

TELEFONOS DE MEXICO S A DE C V

Form 6-K

January 23, 2006

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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

**Pursuant to Rule 13a-16 or 15d-16 under
the Securities Exchange Act of 1934**

For the month of January 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-

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Report dated January 23, 2006

Teléfonos de México, S.A. de C.V.

We have prepared this report to provide investors with disclosure regarding recent developments in our business and our results of operations for the nine-month period ended September 30, 2005. The information in this report updates information contained in our annual report on Form 20-F for the year ended December 31, 2004 (SEC File No. 1-10749), filed with the Securities and Exchange Commission on June 28, 2005, which we refer to as the 2004 Form 20-F.

This report is hereby incorporated by reference in our registration statement on Form F-3 (SEC File No. 333-111040), filed with the SEC on December 10, 2003.

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Exhibits

- Exhibit 1. Unaudited Condensed Consolidated Interim Financial Statements
- Exhibit 2. Calculation of Ratio of Earnings to Fixed Charges (supplements Exhibit 7.1 included in our Form F-3)

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PRESENTATION OF FINANCIAL INFORMATION

The financial information appearing in this report is derived from our interim financial statements. Our financial statements are prepared in accordance with generally accepted accounting principles in Mexico, or Mexican GAAP. Mexican GAAP requires restatement of all financial statements to constant Mexican pesos as of the date of the most recent balance sheet presented. All financial information presented in this report is accordingly stated in constant pesos with purchasing power as of September 30, 2005.

Our 2004 Form 20-F contains audited consolidated financial statements as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002, stated in constant pesos with purchasing power as of December 31, 2004. As a result of Mexican inflation (estimated) during the first nine months of 2005, the purchasing power of one peso as of December 31, 2004 is equivalent to the purchasing power of 1.0182 pesos as of September 30, 2005. Therefore, our unaudited condensed consolidated interim financial statements and the financial information appearing in this report are not directly comparable to our audited financial statements and the financial information contained in our 2004 Form 20-F because they are stated in constant pesos as of different dates.

Mexican GAAP differ in certain respects from generally accepted accounting principles in the United States, or U.S. GAAP. See Note 19 to our audited consolidated financial statements included in our 2004 Form 20-F and Note 14 to our unaudited condensed consolidated interim financial statements.

References in this report to U.S. dollars or U.S.\$ are to the lawful currency of the United States. References herein to pesos, P. or Ps. are to the lawful currency of Mexico. References herein to reais or R\$ are to the lawful currency of Brazil.

This report contains translations of various peso amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the nominal peso or constant peso amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rate indicated. We have translated peso amounts into U.S. dollars using the exchange rate of Ps.10.8495 to U.S.\$1.00, which is the exchange rate reported by Banco de México for September 30, 2005.

With respect to results for the year ended December 31, 2004, we have translated real amounts into pesos using an exchange rate of R\$0.2573 to Ps.1.00, based on the average of the real to U.S. dollar and U.S. dollar to peso exchange rates reported by the Central Bank of Brazil and Banco de México, respectively, for the last day of each month in the period from January 1, 2004 through December 31, 2004. With respect to results for the nine-month period ended September 30, 2005, we have translated real amounts into pesos using an exchange rate of R\$0.2234 to Ps.1.00, based on the average of the real to U.S. dollar and U.S. dollar to peso exchange rates reported by the Central Bank of Brazil and Banco de México, respectively, for the last day of each month in the period from January 1, 2005 through September 30, 2005.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. For information on factors that could cause our actual results to differ from expectations reflected in forward-looking statements, see Item 3 Key Information Risk Factors in our 2004 Form 20-F.

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Mexico has a free market for foreign exchange, and the Mexican government allows the peso to float freely against the U.S. dollar. There can be no assurances that the government will maintain its current policies with regard to the peso or that the peso will not further depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end noon buying rate in New York City for cable transfers in pesos published by the Federal Reserve Bank of New York, expressed in pesos per U.S. dollar. The rates have not been restated in constant currency units and therefore represent nominal historical figures.

