

TELEFONOS DE MEXICO S A DE C V  
Form 6-K  
July 27, 2006

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 **July 2006**

Commission File Number: 333-13580

Teléfonos de México, S.A. 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. DE C.V.

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-01

CONSOLIDATED BALANCE SHEETS

AT JUN 30, 2006 & 2005

(Thousands of Mexican Pesos)

Final printing

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| REF<br>S | CONCEPTS                           | QUARTER OF<br>PRESENT |     | QUARTER OF<br>PREVIOUS |     |
|----------|------------------------------------|-----------------------|-----|------------------------|-----|
|          |                                    | FINANCIAL YEAR        |     | FINANCIAL YEAR         |     |
|          |                                    | Amount                | %   | Amount                 | %   |
| s01      | TOTAL ASSETS                       | 255,440,183           | 100 | 269,060,028            | 100 |
| s02      | CURRENT ASSETS                     | 51,816,315            | 20  | 65,718,649             | 24  |
| s03      | CASH AND SHORT-TERM<br>INVESTMENTS | 14,248,089            | 6   | 29,973,139             | 11  |

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|            |  |                    |            |                    |            |
|------------|--|--------------------|------------|--------------------|------------|
| s04        | ACCOUNTS AND NOTES RECEIVABLE (NET)                                  | 27,316,719         | 11         | 25,400,073         | 9          |
| s05        | OTHER ACCOUNTS AND NOTES RECEIVABLE (NET)                            | 5,947,327          | 2          | 6,342,866          | 2          |
| s06        | INVENTORIES  | 1,157,300          | 0          | 1,091,656          | 0          |
| s07        | OTHER CURRENT ASSETS   | 3,146,880          | 1          | 2,910,915          | 1          |
| s08        | LONG - TERM  | 1,725,789          | 1          | 1,078,099          | 0          |
| s09        | ACCOUNTS AND NOTES RECEIVABLE (NET)                                  | 0                  | 0          | 0                  | 0          |
| s10        | INVESTMENT IN SHARES OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES | 1,718,777          | 1          | 1,015,709          | 0          |
| s11        | OTHER INVESTMENTS  | 7,012              | 0          | 62,390             | 0          |
| s12        | PROPERTY, PLANT AND EQUIPMENT (NET)                                  | 157,795,203        | 62         | 157,543,537        | 59         |
| s13        | LAND AND BUILDINGS   | 0                  | 0          | 0                  | 0          |
| s14        | MACHINERY AND INDUSTRIAL EQUIPMENT                                   | 469,453,307        | 184        | 440,929,639        | 164        |
| s15        | OTHER EQUIPMENT  | 0                  | 0          | 0                  | 0          |
| s16        | ACCUMULATED DEPRECIATION   | 320,301,195        | 125        | 290,624,281        | 108        |
| s17        | CONSTRUCTIONS IN PROGRESS  | 8,643,091          | 3          | 7,238,179          | 3          |
| s18        | OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET)                    | 15,368,413         | 6          | 11,358,013         | 4          |
| s19        | OTHER ASSETS   | 28,734,463         | 11         | 33,361,730         | 12         |
| <b>s20</b> | <b>TOTAL LIABILITIES</b>   | <b>137,443,414</b> | <b>100</b> | <b>150,652,412</b> | <b>100</b> |
| s21        | CURRENT LIABILITIES  | 37,097,825         | 27         | 52,704,674         | 35         |
| s22        | SUPPLIERS  | 0                  | 0          | 0                  | 0          |
| s23        | BANK LOANS   | 6,155,044          | 4          | 5,418,226          | 4          |
| s24        | STOCK MARKET LOANS   | 1,650,000          | 1          | 13,496,888         | 9          |
| s25        | TAXES PAYABLE  | 3,325,181          | 2          | 3,205,454          | 2          |
| s26        | OTHER CURRENT LIABILITIES  | 25,967,600         | 19         | 30,584,106         | 20         |
| s27        | LONG - TERM LIABILITIES  | 82,215,814         | 60         | 79,093,416         | 53         |
| s28        | BANK LOANS   | 41,423,239         | 30         | 40,472,445         | 27         |

|     |  |              |      |              |      |
|-----|--|--------------|------|--------------|------|
| s29 | STOCK MARKET LOANS                         | 40,792,575   | 30   | 38,620,971   | 26   |
| s30 | OTHER LOANS                                | 0            | 0    | 0            | 0    |
| s31 | DEFERRED LIABILITIES                       | 0            | 0    | 0            | 0    |
| s32 | OTHER NON CURRENT LIABILITIES              | 18,129,775   | 13   | 18,854,322   | 13   |
| s33 | CONSOLIDATED STOCKHOLDERS' EQUITY          | 117,996,769  | 100  | 118,407,616  | 100  |
| s34 | MINORITY INTEREST                          | 12,471,774   | 11   | 12,220,725   | 10   |
| s35 | MAJORITY INTEREST                          | 105,524,995  | 89   | 106,186,891  | 90   |
| s36 | CONTRIBUTED CAPITAL                        | 46,278,427   | 39   | 48,067,934   | 41   |
| s79 | CAPITAL STOCK (NOMINAL)                    | 26,750,897   | 23   | 28,540,404   | 24   |
| s39 | PREMIUM ON SALES OF SHARES                 | 19,527,530   | 17   | 19,527,530   | 16   |
| s40 | CONTRIBUTIONS FOR FUTURE CAPITAL INCREASES | 0            | 0    | 0            | 0    |
| s41 | CAPITAL INCREASE (DECREASE)                | 59,246,568   | 50   | 58,118,957   | 49   |
| s42 | RETAINED EARNINGS AND CAPITAL RESERVE      | 123,193,284  | 104  | 124,581,084  | 105  |
| s44 | OTHER ACCUMULATED COMPREHENSIVE RESULT     | (63,946,716) | (54) | (66,462,127) | (56) |
| s80 | SHARES REPURCHASED                         | 0            | 0    | 0            | 0    |

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## MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-02

CONSOLIDATED BALANCE SHEETS

- BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

| REF<br>S | CONCEPTS  | QUARTER OF<br>PRESENT |     | QUARTER OF<br>PREVIOUS |     |
|----------|---|-----------------------|-----|------------------------|-----|
|          |   | FINANCIAL YEAR        |     | FINANCIAL YEAR         |     |
|          |   | Amount                | %   | Amount                 | %   |
| s03      | CASH AND SHORT-TERM INVESTMENTS                   | 14,248,089            | 100 | 29,973,139             | 100 |
| s46      | CASH  | 1,798,004             | 13  | 2,052,855              | 7   |
| s47      | SHORT-TERM INVESTMENTS                            | 12,450,085            | 87  | 27,920,284             | 93  |
| s07      | OTHER CURRENT ASSETS                              | 3,146,880             | 100 | 2,910,915              | 100 |
| s81      | DERIVATIVE FINANCIAL INSTRUMENTS                  | 349,787               | 11  | 479,793                | 16  |
| s82      | DISCONTINUED OPERATIONS                           | 0                     | 0   | 0                      | 0   |
| s83      | OTHER   | 2,797,093             | 89  | 2,431,122              | 84  |
| s18      | OTHER INTANGIBLE ASSETS AND DEFERRED ASSETS (NET) | 15,368,413            | 100 | 11,358,013             | 100 |
| s48      | AMORTIZED OR REDEEMED EXPENSES                    | 4,801,411             | 31  | 4,021,232              | 35  |
| s49      | GOODWILL  | 10,567,002            | 69  | 7,336,781              | 65  |
| s51      | OTHERS  | 0                     | 0   | 0                      | 0   |
| s19      | OTHER ASSETS                                      | 28,734,463            | 100 | 33,361,730             | 100 |
| s84      | INTANGIBLE ASSET FROM LABOR OBLIGATIONS           | 20,458,299            | 71  | 24,508,034             | 73  |
| s85      | DERIVATIVE FINANCIAL INSTRUMENTS                  | 0                     | 0   | 0                      | 0   |
| s50      | DEFERRED TAXES                                    | 5,790,210             | 20  | 6,283,396              | 19  |
| s86      | DISCONTINUED OPERATIONS                           | 0                     | 0   | 0                      | 0   |
| s87      | OTHER   | 2,485,954             | 9   | 2,570,300              | 8   |
| s21      | CURRENT LIABILITIES                               | 37,097,825            | 100 | 52,704,674             | 100 |
| s52      |   | 4,855,044             | 13  | 18,066,714             | 34  |

|     |  |                    |            |                    |            |
|-----|--|--------------------|------------|--------------------|------------|
|     | FOREIGN CURRENCY LIABILITIES                     |                    |            |                    |            |
| s53 | MEXICAN PESOS LIABILITIES                        | 32,242,781         | 87         | 34,637,960         | 66         |
| s26 | OTHER CURRENT LIABILITIES                        | 25,967,600         | 100        | 30,584,106         | 100        |
| s88 | DERIVATIVE FINANCIAL INSTRUMENTS                 | 1,680,559          | 6          | 2,531,443          | 8          |
| s89 | INTEREST LIABILITIES                             | 1,644,054          | 6          | 2,350,165          | 8          |
| s68 | PROVISIONS                                       | 0                  | 0          | 0                  | 0          |
| s90 | DISCONTINUED OPERATIONS                          | 0                  | 0          | 0                  | 0          |
| s58 | OTHER CURRENT LIABILITIES                        | 22,642,987         | 87         | 25,702,498         | 84         |
| s27 | <b>LONG-TERM LIABILITIES</b>                     | <b>82,215,814</b>  | <b>100</b> | <b>79,093,416</b>  | <b>100</b> |
| s59 | FOREIGN CURRENCY LIABILITIES                     | 72,765,814         | 89         | 71,563,865         | 90         |
| s60 | MEXICAN PESOS LIABILITIES                        | 9,450,000          | 11         | 7,529,551          | 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                    | 18,129,775         | 100        | 18,854,322         | 100        |
| s66 | DEFERRED TAXES                                   | 15,751,129         | 87         | 16,869,497         | 89         |
| s91 | OTHER LIABILITIES IN RESPECT OF SOCIAL INSURANCE | 2,378,646          | 13         | 1,984,825          | 11         |
| s92 | DISCONTINUED OPERATIONS                          | 0                  | 0          | 0                  | 0          |
| s69 | OTHER LIABILITIES                                | 0                  | 0          | 0                  | 0          |
| s79 | CAPITAL STOCK                                    | 26,750,897         | 100        | 28,540,404         | 100        |
| s37 | CAPITAL STOCK (NOMINAL)                          | 261,203            | 1          | 268,078            | 1          |
| s38 | RESTATEMENT OF CAPITAL STOCK                     | 26,489,694         | 99         | 28,272,326         | 99         |
| s42 | <b>RETAINED EARNINGS AND CAPITAL RESERVES</b>    | <b>123,193,284</b> | <b>100</b> | <b>124,581,084</b> | <b>100</b> |

|      |   |              |     |              |        |
|------|---|--------------|-----|--------------|--------|
| s93  | LEGAL RESERVE   | 20,190,465   | 16  | 18,941,119   | 15     |
| s43  | RESERVE FOR<br>REPURCHASE OF SHARES                           | 0            | 0   | 0            | 0      |
| s94  | OTHER RESERVES  | 0            | 0   | 0            | 0      |
| s95  | RETAINED EARNINGS   | 88,780,751   | 72  | 92,033,418   | 74     |
| s45  | NET INCOME FOR THE<br>YEAR                                    | 14,222,068   | 12  | 13,606,547   | 11     |
| s44  | OTHER ACCUMULATED<br>COMPREHENSIVE RESULT                     | (63,946,716) | 100 | (66,462,127) | 100.00 |
| s70  | ACCUMULATED<br>MONETARY RESULT                                | (14,153,861) | 22  | (14,153,861) | 21     |
| s71  | RESULT FROM HOLDING<br>NON-MONETARY ASSETS                    | (54,656,232) | 85  | (59,188,921) | 89     |
| s96  | CUMULATIVE RESULT<br>FROM FOREIGN CURRENCY<br>TRANSLATION     | 4,981,836    | (8) | 5,051,483    | (8)    |
| s97  | CUMULATIVE RESULT<br>FROM DERIVATIVE<br>FINANCIAL INSTRUMENTS | 182,550      | 0   | 426,484      | (1)    |
| s98  | CUMULTATIVE EFFECT OF<br>DEFERRED INCOME TAXES                | (301,009)    | 0   | 1,402,688    | (2)    |
| s99  | LABOR OBLIGATION<br>ADJUSTMENT                                | 0            | 0   | 0            | 0      |
| s100 | OTHERS  | 0            | 0   | 0            | 0      |

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MEXICAN STOCK EXCHANGE

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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-03

CONSOLIDATED BALANCE SHEETS

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)



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| REF<br>S   | CONCEPTS                                      | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR | QUARTER OF<br>PREVIOUS<br>FINANCIAL YEAR |
|--|---|--|--|
|  |   | Amount                                     | Amount                                   |
| s57  | OTHER CURRENT LIABILITIES WITH COST (s26)     | 0  | 0  |
| s63  | OTHER LOANS WITH COST (s32)                   | 0  | 0  |
| s72  | WORKING CAPITAL                               | 14,718,490                                 | 13,013,975                               |
| s73  | PENSIONS FUND AND SENIORITY PREMIUMS          | 0  | 0  |
| s74  | EXECUTIVES (*)                                | 118  | 123                                      |
| s75  | EMPLOYEES (*)                                 | 24,323                                     | 26,818                                   |
| s76  | WORKERS (*)                                   | 50,992                                     | 51,054                                   |
| s77  | OUTSTANDING SHARES (*)                        | 20,896,273,470                             | 22,952,276,050                           |
| s78  | REPURCHASE OF OWN SHARER(*)                   | 1,148,808,800                              | 676,628,260                              |
| 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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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-04

