 in the total authorized nominal amount for the repurchase of the Company s own shares. The remaining amount was P. 340,868, bringing the total maximum amount to be used for this purpose to P. 10,340,868.

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. The remaining amount was P. 8,046,597, bringing the total maximum amount to be used for this purpose to P. 23,046,597 (historical).

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

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, 2009, 2008 and 2007, the Company had 14,040 (13,998 Series L and 42 Series A), 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.

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e) At December 31, 2009, *Accumulated other comprehensive income items* include P. 748,675 for the effect of the market valuation of swaps designated as cash flow hedges and P. 134,550 for the effect of translation of foreign entities, net of deferred taxes. 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.

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

At a regular meeting held on April 25, 2008, the stockholders agreed to declare a cash dividend of P. 0.40 per outstanding share, to be paid in four installments of P. 0.10 each in June, September and December 2008 and in March 2009. In March 2008, the Company paid the fourth installment of P. 0.1125 per outstanding share, which was authorized at the regular meeting held on April 27, 2007.

At a regular meeting held on April 27, 2007, the stockholders agreed to declare a cash dividend of P. 0.45 per outstanding share, to be paid in four installments of P. 0.1125 each in June, September and December 2007 and in March 2008. In March 2007, the Company paid the fourth installment of P. 0.1025 per outstanding share, which was authorized at the regular meeting held on April 27, 2006.

The cash dividends paid in 2009, 2008 and 2007 were P. 15,093,082, P. 7,609,477 and P. 8,630,024, respectively.

15. Income Tax and Flat-Rate Business Tax

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

b) Beginning January 1, 2007, asset tax was payable at 1.25% of the average value of most assets. 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.

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

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

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

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

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

For the years ended December 31, 2009 and 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.

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

		2009		2008		2007
Current year income tax	**P.**	**9,560,860**	P.	10,606,003	P.	10,411,963
Deferred tax		**(1,075,338)**		(1,014,344)		1,206,747
Total	**P.**	**8,485,522**	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:

	2009 %	2008 %	2007 %
Statutory income tax rate	**28.0**	28.0	28.0
Depreciation	**(0.9)**	(3.9)	
Social security benefits	**1.2**	1.1	1.1
Monetary gain	**2.6**	6.0	0.3
Tax benefits	**(0.2)**		
Other	**(1.4)**	1.0	(0.7)
Effective income tax rate	**29.3**	32.2	28.7

At December 31, 2009 and 2008, the Company recognized deferred income taxes on the following temporary differences:

		2009		2008
Deferred tax assets:				
Allowance for bad debts and slow-moving inventories	**P.**	**877,847**	P.	599,582
Tax loss carryforwards		**87,365**		75,394

Advance billings	**435,521**	529,417
Accrued liabilities	**1,492,471**	1,084,274
Employee profit sharing	**1,728,654**	2,071,573
	4,621,858	4,360,240
Deferred tax liabilities:		
Fixed assets	**(14,357,100)**	(15,386,755)
Inventories	**(13,667)**	(25,589)
Licenses	**(118,903)**	(132,936)
Labor obligations	**(4,566,155)**	(4,304,012)
Prepaid expenses	**(300,552)**	(189,628)
Derivative financial instruments	**(272,538)**	(1,129,711)
Effect of translation of foreign entities	**(53,001)**	
	(19,681,916)	(21,168,631)
Deferred tax liability, net	**P. (15,060,058)**	P. (16,808,391)

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e) At December 31, 2009, the balance of the re-expressed contributed capital account (CUCA) and the net taxed profits account (CUFIN) was P. 11,491,546 and P. 12,912,070, respectively. These amounts correspond to Teléfonos de México, S.A.B. de C.V. on an individual basis.

16. 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, including interconnection service. The long distance service segment includes domestic and international service. Other segments include long distance calls made from public and rural telephones, data services and other services. Additional information related to the Company s operations is provided in Note 1. The following summary shows the most important segment information, which has been prepared on a consistent basis:

	(Amounts in millions of Mexican pesos)				
	Local service	**Long distance**	**Other segments**	**Adjustments**	**Consolidated total**
December 31, 2009					
Revenues:					
External revenues	**P. 65,158**	**P. 22,543**	**P. 31,399**		**P. 119,100**
Intersegment revenues	**11,722**		**929**	**P. (12,651)**	
Depreciation and amortization	**9,818**	**1,788**	**6,345**		**17,951**
Operating income	**17,846**	**2,537**	**13,981**		**34,364**
Segment assets	**260,597**	**35,094**	**108,995**		**404,686**
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	4,462		17,933
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.

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17. Differences between Mexican FRS and U.S. GAAP

The Company s consolidated financial statements are prepared in accordance with Mexican Financial Reporting Standards (Mexican FRS), which differ in certain respects from accounting principles generally accepted in the United States (U.S. GAAP).

As described in Note 1 II b, effective January 1, 2008, the Company ceased to recognize the effects of inflation on its financial statements as required by Mexican FRS B-10. However, as required by such standard, the financial statement amounts that were previously reported remained unchanged, and the inflation adjustments previously recognized have been maintained in their corresponding caption. This new standard requires that the re-expressed amounts of non-monetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008. The carrying amounts affected the 2008 and 2009 net income and will also affect net income in future periods. For example, depreciation expense after the adoption of Mexican FRS B-10 is based on carrying amounts of fixed assets that include inflation adjustments recorded prior to the adoption of Mexican FRS B-10.

The Mexican and U.S. GAAP amounts included in this Note, as they relate to the years ended December 31, 2009 and 2008, are presented in the carrying amounts as required by Mexican FRS B-10, and the effects of inflation that were recorded prior to 2008 have not been reversed in the reconciliations to U.S. GAAP.

Through December 31, 2007, the consolidated financial statements prepared under Mexican FRS included the effect of inflation as provided by Bulletin B-10, and, in the case of the discontinued operations, the effects of inflation were included as provided by Bulletin B-15.

The Mexican and U.S. GAAP amounts, included throughout Note 17 for the year ended December 31 2007, are presented in constant Mexican pesos as of December 31, 2007. The reconciliation to U.S. GAAP for the year ended December 31, 2007, does not include the reversal of the adjustments to the financial statements for the effects of inflation required under Mexican FRS (Bulletin

B-10), because the application of Bulletin B-10 represented a comprehensive measure of the effects of price level changes in the Mexican economy as permitted by the SEC.

The principal differences between Mexican FRS and U.S. GAAP, as they relate to the Company, are described below together with an explanation, where appropriate, of the method used to determine the adjustments that affect net income, stockholders equity and resources provided by operating and financing activities.

