TELEFONOS DE MEXICO S A B DE C V
Form 6-K
May 04, 2007

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the month of **May 2007**

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

México City 06599, México, D.F.

(Address of principal executive offices)

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

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

Yes ..... No...√ ..

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

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-01

CONSOLIDATED BALANCE SHEETS

AT DECEMBER 31, 2006 & 2005

(Thousands of Mexican Pesos)

Judged information

Final printing

REF S	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
s01	TOTAL ASSETS	264,029,997	100	266,202,762	100

s02	CURRENT ASSETS	60,656,391	23	59,036,621	22
s03	CASH AND SHORT-TERM INVESTMENTS	16,151,244	6	24,715,138	9
s04	ACCOUNTS AND NOTES RECEIVABLE (NET)	28,732,527	11	26,602,435	10
s05	OTHER ACCOUNTS AND NOTES RECEIVABLE (NET)	7,862,752	3	4,381,383	2
s06	INVENTORIES	1,738,761	1	1,209,679	0
s07	OTHER CURRENT ASSETS	6,171,107	2	2,127,986	1
s08	LONG - TERM	3,006,436	1	856,208	0
s09	ACCOUNTS AND NOTES RECEIVABLE (NET)	0	0	0	0
s10	INVESTMENT IN SHARES OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES	2,999,860	1	848,893	0
s11	OTHER INVESTMENTS	6,576	0	7,315	0
s12	PROPERTY, PLANT AND EQUIPMENT (NET)	156,902,853	59	160,334,146	60
s13	LAND AND BUILDINGS	0	0	0	0
s14	MACHINERY AND INDUSTRIAL EQUIPMENT	472,640,746	179	456,253,534	171
s15	OTHER EQUIPMENT	0	0	0	0
s16	ACCUMULATED DEPRECIATION	323,917,451	123	305,089,101	115
s17	CONSTRUCTIONS IN PROGRESS	8,179,558	3	9,169,713	3
s18	OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET)	14,877,395	6	13,480,374	5
s19	OTHER ASSETS	28,586,922	11	32,495,413	12
s20	TOTAL LIABILITIES	158,074,067	100	147,639,769	100
s21	CURRENT LIABILITIES	51,629,682	33	47,694,441	32

s22	SUPPLIERS	0	0	0	0
s23	BANK LOANS	6,651,272	4	3,355,975	2
s24	STOCK MARKET LOANS	5,900,000	4	12,184,986	8
s25	TAXES PAYABLE	2,952,123	2	1,793,372	1
s26	OTHER CURRENT LIABILITIES	36,126,287	23	30,360,108	21
s27	LONG - TERM LIABILITIES	88,192,065	56	81,311,857	55
s28	BANK LOANS	52,584,440	33	42,920,520	29
s29	STOCK MARKET LOANS	35,607,625	23	38,391,337	26
s30	OTHER LOANS	0	0	0	0
s31	DEFERRED LIABILITIES	0	0	0	0
s32	OTHER NON CURRENT LIABILITIES	18,252,320	12	18,633,471	13
s33	CONSOLIDATED STOCKHOLDERS' EQUITY	105,955,930	100	118,562,993	100
s34	MINORITY INTEREST	2,743,625	3	10,580,327	9
s35	MAJORITY INTEREST	103,212,305	97	107,982,666	91
s36	CONTRIBUTED CAPITAL	47,157,412	45	48,812,292	41
s79	CAPITAL STOCK (NOMINAL)	26,996,274	25	28,651,154	24
s39	PREMIUM ON SALES OF SHARES	20,161,138	19	20,161,138	17
s40	CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES	0	0	0	0
s41	CAPITAL INCREASE (DECREASE)	56,054,893	53	59,170,374	50
s42	RETAINED EARNINGS AND CAPITAL RESERVE	129,616,247	122	131,562,089	111
s44	OTHER ACCUMULATED COMPREHENSIVE RESULT	(73,561,354)	(69)	(72,391,715)	(61)
s80	SHARES REPURCHASED	0	0	0	0

MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-02

CONSOLIDATED BALANCE SHEETS

- **BREAKDOWN OF MAIN CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF	CONCEPTS	QUARTER OF PRESENT		QUARTER OF PREVIOUS	
S		FINANCIAL YEAR		FINANCIAL YEAR	
		Amount	%	Amount	%
s03	CASH AND SHORT-TERM INVESTMENTS	16,151,244	100	24,715,138	100
s46	CASH	3,003,620	19	2,615,262	11
s47	SHORT-TERM INVESTMENTS	13,147,624	81	22,099,876	89
s07	OTHER CURRENT ASSETS	6,171,107	100	2,127,986	100
s81	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0	0
s82	DISCONTINUED OPERATIONS	0	0	0	0
s83	OTHER	6,171,107	100	2,127,986	100

s18	OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET)	14,877,395	100	13,480,374	100
s48	AMORTIZED OR REDEEMED EXPENSES	4,600,018	31	4,764,822	35
s49	GOODWILL	9,142,434	61	8,055,791	60
s51	OTHERS	1,134,943	8	659,761	5
s19	OTHER ASSETS	28,586,922	100	32,495,413	100
s84	INTANGIBLE ASSET FROM LABOR OBLIGATIONS	19,171,780	67	23,933,925	74
s85	DERIVATIVE FINANCIAL INSTRUMENTS	0	0	0	0
s50	DEFERRED TAXES	6,616,527	23	6,163,043	19
s86	DISCONTINUED OPERATIONS	0	0	0	0
s87	OTHER	2,798,615	10	2,398,445	7
s21	CURRENT LIABILITIES	51,629,682	100	47,694,441	100
s52	FOREIGN CURRENCY LIABILITIES	5,351,272	10	15,540,961	33
s53	MEXICAN PESOS LIABILITIES	46,278,410	90	32,153,480	67
s26	OTHER CURRENT LIABITIES	36,126,287	100	30,360,108	100
s88	DERIVATIVE FINANCIAL INSTRUMENTS	1,923,526	5	1,679,952	6
s89	INTEREST LIABILITIES	2,053,977	6	1,579,160	5
s68	PROVISIONS	0	0	0	0
s90	DISCONTINUED OPERATIONS	0	0	0	0
s58	OTHER CURRENT LIABILITIES	32,148,784	89	27,100,996	89
s27	LONG-TERM LIABILITIES	88,192,065	100	81,311,857	100
s59	FOREIGN CURRENCY LIABILITIES	82,492,065	94	72,899,937	90

s60	MEXICAN PESOS LIABILITIES	5,700,000	6	8,411,920	10
s31	DEFERRED LIABILITIES	0	0	0	0
s65	GOODWILL	0	0	0	0
s67	OTHERS	0	0	0	0
s32	OTHER NON CURRENT LIABILITIES	18,252,320	100	18,633,471	100
s66	DEFERRED TAXES	15,981,198	88	16,509,620	89
s91	OTHER LIABILITIES IN RESPECT OF SOCIAL INSURANCE	2,271,122	12	2,123,851	11
s92	DISCONTINUED OPERATIONS	0	0	0	0
s69	OTHER LIABILITIES	0	0	0	0
s79	CAPITAL STOCK	26,996,274	100	28,651,154	100
s37	CAPITAL STOCK (NOMINAL)	252,539	1	275,564	1
s38	RESTATEMENT OF CAPITAL STOCK	26,743,735	99	28,375,590	99
s42	RETAINED EARNINGS AND CAPITAL RESERVES	129,616,247	100	131,562,089	100
s93	LEGAL RESERVE	15,563,309	12	15,563,309	12
s43	RESERVE FOR REPURCHASE OF SHARES	0	0	0	0
s94	OTHER RESERVES	0	0	0	0
s95	RETAINED EARNINGS	85,518,973	66	85,992,856	65
s45	NET INCOME FOR THE YEAR	28,533,965	22	30,005,924	23
s44	OTHER ACCUMULATED COMPREHENSIVE RESULT	(73,561,354)	100	(72,391,715)	100
s70	ACCUMULATED MONETARY RESULT	(14,613,114)	20	(14,613,114)	20
s71	RESULT FROM HOLDING	(65,650,109)	89	(63,265,184)	87

	NON-MONETARY ASSETS				
s96	CUMULATIVE RESULT FROM FOREIGN CURRENCY TRANSLATION	4,992,973	(7)	3,669,203	(5)
s97	CUMULATIVE RESULT FROM DERIVATIVE FINANCIAL INSTRUMENTS	55,736	0	222,011	0
s98	CUMULTATIVE EFFECT OF DEFERRED INCOME TAXES	825,983	(1)	1,595,369	(2)
s99	LABOR OBLIGATION ADJUSTMENT	0	0	0	0
s100	OTHERS	827,177	(1)	0	0

MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-03

CONSOLIDATED BALANCE SHEETS

- **OTHER CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF S	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR

		Amount	Amount
s57	OTHER CURRENT LIABILITIES WITH COST (s26)	0	0
s63	OTHER LOANS WITH COST (s32)	0	0
s72	WORKING CAPITAL	9,026,709	11,342,180
s73	PENSIONS FUND AND SENIORITY PREMIUMS	0	0
s74	EXECUTIVES (*)	124	119
s75	EMPLOYEES (*)	25,589	24,217
s76	WORKERS (*)	50,682	51,148
s77	OUTSTANDING SHARES (*)	20,203,118,170	22,045,082,270
s78	REPURCHASE OF OWN SHARER(*)	1,841,964,100	1,583,822,040
s101	RESTRICTED CASH	0	0
s102	DEBT WITH COST OF AFFILIATES NON CONSOLIDATED	0	0
(*) THESE CONCEPTS SHOULD BE EXPRESSED IN UNITS.			

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STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-04

CONSOLIDATED STATEMENTS OF INCOME

- FROM **JANUARY 01** TO **DECEMBER 31, 2006 & 2005** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF R	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
r01	OPERATING REVENUES	175,006,123	100	173,504,716	100
r02	COST OF SALES AND SERVICES	91,680,113	52	92,484,363	53
r03	GROSS INCOME	83,326,010	48	81,020,353	47
r04	OPERATING EXPENSES	35,035,378	20	29,172,748	17
r05	OPERATING INCOME	48,290,632	28	51,847,605	30
r06	COMPREHENSIVE FINANCING COST	3,626,086	2	5,653,512	3
r07	INCOME AFTER COMPREHENSIVE FINANCING COST	44,664,546	26	46,194,093	27
r08	OTHER EXPENSES AND INCOMES (NET)	0	0	0	0
r44	SPECIAL ITEMS	0	0	0	0
r09	INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING	44,664,546	26	46,194,093	27
r10	PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	16,060,590	9	15,359,031	9
r11	NET INCOME AFTER INCOME TAX AND EMPLYEE PROFIT SHARING	28,603,956	16	30,835,062	18
r12	EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES	457,876	0	69,056	0
r13	CONSOLIDATED NET INCOME OF CONTINUING OPERATIONS	29,061,832	17	30,904,118	18

r14	INCOME FROM DISCONTINUED OPERATIONS (NET)	0	0	0	0
r15	CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	29,061,832	17	30,904,118	18
r16	EXTRAORDINARY ITEMS, NET EXPENSE (INCOME)	0	0	0	0
r17	NET EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	0	0	0	0
r18	NET INCOME	29,061,832	17	30,904,118	18
r19	NET INCOME OF MINORITY INTEREST	527,867	0	898,194	1
r20	NET INCOME OF MAYORITY INTEREST	28,533,965	16	30,005,924	17