CONSOLIDATED STATEMENTS OF INCOME

- FROM JANUARY 01 TO JUN 30, 2006 &amp; 2005 -

(Thousands of Mexican Pesos)

| REF<br>R | CONCEPTS   | QUARTER OF<br>PRESENT |     | QUARTER OF<br>PREVIOUS |     |
|----------|--|-----------------------|-----|------------------------|-----|
|          |  | FINANCIAL<br>YEAR     |     | FINANCIAL<br>YEAR      |     |
|          |  | Amount                | %   | Amount                 | %   |
| r01      | OPERATING REVENUES   | 84,499,216            | 100 | 83,973,101             | 100 |
| r02      | COST OF SALES AND SERVICES   | 45,200,623            | 53  | 45,352,006             | 54  |
| r03      | GROSS INCOME   | 39,298,593            | 47  | 38,621,095             | 46  |
| r04      | OPERATING EXPENSES   | 14,664,641            | 17  | 14,416,718             | 17  |
| r05      | OPERATING INCOME   | 24,633,952            | 29  | 24,204,377             | 29  |
| r06      | COMPREHENSIVE FINANCING COST   | 1,884,841             | 2   | 1,729,735              | 2   |
| r07      | INCOME AFTER COMPREHENSIVE FINANCING COST                            | 22,749,111            | 27  | 22,474,642             | 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                 | 22,749,111            | 27  | 22,474,642             | 27  |
| r10      | PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING                | 8,107,683             | 10  | 8,405,133              | 10  |
| r11      | NET INCOME AFTER INCOME TAX AND EMPLOYEE PROFIT SHARING              | 14,641,428            | 17  | 14,069,509             | 17  |
| r12      | EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES | 164,538               | 0   | (45,564)               | 0   |
|          |  |                       |     |                        |     |

|     |  |            |    |            |    |
|-----|--|------------|----|------------|----|
| r13 | CONSOLIDATED NET INCOME OF CONTINUING OPERATIONS   | 14,805,966 | 18 | 14,023,945 | 17 |
| r14 | INCOME FROM DISCONTINUED OPERATIONS (NET)          | 0          | 0  | 0          | 0  |
| r15 | CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS | 14,805,966 | 18 | 14,023,945 | 17 |
| 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   | 14,805,966 | 18 | 14,023,945 | 17 |
| r19 | NET INCOME OF MINORITY INTEREST                    | 583,898    | 1  | 417,398    | 0  |
| r20 | NET INCOME OF MAJORITY INTEREST                    | 14,222,068 | 17 | 13,606,547 | 16 |

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MEXICAN STOCK EXCHANGE

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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-05

CONSOLIDATED STATEMENTS OF INCOME

**- BREAKDOWN OF MAIN CONCEPTS -**

(Thousands of Mexican Pesos)

Final printing

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| REF<br>R | CONCEPTS   | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR |                    | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |      |
|----------|--|--|--------------------|---|------|
|          |  | Amount                                     | %                  | Amount                                      | %    |
|          |  | r01  | OPERATING REVENUES | 84,499,216                                  | 100  |
| r21      | DOMESTIC   | 59,145,900                                 | 70                 | 61,854,822                                  | 74   |
| r22      | FOREIGN  | 25,353,316                                 | 30                 | 22,118,279                                  | 26   |
| r23      | TRANSLATION INTO DOLLARS (***)                       | 2,224,502                                  | 3                  | 1,923,531                                   | 2    |
| r06      | COMPREHENSIVE FINANCING COST                         | 1,884,841                                  | 100                | 1,729,735                                   | 100  |
| r24      | INTEREST EXPENSE                                     | 2,517,672                                  | 134                | 3,705,729                                   | 214  |
| r42      | LOSS (GAIN) ON RESTATEMENT OF UDI'S                  | 0  | 0                  | 0   | 0    |
| r45      | OTHER FINANCIAL COSTS                                | 0  | 0                  | 0   | 0    |
| r26      | INTEREST INCOME                                      | 1,077,260                                  | 57                 | 2,178,378                                   | 126  |
| r46      | OTHER FINANCIAL PRODUCTS                             | 0  | 0                  | 0   | 0    |
| r25      | FOREIGN EXCHANGE LOSS (GAIN) (NET)                   | 936,276                                    | 50                 | 940,881                                     | 54   |
| r28      | RESULT FROM MONETARY POSITION                        | (491,847)                                  | (26)               | (738,497)                                   | (43) |
| r10      | PROVISION FOR INCOME TAX AND EMPLOYEE PROFIT SHARING | 8,107,683                                  | 100                | 8,405,133                                   | 100  |
| r32      | INCOME TAX   | 7,529,495                                  | 93                 | 7,996,889                                   | 95   |
| r33      | DEFERRED INCOME TAX                                  | (882,033)                                  | (11)               | (1,428,632)                                 | (17) |
| r34      | EMPLOYEE PROFIT SHARING                              | 1,460,221                                  | 18                 | 1,836,876                                   | 22   |

|                        |  |   |   |   |   |
|------------------------|--|---|---|---|---|
| r35                    | DEFERRED<br>EMPLOYEE<br>PROFIT SHARING | 0 | 0 | 0 | 0 |
|                        |  |   |   |   |   |
|                        |  |   |   |   |   |
| (***) THOUSAND DOLLARS |  |   |   |   |   |

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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-06

CONSOLIDATED STATEMENTS OF INCOME

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>R | CONCEPTS                                  | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |
|----------|---|--|---|
|          |   | Amount                                     | Amount                                      |
| r36      | TOTAL REVENUES                            | 84,499,216                                 | 83,973,101                                  |
| r37      | TAX RESULT FOR THE YEAR                   | 0  | 0   |
| r38      | OPERATING REVENUES (**)                   | 170,399,513                                | 167,721,209                                 |
| r39      | OPERATING INCOME (**)                     | 60,980,908                                 | 49,247,614                                  |
| r40      | NET INCOME OF MAJORITY<br>INTEREST (**)   | 29,993,033                                 | 32,054,169                                  |
| r41      | NET INCOME (**)                           | 31,013,260                                 | 32,832,661                                  |
| r47      | OPERATIVE DEPRECIATION<br>AND ACCUMULATED | 11,311,337                                 | 12,016,865                                  |
|          |   |  |   |
|          |   |  |   |

(\*\*)

INFORMATION OF THE PAST TWELVE MONTHS

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MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-07

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- FROM APRIL 01 TO JUN 30, 2006 &amp; 2005 -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>RT | CONCEPTS                                     | QUARTER OF<br>PRESENT |     | QUARTER OF<br>PREVIOUS |     |
|-----------|--|-----------------------|-----|------------------------|-----|
|           |  | FINANCIAL YEAR        |     | FINANCIAL YEAR         |     |
|           |  | Amount                | %   | Amount                 | %   |
| rt01      | OPERATING REVENUES                           | 42,442,714            | 100 | 41,746,719             | 100 |
| rt02      | COST OF SALES AND SERVICES                   | 22,934,568            | 54  | 22,674,662             | 54  |
| rt03      | GROSS INCOME                                 | 19,508,146            | 46  | 19,072,057             | 46  |
| rt04      | OPERATING EXPENSES                           | 7,539,484             | 18  | 7,559,961              | 18  |
| rt05      | OPERATING INCOME                             | 11,968,662            | 28  | 11,512,096             | 28  |
| rt06      | COMPREHENSIVE FINANCING<br>COST              | 869,556               | 2   | 709,954                | 2   |
| rt07      | INCOME AFTER COMPREHENSIVE<br>FINANCING COST | 11,099,106            | 26  | 10,802,142             | 26  |
| rt08      | OTHER EXPENSES AND INCOMES<br>(NET)          | 0                     | 0   | 0                      | 0   |
| rt44      | SPECIAL ITEMS                                | 0                     | 0   | 0                      | 0   |

|      |  |            |    |            |    |
|------|--|------------|----|------------|----|
| rt09 | INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING                 | 11,099,106 | 26 | 10,802,142 | 26 |
| rt10 | PROVISIONS FOR INCOME TAX AND EMPLOYEE PROFIT SHARING                | 3,942,155  | 9  | 3,784,889  | 9  |
| rt11 | NET INCOME AFTER INCOME TAX AND EMPLOYEE PROFIT SHARING              | 7,156,951  | 17 | 7,017,253  | 17 |
| rt12 | EQUITY IN NET INCOME OF NON-CONSOLIDATED SUBSIDIARIES AND AFFILIATES | 100,791    | 0  | (24,684)   | 0  |
| rt13 | CONSOLIDATED NET INCOME OF CONTINUING OPERATIONS                     | 7,257,742  | 17 | 6,992,569  | 17 |
| rt14 | INCOME FROM DISCONTINUED OPERATIONS (NET)                            | 0          | 0  | 0          | 0  |
| rt15 | CONSOLIDATED NET INCOME BEFORE EXTRAORDINARY ITEMS                   | 7,257,742  | 17 | 6,992,569  | 17 |
| 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   | 7,257,742  | 17 | 6,992,569  | 17 |
| rt19 | NET INCOME OF MINORITY INTEREST                                      | 266,625    | 1  | 196,884    | 0  |
| rt20 | NET INCOME OF MAYORITY INTEREST                                      | 6,991,117  | 16 | 6,795,685  | 16 |
|      |  |            |    |            |    |

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-08

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

| REF<br>RT              | CONCEPTS   | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR |     | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |      |
|------------------------|--|--|-----|---|------|
|                        |  | Amount                                     | %   | Amount                                      | %    |
| rt01                   | OPERATING REVENUES   | 42,442,714                                 | 100 | 41,746,719                                  | 100  |
| rt21                   | DOMESTIC   | 29,309,926                                 | 69  | 30,319,400                                  | 73   |
| rt22                   | FOREIGN  | 13,132,788                                 | 31  | 11,427,319                                  | 27   |
| rt23                   | TRANSLATION INTO<br>DOLLARS (***)                          | 1,121,806                                  | 3   | 1,048,680                                   | 3    |
|                        |  |  |     |   |      |
| rt06                   | COMPREHENSIVE<br>FINANCING COST                            | 869,556                                    | 100 | 709,954                                     | 100  |
| rt24                   | INTEREST EXPENSE   | 1,196,066                                  | 138 | 2,010,704                                   | 283  |
| rt42                   | LOSS (GAIN) ON<br>RESTATEMENT OF UDI'S                     | 0  | 0   | 0   | 0    |
| rt45                   | OTHER FINANCIAL<br>COSTS                                   | 0  | 0   | 0   | 0    |
| rt26                   | INTEREST INCOME  | 532,425                                    | 61  | 1,353,883                                   | 191  |
| rt46                   | OTHER FINANCIAL<br>PRODUCTS                                | 0  | 0   | 0   | 0    |
| rt25                   | FOREIGN EXCHANGE<br>LOSS (GAIN) (NET)                      | 97,739                                     | 11  | 272,768                                     | 38   |
| rt28                   | RESULT FROM<br>MONETARY POSITION                           | 108,176                                    | 12  | (219,635)                                   | (31) |
|                        |  |  |     |   |      |
| rt10                   | PROVISION FOR INCOME<br>TAX AND EMPLOYEE<br>PROFIT SHARING | 3,942,155                                  | 100 | 3,784,889                                   | 100  |
| rt32                   | INCOME TAX   | 3,325,902                                  | 84  | 3,488,467                                   | 92   |
| rt33                   | DEFERRED INCOME TAX  | (45,943)                                   | (1) | (417,807)                                   | (11) |
| rt34                   | EMPLOYEE PROFIT<br>SHARING                                 | 662,196                                    | 17  | 714,229                                     | 19   |
| rt35                   | DEFERRED EMPLOYEE<br>PROFIT SHARING                        | 0  | 0   | 0   | 0    |
|                        |  |  |     |   |      |
|                        |  |  |     |   |      |
| (***) THOUSAND DOLLARS |  |  |     |   |      |



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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-09

CONSOLIDATED QUARTERLY STATEMENTS OF INCOME

- OTHER CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>RT | CONCEPTS | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR | QUARTER OF<br>PREVIOUS<br>FINANCIAL YEAR                    |
|-----------|----------|--|---|
|           |          | Amount                                     | Amount  |
|           |          | rt47                                       | OPERATIVE DEPRECIATION AND ACCUMULATED<br>IMPAIRMENT LOSSES |
|           |          |  |   |

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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-10

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

- FROM JANUARY 01 TO JUN 30, 2006 &amp; 2005 -

(Thousands of Mexican Pesos)

Final printing

| REF<br>C | CONCEPTS  | QUARTER OF<br>PRESENT | QUARTER OF<br>PREVIOUS |
|----------|---|-----------------------|------------------------|
|          |   | FINANCIAL<br>YEAR     | FINANCIAL<br>YEAR      |
|          |   | Amount                | Amount                 |
| c01      | NET INCOME  | 14,805,966            | 14,023,945             |
| c02      | (+)(-) ITEMS ADDED TO INCOME WHICH DO NOT REQUIRE USING RESOURCES | 14,219,524            | 14,327,124             |
| c03      | CASH FLOW FROM NET INCOME FOR THE YEAR                            | 29,025,490            | 28,351,069             |
| c04      | CASH FLOW FROM CHANGES IN WORKING CAPITAL                         | (7,231,342)           | (3,872,121)            |
| c05      | RESOURCES PROVIDED BY (USED FOR) OPERATING ACTIVITIES             | 21,794,148            | 24,478,948             |
| c06      | RESOURCES PROVIDED BY (USED FOR) EXTERNAL FINANCING ACTIVITIES    | (1,647,315)           | 2,816,507              |
| c07      | RESOURCES PROVIDED BY (USED FOR) INTERNAL FINANCING ACTIVITIES    | (18,124,108)          | (11,981,648)           |
| c08      | RESOURCES PROVIDED BY (USED FOR) FINANCING ACTIVITIES             | (19,771,423)          | (9,165,141)            |
| c09      | RESOURCES PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES            | (11,166,744)          | (7,262,470)            |
| c10      | NET INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS        | (9,144,019)           | 8,051,337              |
| c11      | CASH AND SHORT-TERM INVESTMENTS AT THE BEGINNING OF PERIOD        | 23,392,108            | 21,921,802             |
| c12      | CASH AND SHORT-TERM INVESTMENTS AT THE END OF PERIOD              | 14,248,089            | 29,973,139             |
|          |   |                       |                        |