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Cash flow information:

As described in Note 1, the Company adopted Mexican FRS B-2 *Statement of cash flows* on January 1, 2008. The cash flow statements as prepared under Mexican FRS for the years ended December 31, 2009 and 2008, comply with IAS 7, *Statement of Cash Flows*, as issued by the International Accounting Standards Board, and thus, no reconciliation was needed.

As described in Note 1, for the year ended December 31, 2007 the financial statements under Mexican FRS, include the presentation of the statement of changes in financial position as provided for under Bulletin B-12. The changes in the consolidated financial statement balances included in this statement constitute resources provided by and used in operating, financing and investing activities stated in constant pesos (including monetary and foreign exchange gains and losses).

Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows* (codified into ASC Topic 230, *Statement of Cash Flows*) does not provide guidance with respect to inflation adjusted financial statements. For 2007, in accordance with Mexican FRS, the changes in current and long-term debt due to re-expression into constant pesos, including the effect of exchange differences, is presented in the statement of changes in financial position in the financing activities section. Also, under U.S. GAAP non-cash investing activities are not reported in the statement of cash flows; whereas the statement of changes in financial position prepared under Mexican FRS, non-cash transactions that affect the financial structure of an entity must be presented separately. In addition, cash flows related to discontinued operations are presented in various categories whereas under Mexican FRS they are presented as a net item.

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If the monetary gain and the exchange gain or loss related to the debt reported in the year ended December 31, 2007, were treated as components of operating activities, summarized consolidated statement of cash flows derived from information prepared in accordance with U.S. GAAP would be as follows:

	Year ended December 31, 2007
Cash flows from operating activities:	
Net income under U.S.GAAP	P. 35,833,144
Income from discontinued operations under U.S. GAAP	6,848,291
Income from continuing operations under U.S. GAAP	28,984,853
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	19,759,421
Amortization	134,492
Amortization of deferred charges and other	949,862
Effect of exchange rate differences on debt	234,465
Monetary gain, net	(3,056,539)
Deferred taxes	956,606
Equity interest in net loss (income) of affiliates	(17,245)
Net periodic cost of labor obligations	3,716,277
Marketable securities	2,151,503
Change in operating assets and liabilities	(4,920,703)
Total adjustments	19,908,139
Net cash provided by operating activities of continuing operations	48,892,992
Cash flows from investing activities:	
Investment in plant, property and equipment and inventories	(13,439,657)
Net cash contributed to split-up subsidiary	(14,077,287)
Other investments	(239,005)
Net cash used in investing activities of continuing operations	(27,755,949)
Cash flows from financing activities:	
New loans	14,930,842
Repayment of loans	(10,750,844)
Repurchase of Company s own shares and cash dividends paid	(24,602,913)

Net cash used in financing activities of continuing operations		(20,422,915)
Effect of inflation accounting on cash and cash equivalents		(789,336)
Net changes in cash and cash equivalents of discontinued operations		(5,992,792)
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
Supplemental disclosure of cash flow information:		
Interest paid	P.	6,438,212
Income tax paid		10,501,615
Employee profit sharing paid		2,954,488

Cash flows from sales of trading securities were P. 2,232,020 in 2007.

Noncash transactions related to investment in plant, property and equipment for the years ended December 31, 2009, 2008 and 2007 were P. 801,187, P. 2,147,017 and P. 3,886,940, respectively.

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Capitalized interest:

Under U.S. GAAP, interest on borrowings in foreign currencies or comprehensive cost of financing incurred during the construction period must be considered as an additional cost of constructed assets to be capitalized in plant, property and equipment and depreciated over the lives of the related assets. The amount of the capitalized comprehensive cost of financing for U.S. GAAP purposes was determined by applying the weighted-average rate of interest of financing.

Starting January 1, 2007, although the Company adopted the policy of capitalizing the comprehensive result of financing on assets under construction, as a result of the adoption of Mexican FRS D-6, the Company did not capitalize any comprehensive result of financing since the Company has not had any significant qualifying assets with prolonged acquisition periods. For the years 2009, 2008 and 2007, the Company did not capitalize any interest under U.S. GAAP. The reconciling items show the depreciation of capitalized interest in prior years.

Valuation of inventories and plant, property and equipment:

As previously discussed in Note 1.II.i, through December 31, 2007, the re-expression of plant, property and equipment was based on the rate of inflation in the respective country of origin. This method is not acceptable for U.S. GAAP purposes; consequently, the difference between this method and the re-expression of inventories and plant, property and equipment based on the NCPI was taken to the U.S. GAAP reconciliations subsequently presented.

As a result of this comparison, inventories, plant, property and equipment and stockholders equity increased by P. 1,331,167 (P. 1,734,130 in 2008), and the depreciation expense for 2009 increased by P. 402,963 (P. 787,067 and P. 1,127,069 in 2008 and 2007, respectively).

Deferred income tax and deferred employee profit sharing:

As mentioned in Note 1.II.r, under Mexican FRS, deferred income tax is determined on all differences in balance sheets accounts for financial and tax reporting purposes, using the enacted income tax rate at the balance sheet date, which is basically in conformity with Statement of Financial Accounting Standards No. 109, (SFAS 109), *Accounting for income taxes* (codified into ASC Topic 740, *Income taxes*), except for the treatment of deferred taxes on the effect of translation of foreign entities.

The Company is required to pay employee profit sharing in accordance with Mexican labor law. Through December 31, 2007, deferred employee profit sharing under U.S. GAAP had been determined following the guidelines of SFAS 109, because under Mexican FRS the deferred consequences of employee profit sharing were determined on temporary differences considered non-recurring with a known turnaround time.

As described in Note 1.II.o, under Mexican FRS the Company began recognizing on January 1, 2008 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 differences between the values of all assets and liabilities for financial and tax reporting purposes, which is basically in conformity with SFAS 109 (codified into ASC Topic 740, *Income taxes*).

The deferred tax adjustment included in the net income and stockholders equity reconciliations, also includes the effect of deferred taxes on all U.S. GAAP adjustments reflected in the reconciliation between Mexican FRS and U.S. GAAP.

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The differences in the recognition of deferred income tax and deferred employee profit sharing (for purposes of this note, collectively referred to as deferred taxes) between Mexican FRS and U.S. GAAP for purposes of the income statement were as follows:

2007	P. 250,141
2008	(153,150)
2009	**198,339**

The yearly changes in the accumulated amount for deferred taxes applied to equity as a result of the difference between the indexed cost and the specific indexation factor valuation of fixed assets and inventories, primarily for operation of the telephone plant from 2007 through 2009 are the following:

2007	P. 411,402
2008	320,831
2009	**(145,116)**

In 2007, monetary gain of P. 15,064, respectively, on the deferred taxes balance related to the difference between the indexed cost and specific indexation cost valuation of fixed assets and inventories, primarily for operation of the telephone plant, were taken to equity, as part of the change of the year.

