

TELEFONOS DE MEXICO S A DE C V

Form 6-K

April 23, 2003

First quarter 2003

- During the quarter, 289,817 lines were added, raising the total to 14,736,253; an annual increase of 8.3%
- From January to March, Internet access accounts rose to 1,234,202, an annual increase of 25.1%, with an addition of 68,801 accounts during the quarter

| Relevant figures | 1Q2003 | 1Q2002 | % Increase |
|--|--------|--------|------------|
| (Millions of Mexican constant pesos as of March, 2003) | | | |
| Revenues | 27,677 | 27,792 | (0.4) |
| EBITDA | 14,237 | 15,140 | (6.0) |
| Operating income | 9,312 | 10,355 | (10.1) |
| Net income | 4,972 | 5,823 | (14.6) |
| Earnings per share (pesos)* | 0.39 | 0.45 | (13.3) |

*Considers outstanding shares at the end of each period

Operating results

Local

At the end of the first quarter, TELMEX had 14,736,253 lines in service, an annual increase of 8.3%. During the quarter 289,817 lines were added. Penetration of digital services increased 6 percentage points. At the end of the quarter, 31.8% of lines in service had at least one digital service.

From January to March, total call traffic was 6,470 million calls, 3.1% higher than the same period of 2002. Interconnection traffic with telecommunications operators increased 22.2% totaling 6,069 million minutes in the first quarter of 2003.

Long distance

In the first quarter of 2003, domestic long distance minutes totaled 3,826 million, 9.4% higher than the same period of the previous year.

International long distance traffic decreased as a result of lower incoming traffic, reflecting the practice of illegal by-pass in Mexico. In the first quarter, international long distance traffic totaled 927 million minutes, 25.5% lower than the same period of 2002.

Data

During the first quarter, 68,801 new Internet accounts were added. At March 31, TELMEX had 1,234,202 Internet access accounts an annual increase of 25.1% compared with the same period of 2002. ADSL customers totaled 97,645 representing 7.9% of total accounts in service. Internet service penetration in respect to lines in service reached 8.4%.

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TELMEX had 2,009,314 line equivalents for data transmission at the end of the first quarter, an annual increase of 18.2% compared with the same period of the previous year.

TELMEX financial results

For the first quarter, total revenues were 27,677 million pesos, a decrease of 0.4% compared with the same period of 2002. The decrease in revenues was mainly due to the following:

- Local revenues declined because local traffic has not been enough to offset the reduction of rates in real terms
- Domestic long distance traffic growth practically was enough to offset the reduction of rates in real terms
- The decrease in International long distance revenues was the result of lower incoming traffic due to the practice of illegal by-pass
- Data transmission revenues from Internet services, value added services, rent and installation of line equivalents were 3,242 million pesos, 10.6% more than the same period of 2002.

Operating costs and expenses rose to 18,365 million pesos, an increase of 5.3% compared with last year's first quarter. Commercial, administrative and general expenses increased due to a charge in accounting for pension and seniority premiums as well as higher advertising and promotional expenses in comparison with those of the first quarter in 2002. Cost of sales and services mainly increased due to higher costs of telephone sets and personal computer packages related to Prodigy Internet.

In the first quarter, EBITDA totaled 14,237 million pesos, a decrease of 6% compared with the same period of 2002. Operating income decreased 10.1% reaching 9,312 million pesos. EBITDA and operating margins decreased from a year ago.

Comprehensive financing cost resulted in a charge of 1,683 million pesos in the quarter as a result of a net exchange loss of 2,115 million pesos.

The loss was due to a devaluation of 4.4% of the peso against the US dollar in the quarter. Net interests resulted in a charge of 204 million pesos. Finally, the gain in the monetary position of 636 million pesos partially offset the effects of these adjustments. Nevertheless, comprehensive financing cost was 3.4 times higher than a year ago.

Net income for the first quarter was 4,972 million pesos, 14.6% lower than the same period of 2002. From January 1 to March 31, TELMEX repurchased a total of 136,539,010 of its own shares. TELMEX's earnings per share for the first quarter, based on the number of shares outstanding at period end, were 0.39 pesos.

Consolidated statements of income

| Income statement | 1Q2003 | 1Q2002 | % Increase |
|------------------|--------|--------|------------|
| (| | | |

| | | | |
|---|--------|--------|--------|
| Millions of Mexican constant pesos as of March, 2003) | | | |
| Operating revenues | | | |
| Local | 12,905 | 13,219 | (2.4) |
| Domestic long distance | 7,519 | 7,228 | 4.0 |
| International long distance | 2,005 | 2,513 | (20.2) |
| Interconnection | 4,210 | 3,804 | 10.7 |
| Other | 1,038 | 1,028 | 1.0 |
| Total | 27,677 | 27,792 | (0.4) |
| Operating costs and expenses | | | |
| Cost of sales and services | 6,409 | 6,107 | 4.9 |
| Commercial, administrative and general | 4,079 | 3,815 | 6.9 |
| Interconnection | 2,952 | 2,730 | 8.1 |
| Depreciation and amortization | 4,925 | 4,785 | 2.9 |
| Total | 18,365 | 17,437 | 5.3 |
| Operating income | 9,312 | 10,355 | (10.1) |
| Comprehensive financing cost | | | |
| Net interest | 204 | 1,065 | (80.8) |
| Exchange loss | 2,115 | 259 | 716.6 |
| Monetary effect | (636) | (835) | (23.8) |