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## MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FS-11

## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

## - BREAKDOWN OF MAIN CONCEPTS -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>C | CONCEPTS  | QUARTER<br>OF<br>PRESENT<br>FINANCIAL<br>YEAR | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |
|----------|---|---|---|
|          |   | Amount  | Amount                                      |
| c02      | +(-) ITEMS ADDED TO INCOME WHICH DO NOT REQUIRE USING RESOURCES       | 14,219,524                                    | 14,327,124                                  |
| c13      | DEPRECIATION AND AMORTIZATION FOR THE YEAR                            | 12,551,819                                    | 13,157,176                                  |
| c41      | +(-) OTHER ITEMS  | 1,667,705                                     | 1,169,948                                   |
| c04      | CASH FLOW FROM CHANGES IN WORKING CAPITAL                             | (7,231,342)                                   | (3,872,121)                                 |
| c18      | +(-) DECREASE (INCREASE) IN ACCOUNT RECEIVABLE                        | (3,249,525)                                   | 2,004,128                                   |
| c19      | +(-) DECREASE (INCREASE) IN INVENTORIES                               | (583,239)                                     | (236,375)                                   |
| c20      | +(-) DECREASE (INCREASE) IN OTHER ACCOUNT RECEIVABLE AND OTHER ASSETS | (1,511,896)                                   | (1,377,067)                                 |
| c21      | +(-) INCREASE (DECREASE) IN SUPPLIERS ACCOUNT                         | 0   | 0   |

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|     |   |              |              |
|-----|---|--------------|--------------|
| c22 | +(-) INCREASE (DECREASE) IN OTHER LIABILITIES                     | (1,886,682)  | (4,262,807)  |
| c06 | RESOURCES PROVIDED BY (USED FOR) EXTERNAL FINANCING ACTIVITIES    | (1,647,315)  | 2,816,507    |
| c23 | + BANK FINANCING  | 7,121,678    | 22,062,495   |
| c24 | + STOCK MARKET FINANCING  | 242,874      | 147,520      |
| c25 | + DIVIDEND RECEIVED   | 0            | 0            |
| c26 | + OTHER FINANCING   | 0            | 1,098,716    |
| c27 | (-) BANK FINANCING AMORTIZATION                                   | (12,940,074) | (14,617,845) |
| c28 | (-) STOCK MARKET FINANCING AMORTIZATION                           | (200,055)    | (1,492,131)  |
| c29 | (-) OTHER FINANCING AMORTIZATION                                  | 0            | (4,382,248)  |
| c42 | + (-) OTHER ITEMS   | 4,128,262    | 0            |
| c07 | RESOURCES PROVIDED BY (USED FOR) INTERNAL FINANCING ACTIVITIES    | (18,124,108) | (11,981,648) |
| c30 | + (-) INCREASE (DECREASE) IN CAPITAL STOCK                        | (999,832)    | (636,671)    |
| c31 | (-) DIVIDENDS PAID  | (4,190,632)  | (4,424,627)  |
| c32 | + PREMIUM ON SALE OF SHARES                                       | 0            | 0            |
| c33 | + CONTRIBUTION FOR FUTURE CAPITAL INCREASES                       | (12,933,644) | (6,920,350)  |
| c43 | + (-) OTHER ITEMS   | 0            | 0            |
| c09 | RESOURCES PROVIDED BY (USED FOR ) INVESTMENT ACTIVITIES           | (11,166,744) | (7,262,470)  |
| c34 | +(-) DECREASE (INCREASE) IN STOCK INVESTMENTS OF PERMANENT NATURE | (2,408,199)  | (3,691,010)  |
| c35 | (-) ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT                  | (8,142,800)  | (9,446,455)  |
| c36 | (-) INCREASE IN CONSTRUCTIONS IN PROGRESS                         | 0            | 0            |
| c37 | + SALE OF OTHER PERMANENT INVESTMENT                              | 0            | 0            |
| c38 | + SALE OF TANGIBLE FIXED ASSETS                                   | 0            | 0            |
| c39 | + (-) OTHER ITEMS   | (615,745)    | 5,874,995    |

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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FI-01

DATA PER SHARE

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>D | CONCEPTS  | QUARTER OF PRESENT<br>FINANCIAL YEAR |  | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |  |
|----------|---|--------------------------------------|--|---|--|
|          |   | Amount                               |  | Amount                                      |  |
| d01      | BASIC INCOME PER ORDINARY<br>SHARE (**)   | \$1.44                               |  | \$1.40                                      |  |
| d02      | BASIC INCOME PER PREFERENT<br>SHARE (**)  | \$0.00                               |  | \$0.00                                      |  |
| d03      | DILUTED INCOME PER ORDINARY<br>SHARE (**)   | \$0.00                               |  | \$0.00                                      |  |
| d04      | INCOME FROM CONTINUOUS<br>OPERATIONS PER ORDINARY SHARE<br>(**)   | \$1.44                               |  | \$1.40                                      |  |
| d05      | EFFECT OF DISCONTINUOUS<br>OPERATIONS ON INCOME FROM<br>CONTINUOUS OPERATIONS PER<br>ORDINARY SHARE (**)    | \$0.00                               |  | \$0.00                                      |  |
| d06      | EFFECT OF EXTRAORDINARY<br>INCOME ON INCOME FROM<br>CONTINUOUS OPERATIONS PER<br>ORDINARY SHARE (**)        | \$0.00                               |  | \$0.00                                      |  |
| d07      | EFFECT OF CHANGES IN<br>ACCOUNTING PRINCIPLES ON<br>INCOME FROM CONTINUOUS<br>OPERATIONS PER ORDINARY SHARE | \$0.00                               |  | \$0.00                                      |  |

|  |   |        |        |        |        |
|--|---|--------|--------|--------|--------|
|  | (**)  |        |        |        |        |
| d08  | CARRYING VALUE PER SHARE                              | \$5.05 |        | \$4.63 |        |
| d09  | ACUMULATED CASH DIVIDEND PER SHARE                    | \$0.20 |        | \$0.19 |        |
| d10  | SHARE DIVIDENDS PER SHARE                             | 0.00   | shares | 0.00   | shares |
| d11  | MARKET PRICE TO CARRYING VALUE                        | 2.35   | times  | 2.27   | times  |
| d12  | MARKET PRICE TO BASIC INCOME PER ORDINARY SHARE (**)  | 8.24   | times  | 7.49   | 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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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

FI-02

RATIOS

- CONSOLIDATED INFORMATION -

(Thousands of Mexican Pesos)

Final printing

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| REF<br>P | CONCEPTS | QUARTER OF<br>PRESENT<br>FINANCIAL<br>YEAR | QUARTER OF<br>PREVIOUS<br>FINANCIAL<br>YEAR |
|----------|----------|--|---|
|          | YIELD    |  |   |

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|     |  |        |       |        |       |
|-----|--|--------|-------|--------|-------|
| p01 | NET INCOME TO OPERATING REVENUES                     | 17.52% |       | 16.70% |       |
| p02 | NET INCOME TO STOCKHOLDERS' EQUITY (**)              | 28.42% |       | 30.18% |       |
| p03 | NET INCOME TO TOTAL ASSETS ( **)                     | 12.14% |       | 12.20% |       |
| p04 | CASH DIVIDENDS TO PREVIOUS YEAR NET INCOME           | 14.26% |       | 15.12% |       |
| p05 | INCOME DUE TO MONETARY POSITION TO NET INCOME        | 3.32%  |       | 5.26%  |       |
|     | ACTIVITY   |        |       |        |       |
| p06 | OPERATING REVENUES TO TOTAL ASSETS (**)              | 0.66   | times | 0.62   | times |
| p07 | OPERATING REVENUES TO FIXED ASSETS (**)              | 1.07   | times | 1.06   | times |
| p08 | INVENTORIES ROTATION (**)                            | 72.31  | times | 60.41  | times |
| p09 | ACCOUNTS RECEIVABLE IN DAYS OF SALES                 | 50.60  | days  | 47.34  | days  |
| p10 | INTEREST PAID TO TOTAL LIABILITIES WITH COST (**)    | 6.74%  |       | 7.42%  |       |
|     | LEVERAGE   |        |       |        |       |
| p11 | TOTAL LIABILITIES TO TOTAL ASSETS                    | 53.80% |       | 55.99% |       |
| p12 | TOTAL LIABILITIES TO STOCKHOLDERS' EQUITY            | 1.16   | times | 1.27   | times |
| p13 | FOREIGN CURRENCY LIABILITIES TO TOTAL LIABILITIES    | 56.47% |       | 59.49% |       |
| p14 | LONG-TERM LIABILITIES TO FIXED ASSETS                | 52.10% |       | 50.20% |       |
| p15 | OPERATING INCOME TO INTEREST PAID                    | 9.78   | times | 5.91   | times |
| p16 | OPERATING REVENUES TO TOTAL LIABILITIES (**)         | 1.23   | times | 1.11   | times |
|     | LIQUIDITY  |        |       |        |       |
| p17 | CURRENT ASSETS TO CURRENT LIABILITIES                | 1.39   | times | 1.24   | times |
| p18 | CURRENT ASSETS LESS INVENTORY TO CURRENT LIABILITIES | 1.36   | times | 1.22   | times |
| p19 | CURRENT ASSETS TO TOTAL LIABILITIES                  | 0.37   | times | 0.43   | times |
| p20 | AVAILABLE ASSETS TO CURRENT LIABILITIES              | 38.40% |       | 56.86% |       |
|     |  |        |       |        |       |

|  | STATEMENT OF CHANGES IN FINANCIAL POSITION   |         |       |          |       |
|--|--|---------|-------|----------|-------|
| p21  | CASH FLOW FROM NET INCOME TO OPERATING REVENUES  | 34.35%  |       | 33.76%   |       |
| p22  | CASH FLOW FROM CHANGES IN WORKING CAPITAL TO OPERATING REVENUES  | (8.55)% |       | (4.61)%  |       |
| p23  | RESOURCES PROVIDED BY OPERATING ACTIVITIES TO INTEREST PAID  | 8.65    | times | 5.97     | times |
| p24  | EXTERNAL FINANCING TO RESOURCES PROVIDED BY (USED FOR) FINANCING                                       | 8.33%   |       | (30.73)% |       |
| p25  | INTERNAL FINANCING TO RESOURCES PROVIDED BY (USED FOR) FINANCING                                       | 91.66%  |       | 130.73%  |       |
| p26  | ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT TO RESOURCES PROVIDED BY (USED FOR) INVESTMENT ACTIVITIES | 72.92%  |       | 130.07%  |       |
| (**) INFORMATION OF THE PAST TWELVE MONTHS |  |         |       |          |       |

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MEXICAN STOCK EXCHANGE

[Index](#)

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 1

CHIEF EXECUTIVE OFFICER REPORT

Consolidated

Final printing

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Highlights

2<sup>nd</sup> Quarter 2006

- In Mexico, TELMEX's broadband service continues to show growth. The number of Infinitum (ADSL) customers increased 78% compared with June 2005. Billed line equivalents for data transmission increased of 28.3%



compared with last year.

- In Mexico, International outgoing, international incoming and local traffic increased 7%, 50.5% and 1.1% respectively compared with the same period of 2005. Domestic long distance traffic was at the same level as the second quarter of last year.
- In Mexico during the last 15 years, TELMEX has constantly expanded state-of-the-art technology, national coverage, and penetration. Additionally, the company exceeded the commitment to public telephony that was part of the title of concession and has continued to invest in telephony and in rural connectivity. At the beginning of the second quarter, 2.5 million shared and prepaid lines plus service to other low-consumption customers totaled almost 9 million customers that would be without service if TELMEX did not provide it to these customers. Recently, some public officials and regulators have confused public perception by defining market dominance primarily in terms of number of lines, disregarding the reality that TELMEX serves many customers of no interest to our competitors
- Even so, given the economic environment, TELMEX implemented a more restrictive collecting policy and began a program to disconnect lines with lack of payment, focusing on lines associated with shared telephony and prepaid plans. In Mexico, lines in service decreased 0.5% in the second quarter compared with the first quarter of 2006. The second-quarter disconnections involved 323 thousand 566 shared and prepaid lines.
- In the second quarter, TELMEX generated consolidated net income of 7 billion pesos, 2.9% higher than the same period of the previous year. In 2005, results included non-recurring income of 328 million pesos for the sale of MCI shares. If this effect were eliminated, the increase would have been 8.1%. Earnings per share were 33 Mexican cents and 59 US cents per ADR, an increase of 10% and 13.5%, respectively, compared with the second quarter of the previous year.
- In the second quarter, consolidated revenues reached 42.4 billion pesos, 1.7% higher in real terms compared with the same period of 2005, Mexico revenues totaled 30.6 billion pesos, 0.9% lower than the second quarter of 2005. Embratel had revenues of 2 billion reais in the quarter, 7.4% higher than the same quarter of the previous year. As a group, the rest of the subsidiaries in Latin America increased revenues 21.4% in the quarter.
- In Brazil, the main revenue generators increased compared with the second quarter of last year. Local service access increased 47.8%, line equivalents of 64 Kbps increased 61.2% and domestic long distance traffic continued its recovery, increasing 14.4%.
- Consolidated EBITDA totaled 18.3 billion pesos, an increase of 2.8% and produced a margin of 43%, 0.5 percentage points higher than the second quarter of 2005.
- Operating income increased 4% compared with the second quarter of last year and totaled 12 billion pesos. The operating margin was 28.2%, 0.6 percentage points higher than the same period of 2005.