The yearly changes in the accumulated amount for deferred taxes applied to equity as a result of the Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements no. 87, 88, 106 and 132(R)* (codified into ASC Topic 715, *Compensation Retirement Benefits*), from 2007 through 2009 are the following:

2007	P. 2,539,812
2008	10,174,718
2009	**1,193,289**

The related accumulated amounts at December 31, 2009 and 2008 that increased equity were P. 17,609,684 and P. 16,416,395, respectively.

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Significant components of deferred taxes under U.S. GAAP at December 31, 2009 and 2008 are as follows:

	2009			**2008**		
	Income tax	**Employee profit sharing**	**Total**	**Income tax**	**Employee profit sharing**	**Total**
Deferred assets:						
Allowances for bad debts and slow-moving inventories	**P. 877,847**	**P. 310,287**	**P. 1,188,134**	P. 599,582	P. 210,874	P. 810,456
Tax loss carryforwards	**87,365**		**87,365**	75,394		75,394
Advance billings	**435,521**	**147,750**	**583,271**	529,417	184,219	713,636
Accrued liabilities	**1,492,471**	**515,522**	**2,007,993**	1,084,274	372,943	1,457,217
Employee profit sharing	**403,550**		**403,550**	859,942		859,942
Pensions	**9,370,573**	**3,346,606**	**12,717,179**	8,631,195	3,082,545	11,713,740
Exchange loss on debt		**347,123**	**347,123**		409,247	409,247
Total deferred tax assets	**12,667,327**	**4,667,288**	**17,334,615**	11,779,804	4,259,828	16,039,632
Deferred liabilities:						
Fixed assets	**(14,746,460)**	**(3,574,360)**	**(18,320,820)**	(15,813,293)	(4,028,230)	(19,841,523)
Inventories	**(13,667)**	**(4,881)**	**(18,548)**	(25,589)	(9,139)	(34,728)
Capitalized interest or net financing cost	**(231,667)**	**(82,738)**	**(314,405)**	(304,437)	(108,728)	(413,165)
Licenses	**(115,533)**	**(44,852)**	**(160,385)**	(132,937)	(49,900)	(182,837)
Prepaid expenses	**(315,546)**	**(90,195)**	**(405,741)**	(189,629)	(167,311)	(356,940)
Financial instruments	**(272,538)**	**(91,884)**	**(364,422)**	(1,129,711)	(419,172)	(1,548,883)
Total deferred tax liabilities	**(15,695,411)**	**(3,888,910)**	**(19,584,321)**	(17,595,596)	(4,782,480)	(22,378,076)
Net deferred (liabilities) assets	**P. (3,028,084)**	**P. 778,378**	**P. (2,249,706)**	P. (5,815,792)	P. (522,652)	P. (6,338,444)

For Mexican FRS purposes, as discussed in Note 15, the deferred income tax liabilities recognized for the Mexican operations amounted to P.15,060,058 and P.16,808,391 at December 31, 2009 and 2008, respectively. Also as discussed in Note 10.c, for Mexican FRS purposes the deferred employee profit sharing liability recognized amounted to P. 3,954,136 and P. 4,849,906 at December 31, 2009 and 2008.

Under U.S. GAAP deferred tax assets and liabilities are classified as current or noncurrent, based on the classification of the asset or liability that originated it. A deferred tax asset or liability that is not related to an asset or liability for financial reporting purposes, including deferred tax assets related to carryforwards, is classified in accordance to its expected reversal date. For a particular tax-paying component and within a particular tax jurisdiction, (a) all current deferred tax assets and liabilities are offset and presented as a single amount and (b) all noncurrent deferred tax assets and liabilities are offset and presented as a single amount. However, deferred tax assets and liabilities attributable to different tax-paying components of the enterprise or to different tax jurisdictions are not offset.

Under Mexican FRS deferred tax assets and liabilities are classified as noncurrent and are presented in one net amount in the balance sheet. The consolidated amounts of deferred taxes are not offset if they do not belong to the same taxable entity and to the same taxation authority.

Income taxes on unremitted foreign earnings

Under US GAAP, deferred tax consequences on unremitted foreign earnings that are considered to be permanently invested are not recognized. Therefore, the Company has eliminated the deferred tax consequences on the effect of translation of its foreign operations in the reconciliation of stockholders equity between Mexican FRS and US GAAP. In the event that the Company repatriated these earnings, incremental taxes may be incurred. The Company has determined that it is not practicable to determine the amount of these incremental taxes.

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Employee benefit obligation:

In 2009, 2008 and 2007, pension and seniority premium plans expense under U.S. GAAP totaled P. 5,207,736, P. 3,812,903 and P. 3,724,963, respectively. The components of these employee benefit obligations calculated in accordance with the provisions of Statement of Financial Accounting Standards No. 87 (SFAS No. 87), *Employers Accounting for Pensions* (codified into ASC Topic 715, *Compensation Retirement Benefits*), consist of the following:

	December 31,		
	2009	**2008**	**2007**
Labor cost	**P. 4,431,755**	P. 4,333,194	P. 3,672,437
Financial cost on defined benefit obligation	**15,861,542**	14,344,072	9,013,577
Expected return on plan assets	**(17,524,795)**	(15,571,525)	(9,585,397)
Amortization of unrecognized net transition obligation and prior service cost	**34,766**	624,355	624,346
Amortization of unrecognized losses	**2,404,468**	82,807	
Net periodic cost under U.S. GAAP	**5,207,736**	3,812,903	3,724,963
Net periodic cost under Mexican FRS	**5,021,791**	4,652,124	4,495,766
Cost increase (reduction) under U.S. GAAP	**P. 185,945**	P. (839,221)	P. (770,803)

The amounts reconciled in net income, represent the effect generated by the assumptions used during the first application on the adoption of the pension and seniority premium accounting rules when they became effective for U.S. GAAP and Mexican FRS purposes, which were in different years.

In determining the various economic assumptions used in the computation, the Company estimates specific rates for each of the next 12 years and assumes a constant ultimate rate for each year thereafter. Each economic assumption is evaluated annually and revised as necessary. Assumptions used in the computation of the net cost under U.S. GAAP for each of the years presented in the above table are equal to those used in the determination of employee benefit obligations disclosed in Note 10. The expected rates of annual return on plan assets used for the computation of the net cost under Mexican FRS and U.S. GAAP, for each of the years presented in the above table were 12% (nominal), 10% (nominal) and 6.82% (real) for 2009, 2008 and 2007, respectively.

