

TELMEX

## TELMEX - Webcast

# 1Q'08 Results

April 23, 2008

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# Introduction

## Telecommunications Market in Mexico

- we see prices continuing to decrease substantially as a result of technological advances
- competition and
- the convergence of networks

**Telecommunications  
a universal service**

*... products must evolve from partial voice and video solutions to integrated convergent services.*

**These trends support :**

- community development and
- generates a multiplying effect in the country's economy that will benefit consumers.

**TELMEX is firmly committed to this process and to playing our part in delivering these benefits in our market.**

# Introduction

## As convergence becomes a reality,...

We must recognize that the telecommunications market includes three core components:

- fixed telephony,
- mobile telephony, and
- video, which includes cable TV and satellite providers and their emerging voice services.

The telecommunications market in Mexico consists of almost 98 million subscribers generating annual revenues of almost 31 billion dollars.

# Introduction

## Telecommunications Market in Mexico

The largest part of that market in Mexico belongs to **mobile telephony**. It **captures 71%** of the total subscribers and more than half of the total revenues.

The next segment is fixed line telephony. Within that segment **TELMEX has 17 million 800 thousand subscribers, or about 18%** of the total telecommunications market.

If you describe the telecommunications market in the most traditional terms and look only at fixed telephony, it is clear that TELMEX has competition. This slice of the big market – which isn't growing as fast as other segments – we estimate it now includes 28 million subscribers across Mexico that are receiving service from cable and fixed operators .

# Introduction

## Telecommunications Market in Mexico

**For 18 years,**

TELMEX has been part of a sector that was open to competition in every market where we operate.

In long distance services, competition began more than **11 years ago.**

**Currently,**

All cable TV operators can offer voice and data services to their video customers.

We continue to believe that true **convergence is important for our country** and that all-foreign and domestic telecommunications operators should be allowed to participate in this market.

# Introduction

## TELMEX's Performance

- TELMEX lines in service was **17.8 million**.
- **10.5 million of our lines** are in areas that appeal to competitors and where they have presence.
- The remaining **7.3 million lines** are in areas that hold no interest to competitors.

A light gray map of Mexico is positioned in the background, partially overlapping the text. A black box with a yellow border is overlaid on the map, containing performance data for the first quarter.

In the first quarter, lines without competition generated:  
revenues: **5 billion pesos**  
operating loss: **536 million pesos.**

# Introduction

## Growth of Broadband Infinitum Services

- Broadband Infinitum services has been supported by **computer sales**, which has increased revenues of *Tiendas TELMEX*.
- That lack of computers significantly limits growth of broadband services in Mexico. **Four out of five homes do not have a computer.**
- In households that have computers, we estimate that **80% subscribe to Internet access.**

**TELMEX will continue to sell computers in installments at preferred terms in order to drive the digital culture in our country.**

# TELMEX Mexico

## Broadband

Our 1Q'08 results reflect three core elements of how TELMEX operates in Mexico.

### First

To leverage growth in the broadband and data business.

### Second

Introduction and promotion of packaged services.

### Third

Our commitment to achieving profitable growth – not just growth for its own sake – in the fixed-line business.

# TELMEX Mexico

## Packaging Services

Particularly attractive to customers are the multi-service packages that combine broadband with voice services.

Customers get a price break for the combination compared with subscribing to the services separately.

They also tend to stick with TELMEX rather than repeatedly shop for the lowest price on any particular service.

# TELMEX Mexico

## Multi-service Packages

**“Todo México Sin Limites”**

For a fixed monthly fee of **999 pesos**, VAT included, our customers have:

- Fixed line rent
- Unlimited local calls and DLD minutes
- Ininitum account (DSL)
- Digital services

**“Paquete Acerques”**

For a fixed monthly fee of **599 pesos**, VAT included. The package includes:

- Fixed line rent
- Ininitum (DSL)
- Unlimited DLD minutes
- 100 additional local calls
- Digital services

# TELMEX Mexico

## Multi-service Packages

### “Paquete TELMEX Residencial”

For a fixed monthly fee of **389 pesos**, VAT included, our customers have:

- Fixed line rent
- 100 local calls
- 100 DLD minutes
- Digital services
- Ininitum access account

**We are able to fine-tune package features in this way because TELMEX remains close to our customers. We learn their preferences and adjust our packages to reflect their priorities.**

# TELMEX Mexico

## Corporate Market

### Total billed line equivalents

(thousands)

▲ Q/Q = 31.8%

2,347

3,093

1Q07

1Q08

### Corporate networks revenues

(millions of Mexican pesos)

▲ Q/Q = 10.0%

2,713

2,987

1Q07

1Q08

# TELMEX Mexico

## Internet Access Accounts

### Internet access accounts

(thousands)

▲ Q/Q = 31.1%

2,784

1Q07

3,648

1Q08

3.3 million  
Infinitem  
customers.

391  
thousand  
Infinitem  
customers  
were added  
in 1Q'08.

### Internet revenues

(millions of Mexican pesos)

▲ Q/Q = 10.1%

2,693

1Q07

2,920

1Q08

# TELMEX Mexico

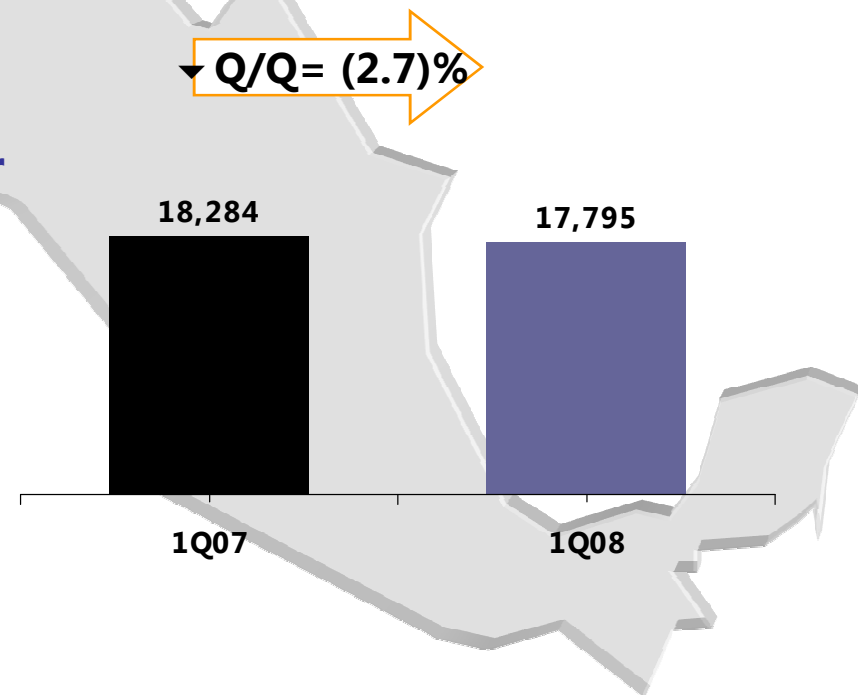
## Fixed Lines in Service

We are encouraging customers to subscribe to broadband, and sometimes that leads to their giving up a conventional line.

Other factors in the lack of line growth include the impact of competition from mobile, fixed and cable competitors and our commitment to profitability for the lines in service.

### Total fixed lines in service

(thousands)