Period	High	Low	Average(1)	Period End
2001	8.95	9.97	9.33	9.16
2002	9.00	10.43	9.66	10.43
2003	10.11	11.41	10.79	11.24
2004	10.81	11.64	11.29	11.15
2005	10.41	11.41	10.87	10.63
2005:				
July	10.59	10.80		
August	10.58	10.90		
September	10.68	10.89		
October	10.69	10.94		
November	10.57	10.77		
December	10.41	10.77		
2006:				
January (through January 20, 2006)	10.52	10.64		

(1) Average of month-end rates.

On January 20, 2006 the noon buying rate was Ps.10.52 to U.S.\$1.00.

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SUMMARY OF OUR BUSINESS

We own the largest telecommunications system in Mexico. We operate in the Mexican markets for wireline voice telecommunications and Internet and data service. We also provide other telecommunications and telecommunications-related services such as corporate networks, Internet services, directory services, information network management, telephone equipment sales and interconnection services to other carriers and paging services. In addition, in South America we provide data, Internet and voice telecommunications services as a result of acquisitions we made in 2004.

For the year ended December 31, 2004, we had operating revenues of Ps.138,802 million, or U.S.\$12.3 billion, and net income of Ps.27,836 million, or U.S.\$2.5 billion, based on Mexican GAAP. At September 30, 2005, we had total assets of Ps.256,871 million, or U.S.\$23.7 billion, and total stockholders' equity of Ps.114,954 million, or U.S.\$10.6 billion, based on Mexican GAAP.

Of our Ps.121,706 million of consolidated revenues for the nine-month period ended September 30, 2005, 35.6% was attributable to local service, 30.5% was attributable to long distance service, 12.5% was attributable to interconnection, 11.4% was attributable to corporate networks and 6.7% was attributable to Internet services. Other services, including yellow pages and equipment sales, accounted for 3.3% of these consolidated revenues.

Mexican Operations

At September 30, 2005, we had 18.1 million local fixed lines in service, up 7.8% from September 30, 2004. In long distance services, we estimate that during the nine-month period ended September 30, 2005, our share of traffic in cities open to competition was 78.4% for domestic long distance and 75.7% for international long distance calls originating in Mexico. At September 30, 2005, we had approximately 2.0 million Internet access accounts and 1.7 million connectivity billed line equivalents.

Operations Outside Mexico

In February 2004, we began providing data, Internet and voice telecommunications services in Brazil, Chile, Argentina, Peru and Colombia through our acquisition of substantially all of the assets of AT&T Latin America, a telecommunications service provider to corporate customers in those countries. We expanded our operations in Brazil, Chile and Argentina through further acquisitions in 2004, including Techtel in April 2004 and Metrored in July 2004 (Argentina), Chilesat in April 2004 (Chile) and Embratel in August 2004 (Brazil). The revenues from our non-Mexican operations represented 24.9% of our consolidated revenues for the first nine months of 2005.

Brazil

Embratel Participações S.A., or Embratel, and Telmex do Brasil Ltda., or Telmex do Brasil, are our principal subsidiaries in Brazil. We also indirectly own a 37.1% equity interest in Net Serviços de Comunicação S.A., or Net, which we acquired in March 2005. We expect to make new investments in the telecommunications business in Brazil, which could include acquiring new companies, acquiring publicly-held shares of

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Embratel, or acquiring an additional interest in Net if permitted under Brazilian law.

In October, 2005, we transferred to Embratel 100% of the capital stock of Telmex do Brasil and our 37.1% equity interest in Net in exchange for new common shares of Embratel. As a result, we own 97.3% of the voting stock and 45.4% of the non-voting stock of Embratel (72.3% of the total capital stock).