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Plan assets:

The weighted average asset actual allocation of plan assets by asset category is as follows:

	Percentage of plan assets at December 31,	
	2009	**2008**
Debt securities:		
Mexican Government	40.4%	40.5%
Mexican companies	5.5%	5.4%
Equity securities:		
Mexican companies	46.9%	47.4%
U.S. companies	5.8%	5.9%
Cash	**1.4%**	0.8%
Total	**100.0%**	100.0%

The asset allocation of plan assets at December 31, 2009 and 2008 and the target allocation for 2010 by asset category are as follows:

	Target allocation 2010	2009	2008
Fixed-income securities	**40-50%**	**45.9%**	45.9%
Variable-income securities	**50-60%**	**54.1%**	54.1%

The target asset allocations reflect the Company s investment strategy of maximizing the rate of return on plan assets and the resulting funded status, within an appropriate level of risk.

As of December 31, 2009, securities held by the plan included 242.5 million shares of TELMEX (255.8 million shares in 2008) and 1,741.7 million shares of related parties (1,962.1 million shares in 2008), with a fair value of P. 2,653,441 (P. 3,671,083 in 2008) and P. 66,182,240 (P. 58,031,339 in 2008), respectively. In 2009, the plan purchased 20.8 million shares of related parties (58.2 million shares in 2008) and sold 241.2 million shares of related parties (48.7 million shares in 2008). In June 2008, the plan received 330.0 million shares of Telmex Internacional as a result of the split-up. In 2009, the plan purchased 2.8 million shares of TELMEX (3.2 million shares in 2008) and sold 16.1 million shares of TELMEX (77.3 million shares in 2008). Dividends received by the plan in 2009 were P. 925,224 (P. 1,410,407 in 2008) from TELMEX and related parties.

As of December 31, 2009, securities held by the plan also included P. 943,080 (notional amount) of TELMEX debt securities (P. 351,363 in 2008) and P. 2,296,338 (notional amount) of related parties debt securities (P. 19,035,338 in 2008), with a fair value of P. 943,049 (P. 401,661 in 2008) and P. 2,345,667 (P. 19,117,287 in 2008), respectively. In 2009, the plan purchased P. 975,694,551 (P. 772,189,159 in 2008) and sold P. 992,728,118 (P. 566,118,492 in 2008) of related parties debt securities, and purchased P. 19,488,270 (P. 28,385,642 in 2008) and sold P. 18,963,254 (P. 28,394,746 in 2008) of TELMEX debt securities. Interest income recognized by the plan in 2009 was P. 16,559 (P. 8,509 in

2008) on TELMEX securities and P. 44,877 (P. 64,340 in 2008) on related parties securities.

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The table below presents the fair value hierarchy of our plan assets as of December 31, 2009.

There are three broad levels to the fair value hierarchy of inputs to fair value (Level 1 being the highest priority and Level 3 being the lowest priority):

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs (e.g., a reporting entity s own data).

	Level 1	Level 2	Level 3	Total
Debt securities:				
Mexican Government	P. 66,222,252			P. 66,222,252
Mexican companies	9,067,750			9,067,750
Equity securities:				
Mexican companies	76,967,926			76,967,926
U.S. companies	9,433,782			9,433,782
Cash and cash equivalents	2,303,665			2,303,665
Established fund	P. 163,995,375			P. 163,995,375

Expected cash flows for the pension and seniority premiums plans are as follows:

Expected contributions to trust fund:	
2010	P. 6,444,125
Expected benefit payments:	
2010	P. 8,564,987
2011	8,943,225
2012	9,482,631
2013	10,236,722
2014	10,913,578
2015-2019	66,114,567
Total	P. 114,255,710

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

The investment policies of plan assets are the following:

Tax rules issued by the Ministry of Finance and Public Credit:
Asset investments of the pension fund must be made through an irrevocable trust set up with a financial credit institution authorized to operate in Mexico.

To invest at least 30% of assets in Mexican government securities registered in the National Registry of Securities and Intermediaries (Registro Nacional de Valores e Intermediarios) or in shares of investment funds in debt instruments (sociedades de inversión).

The remaining 70% (maximum) will be invested in securities approved by the National Banking and Securities Commission (CNBV).

Trading:
The fund invests in securities approved by CNBV with high trading, liquidity and credit quality.

Plan assets structure:
Ensure that the composition of assets comprising the pension fund generates sufficient resources and liquidity to cover growth of pension obligations.

The Company s policy that defines long-term interest rates to discount the obligations of the pension plan is based on the historical returns of short-term interest rates for the last 20 years in Mexico. Before 1984, debt securities yielded negative interest rates in real terms and for that reason the Company decided not to go beyond twenty years of historical interest rates, with the purpose to adopt the current Mexican monetary policy. As part of the policy s criteria, interest rates used in the projection are those available at the beginning of the year.

The unrecognized net transition obligation under SFAS No. 87 (codified into ASC Topic 715, *Compensation Retirement Benefits*) of P. 7,074 924 at January 1, 1997, was amortized over the average future working lifetime of the employee group, being 2008 the last year of the amortization period. The portion of the unrecognized net (loss) gain that exceeds 10% of the greater of defined benefit obligation or plan assets will also be recognized over 12 years.

In 1995, consistent with the deferral of the unrecognized net (loss) gain, TELMEX included in income of such year an amount of P. 828,628 as monetary gain on the unfunded liability and deferred P. 4,362,666, which represented the difference between the amount credited to income and the full monetary gain on the unfunded liability. For 1996, the Company did not defer the monetary gain for such year, as the rates used in the actuarial study were similar to actual inflation for 1996, and amortized P. 228,411 of the monetary gain deferred in 1995. The monetary gain deferred in 1995 was being amortized over 12 years. In 2007 the Company amortized P. 375,845, on the monetary gain deferred in 1995.

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SFAS 158 (codified into ASC Topic 715, Compensation - *Retirement Benefits*) requires (1) recognition on the balance sheet of an asset for a defined benefit plan s overfunded status or a liability for a plan s underfunded status, (2) measurement of a defined benefit plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year, and (3) recognition of the changes in the funded status of a defined benefit postretirement plan as a component of other comprehensive income in the year the changes occur.