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-05

CONSOLIDATED STATEMENTS OF INCOME

- **BREAKDOWN OF MAIN CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF R	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
r01	OPERATING REVENUES	175,006,123	100	173,504,716	100
r21	DOMESTIC	124,692,540	71	129,533,263	75
r22	FOREIGN	50,313,583	29	43,971,453	25
r23	TRANSLATION INTO DOLLARS (***)	4,626,324	3	3,855,465	2
r06	COMPREHENSIVE FINANCING COST	3,626,086	100	5,653,512	100
r24	INTEREST EXPENSE	8,088,002	223	8,060,066	143
r42	LOSS (GAIN) ON RESTATEMENT OF UDI'S	0	0	0	0
r45	OTHER FINANCIAL COSTS	0	0	0	0
r26	INTEREST INCOME	3,647,768	101	4,059,624	72
r46	OTHER FINANCIAL PRODUCTS	0	0	0	0
r25	FOREIGN EXCHANGE LOSS (GAIN) (NET)	1,639,144	45	3,761,792	67
r28	RESULT FROM MONETARY POSITION	(2,453,292)	(68)	(2,108,722)	(37)
r10	PROVISION FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	16,060,590	100	15,359,031	100
r32	INCOME TAX	13,814,594	86	14,879,944	97
r33	DEFERRED INCOME TAX	(755,696)	(5)	(2,570,165)	(17)
r34	EMPLOYEE PROFIT SHARING	3,001,692	19	3,049,252	20
r35	DEFERRED EMPLOYEE PROFIT SHARING	0	0	0	0
(***) THOUSAND DOLLARS					

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STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-06

CONSOLIDATED STATEMENTS OF INCOME

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF R	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR Amount	QUARTER OF PREVIOUS FINANCIAL YEAR Amount
r36	TOTAL REVENUES	175,006,123	173,504,716
r37	TAX RESULT FOR THE YEAR	0	0
r38	OPERATING REVENUES (**)	175,006,123	173,504,716
r39	OPERATING INCOME (**)	48,290,632	51,847,605
r40	NET INCOME OF MAJORITY INTEREST (**)	28,533,965	30,005,924
r41	NET INCOME (**)	29,061,832	30,904,118
r47	OPERATIVE DEPRECIATION AND ACCUMULATED	22,210,762	23,871,487

(**)

INFORMATION OF THE PAST TWELVE MONTHS

MEXICAN STOCK EXCHANGE

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STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-07

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- FROM **OCTOBER 01** TO **DECEMBER 31, 2006 & 2005** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
rt01	OPERATING REVENUES	44,750,364	100	43,987,905	100
rt02	COST OF SALES AND SERVICES	23,507,208	53	22,986,582	52
rt03	GROSS INCOME	21,243,156	47	21,001,323	48
rt04	OPERATING EXPENSES	9,640,645	22	7,301,876	17
rt05	OPERATING INCOME	11,602,511	26	13,699,447	31
rt06	COMPREHENSIVE FINANCING COST	(223,888)	(1)	2,224,188	5
rt07	INCOME AFTER COMPREHENSIVE FINANCING COST	11,826,399	26	11,475,259	26
rt08	OTHER EXPENSES AND INCOMES (NET)	0	0	0	0
rt44	SPECIAL ITEMS	0	0	0	0
rt09	INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING	11,826,399	26	11,475,259	26
rt10	PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	4,330,758	10	2,921,848	7
rt11	NET INCOME AFTER INCOME TAX AND EMPLYEE PROFIT	7,495,641	17	8,553,411	19

	SHARING				
rt12	EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES	137,023	0	132,471	0
rt13	CONSOLIDATED NET INCOME OF CONTINUING OPERATIONS	7,632,664	17	8,685,882	20
rt14	INCOME FROM DISCONTINUED OPERATIONS (NET)	0	0	0	0
rt15	CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS	7,632,664	17	8,685,882	20
rt16	EXTRAORDINARY ITEMS, NET EXPENSE (INCOME)	0	0	0	0
rt17	NET EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	0	0	0	0
rt18	NET INCOME	7,632,664	17	8,685,882	20
rt19	NET INCOME OF MINORITY INTEREST	231,870	1	100,523	0
rt20	NET INCOME OF MAYORITY INTEREST	7,400,794	17	8,585,359	20

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STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-08

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- **BREAKDOWN OF MAIN CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount	%	Amount	%
rt01	OPERATING REVENUES	44,750,364	100	43,987,905	100
rt21	DOMESTIC	32,168,145	72	34,567,057	79
rt22	FOREIGN	12,582,219	28	9,420,848	21
rt23	TRANSLATION INTO DOLLARS (***)	1,268,529	3	863,044	2
rt06	COMPREHENSIVE FINANCING COST	(223,888)	100	2,224,188	100
rt24	INTEREST EXPENSE	2,701,242	(1,207)	2,109,952	95
rt42	LOSS (GAIN) ON RESTATEMENT OF UDI'S	0	0	0	0
rt45	OTHER FINANCIAL COSTS	0	0	0	0
rt26	INTEREST INCOME	2,033,706	(908)	729,810	33
rt46	OTHER FINANCIAL PRODUCTS	0	0	0	0
rt25	FOREIGN EXCHANGE LOSS (GAIN) (NET)	144,890	(65)	1,776,320	80
rt28	RESULT FROM MONETARY POSITION	(1,036,314)	463	(932,274)	(42)
rt10	PROVISION FOR INCOME TAX AND EMPLOYEE PROFIT SHARING	4,330,758	100	2,921,848	100
rt32	INCOME TAX	2,969,930	69	2,597,595	89
rt33	DEFERRED INCOME TAX	610,357	14	(330,228)	(11)
rt34	EMPLOYEE PROFIT SHARING	750,471	17	654,481	22
rt35	DEFERRED EMPLOYEE PROFIT	0	0	0	0

	SHARING				
(***) THOUSANDS OF DOLLARS					

MEXICAN STOCK EXCHANGE

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STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-09

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- **OTHER CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF RT	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
rt47	OPERATIVE DEPRECIATION AND ACCUMULATED IMPAIRMENT LOSSES	5,169,332	5,592,386

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-10

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

- FROM **JANUARY 01** TO **DECEMBER 31, 2006 & 2005** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF C	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
c01	NET INCOME	29,061,832	30,904,118
c02	(+)(-) ITEMS ADDED TO INCOME WHICH DO NOT REQUIRE USING RESOURCES	28,588,283	28,540,898
c03	CASH FLOW FROM NET INCOME FOR THE YEAR	57,650,115	59,445,016
c04	CASH FLOW FROM CHANGES IN WORKING CAPITAL	(3,728,081)	(4,889,908)
c05	RESOURCES PROVIDED BY (USED FOR) OPERATING ACTIVITIES	53,922,034	54,555,108
c06	RESOURCES PROVIDED BY (USED FOR) EXTERNAL FINANCING ACTIVITIES	3,480,853	(1,149,152)
c07	RESOURCES PROVIDED BY (USED FOR) INTERNAL FINANCING ACTIVITIES	(32,314,916)	(27,143,743)
c08	RESOURCES PROVIEDED BY (USED FOR) FINANCING ACTIVITIES	(28,834,063)	(28,292,895)
c09		(33,651,865)	(24,101,263)

	RESOURCES PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES		
c10	NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	(8,563,894)	2,160,950
c11	CASH AND SHORT-TERM INVESTMENTS AT THE BEGINNIG OF PERIOD	24,715,138	22,554,188
c12	CASH AND SHORT-TERM INVESTMENTS AT THE END OF PERIOD	16,151,244	24,715,138

MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FS-11

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

- **BREAKDOWN OF MAIN CONCEPTS** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF C	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR	QUARTER OF PREVIOUS FINANCIAL YEAR
		Amount	Amount
c02	+(-) ITEMS ADDED TO INCOME	28,588,283	28,540,898

	WHICH DO NOT REQUIRE USING RESOURCES		
c13	DEPRECIATION AND AMORTIZATION FOR THE YEAR	24,563,262	25,998,693
c41	+(-) OTHER ITEMS	4,025,021	2,542,205
c04	CASH FLOW FROM CHANGES IN WORKING CAPITAL	(3,728,081)	(4,889,908)
c18	+(-) DECREASE (INCREASE) IN ACCOUNT RECEIVABLE	(3,227,374)	1,373,129
c19	+(-) DECREASE (INCREASE) IN INVENTORIES	(1,315,076)	(866,038)
c20	+(-) DECREASE (INCREASE) IN OTHER ACCOUNT RECEIVABLE AND OTHER ASSETS	(5,965,416)	1,850,773
c21	+(-) INCREASE (DECREASE) IN SUPPLIERS ACCOUNT	0	0
c22	+(-) INCREASE (DECREASE) IN OTHER LIABILITIES	6,779,785	(7,247,772)
c06	RESOURCES PROVIDED BY (USED FOR) EXTERNAL FINANCING ACTIVITIES	3,480,853	(1,149,152)
c23	+ BANK FNANCING	23,520,841	26,135,760
c24	+ STOCK MARKET FINANCING	646,443	328,202
c25	+ DIVIDEND RECEIVED	0	0
c26	+ OTHER FINANCING	0	1,076,552
c27	(-) BANK FINANCING AMORTIZATION	(14,945,688)	(18,784,900)
c28	(-) STOCK MARKET FINANCING AMORTIZATION	(513,045)	(1,892,897)
c29	(-) OTHER FINANCING AMORTIZATION	(4,819,639)	0
c42	+ (-) OTHER ITEMS	(408,059)	(8,011,869)
c07	RESOURCES PROVIDED BY (USED FOR) INTERNAL FINANCING ACTIVITIES	(32,314,916)	(27,143,743)
c30	+ (-) INCREASE (DECREASE) IN CAPITAL STOCK	(1,654,880)	(1,454,964)
c31	(-) DIVIDENDS PAID	(8,525,608)	(8,902,638)
c32	+ PREMIUM ON SALE OF SHARES	0	0

c33	+ CONTRIBUTION FOR FUTURE CAPITAL INCREASES	0	0
c43	+ (-) OTHER ITEMS	(22,134,428)	(16,786,141)
c09	RESOURCES PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES	(33,651,865)	(24,101,263)
c34	+(-) DECREASE (INCREASE) IN STOCK INVESTMENTS OF PERMANENT NATURE	(11,621,950)	(5,749,696)
c35	(-) ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT	(21,152,514)	(25,614,596)
c36	(-) INCREASE IN CONSTRUCTIONS IN PROGRESS	0	0
c37	+ SALE OF OTHER PERMANENT INVESTMENT	0	148,940
c38	+ SALE OF TANGIBLE FIXED ASSETS	0	0
c39	+ (-) OTHER ITEMS	(877,401)	7,114,089