- Consolidated net debt (3) increased the equivalent of approximately 17 million dollars, totaling 6.639 billion dollars at June 30. Comprehensive financing cost without including the gain for the sale of MCI shares in 2005, would have decreased 27.7%. Consolidated investment (capex) was equivalent to 729.7 million dollars in the first half of 2006. Share repurchases rose to 6.496 billion pesos at June 30.

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

## Highlights

### Focus on Growth

. During the last 15 years, it has been TELMEX's policy to permanently increase technological modernization, national coverage, and penetration, as well as offer our customers more and better telecommunications services. This principle is a major reason for the expansion of public telephony beyond the commitment in the title of concession and beyond expectations at the time TELMEX was privatized, given that there were very few public phones in service then. To date, important investments continue to be made in telephony and rural connectivity, thereby reaching more communities. TELMEX is the main company that has participated in the government's plans regarding social coverage and Internet connectivity in rural areas.

To penetrate this market segment, recognizing low per capita income growth and reduced levels of household income, it became necessary to create new formulas so the population could have access to services. These formulas created the prepaid program, the half-block of service for lack of payment, shared telephony and Multifon. Public telephony represents 20 million minutes a day, and rural telephony covers more than 6 million people.

The various shared and prepaid telephony plans represent 2.5 million lines in service. Added to low-consumption customers, the total is almost 9 million customers that are not served by our competitors.

Our residential and public telephony customers that consume less than 166 pesos per month (15 dollars) and that represent 58.5% of our total customers are not served by local competitors, but are served by cellular telephony. In other words, our local competition mainly operates in A and B residential segments and we compete with cellular operators in every market segment.

Recently, some public officials and regulators have confused public perception by defining market dominance primarily in terms of number of lines, disregarding the fact that many of the customers that we serve do not interest our competitors.

However, given the economic environment, TELMEX implemented a more restrictive collecting policy and began a disconnection program for lines with lack of payment, focusing on shared telephony and prepaid plans.

These measures improve collecting and reduce our capex and opex but do not significantly reduce revenues because our lines continue to be available for sale to subscribers. In June, we disconnected 275 thousand 545 prepaid lines, bringing the total during the quarter to 323 thousand 566 disconnections. Total TELMEX lines in service in Mexico decreased 0.5% from March 31 and totaled 18 million 553 thousand lines at June 30.

#### Cash tender offer for shares of Embratel.

On May 8, TELMEX announced that it will make a cash tender offer for any and all outstanding publicly held common and preferred shares of Embratel Participações S.A. (Embratel Holdings), at a price of de 6.95 Brazilian reais per one thousand shares. At the time of the announcement, TELMEX owned 72.4% of the outstanding shares of de Embratel Holdings. On May 24 and June 7, 2006 TELMEX confirmed its intention to continue with the acquisition process of the outstanding common and preferred shares of Embratel Holdings. On July 21, the Brazilian Securities and Exchange Commission (CVM) informed us that it would request the opinion of the *Agência Nacional de Telecomunicações* (Anatel) for cancellation of the registration of Embratel's shares, and it also offered TELMEX the option to convert the tender offer into a voluntary tender offer. TELMEX reaffirms its intention to proceed with the registration of the tender offer although it is evaluating the alternative of conducting a voluntary tender offer.

#### Evolution of TELMEX's rates

Through its state-of-the art technological platform, TELMEX serves more than 22 thousand urban and rural communities that comprise 90% of Mexico's inhabitants. Local fixed telephony competitors are present in 33 communities, and long distance competition only covers 12.5% of these communities. This technological platform along with personnel training has produced a higher operating efficiency and supported a policy of reducing prices.

During the last 15 years (1990 - 2005), TELMEX reduced the rate for the basic basket of services 59.3%.

The average rate for measured service has decreased 28.5% in real terms, and packages have been introduced with prices of up to one peso per call.

During the 15-year period average long distance rates for domestic and international long distance decreased 79% and 80.8%, in real terms. As in local service, we offer packages with prices up to 0.5 pesos per minute for domestic long distance and 2 pesos per minute for international long distance.

In addition to price reductions, the number of local areas decreased from 2 thousand 200 to 397 (82%). This compare with examples like the United States where there are more than 25 thousand local areas and Brazil with 5,360. Local areas in Mexico have an average surface of 4 thousand 948 Km<sup>2</sup> compared with 375 Km<sup>2</sup> in the United States and

one thousand 585 Km2 in Brazil.

The rate reduction practice also applies to data access. The average rent for an equivalent line of 64 Kbps has decreased 70.9% in real terms in the last 6 years.

The International Comparative Study of Fixed Telephony Prices, recently conducted by the prestigious international consulting firm National Economic Research Associates (NERA, [www.nera.com](http://www.nera.com)), observed that in a group of 28 countries of medium and high levels of development, Mexico is among the five countries that have the least expensive residential telephone services and is ranked tenth on the cost of commercial service. This demonstrates that our policy of reducing prices has placed Mexico at highly competitive international levels, in spite of rate reductions that have occurred worldwide.

### Consolidated Income statements

#### Revenues:

In the second quarter, consolidated revenues increased 1.7%, mainly due to the 16.2% and 10.7% increases in Internet and corporate network revenues, respectively; the 4% increase in domestic long distance, and the 11.5% increase in other revenues, comprised primarily of yellow pages and Tiendas TELMEX (TELMEX stores). These positive contributions were offset by decreases of 8.7% in interconnection revenues (calling party pays), 8.2% in international long distance revenues, and 0.6% in local service revenues.

#### Costs and expenses

: Costs and expenses increased 0.8%, due to higher charges related to FUST (Telecommunications Service Universal Fund) and higher third-party costs related to increased sales in Brazil, as well as to the 2005 change in the accounting policy for PC sales in Mexico. These effects were offset by improved internal efficiencies reflected in the stabilization of maintenance costs.

#### EBITDA (1) and operating income:

EBITDA (1) totaled 18.3 billion pesos in the second quarter, an increase of 2.8% compared with the same period of 2005. The EBITDA margin was 43%. Operating income totaled 12 billion pesos, 4% higher than the second quarter of 2005. The operating margin was 28.2%.

#### Comprehensive financing cost:

Comprehensive financing cost totaled 870 million pesos in the quarter, an increase of 22.5% compared with the second quarter of 2005. This result was due to: i) a net interest charge of 664 million pesos, while in May 2005 the

company registered a gain of 493 million pesos for the sale of MCI shares, partially offset by income generated by interest rate swaps, ii) a net exchange loss of 98 million pesos from the impact of the second-quarter's exchange rate variation of 0.45 pesos per dollar; offset by the gain of the 5.795 billion dollars in dollar-peso hedges and 467 million dollars in dollar-reais hedges, and iii) a loss in the monetary position of 108 million pesos, due to a 0.16% deflation during the quarter, compared with an 0.11% inflation during the same quarter of the previous year. If the gain from the sale of MCI shares was not included, comprehensive financing cost would have decreased 27.7%.

Majority net income:

Majority net income totaled 6,991 million pesos, 2% higher than the same period of the previous year, due to the increase in revenues, better control of costs and expenses, and the variation in the comprehensive financing cost. Earnings per share at June 30, 2006 were 0.33 pesos, and earnings per ADR were 0.59 dollars.

Free cash flow:

At June 30, resources provided by operating activities totaled 27,810 million pesos, of which 13,993 million were used in share repurchases, 4,191 million in dividend payments, 13,361 million for debt amortization and the rest in several investments.

Investments:

In the first half, consolidated investment was the equivalent of 729.7 million dollars, of which 78.8% was used for growth and modernization projects, 10.9% for operational support projects, 6.3% for operational needs and 4% for social telephony.

Repurchase of shares:

In the first half, the company used 13,933 million pesos to repurchase shares. During the quarter, 6,496 million pesos were used to repurchase 549,991,800 shares.

Debt:

Gross total debt at June 30 was the equivalent of 7.898 billion dollars, a decrease of 625 million dollars from a year ago.

[Mexico Operating Results](#)

#### Lines in service

During the second quarter, TELMEX carried out a clean-up of its lines in service by disconnecting shared and prepaid lines that had payment problems and that were not generating traffic. This measure will improve our customer base, reduce our capex and opex but not significantly reduce revenues because it allows us to increase the number of lines available for sale. In the quarter, 323 thousand 566 lines were disconnected. Total TELMEX lines in service in Mexico decreased 0.5% from March 31 and totaled 18 million 553 thousand lines at June 30.

#### Local traffic

From April to June, local traffic increased 1.1% over the same period in 2005, with a total of 6,698 million local calls. Local traffic volume has been affected by the migration of our switched traffic to corporate networks, which strengthens the data business, and by competition from local and wireless telephony. On the other hand, the measured service packages, Línea Hogar and Línea Más Negocio, totaled 157.8 thousand and 423 thousand customers, respectively. These figures validate our strategy to evolve toward a more predictable revenue flow produced by package offerings.

#### Long distance traffic

Domestic long distance service maintained the same level of traffic as the second quarter of 2005, totaling 4,500 million minutes. Outgoing and incoming international long distance traffic maintained its growth trend due to the introduction of packages. Incoming international traffic increased 7%, totaling 475 million minutes, and outgoing international traffic increased 50.5% compared with the same period last year, totaling 1,781 million minutes. The incoming -outgoing ratio was 3.8. Domestic and international LADA 100 long distance packages totaled 1.4 million customers.

#### Interconnection

In the second quarter, interconnection traffic increased 8.4%. Calling party pays traffic increased 4.6%, and traffic from local and international operators increased 7.5%. Traffic generated by cellular companies that is terminated in TELMEX's network increased 16.2%.

#### Internet and Corporate networks

At June 30, the number of high-speed Internet Prodigy Infinitum (ADSL) customers represented an annual increase of 78%. The total number of Internet access accounts, including Infinitum and dial-up, increased 20.6% compared with June 2005. Billed line equivalents of 64 Kbps to corporate customers increased 28.3%.

#### Mexico financial results

##### Revenues:

Revenues in the second quarter totaled 30.6 billion pesos, a decrease of 0.9% compared with the same period of last year, mainly due to lower interconnection, local and domestic long distance revenues, partially offset by the increase in data, international long distance, yellow pages and Tiendas TELMEX (TELMEX Stores) revenues. If revenues from calling party pays were excluded, revenues would have increased 0.3%.

- Local:

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Local revenues totaled 13.7 billion pesos in the second quarter, a decrease of 2.6%, reflecting the reduction of the average measured service rate and monthly rent in real terms of 5.7% and 5.8%, respectively, and the decrease of public telephony due to competition from cellular companies and from public telephony competitors.

- **DLD:**

DLD revenues totaled 4.3 billion pesos in the second quarter, 2.7% lower than the second quarter of 2005 due to the 2.7% decrease in the average revenue per minute in real terms.

- **ILD:**

In the second quarter, ILD revenues totaled 2.6 billion pesos, an increase of 6.3% compared with the second quarter of the previous year. Revenues from outgoing traffic declined 1.9% to 1.6 billion pesos due to the 8.3% decline in average revenue per minute in real terms and because the increase in traffic volume was not enough to offset the decrease in prices.. International settlement revenues totaled 970 million pesos, an increase of 23%.

- **Interconnection:**

Interconnection revenues in the second quarter decreased 8.1% and totaled 4.1 billion pesos due to the 10% reduction of the calling party pays rate.

- **Corporate networks:**

In the second quarter, revenues from services related to data transmission through private and managed networks totaled 2.7 billion pesos, an increase of 3.7% due to more billed line equivalents in service that offset the decrease in revenue per line equivalent.

- **Internet:**

Revenues from services related to the Internet platform rose 14.7% in the second quarter, or 2.3 billion pesos, due to the increase in the number of Prodigy Infinitum (ADSL) customers and an accompanying increase in average revenue per customer.

### Costs and expenses:

In the second quarter, total costs and expenses were 20 billion pesos, a decrease of 0.7%. This decrease was due to lower interconnection costs (calling party pays), lower depreciation and amortization charges, lower charges for prepaid cards and tighter control over maintenance expenses.

- **Cost of sales and services:**

In the second quarter, cost of sales and services increased 0.9%, totaling 7.6 billion pesos. Excluding the 2005 change in accounting policy for PC's related to Internet service, these costs would have decreased 0.6%

- Commercial, administrative and general:

Commercial, administrative and general expenses increased 1.6% to 4.9 billion pesos in the second quarter due to higher advertising and systems expenses.

- Transport and interconnection:

In the second quarter, transport and interconnection costs totaled 3 billion pesos, a decrease of 5.9% due to the reduction in the calling party pays rate, the main component of this item.

- Depreciation and amortization:

In the quarter, depreciation and amortization decreased 2.2% to 4.6 billion pesos due to less impact from restatement of the value of fixed assets and lower levels of investment carried out in recent years.