The components of the plan funded status that are reflected in the consolidated statement of financial position as of December 31, 2009 and 2008 are as follows:

		2009		2008
Fair value of plan assets	**P.**	**163,995,375**	P.	145,475,893
Defined benefit obligation		**197,332,833**		176,182,835
Under funded status	**P.**	**(33,337,458)**	P.	(30,706,942)

Amounts recognized in other accumulated comprehensive income consist of the following:

		2009		2008
Unrecognized actuarial loss	**P.**	**49,896,696**	P.	46,471,902
Unrecognized prior service cost and changes in the plan		**130,819**		165,587
Total	**P.**	**50,027,515**	P.	46,637,489

Through December 31, 2007, for Mexican FRS reporting purposes, labor obligations were accounted for under rules similar to SFAS 87, 88 and 112, (other than assumptions used during its first application) prior to its amendment by SFAS 158 (codified into ASC Topic 715, *Compensation - Retirement Benefits*), thereby constituting a difference with U.S. GAAP. Effective January 1, 2008, labor obligations are reported based on Mexican FRS D-3, *Employee benefits*, which requires the recognition on the balance sheet of a net projected liability or a net projected asset (see Note 10), where unamortized items are included in the determination of the net projected liability or net projected asset whereas under U.S. GAAP unamortized items are presented in accumulated other comprehensive income.

Effects of inflation accounting on U.S. GAAP adjustments:

Through December 31, 2007, to determine the net effect on the consolidated financial statements of recognizing the U.S. GAAP adjustments described throughout this Note, it was also necessary to recognize the effects of inflation on such adjustments as described in Note 1 II.b. These effects were taken into consideration in the preparation of U.S. GAAP reconciliations of net income and stockholders equity.

Effective January 1, 2008, and as a result of adopting Mexican FRS B-10, *Effects of inflation*, the Company ceased recognizing the effects of inflation in its financial statements and considered the re-expressed amounts of all non-monetary items as its carrying basis as of January 1, 2008. The Company has not reconciled the inflation adjustments still included in its non-monetary items, with one exception for the adjustments in the valuation of plant, property and equipment and depreciation expense, previously mentioned in this Note.

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Penalties and interest:

Under Mexican FRS penalties and interest on tax settlements are presented as other income (expense), net; whereas under U.S. GAAP, such gains are presented in interest income (expense). The Company does not have penalties or interest on tax settlements in 2009, 2008 and 2007.

Noncontrolling interest:

In conformity with Mexican FRS, noncontrolling interest is not added back in the Company s income statement, also it is included as a component of stockholders equity and presented immediately after the caption total controlling interest of stockholders equity. Noncontrolling interest in net income is not eliminated from net income.

For U.S. GAAP purposes, beginning on January 1, 2009, amendments to ASC 810 *Consolidation* (formerly

FAS 160 *Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB 51)* state that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements, and requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure on the face of the consolidated statement of income, of the amounts of consolidated net income attributable to the parent and to the noncontolling interest. These requirements must be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented.

Accounting for uncertainty in income taxes:

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48) as of January 1, 2007 (codified into ASC Topic 740, *Income Taxes*).

Telmex establishes reserves to remove some or all of the tax benefit of any of its tax positions at the time it determines that it becomes uncertain based upon one of the following conditions: (1) the tax position is not more likely than not to be sustained, (2) the tax position is more likely than not to be sustained, but for a lesser amount, or (3) the tax position is more likely than not to be sustained, but not in the financial period in which the tax position was originally taken.

For purposes of evaluating whether or not a tax position is uncertain, (1) the Company presumes the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken.

A number of years may elapse before a particular uncertain tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments varies depending on the tax jurisdiction and is generally five years for the countries in which the Company principally operates. The tax benefit that has been previously reserved because of a failure to meet the more likely than not recognition threshold would be recognized in our income tax expense in the first period when the uncertainty disappears under any one of the following conditions: (1) the tax position is more likely than not to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired.

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The adoption of FIN 48 (codified into ASC Topic 740, *Income Taxes*) did not have any impact on the Company s financial statements and did not result in a cumulative adjustment to retained earnings at adoption. As of December 31, 2009 and 2008, there are no uncertain tax positions not more likely than not to be sustained.

Fair value measurements:

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157) (codified into ASC Topic 820, *Fair Value Measurement and Disclosures*), which establishes a framework for measuring fair value providing a consistent definition of fair value that focuses on exit price and prioritizes, within a measurement of fair value, the use of market based inputs over company specific inputs. *ASC 820* expands the disclosure requirements and establishes a three-level hierarchy for fair value measurements on the observable inputs to the valuation of an asset or liability at the measurement date. *ASC 820* requires companies to consider their own nonperformance risk when measuring liabilities carried at fair value, including derivative instruments. *ASC 820* was effective on January 1, 2008 for all financial assets and liabilities and for non-financial assets and liabilities recognized or disclosed at fair value on a recurring basis (at least annually). For all other assets and liabilities, this statement was effective on January 1, 2009. The adoption of *ASC 820* in 2009 and 2008 did not have a material impact on the Company s consolidated financial statements.

Statement of Financial Accounting Standards No 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159), (codified into ASC Topic 825, *Financial Instruments*) allows entities to voluntarily choose to measure certain financial assets and liabilities at fair value (fair value option). The fair value option may be elected on an instrument by instrument basis and is irrevocable, unless a new election date occurs. If the fair value option is elected for an instrument, *ASC 825* specifies that the unrealized gains and losses for that instrument be reported in earnings at each subsequent reporting date. *ASC 825* was effective for TELMEX on January 1, 2008. The Company did not elect to adopt fair value option to any of its outstanding instruments; therefore, it did not have any impact on its consolidated financial statements.

The Company is exposed to counterparty credit risk on all derivative financial instruments. Because the amounts are recorded at fair value, the full amount of the Company s exposure is the carrying value of these instruments. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty. The Company only enters into derivative transactions with well-established financial institutions; the Company believes such risk is minimal.

The following table provides a summary of significant assets and liabilities at December 31, 2009 and 2008 that are measured at fair value on a recurring basis:

	Fair Value Measurement			
	Level 1	Level 2	Level 3	Total
December 31, 2009				
Assets				
Derivative financial instruments		P. 11,496,359		P. 11,496,359
Liabilities				
Derivative financial instruments		119,719		119,719
December 31, 2008				
Assets				
Derivative financial instruments		P. 20,418,889		P. 20,418,889

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Valuation Methods:

Derivatives: The fair value of derivative financial instruments is based on quoted market prices supported by confirmations 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. This valuation agent applying technical models uses the present value of expected cash flows based on observable market interest rate curves (cross currency mid swaps, IRS discount and Libor) commensurate with the term of each instrument. For currency derivatives, the Company s approach is to use forward contract employing market observable inputs, such as spot currency rates and time value. Since the Company primarily uses observable inputs in its valuation of its derivative assets and liabilities, they are considered Level 2.

