TELEFONOS DE MEXICO S A B DE C V
Form 6-K
November 05, 2009

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

of the Securities Exchange Act of 1934

For the month of November 2009

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

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

Telephones of Mexico

(Translation of Registrant s Name into English)

Parque Vía 190

Colonia Cuauhtémoc

06599 México, D.F., México

(Address of principal executive offices)

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

(Check One) Form 20-F x Form 40-F ¨

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

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

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

(Check One) Yes ¨ No x

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

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We have prepared this report to provide our investors with disclosure and financial information regarding recent developments in our business and results of operation for the nine-months period ended September 30, 2009.

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

RECENT DEVELOPMENTS

Results of Operations for the Nine-Month Periods Ended September 30, 2009 and 2008

Summary of Operating Income and Net Income

The table below summarizes our consolidated statement of income for the nine-month periods ended September 30, 2009 and 2008.

	Nine-month period ended September 30,			
	2009		2008	
	(millions of pesos)	(percentage of operating revenues)	(millions of pesos)	(percentage of operating revenues)
Operating revenues:				
Local service	P. 34,228	38.3%	P. 37,179	39.9%
Domestic long-distance service	10,845	12.1	12,172	13.1
International long-distance service	5,226	5.9	6,386	6.9
Interconnection service	12,599	14.1	14,384	15.4
Internet access services	11,906	13.3	9,539	10.2
Corporate networks	10,096	11.3	8,931	9.6
Other	4,453	5.0	4,547	4.9
Total operating revenues	89,353	100.0	93,138	100.0
Operating costs and expenses:				
Cost of sales and services	24,869	27.8	23,881	25.7
Commercial, administrative and general	15,497	17.3	14,635	15.7
Interconnection	8,913	10.0	10,682	11.5
Depreciation and amortization	13,485	15.1	13,449	14.4
Total operating costs and expenses	62,764	70.2	62,647	67.3
Operating income	26,589	29.8%	30,491	32.7%
Other expenses, net	1,213		892	
Financing cost:				
Interest income	(561)		(603)	
Interest expense	4,696		5,171	
Exchange (gain) loss, net	(1,041)		856	
	3,094		5,424	
Equity interest in net income of affiliates	163		69	
Income before taxes on profits	22,445		24,244	
Provision for income tax	6,970		7,047	
Net income	P. 15,475		P. 17,197	

Revenues

Total revenues decreased by 4.1% in the first nine months of 2009 compared to the same period in 2008. This decrease was the result of a 7.9% decline revenues from local services, a decline of 13.4% in long-distance revenues and a decline of 12.4% in interconnection revenues, partially offset by an increase of 24.8% in Internet access revenues and an increase of 13.0% in corporate networks revenues. The percentage of our revenues attributable to voice services (including local, long-distance and interconnection services) declined to 70.4% in the first nine months of

2009 from 75.3% in the same period in 2008. Revenues from Internet access services and corporate networks grew to 24.6% of our revenues for the first nine months of 2009 compared to 19.8% of our revenues in the same period in 2008.

Local Service Revenues

Local service revenues decreased by 7.9% in the first nine months of 2009 compared to the same period in 2008, primarily due to lower average revenue per local billed call and, due to competition from both wireless and other fixed-line providers, a 7.7% reduction in local traffic volume and a decline of 1.8% in the number of lines in service.

Domestic Long-distance Revenues

Domestic long-distance revenues decreased by 10.9% in the first nine months of 2009 compared to the same period in 2008 primarily due to lower average revenue per minute. This reflects an increase in our offering of multi-service packages that include domestic long-distance minutes, which promotes traffic volumes but reduces average revenue per minute.

International Long-distance Revenues

International long-distance revenues decreased by 18.2% in the first nine months of 2009 compared to the same period in 2008. This decrease was due to a decline in outgoing traffic of 33.1%, reflecting a decrease in Mexico s economic activity as well as decreased levels of traffic from mobile phone operators, partially offset by an increase in average revenue per minute. Revenues from incoming international long-distance traffic decreased by 7.0% in the first nine months of 2009 compared to the same period in 2008, mainly due to an 11.3% decline in incoming traffic.

Revenues from Interconnection Service

Revenues from interconnection service decreased by 12.4% in the first nine months of 2009 compared to the same period in 2008. This decrease was due to a reduction in the calling party pays rate and a decline of 6.3% in local and 21.6% in the long-distance calling party pays traffic flows.