Embratel is one of Brazil's largest telecommunications services providers, operating in domestic and international long distance, data communications and local services. In 2004, Embratel reported net operating revenues of approximately Ps.28,502 million (R\$7,333 million) and net loss of approximately Ps.1,318 million (R\$339 million). In the first nine months of 2005, Embratel reported net operating revenues of approximately Ps.25,195 million (R\$5,628 million) and net income of approximately Ps.855 million (R\$191 million). Of Embratel's total revenues in 2004, approximately 57% were derived from corporate customers and the remainder from residential customers.

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Telmex do Brasil provides telecommunications services to corporate customers in Brazil's largest cities including Rio de Janeiro and São Paulo, complementing Embratel's business in those cities.

Net is the largest cable television operator in Brazil. As of September 30, 2005, Net had approximately 1.5 million connected cable television subscribers and 302 thousand subscribers to its high-speed cable modem Internet access service.

Chile

Through our subsidiaries Telmex Chile Holding S.A. and Telmex Corp. S.A., we provide voice, Internet and data services to more than 500,000 corporate and residential customers in Chile. To corporate customers, we provide local service, private long distance networks, virtual private networks, Internet services and other value-added services, as well as video and audio satellite links for broadcasting corporations. In the residential market, in addition to local service, we provide long distance and Internet services, including value-added services.

Argentina

Our principal subsidiaries in Argentina are Telmex Argentina, Techtel-LMDS Comunicaciones Interactivas, S.A., or Techtel, and Metrored Telecomunicaciones S.R.L., or Metrored. Through these subsidiaries, we provide data, Internet and local and long distance services in Argentina and operate fiber optic rings in metropolitan areas that provide "last mile" access to reach our customers.

Peru

Through Telmex Perú S.A., we provide domestic and international long distance services, public telephones, and data, Internet and hosting services to corporate and residential customers in Peru through a fiber optic network.

Colombia

Through Telmex Colombia S.A., we provide data and Internet services to corporate clients in Colombia through a metropolitan and inter-city fiber optic network. We hold licenses to provide local, domestic and international long distance service, mobile telephone service, data services, value-added services and video conferencing.

Our principal executive offices are at Parque Vía 190, Colonia Cuauhtémoc, 06599, México D.F., México. Our telephone number is (52) 55 5703-3990.

Table of Contents**SELECTED FINANCIAL AND OPERATING INFORMATION**

The summary consolidated financial data set forth below have been derived from our unaudited condensed consolidated interim financial statements as of September 30, 2005 and for the nine-month period then ended. In the opinion of our management, the financial data set forth below include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of consolidated financial condition and results of operations as of the dates and for the periods specified. Results for the first nine months are not, however, necessarily indicative of results to be expected for the full year.

The unaudited condensed consolidated interim financial statements and the selected interim financial data set forth below are stated in constant pesos with purchasing power as of September 30, 2005. As a result of Mexican inflation (estimated) during the first nine months of 2005, the purchasing power of one peso as of December 31, 2004 is equal to the purchasing power of 1.0182 pesos as of September 30, 2005. Accordingly, the financial data set forth below are not directly comparable to the audited consolidated financial statements included in our 2004 Form 20-F because they are stated in constant pesos as of different dates.

	As of and for the nine-month period ended September 30,		
	2005	2004	2005
	(millions of constant pesos as of September 30, 2005) ⁽¹⁾		(millions of U.S. dollars) ^{(1) (2)}
Income Statement Data			
Mexican GAAP:			
Operating revenues	Ps.121,706	Ps.100,721	U.S.\$ 11,218
Operating costs and expenses	86,088	68,864	7,935
Operating income	35,618	31,857	3,283
Net income	19,835	17,380	1,828
Net income per share Basic ⁽³⁾⁽⁴⁾	0.859	0.725	0.079
Net income per share Diluted ⁽³⁾⁽⁴⁾	0.859	0.724	0.079
Dividends per share ⁽³⁾⁽⁴⁾⁽⁵⁾	0.360	0.495	0.033
U.S. GAAP:			
Operating revenues	Ps.121,706	Ps.100,721	U.S.\$ 11,218
Operating costs and expenses	88,816	72,060	8,187
Operating income	32,890	28,661	3,031
Net income	19,643	17,055	1,810
Net income per share Basic ⁽³⁾⁽⁴⁾	0.851	0.712	0.078
Net income per share Diluted ⁽³⁾⁽⁴⁾	0.851	0.710	0.078
Dividends per share ⁽³⁾⁽⁴⁾⁽⁵⁾	0.360	0.495	0.033
Balance Sheet Data			
Mexican GAAP:			
Plant, property and equipment, net	Ps.150,586		U.S.\$ 13,880
Total assets	256,871		23,676
Long-term debt	75,940		6,999
Total stockholders' equity	114,954		10,596
U.S. GAAP:			
Plant, property and equipment, net	Ps.155,930		U.S.\$ 14,372
Total assets	264,097		24,342