In accordance with Statement of Financial Accounting Standards No. 107 (SFAS 107), *Disclosures about fair value of financial instruments* (codified into ASC Topic 825, *Financial Instruments*), under U.S. GAAP it is necessary to provide information about the fair value of certain financial instruments for which it is practicable to estimate that value. The carrying amounts of cash and short-term investments, accounts receivable and accounts payable and accrued liabilities approximate fair values due to the short maturity of these instruments.

The fair value of total debt is estimated using discounted cash flow analyses based on current borrowing rates offered to the Company for debt of the same remaining maturities and the market value for the senior notes at December 31, 2009 and 2008. Since the Company primarily uses observable inputs in its valuation of its debt, they are considered Level 2 and the Company uses quoted prices in active markets in its valuation of senior notes and domestic senior notes considered Level 1. As of December 31, 2009, the carrying value of total debt is P. 102,874,348 (P. 107,055,447 at December 31, 2008) and the fair value is P. 101,060,180 (P. 100,987,999 at December 31, 2008).

Related parties

At December 31, 2009 and 2008, *Recoverable taxes* in Note 3 includes P. 1,123,429 and P. 686,877, respectively, with Carso Global Telecom related with the tax consolidation, which correspond to the balance of monthly payments on account of the consolidated annual tax.

A summary of the most significant new pronouncements in U.S. GAAP that became effective in 2009 or after and may apply to the Company is as follows:

Accounting Standards Codification

On July 1, 2009, FASB Accounting Standards Codification (ASC) became the sole source of authoritative GAAP recognized by the Financial Accounting Standards Board (FASB) to be applied by nongovernmental entities for financial statements issued for interim and annual periods ending after September 15, 2009. ASC did not change GAAP, but rather combined the sources of GAAP and the framework for selecting among those sources into a single source. Accordingly, the adoption of ASC had no impact on the Company s financial statements.

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Amendments to ASC 855, Subsequent Events (formerly FAS 165, Subsequent Events)

In May 2009, the FASB issued guidance now codified as FASB ASC Topic 855, *Subsequent Events ASC 855*. This guidance establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The new guidance under *ASC 855* is effective for interim or annual periods ending after June 15, 2009. The adoption of *ASC 855* had no impact on the Company s financial statements.

EITF 08-1 Revenue Arrangements with Multiple Deliverables (included in ASC 605-25, Multiple-Element Arrangements)

On September 23, 2009, the FASB ratified Emerging Issues Task Force Issue No. 08-1, Revenue Arrangements with Multiple Deliverables (EITF 08-1). EITF 08-1 updates the current guidance pertaining to multiple-element revenue arrangements included in ASC 605-25, which originated primarily from EITF 00-21, also titled Revenue Arrangements with Multiple Deliverables. EITF 08-1 will be effective for annual reporting periods beginning January 1, 2011 for calendar-year entities. The Company is currently evaluating the impact of EITF 08-1 on its financial position, results of operations, cash flows, and disclosures.

Amendments to ASC 805, Business Combinations (formerly FASB Statement No. 141(R)):

In December 2007, the FASB issued Statement of Financial Accounting Standards (FAS) No. 141 (revised 2007), *Business Combinations* (FAS 141(R)), now codified as FASB ASC Topic 805, *Business Combinations*, which replaces FAS No.141, *Business Combination* FAS No.141. FAS 141(R) retains the underlying concepts of FAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting, but FAS 141(R) changed the method of applying the acquisition method in a number of significant aspects.

FAS 141(R) establishes principles and requirements for how the acquirer will recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquisition. Also, the statement determines the recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase, and finally, determines the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination.

FAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. FAS 141(R) amends FAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of FAS 141(R) would also apply the provisions of FAS 141(R). The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

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Determination of the Useful Life of Intangible Assets (FSP FAS No. 142-3, codified into ASC Topic 350 Intangibles Goodwill and Other)

In April 2008, the FASB issued FASB Staff Position FAS No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP FAS No. 142-3) codified into ASC Topic 350, *Intangibles Goodwill and Other*. *ASC 350* amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets codified as ASC Topic 350*. *ASC 350* also requires expanded disclosure related to the determination of intangible asset useful lives, effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

Amendments to ASC 810 Consolidation (formerly FAS 160 Non-controlling Interests in Consolidated Financial Statements - an amendment of ARB 51):

In December 2007, the FASB issued Statement of Financial Accounting Standards (FAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB 51 (FAS 160)* codified into ASC Topic 810 *Consolidation*. *ASC 810* amends ARB 51 to establish new standards that govern the accounting for and reporting of (1) noncontrolling interest in partially owned consolidated subsidiaries and (2) the loss of control of subsidiaries. *ASC 810* is effective on a prospective basis for all fiscal years, and interim periods within those fiscal years beginning, on or after December 15, 2008, except for the presentation and disclosure requirements, which will be applied retrospectively. The adoption of this new guidance resulted in a retrospective adjustment of the Balance Sheet. Income Statement and Stockholders Equity for the prior years, for presentation and disclosure purposes as follows:

	As originally issued 2008	Reclassification	As reclassified 2008
Non-controlling interest	P. 41,186	P. (41,186)	P.
Stockholders equity	11,268,190	41,186	11,309,376
Net income	19,782,582	(25)	19,782,557

	As originally issued 2007	Reclassification	As reclassified 2007
Net income	P. 35,375,221	P. 457,923	P. 35,833,144

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FASB Statement No. 161 Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (codified under ASC Topic 815, Derivatives and Hedging):

On March 19, 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (FAS 161) which is now codified under FASB ASC Topic 815, *Derivatives and Hedging*. ASC 815 requires enhanced disclosures for derivative instruments, including those used in hedging activities, to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. It is effective for fiscal years and interim periods beginning after November 15, 2008. The adoption of this new guidance did not have any impact on the Company s financial position or results of operations.