Revenues from Internet Access Service

Revenues from Internet access service increased by 24.8% in the first nine months of 2009 compared to the same period in 2008. This increase was primarily due to an increase of 40.1% in the number of Internet access customer accounts, totaling 6.4 million at September 30, 2009, partially offset by lower average revenues per customer account.

Revenues from Corporate Networks

Revenues from corporate networks increased by 13.0% in the first nine months of 2009 compared to the same period in 2008. This increase was due to higher sales of virtual private networks (VPN) services and data-related value-added services.

Other Revenues

Other revenues decreased by 2.1% in the first nine months of 2009 compared to the same period in 2008. This decrease was mainly due to lower revenues from our billing and collection services, partially offset by increased sales of computers at Telmex stores.

Operating Costs and Expenses

Cost of Sales and Services

Costs of sales and services increased by 4.1% in the first nine months of 2009 compared to the same period in 2008. This increase was primarily due to higher labor costs and cost of goods sold attributable to higher sales of computers and telecommunications equipment for corporate customers.

Commercial, Administrative and General Expenses

Commercial, administrative and general expenses increased by 5.9% in the nine months of 2009 compared to the same period in 2008. This increase was mainly due to higher expenses related to labor costs, charges for doubtful accounts and higher commissions related to growth of broadband services.

Interconnection Costs

Interconnection costs decreased by 16.6% in the first nine months of 2009 compared to the same period in 2008. This decrease was mainly due to a decline in the rate paid to mobile phone operators for calls under the calling party pays system and a decline in calling party pays traffic.

Depreciation and Amortization

Depreciation and amortization increased slightly by 0.3% in the first nine months of 2009 compared to the same period in 2008.

Operating Income

Operating income decreased by 12.8% in the first nine months of 2009 compared to the same period in 2008, primarily due to the 4.1% decrease in revenues. Operating margin was 29.8% in the first nine months of 2009 compared to 32.7% in the same period in 2008, as the mix of our revenues continued to shift from voice services to Internet access and corporate networks.

Other Expenses, Net

Other expenses, net increased by 36.0% in the first nine months of 2009 compared to the same period in 2008. Other expenses, net were lower for the first nine months of 2008 as a result of tax benefits we recognized in 2008 derived from a tax compliance incentive program established by the Mexican government.

Financing Cost, Net

For the first nine months of 2009, financing cost, net was P.3,094 million compared to P.5,424 million at September 30, 2008. This decrease resulted from the following factors:

- Interest income decreased by 7.0% in the first nine months of 2009 compared to the same period in 2008, primarily due to a lower average level of interest-bearing assets;

- Interest expense decreased by 9.2% in the first nine months of 2009 compared to the same period in 2008, primarily due to a decrease in average level of indebtedness, partially offset by higher net fair-value losses on interest-rate swaps; and

- We recorded a net exchange gain of P.1,041 million in the first nine months of 2009, compared to a net exchange loss of P.856 million in the same period in 2008. This net exchange gain was primarily due to net gains on cross-currency swaps that matured or were terminated and the slight appreciation of the peso against the U.S. dollar during the first nine months of 2009.

Income Tax

We have recorded provisions for income tax of P.6,970 million for the first nine months of 2009 compared to P.7,047 million for the same period in 2008. Our effective rate of corporate income tax as a percentage of pretax profit was 31.1% for the first nine months of 2009 and 29.1% for the same period in 2008. This increase was primarily due to the effects of the application of inflation indexation for tax purposes.

Selected Balance Sheet and Other Data

At September 30, 2009, cash and cash equivalents totaled P.7,827 million, compared to P.6,137 million at December 31, 2008. During the nine months ended September 30, 2009, we used approximately P.8,992 million to pay dividends and repurchase our own shares, and we incurred approximately P.7,386 million in capital expenditures. Our accounts payable and accrued liabilities at September 30, 2009 were P.16,301 million, compared to P.15,918 million at December 31, 2008. At September 30, 2009, our total assets were P.179,325 million, total liabilities were P.135,385 million and total stockholders equity was P.43,940 million, compared to total assets of P.187,125 million, total liabilities of P.147,754 million and total stockholders equity of P.39,371 million at December 31, 2008.