### EBITDA (1) and operating income

: EBITDA (1) totaled 15.2 billion pesos in the second quarter, a decrease of 1.5%. The EBITDA margin was 49.8%; a decrease of 0.3 percentage point compared with the second quarter of 2005. Operating income totaled 10.7 billion pesos, 1.2% lower than the second quarter of 2005, and the operating margin was 34.8%, 0.1 percentage point lower than in the year-earlier period.

### Investments:

In Mexico total investments (Capex) were 374.3 million dollars, of which 77.6% was used for growth and modernization projects, 13% for operational support projects, 7.8% for social telephony and 1.6% for operating needs.

### Debt:

In the second quarter, total debt was the equivalent of 6.998 billion dollars, a decrease of 969 million dollars compared with last year's second quarter. Net debt (3) in Mexico decreased the equivalent of 103 million dollars during the quarter to a total of 6.059 billion dollars.

## Latin America Financial Results

### Brazil

At Embratel efforts have been focused on consolidating the company's position in the data business for the commercial segment and in local service for the residential segment. At the end of the first quarter, the company began to provide the Netfone services, through Net's infrastructure, in nine major cities. There were more than 49 thousand customers using this service at the end of the second quarter. Another strategy was to offer services for small and medium-sized companies and corporate customers, using the 3.5 GHz frequency, and to accelerate the transition from the current network to a next generation network, which has higher transport capacity.



Local traffic and long distance traffic showed increases of 37.9% and 14.4% in the quarter, respectively. Line equivalents amounted to 2 million, a 61.2% increase year over year.

In the second quarter 2006, revenues totaled 2.038 billion reals, 7.4% higher than the same quarter of the previous year. Revenues generated by local service revenues, the data business and other grew 32.6%, 23.2% and 5.9%, respectively.

Total costs and expenses in the quarter increased 2.8%, due to higher charges related to the Telecommunications Service Universal Fund (FUST), the Primesys inclusion and an increase in maintenance and equipment costs (telephone sets), which reflected higher local service sales. Interconnection charges decreased 3% year over year. EBITDA and operating income amounted to 513 and 226 million reals each, and their respective growth rates were 23.5% and 61.3%.

The EBITDA margin was 25.2%, 3.3 percentage points more than in the same quarter of 2005. The operating margin was 11.1%, 3.7 additional percentage points in comparison with the margin in the second quarter of 2005.

#### Chile

Revenues generated by services offered to commercial customers grew 22%, due to increases of 105% in local service revenues, 16.6% in dedicated Internet revenues, and 5.8% in corporate network revenues. Reflecting the evolution of the telecommunications market, the Chilean long distance market experienced significant contraction as traffic migrated to wireless services and private networks. Long distance revenues diminished 14.8%. The combination of all these factors resulted in an increase of only 0.6% in total revenues year over year.

Costs and expenses increased 2.2%, reflecting an emphasis on sales in the business segment of the market.

EBITDA totaled 2.817 billion Chilean pesos in the second quarter, 399 million Chilean pesos lower than in the same period of 2005. EBITDA margin decreased 2.5 percentage points and was 16.9%.

#### Argentina

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Total revenues increased 26.1% in the second quarter due to the 25% growth in voice business revenues and the 32.4% increase in Internet revenues.

In the second quarter, costs and expenses increased 34.5% as a result of growth of 13.1% in transport and interconnection costs and an increase of 45.6% in costs of sales and services.

EBITDA showed a decline of 17.2% to 7.7 million Argentinean pesos, with an EBITDA margin of 9% compared with an EBITDA margin of 13.7% in the second quarter of the previous year.

### Colombia

Total revenues increased 77.9% in the quarter due mainly to growth of 69.7% in data revenues.

Higher sales of broadband and last-mile access resulted in an increase of 87.8% in transport and interconnection costs, and costs of sales and services increased 42.6%.

Operating income and EBITDA grew 249.9% and 122.4% in the second quarter, respectively. The EBITDA margin was 45.1% and the operating margin was 26.6%.

### Peru

In the second quarter, total revenues were 53.1 million New Soles, an increase of 21.5% compared with the same period of 2005. Local service revenues represented 34.6% of total revenues. Data revenues rose 20% as a consequence of increased corporate networks business, Internet service and value-added services.

Costs and expenses grew 9.5% in the quarter, due to higher levels of transport and interconnection costs and operating costs.

EBITDA was 14.8 million new Soles, 74.1% more than in the second quarter of 2005. Its margin was 27.9%, 8.4 percentage points above 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 second quarter of 2006 and 2005.

#### Mexico Local Service Business

##### Income Statements

[ millions of Mexican constant pesos as of June, 2006 ]

|  |     | 2Q 2006       | 2Q 2005       | %<br>Inc.    | 6 months<br>2006 | 6 months<br>2005 | %<br>Inc.    |
|--|-----|---------------|---------------|--------------|------------------|------------------|--------------|
| <b>Revenues</b>                        |     |               |               |              |                  |                  |              |
| Access, rent and measured service      | Ps. | 13,564        | Ps. 13,998    | (3.1)        | Ps. 27,174       | Ps. 28,092       | (3.3)        |
| LADA interconnection                   |     | 1,139         | 1,055         | 8.0          | 2,173            | 2,115            | 2.7          |
| Interconnection with operators         |     | 383           | 393           | (2.5)        | 724              | 845              | (14.3)       |
| Interconnection with cellular          |     | 3,673         | 4,041         | (9.1)        | 7,181            | 8,083            | (11.2)       |
| Other                                  |     | 2,935         | 2,232         | 31.5         | 5,097            | 4,382            | 16.3         |
| <b>Total</b>                           |     | <b>21,694</b> | <b>21,719</b> | <b>(0.1)</b> | <b>42,349</b>    | <b>43,517</b>    | <b>(2.7)</b> |
| <b>Costs and expenses</b>              |     |               |               |              |                  |                  |              |
| Cost of sales and services             |     | 5,621         | 5,612         | 0.2          | 10,430           | 10,792           | (3.4)        |
| Commercial, administrative and general |     | 4,291         | 3,977         | 7.9          | 8,347            | 7,770            | 7.4          |
| Interconnection                        |     | 2,788         | 3,075         | (9.3)        | 5,463            | 6,102            | (10.5)       |
| Depreciation and amortization          |     | 3,202         | 3,110         | 3.0          | 6,212            | 6,494            | (4.3)        |
| <b>Total</b>                           |     | <b>15,902</b> | <b>15,774</b> | <b>0.8</b>   | <b>30,452</b>    | <b>31,158</b>    | <b>(2.3)</b> |
| Operating income                       | Ps. | 5,792         | \$ 5,945      | (2.6)        | \$ 11,897        | 12,359           | (3.7)        |
| EBITDA (1)                             | Ps. | 8,994         | \$ 9,055      | (0.7)        | \$ 18,109        | 18,853           | (3.9)        |
| EBITDA margin (%)                      |     | 41.5          | 41.7          | (0.2)        | 42.8             | 43.3             | (0.5)        |

|                      |      |      |       |      |      |       |
|----------------------|------|------|-------|------|------|-------|
| Operating margin (%) | 26.7 | 27.4 | (0.7) | 28.1 | 28.4 | (0.3) |
|----------------------|------|------|-------|------|------|-------|

## Mexico Long Distance Service Business

## Income Statements

[ millions of Mexican constant pesos as of June, 2006 ]

|  |     | 2Q 2006 | 2Q 2005   | %<br>Inc. | 6 months<br>2006 | 6 months<br>2005 | %<br>Inc. |
|--|-----|---------|-----------|-----------|------------------|------------------|-----------|
| <b>Revenues</b>                        |     |         |           |           |                  |                  |           |
| Domestic long distance                 | Ps. | 4,073   | Ps. 4,206 | (3.2)     | Ps. 8,148        | Ps. 8,318        | (2.0)     |
| International long distance            |     | 2,201   | 2,120     | 3.8       | 4,350            | 4,320            | 0.7       |
| Total                                  |     | 6,274   | 6,326     | (0.8)     | 12,498           | 12,638           | (1.1)     |
| <b>Costs and expenses</b>              |     |         |           |           |                  |                  |           |
| Cost of sales and services             |     | 1,281   | 1,404     | (8.8)     | 2,688            | 2,774            | (3.1)     |
| Commercial, administrative and general |     | 1,358   | 1,293     | 5.0       | 2,655            | 2,583            | 2.8       |
| Interconnection to the local network   |     | 996     | 926       | 7.6       | 1,907            | 1,864            | 2.3       |
| Depreciation and amortization          |     | 627     | 616       | 1.8       | 1,224            | 1,306            | (6.3)     |
| Total                                  |     | 4,262   | 4,239     | 0.5       | 8,474            | 8,527            | (0.6)     |
| Operating income                       | Ps. | 2,012   | Ps. 2,087 | (3.6)     | Ps. 4,024        | Ps. 4,111        | (2.1)     |
| EBITDA (1)                             | Ps. | 2,639   | Ps. 2,703 | (2.4)     | Ps. 5,248        | Ps. 5,417        | (3.1)     |
| EBITDA margin (%)                      |     | 42.1    | 42.7      | (0.6)     | 42.0             | 42.9             | (0.9)     |
| Operating margin (%)                   |     | 32.1    | 33.0      | (0.9)     | 32.2             | 32.5             | (0.3)     |

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## MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 2

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Thousands of Mexican Pesos)

Consolidated

Final printing

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#### S 87 OTHERS

In this item there are included the inventories for telephone plant operation that at June 30, 2006 and 2005 rose \$2,485,954 and \$2,570,300, respectively which are valued by the average cost method and are updated based on the specific index method, without exceeding their market value.

#### S 84 INTANGIBLE ASSETS FOR LABOR OBLIGATIONS

In this item it is included the projected net asset accordingly with Bulletin D-3 Labor Obligations issued by the Mexican Institute of Public Accountants.

#### PROJECTED NET ASSETS (D-3)

At June 30, 2006 and 2005, the market value of the established pensions and seniority premium fund was greater than the accumulated benefit obligation (ABO) in Mexico, and pursuant to Bulletin D-3, it is not recognized neither any additional liability nor the related intangible asset and effect of labor obligation on stockholders' equity. As a result of the foregoing, the balance sheet presents a projected net asset.

#### S 23 AND S 28 BANK LOANS

In this item, there are included the banks' credits related to purchase programs to suppliers that are reported in the suppliers' credits item of the Balance Sheet because in EMISNET long-term opening to suppliers does not exist.

On October 20, 2005, TELMEX signed an agreement to restructure the syndicated bank loan issued on July 15, 2004 for 2.425 billion dollars to improve the credit conditions and increase the total amount to 2.5 billion dollars in two tranches, the first one for 1.5 billion dollars due in four years and the second one for 1 billion dollars due in six years.

S 24 AND S 29 STOCK MARKET LOANS

During 2001, TELMEX issued senior notes for U.S.\$1.5 billion, maturing in 2006 and bearing 8.25% annual; interest payable semi-annually. From January to December, 2005, TELMEX repurchased in the market a portion of these senior notes in the amount of U.S. \$431.6 million (nominal value). The difference between the repurchase price and the nominal value of the bonds is U.S.\$ 15.6 million. On January 26, 2006, Telmex paid the outstanding balance that amounted U.S.\$1,068.4 million.

On November 19, 2003, TELMEX issued a bond for U.S.\$ 1.0 billion due 2008, with an annual; interest of 4.5%. Interest will be paid every six months.

On January 27, 2005, TELMEX placed senior notes in aggregate principal amount of U.S.\$1.3 billion in two issuances of U.S.\$650 million each, the first one maturing in 2010 and bearing interest at 4.75% annual and the second one maturing in 2015 and bearing interest at 5.50% annual. Interest will be paid every six months. On February 22, 2005, there was a reopening of this transaction and the amounts of such issuances increased to U.S. \$950 million and U.S. \$800 million, respectively.

On January 31, 2006, TELMEX placed abroad a senior note in the amount of Ps. 4.5 billion, maturing in 2016 and bearing interest at 8.75%. Interest will be paid every six months.

S 29 STOCK MARKET LOANS (LONG-TERM)

At June 30, 2006 and 2005, this item rose to \$ 40,792,575 and \$ 38,620,971, respectively and is comprised by the following:

|                       | 2006         | 2005          |
|-----------------------|--------------|---------------|
| Domestic Senior Notes | Ps 4,950,000 | Ps. 6,999,300 |
| Bonds                 | 35,842,575   | 31,621,671    |

S 32 OTHER LIABILITIES

At June 30, 2006 and 2005, this item rose to Ps.

2,144,835 and Ps. 1,984,825, respectively, that corresponds to Embratel's labor obligations, as well as the actuarial obligations for labor termination in Mexico in the amount of Ps. 233,811 at June 30, 2006, based on the requirements of Bulletin D-3.

S 42 RETAINED EARNINGS AND CAPITAL RESERVES

In March 30, 2006 the Ordinary Shareholders Meeting approved to increase in Ps. 15 billion (face value), the amount authorized to acquire its own shares, bringing the total maximum amount to be used for this purpose to Ps. \$ 15,215,538 (face value).

From January to June 2006, the Company acquired

1.146 billion Series L shares for Ps 13,897,113 (historical cost of Ps. 13,898,963) and 2.9 million Series A shares for Ps. 36,363 (historical cost of Ps. 36,332).

From January to June 2005, the Company acquired

673.5 million Series L shares for Ps. 7,074,199 (historical cost of Ps. 6,840,226) and 3.1 million Series A shares for Ps. 32,980 (historical cost of Ps. 31,898).

For comparative purposes, there was applied retroactively a two-for-one stock split effect, as approved by the Extraordinary Shareholders Meeting as of April 28, 2005 and effective as of May 25, 2005, to the shares acquired from January 1, 2005 to May 24, 2005.