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Summary:

Net income and total stockholders equity, adjusted to take into account the material differences between Mexican FRS and U.S. GAAP, excluding the U.S. GAAP difference related to the split-up of Telmex Internacional, are as follows:

	Year ended December 31,		
		2008	2007
	2009	Retrospectively adjusted	Retrospectively adjusted
Income from continuing operations as reported under Mexican FRS	**P. 20,468,983**	P. 20,176,911	P. 28,889,083
U.S. GAAP adjustments:			
Depreciation of capitalized interest	**(259,894)**	(293,358)	(341,559)
Deferred income tax under U.S. GAAP included in this reconciliation	**132,084**	(155,707)	(215,262)
Deferred employee profit sharing under U.S. GAAP included in this reconciliation	**66,255**	2,557	(42,648)
Deferred employee profit sharing			508,051
Pension and seniority premium plan cost	**(185,945)**	839,221	770,803
Difference between the re-expression of depreciation expense based on specific indexation factors and on the basis of the NCPI	**(402,963)**	(787,067)	(1,127,069)
Effects of inflation accounting on U.S. GAAP adjustments			543,454
Total U.S. GAAP adjustments in income from continuing operations	**(650,463)**	(394,354)	95,770
Income from continuing operations under U.S. GAAP	**19,818,520**	19,782,557	28,984,853
Income from discontinued operations as reported under Mexican FRS			7,166,312
Total U.S. GAAP adjustments in income from discontinued operations			(318,021)
Income from discontinued operations under U.S. GAAP			6,848,291
Net income under U.S. GAAP	**P. 19,818,520**	P. 19,782,557	P. 35,833,144

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	Year ended December 31	
	2009	**2008 Retrospectively adjusted**
Total stockholders equity under Mexican FRS	**P. 38,320,773**	P. 39,371,099
U.S. GAAP adjustments, net of effects of inflation on monetary items:		
Capitalized interest or net financing cost	**12,783,898**	12,783,898
Accumulated depreciation of capitalized interest or net financing cost	**(11,967,158)**	(11,707,264)
Deferred income tax on U.S.GAAP adjustments included in this reconciliation	**12,461,438**	11,341,295
Deferred income tax on effect of translation of foreign entities	**53,001**	
Deferred employee profit sharing on U.S. GAAP adjustments included in this reconciliation	**4,929,217**	4,512,616
Deferred taxes on the difference between the indexed cost and specific indexation factor valuation of fixed assets and inventories	**(679,173)**	(534,057)
Pension and seniority premium plan cost	**259,203**	445,148
Difference between the re-expression of fixed assets and inventories based on specific indexation factors and on the basis of the NCPI	**1,331,167**	1,734,130
Labor obligations (SFAS 158)	**(50,027,515)**	(46,637,489)
Total U.S. GAAP adjustments, net	**(30,855,922)**	(28,061,723)
Total stockholders equity under U.S. GAAP	**P. 7,464,851**	P. 11,309,376

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Condensed financial information under U.S. GAAP

The following table presents consolidated condensed income statements for the years ended December 31, 2009, 2008 and 2007, prepared under U.S. GAAP, and including the differences and reclassifications as compared to Mexican FRS described in this Note, but excluding the U.S. GAAP difference related to the split-up of Telmex Internacional:

		2009		**2008 Retrospectively adjusted**		**2007 Retrospectively adjusted**
Operating revenues	**P.**	**119,100,212**	P.	124,105,235	P.	130,767,671
Operating costs and expenses		**87,128,506**		85,749,504		89,982,839
Operating income		**31,971,706**		38,355,731		40,784,832
Other income, net		**260,126**		468,999		1,169,535
Financing cost		**(4,314,554)**		(9,232,694)		(2,805,910)
Equity interest in net income (loss) of affiliates		**254,680**		(62,113)		17,245
Income before income tax		**28,171,958**		29,529,923		39,165,702
Income tax		**8,353,438**		9,747,366		10,180,849
Income from continuing operations		**19,818,520**		19,782,557		28,984,853
Income from discontinued operations, net of income tax						6,848,291
Net income		**19,818,520**		19,782,557		35,833,144
(Less) plus net income attributable to noncontrolling interest		**(294)**		25		(457,923)
Net income attributable to TELMEX	**P.**	**19,818,226**	P.	19,782,582	P.	35,375,221
Net income attributable to TELMEX s stockholders:						
Income from continuing operations	**P.**	**19,818,226**	P.	19,782,582	P.	28,985,042
Discontinued operations, net of income tax						6,390,179
Net income	**P.**	**19,818,226**	P.	19,782,582	P.	35,375,221
Weighted average number of shares issued and outstanding (in millions):		**18,383**		18,906		19,766
Earnings per share (in pesos)	**P.**	**1.08**	P.	1.05	P.	1.79
Earnings per share (in pesos) from continuing operations	**P.**	**1.08**	P.	1.05	P.	1.47

Earnings per share under (in pesos) from discontinued operations	**P.**	P.	P. 0.32

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

The following table presents consolidated condensed balance sheets at December 31, 2009 and 2008, prepared under U.S. GAAP, and including the differences and reclassifications as compared to Mexican FRS described in this note, but excluding the U.S. GAAP difference related to the split-up of Telmex Internacional:

		2009		2008 Retrospectively adjusted
Assets				
Current assets	**P.**	**55,216,593**	P.	54,762,036
Plant, property and equipment, net		**106,452,647**		115,676,141
Equity investments		**1,775,380**		1,494,133
Other non-current assets		**4,008,018**		5,101,124
Total assets	**P.**	**167,452,638**	P.	177,033,434
Liabilities and stockholders equity				
Short-term debt and current portion of long-term debt	**P.**	**19,768,894**	P.	22,883,092
Other current liabilities		**17,519,989**		18,481,763
Total current liabilities		**37,288,883**		41,364,855
Long-term debt		**83,105,454**		84,172,355
Labor obligations		**33,496,828**		30,854,569
Deferred taxes		**5,629,926**		8,921,173
Deferred credits		**466,696**		411,106
Total liabilities		**159,987,787**		165,724,058
Controlling interest		**7,423,371**		11,268,190
Non controlling interest		**41,480**		41,186
Total stockholders equity		**7,464,851**		11,309,376
Total liabilities and stockholders equity	**P.**	**167,452,638**	P.	177,033,434

Reclassifications under U.S. GAAP

In the consolidated condensed income statements, the Company reclassified a) P. 1,653,123 related to a ruling in favor of the deductibility for income tax purposes of employee profit sharing paid in 2004 and 2005, from the Other income, net caption in 2007 to the Income Tax caption, b) the employee profit sharing from 2009, 2008 and 2007 for P.1,543,551, P.1,146,034 and P.2,401,616, respectively, from the Other income, net caption to the Operating cost and expenses caption.

In the consolidated condensed balance sheets, the Company reclassified from 2009 and 2008, P.3,380,220 and P. 2,582,726, respectively, from the long-term Deferred tax liability caption to the Other current assets caption.