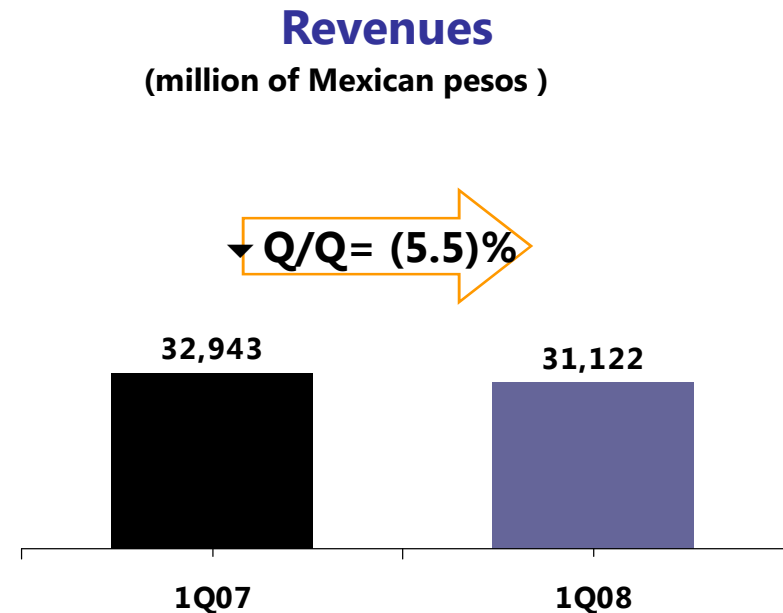


# Mexico Financial Performance

**For periods ending prior to January 1<sup>st</sup>, '08, Mexican Financial Reporting Standards require re-expression of all financial statements in constant Mexican pesos as of December 31<sup>st</sup>, '07. On the other side, the figures for the period ended in March '08 are in nominal terms.**

# Mexico Financial Performance

- Our financial performance for the quarter reflected a continuation of the pressure that we saw at the end of last year's fourth quarter
- Revenues declined due to decreases of **9.4%**, **8.6%** and **13.8%** in local, long distance and interconnection revenues, respectively.



Offsetting some of that impact were the increases in :

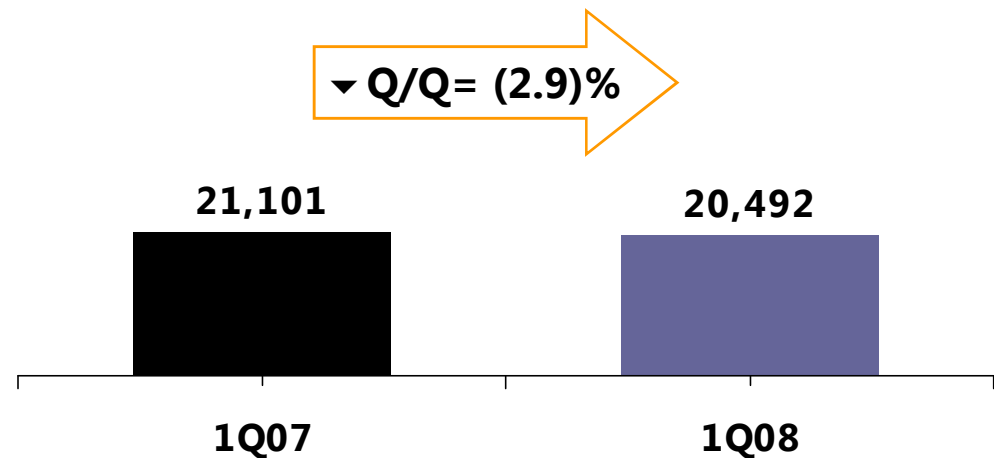
- **Corporate network :** **10.1%**
- **Internet access :** **8.4%**
- **Other revenues :** **30.2%**

# Mexico Financial Performance

Even though we booked higher charges due to the increase in sales of computers and telecommunications equipment, total-**operating costs decreased almost 3%** in the first quarter compared with a year ago.