The Company's repurchased shares are applied to unappropriated retained earnings in the amount the corresponding shares purchased exceeded capital stock.

S 58 OTHER CURRENT LIABILITIES

At June 30, 2006 and 2005, this item rose to Ps.

22,642,987 and Ps. 25,702,498 respectively and is comprised by the following concepts:

|                           | 2006              | 2005             |
|---------------------------|-------------------|------------------|
| A c c o u n t s payable   | Ps.<br>18,435,728 | Ps<br>17,968,487 |
| A c c r u e d liabilities | 1,952,850         | 5,473,475        |
| D e f e r r e d credits   | 2,254,409         | 2,260,536        |

Short-term deferred credits consist of not accrued accounts receivable and advanced payments from customers and others.

#### S 73 PENSION FUND AND SENIORITY PREMIUMS

The Company has pensions plans and seniority benefit premiums that are established in defined pension plans that cover substantially all employees in Mexico.

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

The Company established an irrevocable trust fund to cover the payment of these obligations and has the policy of making annual contributions to such fund. These contributions are deductible for Mexican corporate income tax purposes. During the period comprised from January to June 2006, there were not contributions to the trust fund.

The transition liability, past services and variations in assumptions are being amortized over a period of twelve years, that is the estimated average remaining working-life of the Company's employees.

#### S 49 GOODWILL

The increase of Ps.

**3,230,021** is mainly due to the goodwill for the acquisition of 100% of Primesys Soluções Empresarias, S.A. in November 2005 and for the acquisition of 18.5% of 2Wire, Inc., in January 2006 and for the acquisition 5.9% of additional interest of Net Serviços de Comunicação, S.A.

#### COMPREHENSIVE INCOME



In the six-month period ended in June 2006 and 2005, the components of comprehensive income are presented as follows:

|  | 2006           | 2005           |
|--|----------------|----------------|
| Net income for the period                                      | Ps. 14,805,966 | Ps. 14,023,945 |
| Result from holding non-monetary assets, net of deferred taxes | 4,970,376      | (379,887)      |
| Fair value effect in Swaps, net of deferred taxes              | (20,896)       | 307,069        |
| Effect of instruments available for sale                       | 0              | 1,181,563      |
| Conversion effect  | 5,772,868      | 194,753        |
|  |                |                |
| Comprehensive Income   | 25,528,314     | 15,327,443     |

NOTES TO CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

C 39 OTHER ITEMS

Includes inventories for operation of the telephone plant, marketable securities and instruments available for sale, deferred assets, as well as decreases of fixed assets.

RATIOS

P 08 INVENTORY TURNOVER RATE-COST

EMISNET automatically calculates the inventory turnover rate-cost by dividing the cost of sales and services (Ref. R 2) by the inventory of goods for sale (Ref. S 6), fact that affects the actual turnover.

RECLASIFICACIONES

Some of the figures of the 2005 financial statements have been reclassified to conform the presentation with the same used in the 2006 year.

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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 3a

SHARE INVESTMENTS SUBSIDIARIES

Consolidated

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| COMPANY NAME                                    | MAIN ACTIVITIES                            | NUMBER OF SHARES | OWNERSHIP % |
|---|--|------------------|-------------|
| Consertel, S.A. de C.V.                         | Investments in all types of businesses     | 106,419,052,434  | 100.00      |
| Cía. de Teléfonos y Bienes Raíces, S.A. de C.V. | Real estate acquisition & leasing          | 1,034,000,000    | 100.00      |
| Alquiladora de Casas, S.A. de C.V.              | Real estate acquisition & leasing          | 686,001,490      | 100.00      |
| Construcciones y Canalizaciones, S.A. de C.V.   | Construction & maint. of telephone network | 28,369,000       | 100.00      |
| Empresa de Limpieza Mexicana, S.A. de C.V.      | Cleaning Service Company                   | 50,000           | 100.00      |
| Renta de Equipo, S.A. de C.V.                   | Equipment, vehicles & real estate leasing  | 769,595,000      | 100.00      |

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|  |  |                 |        |
|--|--|-----------------|--------|
| Multicomunicación Integral, S.A. de C.V.             | Trunking, installation & sales services    | 662,482         | 100.00 |
| Teleconstructora, S.A. de C.V.                       | Construction & maint. of telephone network | 19,400,000      | 100.00 |
| Anuncios en Directorios, S.A. de C.V.                | Sale of advertising space in yellow pages  | 1,081,750       | 100.00 |
| Operadora Mercantil, S.A. de C.V.                    | Marketing services                         | 50,000          | 100.00 |
| Impulsora Mexicana de Telecomunicaciones, S.A.       | Network projects                           | 4,602,225       | 100.00 |
| Fuerza y Clima, S.A de C.V.                          | Air conditioning installation & maint.     | 4,925,000       | 100.00 |
| Teléfonos del Noroeste, S.A. de C.V.                 | Telecommunications services                | 110,000,000     | 100.00 |
| Aerocomunicaciones, S.A. de C.V.                     | Aeronautic radiocom. mobile serv.          | 89,034,600      | 99.99  |
| Tecmarketing, S.A. de C.V.                           | Telemarketing services                     | 6,850,000       | 100.00 |
| Comertel Argos, S.A. de C.V.                         | Personnel services                         | 6,000           | 100.00 |
| Telmex International, Inc.                           | Holding Company in the U S A.              | 1,000           | 100.00 |
| Instituto Tecnológico de Teléfonos de México, S.C    | Training & research services               | 1,000           | 100.00 |
| Buscatel, S.A. de C.V.                               | Paging services                            | 142,445         | 100.00 |
| Consortio Red Uno, S.A. de C.V.                      | Design & integrated telecom. Services      | 167,691,377     | 100.00 |
| Uninet, S.A. de C.V.                                 | Data transmission services                 | 67,559,615      | 100.00 |
| Aerofrisco, S.A. de C.V.                             | Air Taxi services                          | 6,360,624,600   | 100.00 |
| Grupo Técnico de Administración, S.A. de C.V.        | Management, consulting & org. Services     | 50,000          | 100.00 |
| Teninver, S.A. de C.V.                               | Managment of yellow pages                  | 9,912,982       | 100.00 |
| Telcoser, S.A. de C.V.                               | Investments in all types of businesses     | 24,842,315      | 100.00 |
| Fintel Holdings, L.L.C.                              | Investments in all types of businesses     | 1,490           | 100.00 |
| Servicios Administrativos Tecmarketing, S.A. de C.V. | Software development, sales & management   | 60,687,728      | 100.00 |
| Metrored Holdings S. R. L.                           | Telecommunications services                | 357,598,949     | 100.00 |
| Telmex Chile Holding S.A.                            | Telecommunications services                | 138,074,245,358 | 100.00 |
| Telmex Colombia S. A.                                | Telecommunications services                | 176,669,199     | 100.00 |
| Telmex Perú S. A.                                    | Telecommunications services                | 4,026,062       | 100.00 |
|  |  |                 |        |

|                              |                             |                 |       |
|------------------------------|-----------------------------|-----------------|-------|
| Embratel Participações, S.A. | Telecommunications services | 715,018,262,899 | 72.31 |
|------------------------------|-----------------------------|-----------------|-------|

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## MEXICAN STOCK EXCHANGE

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SIFIC/ICS

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 3b

## SHARE INVESTMENTS AFFILATES

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| COMPANY NAME                                      | MAIN ACTIVITIES                 | NUMBER OF SHARES | OWNERSHIP | TOTAL AMOUNT<br>(Thousands of Mexican Pesos) |               |
|---|---------------------------------|------------------|-----------|--|---------------|
|   |                                 |                  | %         | ACQUISITION COST                             | PRESENT VALUE |
| Grupo Telvista, S.A. de C.V.                      | Telemarketing in Mexico and USA | 450              | 45.00     | 510,138                                      | 419,595       |
| Centro Histórico de la Ciudad de México, SA de CV | Real estate services            | 80,020,000       | 21.77     | 80,020                                       | 105,535       |
| TM & MS, LLC                                      | Internet portal (T1MSN)         | 1                | 50.00     | 29,621                                       | 36,538        |
| Net Serviços de Comunicação, S.A.                 | Cable TV operator               | 1,731,538,395    | 43.01     | 5,211,434                                    | 1,059,038     |
| Eidon Software, S.A. de C.V.                      | Software development            | 35,567,911       | 22.74     | 35,568                                       | 46,069        |
| 2Wire, Inc.                                       | Broadband Services              | 12,255,376       | 18.50     | 648,400                                      | 52,002        |
| TOTAL INVESTMENT                                  |                                 |                  |           | 6,515,181                                    | 1,718,777     |

|                             |  |  |  |           |           |
|-----------------------------|--|--|--|-----------|-----------|
| IN ASSOCIATES               |  |  |  |           |           |
| OTHER PERMANENT INVESTMENTS |  |  |  |           | 7,012     |
| TOTAL                       |  |  |  | 6,515,181 | 1,725,789 |

NOTES:

The number of shares in our affiliate company Net Serviços de Comunicação S.A. is 1,731,538,395. The 43.01 % corresponds to the percentage held directly and indirectly by Embratel Participações, S.A. in Net Serviços de Comunicação, S.A., therefore, the TELMEX's indirect effective holding in Net is 31.12%.

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 5

CREDITS BREAKDOWN

(Thousands of Mexican Pesos)

Consolidated

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| Amortization Date | Interest Rate | Amortization of Credits Denominated in Pesos |              |              |              |              |                       | Amortization of Credits in Foreign C |              |              |              |   |  |
|-------------------|---------------|--|--------------|--------------|--------------|--------------|-----------------------|--------------------------------------|--------------|--------------|--------------|---|--|
|                   |               | Time Interval                                |              |              |              |              |                       |                                      |              |              |              |   |  |
|                   |               | Current Year                                 | Until 1 Year | Until 2 Year | Until 3 Year | Until 4 Year | Until 5 Years or more | Current Year                         | Until 1 Year | Until 2 Year | Until 3 Year | U |  |
|                   |               |  |              |              |              |              |                       |                                      |              |              |              |   |  |
|                   |               |  |              |              |              |              |                       |                                      |              |              |              |   |  |

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|            |      |   |           |   |   |   |   |           |           |           |           |
|------------|------|---|-----------|---|---|---|---|-----------|-----------|-----------|-----------|
| 22/12/2007 | 6.34 | 0 | 0         | 0 | 0 | 0 | 0 | 91,670    | 91,670    | 91,669    | 0         |
| 10/10/2006 | 6.49 | 0 | 0         | 0 | 0 | 0 | 0 | 66,694    | 0         | 0         | 0         |
| 22/12/2009 | 5.79 | 0 | 0         | 0 | 0 | 0 | 0 | 16,102    | 16,102    | 19,779    | 4,193     |
| 31/12/2014 | 6.59 | 0 | 0         | 0 | 0 | 0 | 0 | 141,015   | 141,015   | 242,142   | 202,255   |
| 22/04/2009 | 6.14 | 0 | 0         | 0 | 0 | 0 | 0 | 146,127   | 31,801    | 35,636    | 15,127    |
| 22/07/2011 | 5.89 | 0 | 0         | 0 | 0 | 0 | 0 | 0         | 17,666    | 35,331    | 35,331    |
| 10/10/2011 | 6.47 | 0 | 0         | 0 | 0 | 0 | 0 | 488,466   | 488,465   | 976,931   | 976,931   |
| 31/03/2022 | 2.00 | 0 | 0         | 0 | 0 | 0 | 0 | 10,775    | 10,775    | 21,551    | 21,551    |
| 14/05/2007 | 6.34 | 0 | 0         | 0 | 0 | 0 | 0 | 77        | 15        | 0         | 0         |
| 30/11/2013 | 6.65 | 0 | 0         | 0 | 0 | 0 | 0 | 527,056   | 215,472   | 1,575,937 | 589,776   |
| 01/07/2027 | 8.03 | 0 | 0         | 0 | 0 | 0 | 0 | 2,029,543 | 324,538   | 2,753,269 | 229,137   |
|            |      |   |           |   |   |   |   |           |           |           |           |
|            |      |   |           |   |   |   |   |           |           |           |           |
| 26/02/2007 | 7.33 | 0 | 800,000   | 0 | 0 | 0 | 0 | 0         | 0         | 0         | 0         |
| 21/05/2007 | 7.77 | 0 | 500,000   | 0 | 0 | 0 | 0 | 0         | 0         | 0         | 0         |
| 27/10/2009 | 5.89 | 0 | 0         | 0 | 0 | 0 | 0 | 0         | 0         | 0         | 0         |
| 27/10/2011 | 6.02 | 0 | 0         | 0 | 0 | 0 | 0 | 0         | 0         | 0         | 0         |
|            |      |   |           |   |   |   |   |           |           |           |           |
|            |      | 0 | 1,300,000 | 0 | 0 | 0 | 0 | 3,517,525 | 1,337,519 | 5,752,245 | 2,074,301 |
|            |      |   |           |   |   |   |   |           |           |           |           |
|            |      |   |           |   |   |   |   |           |           |           |           |



1. Libor plus margin
2. Fixed Rate
3. TIIE
4. TIIE plus margin
5. CETES plus margin
6. Local rate plus margin

B.- The following rates were considered:

1. Libor at 6 months in U S dollars is equivalent to 5.5894 at June 30, 2006
2. TIIE  
at 28 days is equivalent to 7.3250 at June 30, 2006
3. TIIE  
at 91 days is equivalent to 7.6900 at June 30, 2006
4. CETES

at 182 days is equivalent to 7.4800 at June 29, 2006

C.- The suppliers' Credits are reclassified to Bank Loans because in this document, Emisnet, Long-Term opening to Suppliers' does not exist.