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Long-term debt	75,940	6,999
Total stockholders' equity	97,470	8,984

(see footnotes on following page)

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	As of	
	September 30,	
	2005	2004
Operating Data for Mexican Operations		
Lines in service (thousands)	18,135	16,816
Internet access accounts (thousands)	2,025	1,604
Billed line equivalents 64 Kbps (thousands)	1,738	1,374
Domestic long distance call minutes for the year (millions)	13,375	12,510
International long distance call minutes for the year (millions) ⁽⁶⁾	5,120	4,668

- (1) Except share and per share data.
- (2) U.S. dollar amounts provided are translations from the peso amounts, solely for the convenience of the reader, at an exchange rate of Ps.10.8495 per U.S. dollar, the Banco de México exchange rate at September 30, 2005.
- (3) We have not presented net income or dividends on a per ADS basis. Each L share ADS represents twenty L shares and each A Share ADS represents twenty A Shares.
- (4) All amounts have been adjusted to reflect a two-for-one stock split effected on May 25, 2005.
- (5) Nominal amounts.
- (6) Includes incoming and outgoing traffic.

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The following table sets forth our consolidated ratios of earnings to fixed charges for each year in the five-year period ended December 31, 2004 and for the nine-month period ended September 30, 2005, in accordance with Mexican GAAP and U.S. GAAP. Earnings for this purpose consist of earnings before provision for income tax but after provision for employee profit sharing, plus fixed charges and depreciation of capitalized interest and minus interest capitalized during the period. Fixed charges for this purpose consist of interest expense plus interest capitalized during the period. Fixed charges do not take into account gain or loss from monetary position or exchange gain or loss attributable to our indebtedness.

	Year ended December 31,					Nine-month period ended September 30,
	2004	2003	2002	2001	2000	2005
Mexican GAAP	7.8	7.2	6.5	6.7	4.6	6.6
U.S. GAAP	7.2	6.7	5.8	5.8	4.2	6.1

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The following table sets forth our consolidated capitalization under Mexican GAAP as of September 30, 2005.

	As of September 30, 2005	
	(millions of pesos)	(millions of U.S. dollars) ⁽¹⁾
Debt:		
Unsecured, denominated in foreign currency:		
Banks	Ps. 38,726	U.S.\$ 3,569
Suppliers credits	334	31
Financial leases	787	73
Senior notes	44,380	4,090
Total	84,227	7,763
Unsecured, denominated in Mexican pesos:		
Banks	1,300	120
Domestic senior notes (<i>certificados bursátiles</i>)	6,600	608
Total	7,900	728
Total debt	92,127	8,491
Less current portion of long-term debt ⁽²⁾	16,187	1,492
Long-term debt	75,940	6,999
Stockholders equity⁽³⁾		
Capital stock ⁽⁴⁾	27,555	2,540
Premium on sale of shares	19,093	1,760
Retained earnings	121,884	11,234
Accumulated other comprehensive income	(65,904)	(6,074)
Minority interest	12,326	1,136
Total stockholders equity	114,954	10,596
Total capitalization (total debt and stockholders equity)	Ps. 207,081	U.S.\$ 19,087
Total debt as a percentage of total capitalization.	44.5%	44.5%

(1) U.S. dollar amounts provided are translations from the peso amounts, solely for the convenience of the reader, at an exchange rate of Ps.10.8495 per U.S. dollar, the Banco de México exchange rate at September 30, 2005.