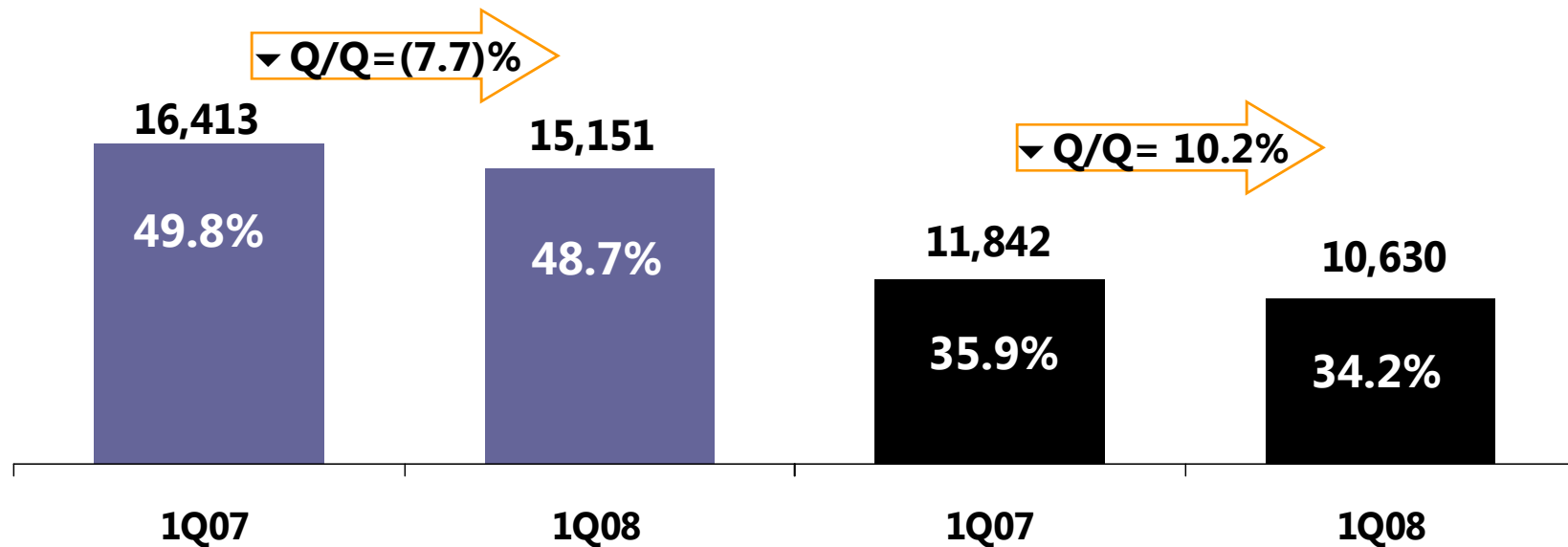
## Costs & expenses

(million of Mexican pesos )



# Mexico Financial Performance

## EBITDA & Operating Income (million of Mexican pesos)



# Mexico's Annual Meeting Shareholders

**Our 2007 audited financials will be submitted to shareholders, and they also will be asked to approve dividend payments. The proposed action is a cash dividend of 40 Mexican cents per outstanding share for '08, to be paid in four equal payments of 10 Mexican cents per share.**

**On the other side, there is a proposal to pay a cash dividend of 15 Mexican cents to TELMEX Internacional shareholders once their Shareholders' Meeting approves it.**

**The two proposed dividends jointly represent an increase over the 45 Mexican cents dividend approved in '07, another way we carry out our commitment to build value for shareholders.**

## TELMEX Internacional **BRAZIL**

In Brazil, we continued to make progress **transforming** the business into an **integrated telecommunications company**.

	<u>1Q'08</u>	<u>1Q'07</u>	<u>% Inc.</u> <u>1Q'08 vs 1Q'07</u>
Line equivalents (thousands)	3,026	2,313	30.8%
Lines in service (thousands)	2,856	2,068	38.1%
<hr/>			
Net Fone customers (thousands)	718	257	179.0%
Internet access accounts (thousands)	717	552	29.9%

**Embratel has the intention of providing DTH services this year.** With this capability we can provide services, including triple play, in areas not covered by NET's network.

Embratel is already moving to the residential market through Livre and Net phone. With DTH, we also will be able to offer double play services.

# TELMEX Internacional **Embratel**

% Inc.  
1Q'08 vs. 1Q'07

## Revenues:

Total revenues increased	<b>11.2%</b>
Local increased	<b>35.3%</b>
Data increased	<b>9.9%</b>
DLD increased	<b>6.3%</b>

## Cost and expenses:

Total cost & expenses increased **9.2%**, due to the increase in mobile interconnection, driven by growth in long distance and local services.

Operating income totaled **303.5** milion reais with a **12.9%** margin.