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FI-01

DATA PER SHARE

- **CONSOLIDATED INFORMATION** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF D	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
		Amount		Amount	
d01	BASIC INCOME PER ORDINARY SHARE (**)	$1.36		$1.31	
d02	BASIC INCOME PER PREFERENT SHARE (**)	$0.00		$0.00	
d03	DILUTED INCOME PER ORDINARY SHARE (**)	$0.00		$0.00	
d04	INCOME FROM CONTINUOUS OPERATIONS PER ORDINARY SHARE (**)	$1.36		$1.31	
d05	EFFECT OF DISCONTINUOUS OPERATIONS ON INCOME FROM CONTINUOS OPERATIONS PER ORDINARY SHARE (**)	$0.00		$0.00	
d06	EFFECT OF EXTRAORDINARY INCOME ON INCOME FROM CONTINOUS OPERATIONS PER ORDINARY SHARE (**)	$0.00		$0.00	
d07	EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES ON INCOME FROM CONTINOUS OPERATIONS PER ORDINARY SHARE (**)	$0.00		$0.00	
d08	CARRYING VALUE PER SHARE	$5.11		$4.90	

d09	ACUMULATED CASH DIVIDEND PER SHARE	$0.42		$0.40	
d10	SHARE DIVIDENDS PER SHARE	0.00	shares	0.00	shares
d11	MARKET PRICE TO CARRYING VALUE	3.00	times	2.86	times
d12	MARKET PRICE TO BASIC INCOME PER ORDINARY SHARE (**)	11.26	times	10.69	times
d13	MARKET PRICE TO BASIC INCOME PER PREFERENT SHARE (**)	0.00	times	0.00	times
(**) INFORMATION OF THE PAST TWELVE MONTHS					

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

FI-02

RATIOS

- **CONSOLIDATED INFORMATION** -

(Thousands of Mexican Pesos)

Judged information

Final printing

REF P	CONCEPTS	QUARTER OF PRESENT FINANCIAL YEAR		QUARTER OF PREVIOUS FINANCIAL YEAR	
	YIELD				
p01	NET INCOME TO OPERATING REVENUES	16.60%		17.81%	
p02	NET INCOME TO STOCKHOLDERS' EQUITY (**)	27.64%		27.78%	
p03	NET INCOME TO TOTAL ASSETS (**)	11.00%		11.60%	
p04	CASH DIVIDENDS TO PREVIOUS YEAR NET INCOME	28.41%		29.62%	
p05	INCOME DUE TO MONETARY POSITION TO NET INCOME	8.44%		6.82%	
	ACTIVITY				
p06	OPERATING REVENUES TO TOTAL ASSETS (**)	0.66	times	0.65	times
p07	OPERATING REVENUES TO FIXED ASSETS (**)	1.11	times	1.08	times
p08	INVENTORIES ROTATION (**)	52.72	times	76.45	times
p09	ACCOUNTS RECEIVABLE IN DAYS OF SALES	51.39	days	47.99	days
p10	INTEREST PAID TO TOTAL LIABILITIES WITH COST (**)	8.02%		8.32%	
	LEVERAGE				
p11	TOTAL LIABILITIES TO TOTAL ASSETS	59.86%		55.46%	
p12	TOTAL LIABILITIES TO STOCKHOLDERS'	1.49	times	1.24	times

	EQUITY				
p13	FOREIGN CURRENCY LIABILITIES TO TOTAL LIABILITIES	55.57%		59.90%	
p14	LONG-TERM LIABILITIES TO FIXED ASSETS	56.20%		50.71%	
p15	OPERATING INCOME TO INTEREST PAID	5.97	times	6.43	times
p16	OPERATING REVENUES TO TOTAL LIABILITIES (**)	1.10	times	1.17	times
	LIQUIDITY				
p17	CURRENT ASSETS TO CURRENT LIABILITIES	1.17	times	1.23	times
p18	CURRENT ASSETS LESS INVENTORY TO CURRENT LIABILITIES	1.14	times	1.21	times
p19	CURRENT ASSETS TO TOTAL LIABILITIES	0.38	times	0.39	times
p20	AVAILABLE ASSETS TO CURRENT LIABILITIES	31.28%		51.81%	
	STATEMENT OF CHANGES IN FINANCIAL POSITION				
p21	CASH FLOW FROM NET INCOME TO OPERATING REVENUES	32.94%		34.26%	
p22	CASH FLOW FROM CHANGES IN WORKING CAPITAL TO OPERATING REVENUES	-2.13%		-2.81%	
p23	RESOURCES PROVIDED BY OPERATING ACTIVITIES TO	6.66	times	6.76	times

	INTEREST PAID				
p24	EXTERNAL FINANCING TO RESOURCES PROVIDED BY (USED FOR) FINANCING	-12.07%		4.06%	
p25	INTERNAL FINANCING TO RESOURCES PROVIDED BY (USED FOR) FINANCING	112.07%		95.93%	
p26	ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT TO RESOURCES PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES	62.85%		106.27%	
(**) INFORMATION OF THE PAST TWELVE MONTHS					

MEXICAN STOCK EXCHANGE

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TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 1

CHIEF EXECUTIVE OFFICER REPORT

Judged information

Consolidated

Final printing

Highlights

4th Quarter 2006

- In Mexico during the fourth quarter, we added 231 thousand broadband Prodigy Infinitum (ADSL) customers, bringing the total at year-end to 1.8 million services, an increase of 76.5% compared with 2005. During 2006, we doubled the speed for Infinitum, integrated new multi-service packages with preferred rates and improved service levels by extending the capabilities of our world-class technological platform. These high-speed services now can be offered on 93.7% of TELMEX's network.
- Billed line equivalents of 64 Kbps for data transmission rose 15.9% compared with the previous year totaling 2.3 million. In particular, penetration has increased through the offer of VPNs (Virtual Private Networks), allowing our customers to optimize their operating costs and management of their data networks by having access to higher-quality service levels.
- The capacity to generate economic resources has allowed TELMEX to grow in Mexico and expand internationally. The commitment of the Company is reflected in our investment levels, customer service and ongoing pursuit of operating efficiency improvement. In the last 16 years, TELMEX has applied technological modernization to increase domestic coverage and further penetrate the market with better telecommunications services. In this period, we have invested the equivalent of 27.692 billion dollars in telecommunications infrastructure in Mexico. This investment generates a multiplying effect in the Mexican economy as it provides telecommunications services to 22 thousand 801 communities that comprise 90.6% of the population.
- In Mexico, there are hundreds of concessionaires and/or licenses to provide telecommunications services, and in the case of local service, as it publicly known, the applied mechanism results in not charging interconnection fees. In the fixed line business, we compete with operators that are mainly focused on high-income segments A and B. In these segments our market share is approximately 66%. At the same time, we have made a commitment to provide telecommunications services nationwide. As a result, we are the only fixed line operator in the country with a presence in socio-economic segments C-, D and E. At December 31, 2006, TELMEX had 18 million 251 thousand lines in service with a market share of 24% in Mexico, where there are more than 76 million fixed and mobile customers.
- At TELMEX, we continue enhancing our service offerings and modernizing the telecommunications platform. Our efforts extend to rural areas. The initiatives optimize the required investment and reduce operating expenses. This allows us to offer voice, data and Internet services to more than 21 thousand 341 communities, benefiting more than 21 million inhabitants.
- Another positive step for consumers in 2006 was the further reduction in the number of local calling areas. In Mexico the number of calling areas is now 397, below the total of 2 thousand 200 that existed in 1998. The average size of each local area now is 4 thousand 948 Km^2, with an average of 260 thousand inhabitants. That compares with the United States of America, where there are 25 thousand local calling areas that average 375 Km^2 and fewer than 12 thousand inhabitants.
- Based on the strategy to assure line profitability, in the quarter, TELMEX disconnected 377 thousand prepaid lines, bringing the total to 864 thousand prepaid disconnections for the full year that had payment problems or were not producing revenues. The application of this strategy along with the disconnection of lines that pay rent resulted in a reduction of 351 thousand in the quarter and 124 thousand for the full year. At December 31, 2006, there were 18 million 251 thousand lines in service.
- During 2006, we continued our efforts to evolve the revenue mix from mostly single voice and data services to a greater proportion of multi-service packages. At the end of the year, there were more than 2.5 million basic packages and 465 thousand multi-service packages. "Línea Más Negocio" was launched in February 2005 and had 536 thousand services at December 31, 2006. At the same time, "Línea Hogar," launched in February 2006, had 361 thousand services. Both represent examples of products with good acceptance. Outgoing and incoming international long distance traffic increased 1.5% and 15.8%, respectively, compared with the same quarter of 2005. For the twelve months, outgoing and incoming international long distance traffic increased 4.8% and 31.8%, respectively.
- On November 4, 2006, Mexican regulatory authorities established domestic and international calling party pays. In the fourth quarter, domestic and international calling party pays caused domestic long distance traffic to decrease

1.2% compared with the same period of 2005. Calling party pays traffic increased 221 million minutes in the quarter. Domestic and international calling party pays revenues totaled 534 million pesos in the quarter.

- In Brazil, the main revenue generators continued to increase. At Embratel, line equivalents of 64 Kbps increased 34.5%, local service access 31.6% and domestic long distance traffic increased 20.2%. The Triple Play service that was introduced in March 2006 through Net Serviços serves 181.9 thousand customers.

- During the quarter we followed through with the tender offer for shares of Embartel Participaçoes ("Embratel Holdings"), reaching ownership of 97.4% at February 8, 2007. This is an example of TELMEX's commitment to develop markets in other countries that have growth potential in the region and generate value for our shareholders. Additionally, in Colombia we reached an agreement to acquire TV Cable and Cable Pacífico, both cable TV companies, which will allow us to integrate a triple play offer in that country. In Peru, we are in the process of acquiring Boga, a cable TV company that serves Lima and Chiclayo. These operations further strengthen our presence in the region and complement our service offerings.

- In the fourth quarter, consolidated revenues reached 44.8 billion pesos, 1.7% higher than the same period of 2005, while revenues in Mexico totaled 33.1 billion pesos, almost the same amount as last year since we did not increase rates for the sixth consecutive year. In Brazil, revenues totaled 2.1 billion reais in the quarter, 6.9% higher than the same quarter of the previous year. In the other Latin American operations total revenues were the equivalent of 102.7 million dollars, 13.1% more than in 2005.

- Consolidated EBITDA (1) totaled 17.7 billion pesos, a decrease of 11.5% due to an increase in interconnection expenses in Mexico reflecting the introduction of domestic and international calling party pays; a charge of 201 million pesos in the fourth quarter of 2005 related to an agreement with a data operator that reduced uncollectables; and a charge of 222 million reais related to income tax contingencies for incoming long distance services; and for non-recurring additional payments related to ICMS (Imposto Sobre Circulação de Mercadoria e Prestação de Serviços) tax. The EBITDA (1) margin was 39.5%, 5.9 percentage points lower than 2005, and operating income totaled 11.6 billion pesos.

- Majority net income in the quarter was 13.8% lower than the same period of the previous year. Earnings per share were 37 Mexican cents, a decrease of 5.1% compared with the same period of last year and earnings per ADR were 67 US cents, an increase of 1.5%, compared with the fourth quarter of 2005. In 2006, majority net income totaled 28.5 billion pesos, 4.9% lower than in 2005.

- For the year consolidated net debt (3) increased the equivalent of 1.199 billion dollars to a year-end total of 7.519 billion dollars.

- Consolidated capital expenditures (Capex) was equivalent to 2.009 billion dollars for 2006. Share repurchases totaled 23.789 billion pesos for the full year.

(3) Net debt is defined as short-term liabilities plus long-term debt less cash and equivalents.