D.- Liabilities in foreign currency were exchanged at the prevailing exchange rate at the end of the reporting period, which at

June 30, 2006 were as follows:

| CURRENCY     | AMOUNT    | E.R.  |
|--------------|-----------|-------|
| DOLLAR (USD) | 6,702,979 | 11.40 |
| EURO (EUR)   | 38,992    | 14.56 |

E.- There are other liabilities in foreign currency for an equivalent amount of

P. 657,283 thousand pesos.

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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 6

FOREIGN EXCHANGE MONETARY POSITION

(Thousands of Mexican Pesos)



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| FOREIGN CURRENCY POSITION | DOLLARS     |              | OTHER CURRENCIES |            | TOTAL        |
|---------------------------|-------------|--------------|------------------|------------|--------------|
|                           | THOUSAND    | THOUSAND     | THOUSAND         | THOUSAND   | THOUSAND     |
|                           | DOLLARS     | PESOS        | DOLLARS          | PESOS      | PESOS        |
| MONETARY ASSETS           | 509,626     | 5,808,365    | 1,431,242        | 16,312,296 | 22,120,661   |
| LIABILITIES               | 7,236,021   | 82,471,102   | 1,263,483        | 14,400,299 | 96,871,401   |
| SHORT-TERM LIABILITIES    | 920,179     | 10,487,556   | 1,194,847        | 13,618,031 | 24,105,587   |
| LONG-TERM LIABILITIES     | 6,315,842   | 71,983,546   | 68,636           | 782,268    | 72,765,814   |
| NET BALANCE               | (6,726,395) | (76,662,737) | 167,759          | 1,911,997  | (74,750,740) |

## NOTES:

Assets and Liabilities in foreign currency were exchanged at the prevailing exchange rate at the end of the reporting period.

At the end of the quarter the exchange rates were as follows:

| CURRENCY         | E.R.   |
|------------------|--------|
| DOLLAR (USD)     | 11.40  |
| EURO             | 14.56  |
| CHILEAN PESO     | 0.02   |
| ARGENTINEAN PESO | 3.69   |
| BRAZILIAN REAL   | 5.21   |
| PERUVIAN SOL     | 3.49   |
| COLOMBIAN PESO   | 0.0043 |

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## MEXICAN STOCK EXCHANGE

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## TELÉFONOS DE MÉXICO, S.A. DE C.V.

## ANNEX 7

## CALCULATION AND RESULT FROM MONETARY POSITION

(Thousands of Mexican Pesos)

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| MONTH          | MONETARY ASSETS | MONETARY LIABILITIES | ASSETS (LIABILITIES) MONETARY POSITION | MONTHLY INFLATION | MONTHLY EFFECT ASSET (LIABILITIES) |
|----------------|-----------------|----------------------|--|-------------------|------------------------------------|
| JANUARY        | 43,187,328      | 101,967,712          | (58,780,384)                           | 0.59              | (346,804)                          |
| FEBRUARY       | 33,646,671      | 92,593,835           | (58,947,165)                           | 0.25              | (147,368)                          |
| MARCH          | 36,004,765      | 93,820,697           | (57,815,932)                           | 0.10              | (57,816)                           |
| APRIL          | 34,625,493      | 93,845,126           | (59,219,632)                           | 0.13              | (76,986)                           |
| MAY            | 35,970,077      | 93,703,248           | (57,733,171)                           | (0.44)            | 254,026                            |
| JUNE           | 36,433,375      | 94,566,926           | (58,133,551)                           | 0.16              | (93,014)                           |
| RESTATEMENT    | 0               | 0                    | 0                                      | 0.00              | (94)                               |
| CAPITALIZATION | 0               | 0                    | 0                                      | 0.00              | 0                                  |
| FOREIGN CORP.  | 0               | 0                    | 0                                      | 0.00              | (26,143)                           |
| OTHER          | 0               | 0                    | 0                                      | 0.00              | 2,352                              |
| TOTAL          |                 |                      |  |                   | (491,847)                          |

## NOTE:

Telmex's policy applies Mexican National Consumer Prices Index (NCPI) estimated from January to November, and real for December.

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 8

DEBT INSTRUMENTS

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|   |
|---|
| FINANCIAL LIMITED BASED IN ISSUED DEED AND/OR TITLE |
|---|

|               |
|---------------|
| Restrictions: |
|---------------|

|   |
|---|
| The long-term debt is subject to certain restrictive covenants with respect to maintaining certain financial ratios and the sale of assets, among others. |
|---|

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

|  |
|--|
| CURRENT SITUATION OF FINANCIAL LIMITED |
|--|

|   |
|---|
| At June 30, 2006, the Company has complied with such restrictive covenants. |
|---|

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 9

PLANTS, - COMMERCIAL, DISTRIBUTION AND/OR SERVICE CENTERS -

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| PLANT OR CENTER | ECONOMIC ACTIVITY | PLANT CAPACITY | UTILIZATION (%) |
|-----------------|-------------------|----------------|-----------------|
| NOT AVAILABLE   |                   |                |                 |
|                 |                   |                |                 |
| NOTES:          |                   |                |                 |

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 10

RAW MATERIALS

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| DOMESTIC      | MAIN SUPPLIERS | IMPORT | MAIN SUPPLIERS | DOM. SUBST. | PRODUCTION COST (%) |
|---------------|----------------|--------|----------------|-------------|---------------------|
| NOT AVAILABLE |                |        |                |             |                     |
|               |                |        |                |             |                     |
| NOTES :       |                |        |                |             |                     |

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## SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

## ANNEX 11a

## SALES DISTRIBUTION BY PRODUCT

## SALES

(Thousands of Mexican Pesos)

Consolidated

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| MAIN PRODUCTS            | NET SALES |            | MARKET<br>PART.<br>(%) | MAIN       |           |
|--------------------------|-----------|------------|------------------------|------------|-----------|
|                          | VOLUME    | AMOUNT     |                        | TRADEMARKS | CUSTOMERS |
| DOMESTIC SALES           |           |            |                        |            |           |
| LOCAL SERVICE            | 0         | 27,387,109 | 0.0                    |            |           |
| LONG DISTANCE<br>SERVICE | 0         | 11,776,834 | 0.0                    |            |           |
| INTERCONNECTION          | 0         | 8,035,226  | 0.0                    |            |           |
| CORPORATE<br>NETWORKS    | 0         | 5,243,384  | 0.0                    |            |           |
| INTERNET                 | 0         | 4,452,690  | 0.0                    |            |           |
| OTHERS                   | 0         | 2,250,657  | 0.0                    |            |           |
| FOREIGN SALES            |           |            |                        |            |           |
| NET SETTLEMENT           | 0         | 1,948,915  | 0                      |            |           |
| LOCAL SERVICE            | 0         | 2,084,524  | 0                      |            |           |
| LONG DISTANCE<br>SERVICE | 0         | 13,100,616 | 0                      |            |           |
| INTERCONNECTION          | 0         | 417,296    | 0                      |            |           |
| CORPORATE<br>NETWORKS    | 0         | 6,053,722  | 0                      |            |           |

|          |   |            |   |  |  |
|----------|---|------------|---|--|--|
| INTERNET | 0 | 1,344,958  | 0 |  |  |
| OTHERS   | 0 | 403,285    | 0 |  |  |
| TOTAL    |   | 84,499,216 |   |  |  |

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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 11b

SALES DISTRIBUTION BY PRODUCT

FOREIGN SALES

(Thousands of Mexican Pesos)

Consolidated

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| MAIN PRODUCTS            | NET SALES |            | DESTINATION | MAIN       |           |
|--------------------------|-----------|------------|-------------|------------|-----------|
|                          | VOLUME    | AMOUNT     |             | TRADEMARKS | CUSTOMERS |
| EXPORT                   |           |            |             |            |           |
| NET SETTLEMENT           | 0         | 1,861,108  |             |            |           |
| FOREIGN<br>SUBSIDIARIES  |           |            |             |            |           |
| NET SETTLEMENT           | 0         | 87,807     |             |            |           |
| LOCAL SERVICE            | 0         | 2,084,524  |             |            |           |
| LONG DISTANCE<br>SERVICE | 0         | 13,100,616 |             |            |           |
| INTERCONNECTION          | 0         | 417,296    |             |            |           |
| CORPORATE<br>NETWORKS    | 0         | 6,053,722  |             |            |           |
| INTERNET                 | 0         | 1,344,958  |             |            |           |

|        |   |            |  |  |  |
|--------|---|------------|--|--|--|
| OTHERS | 0 | 403,285    |  |  |  |
| TOTAL  |   | 25,353,316 |  |  |  |
| NOTES: |   |            |  |  |  |

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TELÉFONOS DE MÉXICO, S.A. DE C.V.

## ANALYSIS OF PAID CAPITAL STOCK

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| SERIES  | NOMINAL<br>VALUE | VALID<br>COUPON | NUMBER OF SHARES |                     |               |                        | CAPITAL STOCK<br>(Thousand pesos) |          |
|---|------------------|-----------------|------------------|---------------------|---------------|------------------------|-----------------------------------|----------|
|   |                  |                 | FIXED<br>PORTION | VARIABLE<br>PORTION | MEXICAN       | PUBLIC<br>SUSSCRIPTION | FIXED                             | VARIABLE |
| A   | 0.01250          | 0               | 466,786,152      | 0                   | 0             | 466,786,152            | 5,835                             | 0        |
| AA  | 0.01250          | 0               | 8,114,596,082    | 0                   | 8,114,596,082 | 0                      | 101,432                           | 0        |
| L   | 0.01250          | 0               | 12,314,891,236   | 0                   | 0             | 12,314,891,236         | 153,936                           | 0        |
| TOTAL   |                  |                 | 20,896,273,470   | 0                   | 8,114,596,082 | 12,781,677,388         | 261,203                           | 0        |
| TOTAL NUMBER OF SHARES REPRESENTING CAPITAL STOCK ON THE REPORTING DATE OF THE INFORMATION: |                  |                 |                  |                     |               |                        | 20,896,273,470                    |          |
| NOTES:  |                  |                 |                  |                     |               |                        |                                   |          |

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## MEXICAN STOCK EXCHANGE

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SIFIC/ICS

## TELÉFONOS DE MÉXICO, S.A. DE C.V.

## ANNEX 13

## PROJECT INFORMATION

(Thousands of Mexican Pesos)

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| ITEM                                      | Thousand of Mexican Pesos     |                 |                     |                   |                 |
|---|-------------------------------|-----------------|---------------------|-------------------|-----------------|
|   | 2nd. Quarter<br>06<br>Apr-Jun | % of<br>Advance | Amount used<br>2006 | Budget<br>2006    | % of<br>Advance |
| DATA                                      | 934,385                       | 22.8            | 1,462,296           | 4,093,975         | 35.7            |
| INTERNAL PLANT                            | 187,953                       | 12.4            | 310,851             | 1,513,680         | 20.5            |
| OUTSIDE PLANT                             | 722,063                       | 22.7            | 1,080,404           | 3,179,746         | 34.0            |
| TRANSMISSION NETWORK                      | 321,589                       | 14.1            | 353,237             | 2,279,376         | 15.5            |
| SYSTEMS                                   | 44,103                        | 6.2             | 77,488              | 714,257           | 10.8            |
| OTHERS                                    | 468,592                       | 8.7             | 853,745             | 5,370,684         | 15.9            |
| <b>TOTAL INVESTMENT TELMEX<br/>MEXICO</b> | <b>2,678,685</b>              | <b>15.6</b>     | <b>4,138,021</b>    | <b>17,151,718</b> | <b>24.1</b>     |
| LATINOAMERICA                             | 500,570                       | 25.0            | 880,471             | 2,003,691         | 43.9            |
| EMBRATEL                                  | 1,364,330                     | 19.9            | 3,124,308           | 6,859,449         | 45.5            |
| <b>TOTAL INVESTMENT</b>                   | <b>4,543,585</b>              | <b>17.5</b>     | <b>8,142,800</b>    | <b>26,014,858</b> | <b>31.3</b>     |

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STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006



TELÉFONOS DE MÉXICO, S.A. DE C.V.

ANNEX 14

TRANSACTIONS IN FOREIGN CURRENCY AND EXCHANGE OF FINANCIAL STATEMENTS FROM  
FOREIGN OPERATIONS

Consolidated

Final printing

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Basis of translation of financial statements of foreign subsidiaries

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

The financial statements as reported by the subsidiaries abroad were adjusted to conform to accounting principles generally accepted in Mexico.

All balance sheet amounts, except for stockholders' equity, were translated at the prevailing exchange rate at year-end; stockholders' equity accounts were translated at the prevailing exchange rate at the time capital contributions were made and earnings were generated. The statement of income amounts were translated at the prevailing exchange rate at the end of the reporting period. The translation into Mexican pesos is carried out after the related balances or transactions have been restated based on the inflation rate of the country in which the subsidiary operates.

Exchange differences and the monetary position effect derived from intercompany monetary items were not eliminated from the consolidated statements of income.

Translation differences are included in the caption *Effect of translation of foreign entities* and are included in stockholders' equity as part of the caption *Other comprehensive income items*.