Capital Expenditures and Other Uses of Cash

Our capital expenditures totaled P.7,386 million in the first nine months of 2009, and we anticipate that our total capital expenditures for 2009 will be approximately P.8,000 million (approximately U.S.$613 million). For 2010, we expect that our capital expenditures will be approximately P.7,500 million (approximately U.S.$522 million). Our budgeted amount excludes any acquisitions that we may make in the future.

We also made, based on actuarial estimates, a contribution to Telmex s employee pension fund in the amount of P.5,600 million in the third quarter of 2009.

Indebtedness

At September 30, 2009, we had total indebtedness of P.95,385 million (approximately U.S.$7,063 million), a decrease of 10.7% compared to December 31, 2008. In August 2009, we prepaid a portion of a syndicated loan in the amount of approximately P.16,726 million (U.S.$1,300 million) that was originally scheduled to mature in October 2009. In addition, during the first nine months of 2009, we repaid debt in the amount of P.4,654 million (approximately U.S.$346 million) at maturity. In July 2009, we issued two series of peso-denominated senior notes (certificados bursátiles) in Mexico in an aggregate principal amount of P.8,000 million, P.4,000 million of which mature in July 2011 and the remainder of which mature in July 2013. On November 3, 2009, we issued two series of peso-denominated senior notes (*certificados bursátiles*) in Mexico in an aggregate principal amount of P.6,000 million, P.4,000 million of which mature in October 2014 and P.2,000 million of which mature in October 2016.

Derivatives

At September 30, 2009, our cross-currency swaps covered U.S.-dollar liabilities of P.56,934 million (approximately U.S.$4,216 million) and our short-term forward exchange contracts covered U.S.-dollar liabilities of P.4,997 million (approximately U.S.$370 million). Together these instruments covered 94.3% of our foreign currency-denominated debt.

Approximately 53.2% of our debt in pesos (P.15,800 million as of September 30, 2009) bears interest at variable rates. At September 30, 2009, the aggregate notional amount of our peso-denominated variable rate to fixed rate interest-rate swaps was P.23,752 million. At September 30, 2009, we had cross-currency coupon swaps that covered interest payments of P.4,726 million (approximately U.S.$350 million).

The aggregate effect of our derivative instruments was a net loss of P.1,495 million during the first nine months of 2009, compared to a net loss of P.2,703 million during first nine months of 2008, in each case, reflected in our financing cost, net. The fair value of our derivative instruments was P.13, 376 million as of September 30, 2009, compared to P.20,419 million as of December 31, 2008.

Share Purchase Program

We have continued our share purchase program. During the first nine months of 2009, we purchased 269.8 million L shares for an aggregate consideration of P.3,035 million and 1.4 million A shares for P.15.3 million.

During 2008, we purchased 796.7 million L shares for an aggregate consideration of P.12,764 million and 8.6 million A shares for an aggregate consideration of P.107.7 million.

Recent Events

Regulatory Developments

Between November 2007 and February 2008, the Mexican Federal Competition Commission (Comisión Federal de Competencia, or Competition Commission) began seven industry-wide investigations to determine whether any telecommunications operators, including Telmex and certain of our affiliates, possess substantial market power or are engaged in monopolistic practices in certain segments of the Mexican telecommunications market. In four of these investigations, the Competition Commission determined in a final resolution that, in the geographic areas covered by our network, Telmex and our subsidiary Teléfonos del Noroeste, S.A. de C.V. (Telnor) have substantial power in the following markets: (1) transit services offered to concessionaires of local and long-distance services in 191 areas of local service that such concessionaires cover; (2) certain wholesale markets for dedicated, leased local and domestic long-distance links, as well as the wholesale markets for dedicated, leased international long-distance and interconnection; (3) call origination offered to other concessionaires of long-distance service; and (4) for switched call completion provided to other concessionaires of local and long-distance service.

We filed with the Competition Commission administrative appeals for reconsideration of the two final resolutions described in (1) and (2) above. The Competition Commission rejected our appeals and we filed a petition for constitutional protection (amparo), which is pending. Based on these final resolutions, the Mexican Federal Telecommunications Commission (Comisión Federal de Telecomunicaciones) could impose specific tariff requirements or other special regulations such as additional requirements regarding disclosure of information or quality of service. With respect to the final resolutions described in (3) and (4) above, we plan to file appeals for reconsideration. The outcome of these matters, the timing for their ultimate resolution and the consequences for us are uncertain. Findings adverse to us in any of the Competition Commission proceedings may lead to the imposition of regulations, prohibitions or monetary penalties, which in turn could have an adverse effect on our business and results of operations. See Item 3. Key Information Risk Factors Regulatory developments could hurt our business by limiting our ability to pursue competitive and profitable strategies and Item 4. Information on the Company Regulation Regulatory Initiatives Relating to Competition in our annual report on Form 20-F for the year ended December 31, 2008 (File No. 1-32741), filed with the Securities and Exchange Commission on May 29, 2009.