Recent Events

-

Cash tender offer for shares of Embratel

On November 6, 2006, the initial period for the cash tender offer for common and preferred shares of Embratel Partiçpacoes ("Embratel Holdings") expired. As a result of the tender offer, TELMEX acquired 90.3% of the preferred shares (including 79% of the preferred shares represented by ADSs) and 26.5% of the common shares of Embratel Holdings. Through its subsidiaries, at year-end 2006 TELMEX owned 95.9% of all preferred shares, 98.0% of all common shares and 97.0% of all common and preferred shares, taken as a whole, of Embratel Holdings. As of February 12, 2007, as a result of purchases during the initial offering period and subsequent purchases, TELMEX increased its ownership in Embratel Holdings to approximately 96.8% of the preferred shares, 98.0% of the common shares and 97.4% of the total number of common and preferred shares, taken as a whole.

Acquisition of TV Cable and Cable Pacífico in Colombia

On December 4, 2006, TELMEX announced agreements with the controlling partners of TV Cable and the controlling partners of Cable Pacífico for TELMEX to acquire 100% of TV Cable S.A. and TV Cable Comunicaciones S.A. E.S.P. ("TV Cable") and 97.5% of TV Cable del Pacífico S.A. E.S.P. ("Cable Pacífico").

TV Cable offers cable TV, Internet and voice over IP services and has been in operation for 20 years. The company operates in Bogota and Cali. Cable Pacífico operates in nine states, and its main operation is in Medellin. Both transactions are subject to regulatory approvals and other conditions established in the agreements.

Acquisition of Boga

Further applying the regional growth strategy while staying within our strategic range of products and services, TELMEX is in the process of acquiring Boga, a cable TV company in Peru. This company mainly operates in the cities of Lima and Chiclayo.

Amendments to TELMEX's Bylaws

On December 5, 2006, TELMEX announced that at its Extraordinary Shareholders' Meeting, held in accordance with requirements established in the current Mexican Securities Law, shareholders approved amendments to its bylaws that adjust the integration, organization and operation of its corporate bodies. The amended bylaws are available in www.telmex.com in the Investor Relations section.

Consolidated Income Statements

Revenues:

In the fourth quarter, consolidated revenues increased 1.7%, mainly due to the increases in domestic long distance, Internet and corporate networks revenues of 8.2%, 8.9% and 10.9%, respectively, as well as the 17.6% increase in other revenues, comprised primarily of Yellow Pages and Tiendas TELMEX (TELMEX stores). In contrast, local service revenues and international long distance revenues decreased 7.9% and 5.7%, respectively. For the twelve months, revenues totaled 175 billion pesos, an increase of 0.9% compared with 2005.

Costs and expenses

: Costs and expenses increased 9.4%, mainly due to the increase in interconnection charges in Mexico from the introduction of domestic and international calling party pays but also reflecting the fourth-quarter 2005 agreement with a data operator that decreased uncollectables by 201 million pesos as well as the recognition of 222 million reais of income tax contingencies related to incoming international long distance traffic and for additional payments related to ICMS (Imposto Sobre Circulação de Mercadoria e Prestação de Serviços) tax at Embratel. For the full year, costs and expenses totaled 126.7 billion pesos, 4.2% higher than in 2005.

EBITDA (1) and operating income:

EBITDA (1) totaled 17.7 billion pesos in the fourth quarter, a decrease of 11.5% compared with the same period of 2005. The EBITDA margin was 39.5%. Operating income totaled 11.6 billion pesos, 15.3% lower than the fourth quarter of 2005. For the twelve months, EBITDA (1) totaled 72.9 billion pesos and operating income totaled 48.3 billion pesos.

Comprehensive financing cost:

Comprehensive financing cost generated a credit of 224 million pesos in the quarter, this resulted from: i) a net interest charge of 667 million pesos due to a non-recurring gain of 603 million reais due to a favorable resolution from Brazil's Supreme Court regarding Embratel's income tax, offset by a recognized provision related to income tax from incoming international long distance traffic of 306 million reais, and a recognition of an impairment in Chile of 27 million dollars, ii) a net exchange loss of 145 million pesos from the fourth-quarter's exchange rate appreciation of 0.1747 pesos per dollar, partially offset by the 6.5 billion dollars in dollar-peso hedges (weighted average exchange rate: 11.08 pesos per dollar) and the 272 million dollars in dollar-reais hedges (weighted average exchange rate: 2.4944 reais per dollar), and iii) a gain in the monetary position of 1 billion pesos.

Majority net income:

Majority net income in the fourth quarter totaled 7.401 billion pesos, 13.8% lower than the same period of the previous year. Earnings per share were 37 Mexican cents, and earnings per ADR were 67 US cents. For the twelve months, majority net income totaled 28.534 billion pesos, a decrease of 4.9% compared with the same period of last year.

Free cash flow:

At December 31, resources provided by operating activities totaled 55.785 billion pesos, of which 23.789 billion pesos were used in share repurchases, 8.948 billion pesos in dividend payments and the rest in several investments.

Investments:

In 2006, consolidated capital expenditures (capex) was the equivalent of 2.009 billion dollars, of which 78.4% was used for growth projects in the voice, data and transport infrastructure, 18.1% for operational support projects and operating needs, and 3.5% for social telephony.

Debt:

Gross total debt at December 31 was the equivalent of 9.263 billion dollars, an increase of 771 million dollars from a year ago. Consolidated net debt (3) increased in the year to the equivalent of approximately 1.199 billion dollars, totaling 7.519 billion dollars.

(3) Net debt is defined as short-term liabilities plus long-term debt, less cash and equivalents.

Repurchase of shares:

For the twelve months, the company used 23.789 billion pesos to repurchase its own shares. During the quarter 1.976 billion pesos were used to repurchase 134 million 489 thousand shares.

Mexico Operating Results

Lines in service

The capacity to generate economic resources has allowed TELMEX to grow in Mexico and expand internationally. The commitment of the Company is reflected in our investment levels, customer service and ongoing pursuit of operating efficiency improvement. In the last 16 years, TELMEX has applied technological modernization to increase domestic coverage and further penetrate the market with better telecommunications services. In this period, we have invested the equivalent of 27.692 billion dollars in telecommunications infrastructure in Mexico

. This investment generates a multiplying effect in the Mexican economy as it provides telecommunications services to 22 thousand 801 communities that comprise 90.6% of the population.

In Mexico, there are hundreds of concessionaires and/or licenses to provide telecommunications services, and in the case of local service, as it publicly known, the applied mechanism results in not charging interconnection fees. In the fixed line business, we compete with operators that are mainly focused on high-income segments A and B. In these segments our market share is approximately 66%. At the same time, we have made a commitment to provide telecommunications services nationwide. As a result, we are the only fixed line operator in the country with a presence in socio-economic segments C-, D and E. At December 31, 2006, TELMEX had 18 million 251 thousand lines in service with a market share of 24% in Mexico, where there are more than 76 million fixed and mobile customers.

At TELMEX, we continue enhancing our service offerings and modernizing the telecommunications platform. Our efforts extend to rural areas. The initiatives optimize the required investment and reduce operating expenses. This allows us to offer voice, data and Internet services to more than 21 thousand 341 communities, benefiting more than 21 million inhabitants.

Another positive step for consumers in 2006 was the further reduction in the number of local calling areas. In Mexico the number of calling areas is now 397, below the total of 2 thousand 200 that existed in 1998. The average size of each local area now is 4 thousand 948 Km^2, with more than 260 thousand inhabitants. That compares with the United States of America, where there are 25 thousand local calling areas that average 375 Km^2 and fewer than 12 thousand inhabitants.

Based on the strategy to assure line profitability, in the quarter, TELMEX disconnected 377 thousand prepaid lines, bringing the total to 864 thousand prepaid disconnections for the full year that had payment problems or were not producing revenues. The application of this strategy along with the disconnection of lines that pay rent resulted in a reduction of 351 thousand in the quarter and 124 thousand for the full year. At December 31, 2006, there were 18 million 251 thousand lines in service.

<u>Local traffic</u>

During the fourth quarter, local traffic decreased 2.2% compared with the same period in 2005, with a total of 6.491 billion local calls. Local traffic volume has been affected by competition from local and wireless telephony and by the migration of our switched traffic to corporate networks, a trend that strengthens the data business although it adversely affects local traffic. For the twelve months, total local traffic was 26.575 billion calls, 0.4% lower than the same period of the previous year.

On the other hand, the measured service packages "Línea Más Negocio," launched in February 2005, reached 536 thousand services and "Línea Hogar," launched a year later, totaled 361 thousand services at year-end. These packages have allowed evolving the mix of revenues from single voice and data services to multi-service packages with monthly fixed revenues.

<u>Long distance traffic</u>

Domestic long distance (DLD) decreased 1.2% compared with the fourth quarter of 2005, totaling 4.424 billion minutes. A significant factor was the introduction of domestic calling party pays, which reached 136.9 million minutes in the quarter. If this effect were eliminated, domestic long distance would have increased 1.9%.

In the quarter, outgoing and incoming international long distance (ILD) traffic maintained its growth trend due to the introduction of packages. Increases of 1.5% and 15.8% compared with the same period a year earlier brought total minutes to 455 million and 1.809 billion, respectively. The incoming-outgoing ratio was 4. For the full year, international outgoing traffic totaled 1.876 billion minutes and incoming international traffic totaled 7.037 billion minutes, for increases of 4.8% and 31.8%, respectively.

Domestic and international long distance packages totaled 1.6 million customers at year-end, 32.4% more than in 2005.

Interconnection

In the fourth quarter, interconnection traffic increased 17.4%, totaling 10.339 billion minutes. Calling party pays traffic increased 19.9% due to the introduction of domestic and international calling party pays in November 2006. If we eliminate this effect, calling party pays traffic would have increased 6.9%. Traffic from local and international operators increased 12.9%. Traffic generated by cellular companies that is terminated in TELMEX's network increased 32.5%. For the full year, interconnection traffic totaled 39 billion minutes, an increase of 12.1%.

Internet and Corporate networks

In Mexico during the fourth quarter, we added 231 thousand broadband Prodigy Infinitum (ADSL) customers, bringing the total at year-end to 1.8 million services, an increase of 76.5% compared with 2005. The growth of Internet services has been supported by the sale of PC's that has made TELMEX the number one retailer of PC's in Mexico for two consecutive quarters. During 2006, we doubled the speed for Infinitum, integrated new multi-service packages with preferred rates and improved service levels by extending the capabilities of our world-class technological platform. These high-speed services now can be offered on 93.7% of TELMEX's network.

Billed line equivalents of 64 Kbps to corporate customers increased 15.9% compared with the previous year, reaching 2.3 million. In particular, penetration of these services has increased through the offer of VPNs (Virtual Private Networks), allowing our customers to optimize their operating costs and management of their data networks by having access to higher quality service levels.

Mexico Financial Results

Revenues:

Revenues in the fourth quarter totaled 33.1 billion pesos, a level similar to that in the same period of the previous year, due the increases of 12.7% in revenues of Internet access, 11% in interconnection revenues because of the introduction of domestic and international calling party pays, and 25.1% in other revenues, mainly comprised by Yellow Pages and Tiendas TELMEX (TELMEX Stores), partially offset by the rate reduction in real terms of local and long distance, as well as the introduction of packages that decreased the revenue per unit but increased traffic. For the twelve months, total revenues were 128.3 billion pesos, 1.1% lower than the same period of 2005.