EBITDA totaled **628.6** milion reais producing a margin of **26.7%**

## TELMEX Internacional **Colombia**

**Our business in Colombia is benefiting from our recent cable TV acquisitions.**

**Our network now passes through 4.1 million homes and is 30.4% bi-directional, which will allow us to drive penetration of triple play services.**

**Our efforts in the data business in Colombia have focused on the corporate and SME segments. Our customer outreach has helped increase line equivalents 68% compared with last year's first quarter.**

# TELMEX Internacional **Colombia**

## Revenues:

In 1Q'08, revenues from our operations in Colombia totaled the equivalent of **111 million dollars**.

The substantial growth reflects not only the acquired cable TV companies but also the improved service we can offer to major corporate customers as a result of integrating our operations.

## Costs and expenses:

The related integration and marketing costs are having a near-term impact on total costs and expenses. In 1Q'08 those costs increased to the equivalent of **107 million dollars**.

Operating income was the equivalent of **4.2 million dollars** with a margin of **3.8%**.

**EBITDA** totaled the equivalent of **19.5 million dollars**, generating a margin of **17.6%**.

## TELMEX Internacional **Other Operations**

**Total revenues of our other operations in the region were:**

**117 million dollars  
an annual increase  
of 30%**

# TELMEX Internacional **Strategies**

Our **goal** is to achieve an **integrated telecommunications** company with service offerings across Latin America:

- **build on our leading franchise in Brazil** for local and broadband services and leverage our leadership position by developing opportunities in related businesses;
- **continue our focus on offering long distance services;**
- **develop value-added services** for the corporate market in every country where we operate;
- **grow our participation in the residential market in Brazil and Colombia** through integrated Internet and voice services offerings and triple play services pay TV, broadband Internet access and local and LD voice services; and
- **develop triple play services** in Peru, Chile and Ecuador.

## **TELMEX Internacional Strategies**

**We will continue to use all available technologies to create access solutions to appeal to our target customers and develop new service offerings.**

**We have substantial reach, and we are focused on expanding our presence in growing markets. One of the most important is broadband.**

# TELMEX Internacional

Customers we served in each of these areas as of March 31.



- Fixed lines: 4.2 million
- Long distance: 17.5 million
- Triple play: 722 thousand
- Broadband: 1.9 million
- Pay TV: 4.9 million subscribers including digital video services
- Homes passed: 15 million
- Data: 6.7 million customers based on billed line equivalents

Besides, **TELMEX Internacional** includes the Yellow Pages business, which annually **produces 23.5 million directories** in Mexico, the United States, Argentina and Peru.

# TELMEX Internacional

**TELMEX Internacional has two other important qualities that reinforce our confidence in our success.**

- **One is our healthy financial situation.**
- **We also have the advantage of having local people managing our day-to-day operations.**

# TELMEX Mexico

**In the near term we are focused on three major priorities at TELMEX.**

**Number 1, as always, is to take care of customers.**

**Another priority in the very near term is to handle the listing of TELMEX Internacional simultaneously in Mexico and in the US.**

**Our third priority is to improve the performance of TELMEX in Mexico.**

# TELMEX Mexico

In the nation's major population centers, data is the driver, and **TELMEX brings tremendous resources** to delivering Internet access and supporting the **growing data market**.

**TELMEX is still the only provider** because the competition has not chosen to invest in the nation as a whole. Our capabilities offer potential to help customers and add value to TELMEX.

**We are working hard to develop this potential. We are committed to bringing high-quality telecommunications services** to these communities while recognizing the need to make our lines profitable and deliver a positive return on our investment.

## Closing Remarks

**There are many opportunities** ahead for both TELMEX and TELMEX Internacional.

- We're ready to seize those opportunities.
- We are a nimble company.
- We manage resources well, understand our business and our markets and
- Constantly focus on creating value for shareholders.

These basic principles **keep TELMEX moving forward** even as we adjust day-to-day operations to meet customer and market needs. **We have a solid foundation, attractive opportunities, and firm commitment to meet our goals.** That is the basis of confidence in our future.

TELMEX

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