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| | | | |
|---|--------|--------|--------|
| Total | 1,683 | 489 | 244.2 |
| | | | |
| Income before tax and employee profit sharing | 7,629 | 9,866 | (22.7) |
| | | | |
| Provisions for income tax and employee profit sharing | 2,621 | 3,974 | (34.0) |
| | | | |
| Income before equity in results of affiliates | 5,008 | 5,892 | (15.0) |
| | | | |
| Equity in results of affiliates | (36) | (69) | (47.8) |
| | | | |
| Net income | 4,972 | 5,823 | (14.6) |
| | | | |
| | | | |
| EBITDA | 14,237 | 15,140 | (6.0) |
| EBITDA margin (%) | 51.4 | 54.5 | (3.1) |
| Operating margin (%) | 33.6 | 37.3 | (3.7) |

| Balance sheet | March 2003 | March 2002 |
|---|------------|------------|
| (Millions of Mexican constant pesos as of March 2003) | | |
| Assets | | |
| Cash and short-term investments | 15,294 | 11,108 |
| Other current assets | 21,458 | 23,442 |
| Plant, property and equipment, net | 124,145 | 123,256 |
| Inventories | 1,403 | 1,109 |
| Other assets | 1,649 | 1,892 |

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| | | |
|--|---------|---------|
| Intangible assets | 6,762 | 7,721 |
| Total assets | 170,711 | 168,528 |
| | | |
| Liabilities and stockholders' equity | | |
| Current portion of long-term debt | 12,085 | 12,398 |
| Other current liabilities | 19,156 | 20,515 |
| Long-term debt | 55,651 | 57,288 |
| Pensions and seniority premiums | 4,043 | 5,584 |
| Deferred taxes | 14,390 | 13,613 |
| Total liabilities | 105,325 | 109,398 |
| Stockholders' equity | 65,386 | 59,130 |
| Total liabilities and stockholders' equity | 170,711 | 168,528 |

Shares Outstanding at March 31, 2003: 12,640,562,715

Exchange rate used at March 31, 2003: 10.7671 pesos per dollar

Local service business

| Income statement | 1Q2003 | 1Q2002 | % Increase |
|---|--------|--------|------------|
| (| | | |
| Millions of Mexican constant pesos as of March, 2003) | | | |
| Operating revenues | | | |
| Access, rent and measured service | 12,911 | 13,293 | (2.9) |
| Recovery of LADA special projects | 382 | 402 | (5.0) |
| LADA interconnection | 736 | 768 | (4.2) |

| | | | |
|--|--------|--------|-------|
| Interconnection with operators | 264 | 212 | 24.5 |
| Interconnection with cellular | 3,947 | 3,593 | 9.9 |
| Other | 2,018 | 1,718 | 17.5 |
| Total | 20,258 | 19,986 | 1.4 |
| | | | |
| Operating costs and expenses | | | |
| Cost of sales and services | 4,203 | 4,030 | 4.3 |
| Commercial, administrative and general | 3,388 | 3,654 | (7.3) |
| Interconnection | 2,945 | 2,726 | 8.0 |
| Depreciation and amortization | 3,351 | 3,281 | 2.1 |
| Total | 13,887 | 13,691 | 1.4 |
| | | | |
| Operating Income | 6,371 | 6,295 | 1.2 |
| | | | |
| EBITDA | 9,722 | 9,576 | 1.5 |
| EBITDA margin (%) | 48.0 | 47.9 | 0.1 |
| Operating margin (%) | 31.4 | 31.5 | (0.1) |

Comments on local financial results

The local service income statement prepared in accordance with accounting separation principles shows an increase in revenues for this line of business of 1.4% for the first quarter. This was mainly because interconnection traffic with telecommunications operators grew 22.2%, mostly from "calling party pays".

Total costs and expenses increased 1.4% compared with the same period of 2002. This increase was mainly due to the higher interconnection charges associated with "calling party pays". Commercial, administrative and general cost and expenses decreased 7.3%.

In the first quarter, EBITDA and operating income increased 1.5% and 1.2% compared with the same period of 2002, totaling 9,722 and 6,371 million pesos, respectively.

Long distance business

| Income statement (Millions of Mexican constant pesos as of March, 2003) | 1Q2003 | 1Q2002 | % Increase |
|---|--------|--------|------------|
| Operating revenues | | | |
| Domestic long distance | 4,307 | 4,335 | (0.6) |
| International long distance | 1,662 | 2,109 | (21.2) |
| Total | 5,969 | 6,444 | (7.4) |
| Operating costs and expenses | | | |
| Cost of sales and services | 1,103 | 1,064 | 3.7 |
| C o m m e r c i a l , administrative and general | 1,214 | 1,172 | 3.6 |
| Interconnection to the local network | 705 | 733 | (3.8) |
| Cost of LADA special projects | 362 | 391 | (7.4) |
| D e p r e c i a t i o n a n d amortization | 576 | 569 | 1.2 |
| Total | 3,960 | 3,929 | 0.8 |
| Operating Income | 2,009 | 2,515 | (20.1) |
| EBITDA | 2,585 | 3,084 | (16.2) |
| EBITDA margin (%) | 43.3 | 47.9 | (4.6) |
| Operating margin (%) | 33.7 | 39.0 | (5.3) |

Comments on long distance financial results

The long distance service income statement prepared in accordance with accounting separation principles shows that long distance revenues for the first quarter decreased 7.4%. This was mainly due to the reduction of domestic and international long distance rates in real terms and lower ILD incoming traffic due to the practice of illegal by pass of some telecommunications operators resulting in lower settlement revenues.

From January to March, total operating costs and expenses of the long distance business increased 0.8% compared with the same period of 2002. This is the result of higher costs of sales and services due to the increase in the provision for uncollectables.

In the first quarter, EBITDA was 16.2% lower than in the same period of 2002 and operating income for the quarter decreased 20.1% compared with the same period of 2002.