- Local:

Local revenues totaled 13.7 billion pesos in the fourth quarter, a decrease of 4.2%, reflecting the reduction of the average measured service rate and monthly rent in real terms of 5.4% and 1.2%, respectively, and the decrease of public telephony traffic due to competition from both cellular companies and other fixed telephony operators. For the twelve months, local revenues totaled 56.1 billion pesos, a decrease of 3.3% compared with 2005.

- DLD:

DLD revenues totaled 4.1 billion pesos in the fourth quarter, 8.7% lower than the fourth quarter of 2005 due to a 7.6% decrease in the average revenue per minute in real terms and the introduction of domestic calling party pays, which reduced domestic long distance traffic and transferred it to interconnection traffic. For the twelve months, DLD revenues totaled 17.5 billion pesos, a decrease of 3.8%.

- ILD:

In the fourth quarter, ILD revenues totaled 2.4 billion pesos, a decrease of 4.6% compared with the fourth quarter of 2005. Revenues from outgoing traffic declined 12.4% to 1.5 billion pesos due to the 13.7% decrease in the average revenue per minute in real terms and because the increase in traffic volume was not enough to offset the decrease in prices. Incoming international long distance revenues totaled 1 billion pesos, an increase of 10.6%. For the twelve months, ILD revenues totaled 10.1 billion pesos, a decrease of 0.6%.

- Interconnection:

In the fourth quarter, interconnection revenues increased 11% to 4.8 billion pesos compared with the same period of 2005, due to the introduction of domestic and international calling party pays. If we eliminate this effect, interconnection revenues would have decreased 1.3%, because of the 10% reduction of the calling party pays rate which was not offset by the increase in traffic. For the twelve months, interconnection revenues totaled 17.4 billion pesos, a decrease of 4%.

- Corporate networks:

In the fourth quarter, revenues from services related to data transmission through private and managed networks totaled 2.6 billion pesos, a decrease of 10.4% compared with the same period of 2005. This reduction was due to more competition and a decrease in margins in this market segment, which now includes more than twenty service providers. For the twelve months, corporate networks revenues totaled 10.8 billion pesos, essentially flat with the 2005 level.

- Internet:

Revenues from services related to the Internet platform rose 12.7% in the fourth quarter, or 2.5 billion pesos, due to the increase in the number of broadband customers. For the twelve months, Internet revenues totaled 9.6 billion pesos, an increase of 12.9% compared with the same period of the previous year.

Costs and expenses:

In the fourth quarter, total costs and expenses were 21 billion pesos, an increase of 1.4%. This increase was due to higher interconnection costs (domestic and international calling party pays). If this effect were eliminated, costs and expenses would have decreased 1.5% as a result of cost control initiatives, as well as lower depreciation and amortization charges. For the twelve months, total costs and expenses were 80.5 billion pesos, 2.2% lower than the same period of 2005.

- Cost of sales and services:

In the fourth quarter, cost of sales and services decreased 2.2%, totaling 7.6 billion pesos due to lower maintenance expenses and to the initiatives that were carried out to optimize resource use, offsetting the increase in the cost of computers driven by higher sales. For the twelve months, costs of sales and services totaled 30 billion pesos, a decrease of 2%.

- Commercial, administrative and general:

Commercial, administrative and general expenses increased 1.7% to 5 billion pesos in the fourth quarter due to an increase in uncollectables as a result of the fourth-quarter 2005 agreement with a data operator that decreased the uncollectables charge by 201 million pesos. For the twelve months, commercial, administrative and general expenses totaled 19.5 billion pesos, an increase of 1.6%.

- Transport and interconnection:

In the fourth quarter, transport and interconnection costs totaled 3.9 billion pesos, an increase of 17.3% compared with the same period of 2005 due to the introduction of domestic and international calling party pays. For the twelve months, transport and interconnection costs totaled 12.9 billion pesos, similar to 2005.

- Depreciation and amortization:

In the quarter, depreciation and amortization decreased 4.2% to 4.4 billion pesos compared with the same period of 2005, due to less impact from restatement of the value of fixed assets and lower levels of investment carried out in recent years. For the twelve months, depreciation and amortization decreased 8%, totaling 18.1 billion pesos.

EBITDA (1) and operating income

: EBITDA (1) totaled 16.7 billion pesos in the fourth quarter, a decrease of 3.3% compared with the same period of last year. The EBITDA margin was 50.4%, a decrease of 1.6 percentage points compared with the fourth quarter of 2005. Operating income totaled 12.3 billion pesos, 3% lower than the fourth quarter of 2005, and the operating margin was 37.1%. For the twelve months, EBITDA (1) totaled 65.8 billion pesos with a margin of 51.3%, and operating income totaled 47.8 billion pesos with a margin of 37.2%.

Investments:

In Mexico, total capital expenditures (capex) were 1.166 billion dollars, of which 74.9% was used for growth and modernization projects for the voice, data and transport infrastructure, 19.3% for operational support projects and operating needs, and 5.8% for social telephony.

Debt: **At December 31, total debt was the equivalent of 8.013 billion dollars, an increase of 213 million dollars compared with last year. Net debt (3) in Mexico increased the equivalent of 697 million dollars to a total of 6.603 billion dollars.**

(3) Net debt is defined as short-term liabilities plus long-term debt less cash and equivalents.

Latin America Financial Results

Brazil

In Brazil, efforts have been focused on consolidating Embratel's position in the data business for the commercial segment and increase local service offerings for the residential segment, resulted in an increase of 34.5% of billed line equivalents and an increase in local customers of 31.6% compared with the fourth quarter of 2005. At December 31, the company provided Net Fone services through Net's infrastructure to 181.9 thousand customers. Local and domestic long distance traffic showed increases of 27.1% and 20.2% in the quarter, respectively, compared with the same period of 2005. For the full year, local traffic and domestic long distance traffic increased 39.4% and 16.2%, respectively.

In the fourth quarter, revenues from the operations in Brazil totaled 2.082 billion reais, 6.9% higher than the same quarter of the previous year. Higher revenues were mainly due to the 10.4% increase in the data business, to the 19.2% increase in local services, and the 5.5% increase in domestic long distance. For the twelve months, revenues totaled 8.220 billion reais, 6.9 % higher than last year.

During the quarter, Embratel recognized income tax contingencies related to incoming international long distance for 222 million reais, as well as an additional charge regarding ICMS tax (Imposto Sobre Circulação de Mercadoria e Prestação de Serviços), that reduced the impact of the fiscal contingency related to this tax that the company had for many years. The amount of the non-recurring charge related to the ICMS tax was approximately 632 million reais for the full year. This effect, along with higher costs related to an increase in sales and charges related to the Telecommunications Service Universal Fund (FUST), generated costs and expenses in the quarter of 2.210 billion reais, an increase of 17.7% compared with the fourth quarter of the previous year.

EBITDA (1) totaled 154 million reais in the fourth quarter and 1.155 billion reais for the twelve months. Operating income had losses of 62 million reais in the quarter and for the full year, operating income totaled 57 million reais. If the non-recurring effects were eliminated, EBITDA (1) and operating income would have been 468 million reais and 252 million reais, respectively in the quarter.

Argentina

In the quarter, revenues from the operations in Argentina totaled 91.6 million Argentinean pesos, an increase of 8.5% compared with the same period of the previous year due to increases in revenues of 19.4% in the corporate and Internet businesses, 5.3% in long distance and 25% in the local services, offset by the decrease in interconnection revenues with other operators. Operating costs and expenses totaled 99.7 million Argentinean pesos in the quarter, an increase of 9.8% due to the increase in network maintenance costs and advertising expenses to expand the customer base. In the quarter, EBITDA (1) totaled 7 million Argentinean pesos with a margin of 7.7%. The operating loss was 8.1 million Argentinean pesos in the quarter.

Colombia

In Colombia, revenues totaled 54.511 billion Colombian pesos in the fourth quarter, 52.4% higher than the same period of 2005. Higher revenues were mainly due to the integration of sites of several corporate customers and the integration of Superview (a cable TV company) since November 2006 that contributed with 7.876 billion Colombian pesos. Costs and expenses increased 62.8%, totaling 43.186 billion Colombian pesos, mainly due to the incorporation of Superview that contributed with 8.245 billion Colombian pesos and to the 17.2% increase in transport and interconnection expenses for additional services. Operating income totaled 11.325 billion Colombian pesos compared with operating income of 9.239 billion Colombian pesos in the year-ago fourth quarter, an increase of 22.6%. The operating margin was 20.8%. EBITDA (1) totaled 20.570 billion Colombian pesos with a margin of 37.7%, compared with EBITDA (1) of 16.053 billion Colombian pesos in the same period of the previous year.

Chile

In the fourth quarter, revenues totaled 16.625 billion Chilean pesos, an increase of 0.5% compared with the same period of 2005. Revenues from the corporate networks and Internet and local service businesses increased 15% and 42.6%, respectively, compared with the same quarter of 2005. The Chilean long distance market continues to decrease due to the migration to mobile services and private networks, which caused a decline in long distance revenues of 5.7%, compared with the fourth quarter of the previous year.

Costs and expenses in the fourth quarter totaled 18.277 billion Chilean pesos, an increase of 13.3% compared with the same period of 2005. Costs of sales and services increased 27.8% due to the increase in network maintenance costs related to growth in local services and to the 6.1% increase in transport and interconnection costs. In the quarter, there was an operating loss of 1.652 billion Chilean pesos compared with operating income of 413 million Chilean pesos in the same period of the previous year. EBITDA (1) in the quarter totaled 1.817 billion Chilean pesos with a margin of 10.9%.

Peru

From October to December, total revenues were 55.3 million New Soles, an increase of 7.4% compared with the same period of 2005. The data business, which represents 34.3% of revenues, increased 22.6%. Voice business revenues were flat compared with the previous year since the 27.9% increase in lines in service offset the decrease in interconnection revenues with other operators. In the quarter, costs and expenses grew 8.8% due to the increase of 7.9% in transport and interconnection costs compared with 2005. Operating income in the quarter totaled 0.9 million New Soles compared with 1.5 million New Soles in the same period of 2005. EBITDA (1) in the fourth quarter totaled 13 million New Soles with a margin of 23.5% compared with EBITDA (1) of 13.9 million New Soles in the same period of 2005.

Mexico Local and Long Distance Accounting Separation

Based on Condition 7-5 of the Amendments of the Concession Title of Teléfonos de México, the commitment to present the accounting of the local and long distance services is presented below for the fourth quarter of 2006 and 2005.