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

Condensed financial information under U.S. GAAP

As stated in Note 2, the shares of Telmex Internacional were authorized and issued pursuant to the TELMEX s stockholders meeting on December 21, 2007 approving the split-up. The establishment of Telmex Internacional became effective on December 26, 2007, following the recording of the stockholders resolution before a Mexican public notary, the registration in the Mexican Public Registry of Commerce and the publication in the *Diario Oficial* (Official Gazette); however the delivery of the share certificates occurred at the completion of the registration processes with the Mexican and U.S. Stock Exchanges on June 10, 2008.

Until the date of the exchange and delivery of the share certificates, the shares of Telmex Internacional traded together with the shares of TELMEX on the Mexican and U.S. Stock Exchanges. For Mexican FRS purposes the entities transferred to Telmex Internacional have been treated as discontinued operations and distributed as of its effective date; however, since the share certificates of Telmex Internacional were not distributed to its stockholders as of December 31, 2007, the split-up entities could not be considered distributed to its stockholders for U.S. GAAP purposes as of December 31, 2007. Therefore, under U.S. GAAP the split-up entities could be treated as distributed or discontinued operations until the shares were actually delivered to Telmex Internacional s stockholders.

In order to comply with U.S. GAAP, condensed financial information under U.S. GAAP for the three years ended December 31, 2009 is as follows:

	Year Ended December 31,		
		2008	2007
	2009	**Retrospectively adjusted**	**Retrospectively adjusted**
Operating revenues	**P. 119,100,212**	P. 124,105,235	P. 130,767,671
Operating costs and expenses	**87,128,506**	85,749,504	89,982,839
Operating income	**31, 971,706**	38,355,731	40,784,832
Other income, net	**260,126**	468,999	1,169,535
Financing cost	**(4,314,554)**	(9,232,694)	(2,805,910)
Equity interest in net income (loss) of affiliates	**254,680**	(62,113)	17,245
Income before income tax	**28,171,958**	29,529,923	39,165,702
Income tax	**8,353,438**	9,747,366	10,180,849
Income from continuing operations	**19, 818,520**	19,782,557	28,984,853
Income from discontinued operations, net of income tax		2,172,831	6,848,291
Net income	**19, 818,520**	21,955,388	35,833,144
(Less) plus net income attributable to noncontrolling interest	**(294)**	52,870	(457,923)
Net income attributable to TELMEX	**P. 19,818,226**	P. 22,008,258	P. 35,375,221

Net income attributable to TELMEX s stockholders:						
Income from continuing operations	**P.**	**19,818,226**	P.	19,782,582	P.	28,985,042
Discontinued operations, net of income tax				2,225,676		6,390,179
Net income	**P.**	**19,818,226**	P.	22,008,258	P.	35,375,221

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

	2009	2008	2007
Weighted average number of shares issued and outstanding (in millions):	18,383	18,906	19,766
Earnings per share (in pesos)	P. 1.08	P. 1.16	P. 1.79
Earnings per share (in pesos) from continuing operations	P. 1.08	P. 1.05	P. 1.47
Earnings per share (in pesos) from discontinued operations	P.	P. 0.11	P. 0.32

Condensed financial information of cash flows from continuing operations under U.S. GAAP is as follows:

	2007
Net cash provided by operating activities	P. 48,892,992
Net cash used in investing activities	(27,755,949)
Net cash used in financing activities	(20,422,915)

The adoption of FAS 160 in 2009, codified in ASC 810, resulted in a retrospective adjustment of the balance sheet as of December 31, 2008, income statement and stockholders equity for the prior years, for presentation and disclosures purposes as follows:

	As originally issued 2008	Reclassification	As reclassified 2008
Net income	P. 22,008,258	P. (52,870)	P. 21,955,388

	As originally issued 2007	Reclassification	As reclassified 2007
Non-controlling interest	P. 4,910,669	P. (4,910,669)	
Stockholders equity	117,503,920	4,910,669	P. 122,414,589
Net income	35,375,221	457,923	35,833,144

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2009 and 2008

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

	Total Stockholders´ equity Retrospectively adjusted
Balance at December 31, 2006	P. 103,194,611
Appropriation of earnings approved at regular stockholders meeting held in April, 2007:	
Cash dividends declared at P.0.448 per share (P.0.440 historical)	(8,820,074)
Cash dividend paid to noncontrolling interest in subsidiary	(122,703)
Cash purchase of Company s own shares	(15,782,839)
Gain on dilution of investment in split-up affiliate	1,123,819
Acquisition of noncontrolling interest	(388,348)
Comprehensive income:	
Net income for the year	35,833,144
Other comprehensive income:	
Deferred taxes allocated to equity, net of effect of inflation	(694,314)
Changes in fair value of swaps, net of deferred taxes	457,566
Effect of translation of foreign entities, net	11,385,604
Effect of ASC 715, net of deferred taxes	(3,771,877)
Balance at December 31, 2007	122,414,589
Appropriation of earnings approved at regular stockholders meeting held in April, 2008:	
Cash dividends declared at P.0.413 per share	(7,774,143)
Cash purchase of Company s own shares	(12,871,842)
Comprehensive income:	
Net income for the year	21,955,388
Other comprehensive income:	
Deferred taxes allocated to equity	(11,347)
Changes in fair value of swaps, net of deferred taxes	2,126,088
Effect of translation of foreign entities, net	2,050,829
Effect of ASC 715, net of deferred taxes	(18,873,531)
Decrease due to the split-up of Telmex Internacional	(97,706,655)
Balance at December 31, 2008	11,309,376
Appropriation of earnings approved at regular stockholders meetings held in April and December 2009:	
Cash dividends declared at P. 0.445 and P. 0.40 per share, respectively	(15,447,559)
Cash purchase of Company s own shares	(4,095,320)
Excess of purchase price over book value of entities acquired from companies under common control	(43,030)
Comprehensive income:	
Net income for the year	19,818,520
Other comprehensive income items:	
Changes in fair value of swaps, net of deferred taxes	(1,866,847)
Effect of translation of foreign entities, net	(13,552)
Effect of ASC 715, net of deferred taxes	(2,196,737)
Balance at December 31, 2009	P. 7,464,851

	2009	2008	2007
Comprehensive income for the year			
	P. 15,741,384	P. 7,247,427	P. 43,210,123

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMÉRICA MÓVIL, S.A.B. DE C.V.

Date: April 26, 2010	By:	/s/ Alejandro Cantú Jiménez
	Name:	**Alejandro Cantú Jiménez**
	Title:	**General Counsel**