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MEXICAN STOCK EXCHANGE

Index

SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

GENERAL INFORMATION

Consolidated

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## ISSUER GENERAL INFORMATION

|                   |                                   |
|-------------------|-----------------------------------|
| COMPANY:          | TELEFONOS DE MEXICO, S.A. DE C.V. |
| ADDRESS:          | PARQUE VIA 198, COL. CUAUHTEMOC   |
| ZIP:              | 06599                             |
| CITY:             | MEXICO, D.F.                      |
| TELEPHONE:        | 52 22 12 12                       |
| FAX:              |                                   |
| E-MAIL:           |                                   |
| INTERNET<br>PAGE: | www.telmex.com                    |

## ISSUER FISCAL INFORMATION

|  |                                    |
|--|------------------------------------|
| TAX PAYER FEDERAL<br>ID: FISCAL ADDRESS: | TME 840315KT6                      |
| ZIP:                                     | PARQUE VIA 198, COL.<br>CUAUHTEMOC |
| CITY:                                    | 06599                              |
|  | MEXICO, D.F.                       |

## OFFICERS INFORMATION

|               |                               |
|---------------|-------------------------------|
| POSITION BMV: | CHAIRMAN OF THE BOARD         |
| POSITION:     | CHAIRMAN OF THE BOARD         |
| NAME:         | LIC. CARLOS SLIM DOMIT        |
| ADDRESS:      | CALVARIO NUM 100 COL. TLALPAN |
| ZIP:          | 14000                         |

|            |                    |
|------------|--------------------|
| CITY:      | MEXICO, D.F.       |
| TELEPHONE: | 53 25 98 01        |
| FAX:       | 55 73 31 77        |
| E-MAIL:    | slimc@sanborns.com |

|               |   |
|---------------|---|
| POSITION BMV: | CHIEF EXECUTIVE OFFICER   |
| POSITION:     | CHIEF EXECUTIVE OFFICER   |
| NAME:         | ING. JAIME CHICO PARDO  |
| ADDRESS:      | PARQUE VIA 190 - 10 <sup>TH</sup> . FLOOR OFFICE 1001, COL. CUAUHEMOC |
| ZIP:          | 06599   |
| CITY:         | MEXICO, D.F.  |
| TELEPHONE:    | 55 46 15 46   |
| FAX:          | 57 05 00 39   |
| E-MAIL:       |   |

|               |   |
|---------------|---|
| POSITION BMV: | CHIEF FINANCIAL OFFICER   |
| POSITION:     | CHIEF FINANCIAL OFFICER   |
| NAME:         | ING. ADOLFO CEREZO PEREZ  |
| ADDRESS:      | PARQUE VIA 190 - 10 <sup>TH</sup> . FLOOR OFFICE 1016, COL. CUAUHEMOC |
| ZIP:          | 06599   |
| CITY:         | MEXICO, D.F.  |
| TELEPHONE:    | 52 22 57 80   |
| FAX:          | 52 55 15 76   |
| E-MAIL:       | acerezo@telmex.com  |

|               |  |
|---------------|--|
| POSITION BMV: | DISTRIBUTION OF CORPORATE INFORMATION DELEGATE                       |
| POSITION:     | SUBDIRECTOR OF FINANCE   |
| NAME:         | C.P. EDUARDO ROSENDO GIRARD  |
| ADDRESS:      | PARQUE VIA 198 - 5 <sup>TH</sup> . FLOOR OFFICE 501, COL. CUAUHTEMOC |
| ZIP:          | 06599  |
| CITY:         | MEXICO, D.F.   |
| TELEPHONE:    | 52 22 53 95  |
| FAX:          | 52 50 80 54  |
| E-MAIL:       | erosendo@telmex.com  |

|               |  |
|---------------|--|
| POSITION BMV: | DISTRIBUTION OF BUYBACK INFORMATION DELEGATE                         |
| POSITION:     | SHAREHOLDER SERVICES MANAGER   |
| NAME:         | LIC. MIGUEL ANGEL PINEDA CATALAN                                     |
| ADDRESS:      | PARQUE VIA 198 - 2 <sup>ND</sup> . FLOOR OFFICE 202, COL. CUAUHTEMOC |
| ZIP:          | 06599  |
| CITY:         | MEXICO, D.F.   |
| TELEPHONE:    | 52 22 53 22  |
| FAX:          | 55 46 21 11  |
| E-MAIL:       | mpineda@telmex.com   |

|               |  |
|---------------|--|
| POSITION BMV: | IN-HOUSE LEGAL COUNSEL   |
| POSITION:     | LEGAL DIRECTOR   |
| NAME:         | LIC. SERGIO F. MEDINA NORIEGA  |
| ADDRESS:      | PARQUE VIA 190 - 2 <sup>ND</sup> . FLOOR OFFICE 202, COL. CUAUHTEMOC |
| ZIP:          | 06599  |
| CITY:         | MEXICO, D.F.   |
| TELEPHONE:    | 52 22 14 25  |

FAX: 55 46 43 74  
 E-MAIL: smedinan@telmex.com

POSITION BMV: DISTRIBUTION OF FINANCIAL INFORMATION DELEGATE  
 POSITION: SUBDIRECTOR OF FINANCE  
 NAME: C.P. EDUARDO ROSENDO GIRARD  
 ADDRESS: PARQUE VIA 198 - 5<sup>TH</sup>. FLOOR OFFICE 501, COL. CUAUHTEMOC  
 ZIP: 06599  
 CITY: MEXICO, D.F.  
 TELEPHONE: 52 22 53 95  
 FAX: 52 50 80 54  
 E-MAIL: erosendo@telmex.com

POSITION BMV: DISTRIBUTION OF MATERIAL FACTS DELEGATE  
 POSITION: INVESTORS RELATIONS MANAGER  
 NAME: ING. RUY ECHAVARRIA AYUSO  
 ADDRESS: PARQUE VIA 198 - 7<sup>TH</sup>. FLOOR OFFICE 701, COL. CUAUHTEMOC  
 ZIP: 06599  
 CITY: MEXICO, D.F.  
 TELEPHONE: 57 03 39 90  
 FAX: 55 45 55 50  
 E-MAIL: rechavar@telmex.com &  
 ri@telmex.com

POSITION BMV: INVESTOR INFORMATION RESPONSIBLE  
 POSITION: INVESTORS RELATIONS MANAGER  
 NAME: ING. RUY ECHAVARRIA AYUSO  
 ADDRESS: PARQUE VIA 198 - 7<sup>TH</sup>. FLOOR OFFICE 701, COL. CUAUHTEMOC

|            |               |
|------------|---------------|
| ZIP:       | 06599         |
| CITY:      | MEXICO, D.F.  |
| TELEPHONE: | 57 03 39 90   |
| FAX:       | 55 45 55 50   |
| E-MAIL:    | ri@telmex.com |

|               |  |
|---------------|--|
| POSITION BMV: | SECRETARY OF THE BOARD OF DIRECTORS                                  |
| POSITION:     | LEGAL DIRECTOR   |
| NAME:         | LIC. SERGIO F. MEDINA NORIEGA  |
| ADDRESS:      | PARQUE VIA 190 - 2 <sup>ND</sup> . FLOOR OFFICE 202, COL. CUAUHTEMOC |
| ZIP:          | 06599  |
| CITY:         | MEXICO, D.F.   |
| TELEPHONE:    | 52 22 14 25  |
| FAX:          | 55 46 43 74  |
| E-MAIL:       | smedinan@telmex.com  |

|               |  |
|---------------|--|
| POSITION BMV: | PAYMENT RESPONSIBLE  |
| POSITION:     | SUBDIRECTOR OF FINANCE   |
| NAME:         | C.P. EDUARDO ROSENDO GIRARD  |
| ADDRESS:      | PARQUE VIA 198 - 5 <sup>TH</sup> . FLOOR OFFICE 501, COL. CUAUHTEMOC |
| ZIP:          | 06599  |
| CITY:         | MEXICO, D.F.   |
| TELEPHONE:    | 52 22 53 95  |
| FAX:          | 52 50 80 54  |
| E-MAIL:       | erosendo@telmex.com  |

|               |                    |
|---------------|--------------------|
| POSITION BMV: | FIDUCIARY DELEGATE |
|---------------|--------------------|

|            |  |
|------------|--|
| POSITION:  |  |
| NAME:      |  |
| ADDRESS:   |  |
| ZIP:       |  |
| CITY:      |  |
| TELEPHONE: |  |
| FAX:       |  |
| E-MAIL:    |  |

|               |       |
|---------------|-------|
| POSITION BMV: | OTHER |
| POSITION:     |       |
| NAME:         |       |
| ADDRESS:      |       |
| ZIP:          |       |
| CITY:         |       |
| TELEPHONE:    |       |
| FAX:          |       |
| E-MAIL:       |       |

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MEXICAN STOCK EXCHANGE

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SIFIC/ICS

STOCK EXCHANGE CODE: TELMEX QUARTER: 2 YEAR: 2006

TELÉFONOS DE MÉXICO, S.A. DE C.V.

BOARD OF DIRECTORS

| POSITION              | NAME  |               |                  |                        |
|-----------------------|-------|---------------|------------------|------------------------|
| CHAIRMAN OF THE BOARD | LIC.  | CARLOS        | SLIM             | DOMIT                  |
| VICEPRESIDENT         | ING.  | JAIME         | CHICO            | PARDO                  |
| VICEPRESIDENT         | C.P.  | JUAN ANTONIO  | PEREZ            | SIMON                  |
| HONORARY BOARD MEMBER | ING.  | CARLOS        | SLIM             | HELU                   |
| BOARD PROPIETORS      | SR.   | EMILIO        | AZCARRAGA        | JEAN                   |
| BOARD PROPIETORS      | ING.  | ANTONIO       | COSIO            | ARIÑO                  |
| BOARD PROPIETORS      | SRA.  | LAURA         | DIEZ BARROSO     | DE LAVIADA             |
| BOARD PROPIETORS      | MTRA. | AMPARO        | ESPINOSA         | RUGARCIA               |
| BOARD PROPIETORS      | ING.  | ELMER         | FRANCO           | MACIAS                 |
| BOARD PROPIETORS      | LIC.  | ANGEL         | LOSADA           | MORENO                 |
| BOARD PROPIETORS      | SR.   | ROMULO        | O FARRIL JR.     | (deceased in May 2006) |
| BOARD PROPIETORS      | LIC.  | FERNANDO      | SENDEROS         | MESTRE                 |
| BOARD PROPIETORS      | LIC.  | MARCO ANTONIO | SLIM             | DOMIT                  |
| BOARD PROPIETORS      | SR.   | RAYFORD       | WILKINS JR.      |                        |
| BOARD PROPIETORS      | SR.   | RICHARD       | P.               | RESNICK                |
| BOARD PROPIETORS      | SR.   | LARRY         | I.               | BOYLE                  |
| BOARD PROPIETORS      | C.P.  | RAFAEL        | KALACH           | MIZRAHI                |
| BOARD PROPIETORS      | LIC.  | RICARDO       | MARTIN           | BRINGAS                |
| BOARD ALTERNATES      | LIC.  | PATRICK       | SLIM             | DOMIT                  |
| BOARD ALTERNATES      | LIC.  | ARTURO        | ELIAS            | AYUB                   |
| BOARD ALTERNATES      | C.P.  | JOSÉ HUMBERTO | GUTIERREZ-OLVERA | ZUBIZARRETA            |
| BOARD ALTERNATES      | LIC.  | JORGE C.      | ESTEVE           | RECOLONS               |
| BOARD ALTERNATES      | ING.  | ANTONIO       | COSIO            | PANDO                  |



|  |        |           |           |          |
|--|--------|-----------|-----------|----------|
| BOARD ALTERNATES                       | SR.    | EDUARDO   | TRICIO    | HARO     |
| BOARD ALTERNATES                       | SRA.   | ANGELES   | ESPINOSA  | YGLESIAS |
| BOARD ALTERNATES                       | ING.   | AGUSTIN   | FRANCO    | MACIAS   |
| BOARD ALTERNATES                       | SR.    | JAIME     | ALVERDE   | GOYA     |
| BOARD ALTERNATES                       | C.P.   | ANTONIO   | DEL VALLE | RUIZ     |
| BOARD ALTERNATES                       | LIC.   | JOSE      | KURI      | HARFUSH  |
| BOARD ALTERNATES                       | LIC.   | FERNANDO  | SOLANA    | MORALES  |
| BOARD ALTERNATES                       | LIC.   | EDUARDO   | VALDES    | ACRA     |
| BOARD ALTERNATES                       | LIC.   | CARLOS    | BERNAL    | VEREA    |
| BOARD ALTERNATES                       | LIC.   | FEDERICO  | LAFFAN    | FANO     |
| BOARD ALTERNATES                       | SR.    | JORGE A.  | CHAPA     | SALAZAR  |
| BOARD ALTERNATES                       | ING.   | BERNARDO  | QUINTANA  | ISAAC    |
| BOARD ALTERNATES                       | C.P.   | FRANCISCO | MEDINA    | CHAVEZ   |
|  |        |           |           |          |
| STATUTORY AUDITOR                      | C.P.C. | ALBERTO   | TIBURCIO  | CELORIO  |
|  |        |           |           |          |
| ALTERNATE<br>STATUTORY AUDITOR         | C.P.C. | FERNANDO  | ESPINOSA  | LOPEZ    |
|  |        |           |           |          |
| SECRETARY OF THE<br>BOARD OF DIRECTORS | LIC.   | SERGIO    | MEDINA    | NORIEGA  |
|  |        |           |           |          |
| ASSISTANT SECRETARY                    | LIC.   | RAFAEL    | ROBLES    | MIAJA    |
|  |        |           |           |          |

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## SIGNATURE

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

Date: **July 26, 2006.**

TELÉFONOS DE MÉXICO, S.A. DE C.V.

By: /s/\_\_\_\_\_

Name: Adolfo Cerezo Pérez  
Title: Chief Financial Officer

Ref: Teléfonos de México, S.A. de C.V. - **Second Quarter 2006.**