Mexico Local Service Business
Income Statements
[millions of Mexican constant pesos as of December, 2006]

	4Q 2006	4Q 2005	% Inc.	12 months 2006	12 months 2005	% Inc.
Revenues						
Access, rent and measured service	Ps. 13,474	Ps. 14,218	(5.2)	Ps. 55,595	Ps. 57,779	(3.8)
LADA interconnection	1,053	1,102	(4.4)	4,463	4,395	1.5
Interconnection with operators	469	255	83.9	1,619	1,481	9.3
Interconnection with cellular	3,784	4,042	(6.4)	15,117	16,561	(8.7)
Other	2,301	2,629	(12.5)	9,342	9,256	0.9
Total	21,081	22,246	(5.2)	86,136	89,472	(3.7)
Costs and expenses						
Cost of sales and services	5,850	5,576	4.9	21,843	22,672	(3.7)
Commercial, administrative and general	4,231	3,841	10.2	16,791	15,808	6.2
Interconnection	2,834	3,174	(10.7)	11,360	12,503	(9.1)
Depreciation and amortization	2,680	3,121	(14.1)	11,974	13,101	(8.6)
Total	15,595	15,712	(0.7)	61,968	64,084	(3.3)
Operating income	Ps. 5,486	Ps. 6,534	(16.0)	Ps. 24,168	Ps. 25,388	(4.8)
EBITDA (1)	Ps. 8,166	Ps. 9,655	(15.4)	Ps. 36,142	Ps. 38,489	(6.1)
EBITDA margin (%)	38.7	43.4	(4.7)	42.0	43.0	(1.0)
Operating margin (%)	26.0	29.4	(3.4)	28.1	28.4	(0.3)

Mexico Long Distance Service Business
Income Statements
[millions of Mexican constant pesos as of December, 2006]

	4Q 2006	4Q 2005	% Inc.	12 months 2006	12 months 2005	% Inc.
Revenues						
Domestic long distance	Ps. 4,952	Ps. 4,309	14.9	Ps. 17,678	Ps. 17,335	2.0
International long distance	2,239	2,184	2.5	8,927	8,902	0.3
Total	7,191	6,493	10.8	26,605	26,237	1.4
Costs and expenses						
Cost of sales and services	1,350	1,394	(3.2)	5,367	5,635	(4.8)
Commercial, administrative and general	1,287	1,426	(9.7)	5,423	5,390	0.6
Interconnection to the local network	1,803	968	86.3	4,800	3,870	24.0
Depreciation and amortization	529	655	(19.2)	2,381	2,687	(11.4)
Total	4,969	4,443	11.8	17,971	17,582	2.2
Operating income	Ps. 2,222	Ps. 2,050	8.4	Ps. 8,634	Ps. 8,655	(0.2)
EBITDA (1)	Ps. 2,751	Ps. 2,705	1.7	Ps. 11,015	Ps. 11,342	(2.9)
EBITDA margin (%)	38.3	41.7	(3.4)	41.4	43.2	(1.8)
Operating margin (%)	30.9	31.6	(0.7)	32.5	33.0	(0.5)

MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 4 YEAR: 2005

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

ANNEX 2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Mexican Pesos)

Judged information

Consolidated

Final printing

TELEFONOS DE MEXICO, S.A.B. DE C.V.

AND SUBSIDIARIES

Consolidated Financial Statements

Years Ended December 31, 2006 and 2005

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REPORT OF INDEPENDENT AUDITORS

To the Stockholders of

Telefonos de Mexico, S.A.B. de C.V.

We have audited the accompanying consolidated balance sheets of Telefonos de Mexico, S.A.B de C.V. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and are prepared in conformity with Mexican Financial Reporting Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the financial reporting standards used and significant estimates made by management, and 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 Telefonos de Mexico, S.A.B de C.V. and its subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations, changes in their stockholders' equity and changes in their financial position for the years then ended, in conformity with Mexican Financial Reporting Standards.

Mancera, S.C.

A Member Practice of

Ernst & Young Global

Fernando Espinosa

Mexico City, Mexico

March 12, 2007

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TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Balance Sheets

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

	December 31	
	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	Ps.I6,151,244	Ps.J4,715,138
Marketable securities (Note 2)	J,815,145	M6,680
Accounts receivable, net (Note 3)	K6,595,279	K0,983,818
Inventories for sale, net	I,738,761	I,209,679
Prepaid expenses and others	K,355,962	J,071,306
Total current assets	N0,656,391	M9,036,621
Plant, property and equipment, net (Note 4)	I56,902,853	I60,334,146
Inventories, primarily for operation of the telephone plant, net	J,798,615	J,398,445
Licenses and brands, net (Note 5)	M,267,451	L,965,949
Equity investments (Note 6)	K,006,436	856,208
Net projected asset (Note 7)	I9,171,780	J3,933,925
Deferred taxes (Note 15)	N,616,527	N,163,043
Goodwill, net (Note 6)	9,142,434	8,055,791
Deferred charges, net	L67,510	L58,634

Total assets	Ps.J64,029,997	Ps.J66,202,762

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

	December 31	
	2006	2005
Liabilities and stockholders' equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 8)	Ps.I2,551,272	Ps.I5,540,961
Accounts payable and accrued liabilities (Note 10)	K3,967,468	J8,292,467
Taxes payable	J,952,123	I,793,372
Deferred credits (Note 9)	J,158,819	J,067,641
Total current liabilities	M1,629,682	L7,694,441
Long-term debt (Note 8)	88,192,065	81,311,857
Labor obligations (Note 7)	J,271,122	J,123,851
Deferred taxes (Note 15)	I5,981,198	I6,509,620
Total liabilities	I58,074,067	I47,639,769
Stockholders' equity (Note 14):		
Capital stock:		
Historical	J52,539	J75,564
Restatement increment	J6,743,735	J8,375,590
	J6,996,274	J8,651,154
Premium on sale of shares	J0,161,138	J0,161,138
Retained earnings:		
Prior years	I01,082,282	I01,556,165
Current year	J8,533,965	K0,005,924

	I29,616,247	I31,562,089
Other accumulated comprehensive income items	(O3,561,354)	(O2,391,715)
Majority stockholders' equity	I03,212,305	I07,982,666
Minority interest	J,743,625	I0,580,327
Total stockholders' equity	I05,955,930	I18,562,993
Total liabilities and stockholders' equity	Ps.J64,029,997	Ps.J66,202,762

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Income

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

	Year ended December 31	
	2006	2005
Operating revenues:		
Local service	Ps.N0,428,477	Ps.N2,252,241
Long-distance service:		
Domestic	L0,204,759	K9,335,258
International	I3,234,336	I4,024,566
Interconnection service	I8,364,587	I9,586,241
Corporate networks	J2,693,486	J0,324,018
Internet	I2,295,559	I1,071,078

Other	O,784,919	N,911,314
	I75,006,123	I73,504,716
Operating costs and expenses:		
Cost of sales and services	K5,799,289	K6,064,400
Commercial, administrative and general expenses	K5,035,378	J9,172,748
Transport and interconnection	K1,317,562	K0,421,270
Depreciation and amortization (Notes 4 to 6)	J4,563,262	J5,998,693
	I26,715,491	I21,657,111
Operating income	L8,290,632	M1,847,605
Comprehensive financing cost:		
Interest income	(K,647,768)	(L,059,624)
Interest expense	8,088,002	8,060,066
Exchange loss, net	I,639,144	K,761,792
Monetary gain, net	(J,453,292)	(J,108,722)
	K,626,086	M,653,512
Income before income tax and, employee profit sharing	L4,664,546	L6,194,093
Provisions for (Note 15):		
Income tax	I3,058,898	I2,309,779
Employee profit sharing	K,001,692	K,049,252
	I6,060,590	I5,359,031
Income before equity interest in net income of affiliates	J8,603,956	K0,835,062

Equity interest in net income of affiliates	L57,876	N9,056
Net income	Ps.J9,061,832	Ps.K0,904,118
Distribution of net income:		
Majority interest	Ps.J8,533,965	Ps. K0,005,924
Minority interest	M27,867	898,194
	Ps.J9,061,832	Ps.K0,904,118
Weighted average of shares issued and outstanding (millions)	20,948	22,893
Majority net income per share	Ps. 1.36	Ps. 1.31

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

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2006 and 2005

(In thousands of Mexican pesos, except for dividends per share, with purchasing power at December 31, 2006)

			Retained earnings				
	Capital stock	Premium on sale of shares	Legal reserve	Unappropriated	Total	Other accumulated comprehensive income items	
	Ps.K0,106,118	Ps.J0,161,138	Ps.I5,563,309	Ps.I06,980,805		Ps. (70,170,474)	Ps

Balances at December 31, 2004					Ps. 122,544,114		
Initial accumulated effect of swaps, net of deferred taxes						K35,846	K
Appropriation of earnings approved at ordinary stockholders' meeting held in April 2005:							
Cash dividend paid at Ps. 0.391 per share (Ps. 0.370 historical)				(8,902,638)	(8,902,638)		(
Repurchase of Company's own shares in cash	(I,454,964)			(I6,786,141)	(I6,786,141)		(
Excess of book value over sale price of shares sold to companies under common control				(I01,245)	(I01,245)		(
Gain on sale of entities to companies under common control				I,154,232	I,154,232	J6,956	I
Acquisition of minority interest and contribution from minority stockholders				K,647,843	K,647,843	J51,454	K
Comprehensive income:							
Net income of the year				K0,005,924	K0,005,924		K
Other comprehensive income items:							
Effect of available-for-sale securities:							

Gain for the year						I,749,490	
Gain on sale recognized of securities						(M33,842)	(
Changes in fair value of swaps, net of deferred taxes						(I75,999)	(
Effect of translation of foreign entities						387,664	
Deficit from holding non-monetary assets, net of deferred taxes						(L,262,810)	(
Comprehensive income							
Balances at December 31, 2005	J8,651,154	J0,161,138	I5,563,309	115,998,780	I31,562,089	(O2,391,715)	I
Appropriation of earnings approved at ordinary stockholders' meeting held in April 2006:							
Cash dividend paid at Ps.0.411 per share (Ps. 0.403 historical)				(8,525,608)	(8,525,608)		(
Cash dividend paid to minority stockholders in subsidiary				(I93,552)	(I93,552)		(
Repurchase of Company's own shares in cash	(I,654,880)			(J2,134,428)	(J2,134,428)		(
Acquisition of minority interest				K73,781	K73,781		K
Gain on dilution of investment in affiliate						827,177	
Comprehensive income:							

Net income of the year				J8,533,965	28,533,965		J
Other comprehensive income items:							
Changes in fair value of swaps, net of deferred taxes						(I21,475)	(
Effect of translation of foreign entities						I,320,123	I
Deficit from holding non-monetary assets, net of deferred taxes						(K,195,464)	(
Comprehensive income							
Balances at December 31, 2006 (Note 14)	Ps.J6,996,274	Ps.J0,161,138	Ps.I5,563,309	Ps. 114,052,938	Ps.I29,616,247	Ps. (73,561,354)	Ps

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

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Consolidated Statements of Changes in Financial Position

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

	Year ended

	December 31	
	2006	2005
Operating activities		
Net income	Ps.J9,061,832	Ps.K0,904,118
Add (deduct) items not requiring the use of resources:		
Depreciation	J3,253,805	J5,051,988
Amortization	I,309,457	946,705
Deferred charges	J22,591	K27,109
Deferred taxes	(755,696)	(J,570,165)
Equity interest in net income of affiliates	(L57,876)	(N9,056)
Impairment of goodwill	J94,241	
Labor obligation costs	L,721,761	L,854,317
	M7,650,115	M9,445,016
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Marketable securities	(J,758,465)	K03,623
Accounts receivable	(M,689,407)	J,543,957
Inventories for sale	(I,315,076)	(866,038)
Prepaid expenses and others	(O44,918)	K76,322
(Decrease) increase in:		
Labor obligations:		
Contributions to trust fund	(91,270)	(N3,238)
Payments to employees	(J03,759)	(J33,502)
Accounts payable and accrued liabilities	M,561,067	(O71,659)
Taxes payable	1,497,355	(M,972,710)
Deferred credits	I6,392	(J06,663)
Resources provided by operating activities	M3,922,034	M4,555,108

Financing activities		
New loans	J4,167,284	J6,463,962
Repayment of loans	(I5,458,733)	(J0,677,797)
Effect of exchange rate differences and variances in debt expressed in constant pesos	(L,819,639)	(8,011,869)
Decrease in capital stock and retained earnings due to repurchases of Company's own shares	(J3,789,308)	(I8,241,105)
Dividends paid	(8,525,608)	(8,902,638)
Contribution of minority stockholders		I,076,552
Dividends paid to minority stockholders in subsidiary	(L08,059)	
Resources used in financing activities	(J8,834,063)	(J8,292,895)

	Year ended	
	December 31	
	2006	2005
Investing activities		
Plant, property and equipment	(J1,152,514)	(25,614,596)
Available-for-sale securities		O,617,249
Inventories for operation of the telephone plant	(K84,511)	(K,254)
Subsidiaries and affiliated companies	(I1,621,950)	(M,600,756)
Initial cash balance from equity investment in subsidiaries	M5,705	I33,846
Other investments	(548,595)	(N33,752)
Resources used in investing activities	(K3,651,865)	(J4,101,263)

Net (decrease) increase in cash and cash equivalents	(8,563,894)	J,160,950
Cash and cash equivalents at beginning of year	J4,715,138	J2,554,188
Cash and cash equivalents at end of year	Ps.I6,151,244	Ps.J4,715,138

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

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies

I. Description of the Business

Telefonos de Mexico, S.A.B. de C.V. and its subsidiaries (collectively "the Company" or "TELMEX") provide telecommunications services, primarily in Mexico and several countries in Latin America.