Proposed Tax on Telecommunications Services

The Mexican government recently proposed legislation to impose a new tax of 3% on revenues from certain telecommunication services. The proposal is currently pending in the Mexican Congress. If this legislation is adopted, it could adversely affect our results of operations.

TELÉFONOS DE MÉXICO, S.A.B. DE C.V.

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CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

	September 30, 2009 (Unaudited)	December 31, 2008
Assets		
Current assets:		
Cash and cash equivalents	**P. 7,827,247**	P. 6,136,563
Accounts receivable, net (Note 2)	**22,854,683**	20,808,763
Derivative financial instruments (Note 4)	**13,375,869**	20,418,889
Inventories for sale, net	**1,414,257**	1,914,306
Prepaid expenses and others	**3,360,863**	2,900,790
Total current assets	**48,832,919**	52,179,311
Plant, property and equipment, net (Note 3)	**107,217,471**	112,865,377
Inventories for operation of the telephone plant, net	**1,849,517**	2,668,410
Licenses, net	**935,958**	1,025,027
Equity investments	**1,702,200**	1,494,133
Net projected asset	**17,301,225**	15,485,402
Deferred charges, net	**1,485,884**	1,407,687
Total assets	**P. 179,325,174**	P. 187,125,347
Liabilities and stockholders equity		
Current liabilities:		
Short-term debt and current portion of long-term debt (Note 4)	**P. 23,346,073**	P. 22,883,092
Accounts payable and accrued liabilities (Note 5)	**16,300,730**	15,918,106
Taxes payable	**1,937,718**	783,543
Deferred credits	**1,594,865**	1,780,115
Total current liabilities	**43,179,386**	41,364,856
Long-term debt (Note 4)	**72,039,391**	84,172,355
Labor obligations (Note 6)	**4,388,511**	4,997,540
Deferred taxes (Note 11)	**15,417,159**	16,808,391
Deferred credits	**360,684**	411,106
Total liabilities	**135,385,131**	147,754,248
Stockholders equity (Note 10):		
Capital stock	**9,050,320**	9,138,632
Retained earnings:		
Prior periods	**18,297,385**	7,197,720
Current period	**15,474,430**	20,176,936
	33,771,815	27,374,656
Accumulated other comprehensive income items	**1,075,772**	2,816,625
Controlling interest	**43,897,907**	39,329,913
Noncontrolling interest	**42,136**	41,186

Total stockholders equity	**43,940,043**	39,371,099
Total liabilities and stockholders equity	**P. 179,325,174**	P. 187,125,347

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

TELÉFONOS DE MÉXICO, S.A.B. DE C.V. AND SUBSIDIARIES

Unaudited Condensed Consolidated

Statements of Income

(In thousands of Mexican pesos, except for earnings per share, see Note 1.d)

	Nine-month periods ended September 30, 2009	2008
Operating revenues:		
Local service	**P. 34,228,439**	P. 37,178,775
Long distance service:		
Domestic	**10,844,515**	12,171,505
International	**5,226,245**	6,385,778
Interconnection service	**12,598,605**	14,384,188
Corporate networks	**10,096,428**	8,930,576
Internet access services	**11,905,909**	9,538,621
Other	**4,453,218**	4,548,471
	89,353,359	93,137,914
Operating costs and expenses:		
Cost of sales and services	**24,869,146**	23,881,390
Commercial, administrative and general expenses	**15,496,899**	14,634,543
Interconnection	**8,913,491**	10,682,239
Depreciation and amortization (includes P.12,870,123 in 2009 and P. 12,710,963 in 2008, not included in cost of sales and services)	**13,485,268**	13,448,702
	62,764,804	62,646,874
Operating income	**26,588,555**	30,491,040
Other expenses, net	**1,212,821**	891,765
Financing cost:		
Interest income		