Revenues are obtained primarily from telecommunications services, which are comprised of local telephone services, domestic and international long-distance services, interconnection of subscribers with cellular networks (calling party pays), as well as the interconnection of domestic long-distance operators', cellular telephone companies' and local service operators' networks with the TELMEX local network and data transmission to corporate networks and internet services. Other revenues are also obtained from the sale of advertising in the Company's telephone directory and the sale of telephone equipment.

An analysis of the principal subsidiaries and associated companies at December 31, 2006 and 2005 is as follows:

		Equity interest % at December 31	
Company	Country	2006	2005
Subsidiaries:			
Controladora de Servicios de			
Telecomunicaciones, S.A. de C.V.	Mexico	100.0%	100.0%
Alquiladora de Casas, S.A. de C.V.	Mexico	100.0	100.0
Anuncios en Directorios, S.A. de C.V.	Mexico	100.0	100.0
Cia. de Telefonos y Bienes Raices, S.A. de C.V.	Mexico	100.0	100.0
Consorcio Red Uno, S.A. de C.V.	Mexico	100.0	100.0
Telefonos del Noroeste, S.A. de C.V.	Mexico	100.0	100.0
Uninet, S.A. de C.V.	Mexico	100.0	100.0
Embratel Participações S.A.	Brazil	97.0 (1)	72.3 (1)
Empresa Brasileira de Telecomunicações S.A.	Brazil	96.0	96.3
Star One S.A.	Brazil	77.6	77.1
Primesys Soluçoes Empresariais, S.A.	Brazil	96.0	71.6
Telmex do Brasil Ltda.	Brazil	97.0	72.3
Telmex Chile Holding S.A.	Chile	100.0	100.0
Telmex Corp. S.A. (formerly Chilesat Corp. S.A.)	Chile	99.7	99.7
Techtel LMDS Comunicaciones			
Interactivas, S.A.	Argentina	100.0	100.0
Telmex Argentina S.A.	Argentina	100.0	100.0
Metrored Telecomunicaciones S.R.L.	Argentina	100.0	100.0
Telmex Colombia S.A.	Colombia	100.0	100.0
Superview Telecomunicaciones, S.A.	Colombia	99.2	
Telmex Peru S.A.	Peru	100.0	100.0
Seccion Amarilla USA LLC	U.S.A.	80.0	

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies (continued)

		Equity interest % at December 31	
Company	Country	2006	2005
Affiliated companies:			
Net Serviços de Comunicação S.A.	Brazil	38.6 (2)	26.8(2)
Grupo Telvista, S.A. de C.V.	Mexico	45.0	45.0
2Wire, Inc.	U.S.A.	13.0	

(1) At December 31, 2006 TELMEX holds 98.0% of the controlling shares of this subsidiary (97.3% in 2005).

(2) Corresponds to the indirect shareholding percentage of TELMEX in Net; the direct and indirect interest of Embratel Participações S.A. in Net Serviços de Comunicação S.A. (Net) at December 31, 2006, is 39.9% (37.1% in 2005).

The amended Mexican government concession under which TELMEX operates in Mexico was reviewed on August 10, 1990. The concession runs through the year 2026, but it may be renewed for an additional period of fifteen years. The concession defines, among other things, the quality standards for telephone service and establishes the basis for regulating rates.

Under this concession, the Company's basic telephone service rates are subject to a ceiling determined by the Federal Telecommunications Commission (COFETEL). During the last six years, TELMEX management has decided not to raise the rates for basic services.

Empresa Brasileira de Telecomunicações S.A. (Embratel), TELMEX's most important foreign subsidiary, 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).

The concession for domestic and international long-distance services is in force through December 31, 2025 and the satellite concession is in force through December 31, 2020. Both concessions may be renewed upon expiration. The rest of the countries also operate under concessions and government licenses.

II. Significant Accounting Policies

The significant accounting policies and practices observed by the Company in the preparation of the financial statements, which are in conformity with Mexican Financial Reporting Standards (MFRS), which are comprised of the bulletins issued by the Mexican Institute of Public Accountants that have not yet been modified, replaced or abolished by the MFRS, as well as the MFRS issued by the Mexican Financial Information Standards Research and Development Board (*Consejo Mexicano para la Investigacion y Desarrollo de Normas de Informacion Financiera, A.C.* or "CINIF"), are described below:

2

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies (continued)

On March 12, 2007, TELMEX's audit committee and management authorized the issuance of the accompanying financial statement and its corresponding notes at December 31, 2006 and 2005. These financial statements must also be approved by the Company's board of directors and stockholders at their next meetings.

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

i) Consolidation

The consolidated financial statements include the accounts of Telefonos de Mexico, S.A.B de C.V. and its subsidiaries. All the companies operate in the telecommunications sector or provide services to companies operating in this sector.

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

All intercompany balances and transactions have been eliminated in the consolidated financial statements. Minority interest refers primarily to certain foreign subsidiaries.

ii) Translation of financial statements of foreign subsidiaries

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

The financial statements as reported by the foreign subsidiaries are adjusted to conform to MFRS, in their local currency, and are subsequently restated to local currency with purchasing power as of the balance sheet date, based on the inflation rate of the country in which the subsidiary operates.

All balance sheet amounts, except for stockholders' equity, are translated into Mexican pesos at the prevailing exchange rate at year-end; stockholders' equity accounts are translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. The restated amounts of the income statement are translated into Mexican pesos at the prevailing exchange rate at the end of the year being reported.

Exchange rate changes and the monetary position effect derived from intercompany monetary items are included in the consolidated income statements.

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 "Other comprehensive income items".

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies (continued)

b) Recognition of revenues

Revenues are recognized when services are rendered. 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 prepaid internet plans are recorded as service is provided. Revenues and expenses from the sale of advertising in the telephone directory are recorded at the time telephone directories are published. Revenues from the sale of equipment are recorded when the product is delivered.

Revenues from local service are comprised of 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 based on the number of minutes in the case of prepaid plans.

Revenues from domestic and international long-distance telephone services are determined on the basis of the duration of the calls and the type of service used. All these services are billed monthly, based on the rates authorized by the relevant regulatory bodies of each country. Revenues for 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.

c) Recognition of the effects of inflation on financial information

The effects of inflation on financial information are recognized in the financial statements, consequently, the amounts shown in the accompanying financial statements and in these notes are expressed in thousands of Mexican pesos with purchasing power at December 31, 2006. The weighted restatement factor applied to the financial statements at December 31, 2005 as originally issued was 1.0648, which was determined based on revenues, as well as on the average weighted inflation rate and on the changes in the exchange rate for each of the countries in which the Company operates.

Plant, property and equipment and construction in progress were restated as described in Note 4. Telephone plant and equipment is depreciated using the straight-line method based on the estimated useful lives of the related assets (see Note 4c).

Inventories for the operation of the telephone plant are valued using the average cost method and are restated on the basis of specific indexes. The restated value of inventories is similar to its replacement cost, not in excess of its market value.

Other non-monetary assets are restated using the inflation adjustment factors for each country.

Capital stock, premium on sale of shares and retained earnings were restated using adjustment factors obtained from the Mexican National Consumer Price Index (NCPI) published by Banco de Mexico (Mexico's central bank).

1. Description of the Business and Significant Accounting Policies (continued)

The deficit from restatement of stockholders' equity consists of the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied, which was Ps. 14,613,114, and of the result from holding non-monetary assets, which represents the difference between the restatement by the specific indexation method and restatement based on the NCPI. This item is included in stockholders' equity as part of the caption "Other comprehensive income items".

The net monetary position gain included in the statements of income as part of the caption "Comprehensive financing cost", represents the effect of inflation on monetary assets and liabilities.

The statement of changes in financial position is prepared based on the financial statements expressed in constant Mexican pesos. The sources and applications of resources represent the change in constant Mexican pesos in the different balance sheet items that affect cash balances. Monetary and foreign exchange gains and losses are not treated as non-cash items in the determination of resources provided by operations.

d) Cash equivalents, marketable securities and instruments available for sale

Cash equivalents are represented basically by time deposits in financial institutions with maturities of less than 90 days.

Marketable securities are represented by equity securities held for trading; instruments available for sale were represented by equity securities (see Note 2). Both are stated at market value. Changes in the market value of instruments classified astrading are recognized in results of operations. Changes in the market value of instruments classified as available for sale are included in stockholders' equity until they are sold.

f) Allowance for doubtful accounts

The allowance for doubtful accounts is determined based on the Company's experience, the age of balances and economic trends, as well as on the assessment of accounts receivable in litigation. The allowance for doubtful accounts covers basically balances of accounts receivable over 90 days old.

f) Equity investment in affiliates

The equity investment in affiliates is valued using the equity method. This accounting method consists basically of recognizing our equity interest in the results of operations and in the stockholders' equity of investees at the time such results are determined (see Note 6).

1. Description of the Business and Significant Accounting Policies (continued)

g) Business acquisitions and goodwill

Business acquisitions are recorded using the purchase method. The acquisition of minority interest is considered a transaction between entities under common control and any difference between the purchase price and the carrying value of net assets acquired is recognized as an equity transaction.

Goodwill represents the difference between the purchase price and the fair value of the net assets acquired at purchase date. Goodwill is not amortized, however it is subject to annual impairment tests, and is adjusted for any impairment losses.

In 2006, the Company recorded impairment of goodwill in the amount of Ps. 294,241, which was included in the caption "Comprehensive financing cost".

h) Licenses

TELMEX records licenses at acquisition cost and restates them based on the inflation rate of each country. Licenses are amortized in conformity with the terms of each license, over periods ranging from five to twenty-nine years.

i) Impairment of assets

When there are indications of impairment in the value of long-lived assets, the recoverable value of the related assets is estimated, which is defined as the higher of the asset's net selling price or its value in use, which is 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.

j) Exchange differences

Transactions in foreign currencies are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated at the prevailing exchange rate at the balance sheet date. Exchange rate differences are charged or credited directly to income of the year.

k) Labor obligations

Pension, seniority premium and medical assistance plan costs and termination payments 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 7).

l) Accruals

Accruals are recognized whenever (i) the Company has a current obligation (legal or assumed) as a result of a past event, (ii) it is probable that a cash disbursement will be required to settle such obligation and (iii) the obligation can be reasonably estimated.

TELEFONOS DE MEXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies (continued)

If the effect of the time value of money is material, accrued amounts are determined as the present value of the expected disbursements to settle the obligation. The discount rate applied is determined on a pre-tax basis and reflects market conditions at the balance sheet date and, where appropriate, the specific risk to the corresponding liability. In these cases, the increase in the accrual is recognized as a financing expense.

The Company recognizes contingent liabilities only when a cash disbursement is probable. Also, commitments are only recognized when they generate a loss.

m) Financial derivative instruments and hedging activities

To protect itself against risks from fluctuations in interest and exchange rates, the Company uses derivative financial instruments that have been designated and qualified as cash flow hedges (interest-rate swaps).

For cash flow hedges, the effective portion of the derivative's gains or losses is recognized in stockholders' equity in the caption "Other accumulated comprehensive income items", and the ineffective portion is recognized in income. The effectiveness of the derivative instruments is determined at the time they are designated as a hedge. The effectiveness of the hedging derivative is established at the inception of the hedge. Hedges are considered to be highly effective when in the initial assessment and during the hedging period, the changes in the fair value or cash flows of the hedged item are offset on a period-by-period or cumulative basis, as selected, and the hedge documentation establishes changes in the fair value or cash flows of the derivative itself by a range between 80% and 125%.

n) Income tax and employee profit sharing

Deferred taxes are determined using the asset and liability method. Under this method, deferred tax assets and liabilities are determined on all temporary differences between the financial reporting and tax bases of assets and liabilities, applying the enacted income tax rate at the date of the financial statements, or the enacted income tax rate that will be in effect at the time the temporary differences giving rise to deferred tax assets and liabilities are expected to be recovered or settled.

The Company evaluates periodically the possibility of recovering deferred tax assets and, if necessary, creates a valuation allowance for those assets that are more likely than not to be realized.

Employee profit sharing is recognized only on temporary items considered non-recurring with a known turnaround time.

o) Comprehensive income

In conformity with Mexican accounting Bulletin B-4, *Comprehensive Income*, comprehensive income consists of current year net income plus the effects of deferred taxes, the effects of translation of foreign entities, changes in minority interest, the result

1. Description of the Business and Significant Accounting Policies (continued)

from holding non-monetary assets, the changes in the fair value of financial instruments classified as available for sale and the changes in the fair value of the swaps applied directly to stockholders' equity.

p) Earnings per share

The Company determined earnings per share by dividing majority net income by the average weighted number of shares issued and outstanding during the year, with the exception of shares acquired by the Company, as specified in Mexican accounting Bulletin B-14, *Earnings per Share*.

q) 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.

r) Concentration of risk

The Company invests a portion of its excess cash in time deposits in financial institutions with strong credit ratings. TELMEX does not believe it has significant concentrations of credit risks in its accounts receivable, as it has a broad customer base that is geographically diverse.

s) 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 TELMEX operates, in conformity with the requirements of Mexican accounting Bulletin B-5, *Financial Information by Segment* (see Note 16).

t) New accounting pronouncements

The most important matters from the new pronouncements that came into force in 2006 are as follows:

MFRS A-3, "*User Needs and the Objective of Financial Statements"*, establishes, among other provisions, that the statement of changes in financial position will be substituted by a statement of cash flows whenever so required by the specific standards. At December 31, 2006, there are not yet any specific rules for the issuance of the statements of cash flows. Therefore, the statement of changes in financial position will continue being used, until such time as the specific standards have been issued.

1. Description of the Business and Significant Accounting Policies (continued)

MFRS A-5, "*Basic Elements of Financial Statements"*, includes a new classification of revenues and expenses in the statement of income, as either ordinary or non-ordinary. Ordinary revenues and expenses derive from common transactions or events; in other words, they are those transactions carried out for the entity's own business purposes, either on a frequent or non-frequent basis. Non-ordinary revenues and expenses correspond to unusual transactions or events, both frequent or non-frequent. Also, this pronouncement excludes such items that, under the abolished Mexican accounting Bulletin A-7, "*Comparability"*, issued by the Accounting Principles Board, were considered either as special or extraordinary. Therefore, these items must be considered as part of the ordinary or non-ordinary result, respectively.

This MFRS also requires entities to recognize in income "other comprehensive income items" at the time the net assets that gave rise to them are realized.

However, Mexican accounting Bulletin B-3, "*Statements of Income"*, in force at December 31, 2006, issued by the Accounting Principles Board, has made no reference to such classification or provided the rules for transfering "other comprehensive income items". Consequently, statements of income are still presented, as required by Bulletin B-3 in force as of December 31, 2006, based on the conclusions of Interpretation MFRS 3, "*Initial Application of the FRSs"*, issued in January 2006, which establishes that companies must temporarily observe the requirements of the specific MFRS that have yet to be modified, while their adaptation to the MFRS conceptual framework is underway.

The new MFRS B-3, "*Statements of Income"*, issued by the CINIF, will take effect on January 1, 2007. Therefore, the requirement to classify revenues and expenses as either ordinary or non-ordinary will be effective on December 31, 2007, as required by the presentation rules provided under the standard.

MFRS A-7, "*Preparation and Disclosure"*, requires that the date on which the issuance of the financial statements was approved, as well as the names of the entity officers or governing bodies that authorize their issuance, be disclosed in the financial statements.

MFRS B-1, "*Accounting Changes and Error Corrections"*, establishes that changes in internal accounting policies and reclassifications and error corrections must be recognized retrospectively, so that both the basic financial statements for the most recent period presented and those presented for comparison with the current period statements are adjusted as if the new policy, classification or error correction had always been applied. This MFRS also requires that, in the event of reclassifications, the affected captions and the related amounts be disclosed as they were previously presented and after giving effect to each reclassification.

The adoption of these new rules had no effect on the Company's financial statements.

The following new pronouncements entered into force on January 1, 2007:

MFRS B-3, "*Statement of Income"*, establishes the guidelines for classifying revenues, costs and expenses as either "ordinary or non-ordinary", modifies certain specific MFRS, redefines the primary sections of the statements of income to provide a new

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(In thousands of Mexican pesos with purchasing power at December 31, 2006)

1. Description of the Business and Significant Accounting Policies (continued)

classification of either "ordinary" or "income level" items, and eliminates the special and extraordinary item classifications from the statement of income, as well as the caption initial accumulated effect of changes in accounting principles, which is consistent with the MFRS B-1 mentioned above.

The Interpretation of MFRS 4, "*Presentation of Employee Profit Sharing in the Statement of Income"* establishes that employee profit sharing shall no longer be presented as a tax provision, but instead, such item sahll be included as an ordinary expense in the caption "Other income and expenses".

MFRS B-13, "*Subsequent Events at the Date of the Financial Statements"*, modifies the former rules relative to subsequent events, by establishing that certain events, such as the restructuring of assets and liabilities and the relinquishing of creditors of their collection rights in the case of debt default, shall be disclosed in the notes to the financial statements and recognized in the period in which they took place. Accordingly, the financial statements may no longer be adjusted to reflect such subsequent events, as was permitted under Bulletin B-13.

MFRS C-13, "*Related Parties"*, broadens the concept of related parties to mention joint ventures in which the reporting entity participates, immediate family members of key management personnel or directors, as well as funds derived from labor obligation plans. This standard obligates entities to disclose the relationship between the controlling company and its subsidiary, irrespective of whether transactions were carried out between them in the period or not. MFRS C-13 also establishes that the reporting entity may disclose that the considerations for transactions carried out with its related parties are at arm's length, provided that it can be demonstrated. Finally, MFRS C-13 also requires entities to disclose information on the compensation paid to the entity's key managerial personnel or relevant Company directors.

MFRS D-6, "*Capitalization of the Comprehensive Financing Cost*", establishes that entities must capitalize Comprehensive Financing Cost (CFC), which was previously optional. Capitalizable CFC is defined as the amount attributable to qualifying assets that could have been avoided if such acquisition had not taken place. Qualifying assets are defined as those assets acquired by an entity requiring a prolonged acquisition period in order to use, sell or lease them. MFRS D-6 establishes the conditions necessary for the capitalization of CFC and the method under which the capitalizable amount must be determined, and also provides guidelines for determining when such capitalization must be suspended.

u) Reclassifications

Certain captions shown in the 2005 financial statements as originally issued have been reclassified for uniformity of presentation with the 2006 financial statements. In 2005, minority interest in Mexican subsidiaries was reclassified since, due to its materiality, this item had been presented in the caption "Other comprehensive loss items" under majority stockholders' equity.

2. Marketable Securities and Instruments Available for Sale

An analysis of investments in financial instruments at December 31, 2006 and 2005 is as follows:

	December 31, 2006		December 31, 2005	
	Cost	Market value	Cost	Market value
Marketable securities				
Shares	Ps.J,764,641	Ps.J,815,145	Ps.L47,725	Ps.I97
Corporate bonds			M0,064	M6,483
Total	Ps.J,764,641	Ps.J,815,145	Ps.L97,789	Ps.M6,680

Marketable Securities

At December 31, 2006, the net unrealized gain on marketable securities was Ps. 50,504 (unrealized loss of Ps. 441,109 in 2005).

The realized losses on sale of shares and bonds in 2006 were Ps. 424,701 (Ps. 72,762 in 2005) for shares and Ps. 15,548 (realized gain of 11,814 in 2005), respectively, which correspond to the difference between the original cost and the market value of the shares and bonds at the time of sale.

In 2006, the Company acquired 20.7 million common shares of Portugal Telecom, SGPS, S.A. (Portugal Telecom) for Ps. 2,849,671 (USD 252.3 million) and sold 700,000 shares for Ps. 96,072 (USD 8.7 million). Portugal Telecom provides telecommunication services in Portugal and Brazil.

Instruments Available for Sale

On April 21, 2004, the Company converted Ps. 7,617,249 (USD 597.9 million) of bonds issued by MCI Inc. (MCI) with a face value of USD 1,759 million, in exchange for 25.6 million common MCI shares, which were classified as available for sale. At that time, MCI was subject to the proceedings of Chapter 11 of the U.S. Bankruptcy Code.

On April 9, 2005, TELMEX and other related parties entered into an agreement to sell their MCI shares to Verizon Communications Inc. (Verizon). On May 17, 2005, Verizon paid in cash USD 25.72 per MCI common stock, for a total of Ps. 8,334,225. TELMEX recognized a gain of Ps. 533,842 in 2005 as a result of the sale of these shares, which was recognized in "Comprehensive financing cost".

In 2005, TELMEX received dividends from MCI of Ps. 126,435, which were recognized in "Comprehensive financing cost".

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3. Accounts Receivable

An analysis of accounts receivable is as follows:

	2006	2005
Subscribers	Ps.K4,112,807	Ps.K4,652,241
Link-up services		