(2) Includes short-term debt.

(3) See Note 11 to the unaudited condensed consolidated interim financial statements included herein.

(4) All of our capital stock is fully paid and non-assessable.

In October 2005, we entered into a new facility that replaced our U.S.\$2.425 billion syndicated bank facility obtained in July 2004. Under the new facility, we agreed to pay a smaller margin above LIBOR and increased the total loan amount to U.S.\$2.5 billion in two tranches, one for U.S.\$1.5 billion maturing in 2009 and one for U.S.\$1.0 billion maturing in 2011.

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In the fourth quarter of 2005, Embratel's principal operating subsidiary entered into bilateral credit agreements with four banks for loans totaling an aggregate principal amount of U.S.\$130 million. In addition, it extended the maturity of a bank loan in an aggregate principal amount of U.S.\$25 million from December 2005 to November 2006.

Except as set forth above, there has been no other material change in our consolidated capitalization since September 30, 2005.

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The following table sets forth our capital structure as of September 30, 2005:

Class	Number of Shares (millions)	Percentage of Capital	Percentage of Voting ⁽¹⁾
L Shares (no par value)	13,929	61.79%	
AA Shares (no par value)	8,127	36.06	94.37%
A Shares (no par value)	485	2.15	5.63
Total	22,541	100.00%	100.00%

(1) Except on limited matters for which L Shares have voting rights.

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RECENT DEVELOPMENTS

The following discussion should be read in conjunction with our audited consolidated financial statements and Item 5 Operating and Financial Review and Prospects contained in our 2004 Form 20-F and our unaudited condensed consolidated interim financial statements included herein. Our financial statements are prepared in accordance with Mexican GAAP, which differ in certain respects from U.S. GAAP. See Note 19 to our audited consolidated financial statements and Note 14 to our unaudited condensed consolidated interim financial statements. For a description of certain changes to our accounting policies, see Note 1 to our unaudited condensed consolidated interim financial statements.

Results of Operations for the Nine-Month Periods Ended September 30, 2005 and 2004

Effect of Recent Acquisitions

In 2004, we acquired Techtel, Chilesat Corp S.A., or Chilesat, Metrored, a majority of the voting stock of Embratel, and substantially all of the assets of AT&T Latin America. In 2005, we acquired a 37.1% equity interest in Net. The consolidation of these companies affects the comparability of our 2005 results to our 2004 results, particularly since the largest of our 2004 acquisitions were not consolidated until the third quarter of 2004.

Our consolidated financial statements reflect the consolidation of these companies as follows:

Telmex Argentina, Telmex do Brazil, Telmex Chile, Telmex Colombia and Telmex Peru (holding the assets of AT&T Latin America in each respective country) (from March 1, 2004),

Techtel (from May 1, 2004),

Metrored (from July 1, 2004),

Chilesat, now Telmex Corp. (from July 1, 2004) and

Embratel (from August 1, 2004).

The revenues of these companies that are included in our unaudited consolidated financial statements together accounted for 24.9% of our operating revenue for the first nine months of 2005 and 6.6% of our operating revenues for the first nine months of 2004. We have included in our consolidated financial statements the results of Net using the equity participation method.

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Summary of Operating and Net Income

In the table below, we set forth our operating revenues, operating costs and expenses (each expressed as a percentage of total operating revenues) and operating income as well as our comprehensive financing cost, provisions and net income for the first nine months of 2005 and 2004.

	Nine-month periods ended September 30,			
	2005		2004	
	(millions of constant pesos as of September 30, 2005)	(percentage of operating revenues)	(millions of constant pesos as of September 30, 2005)	(percentage of operating revenues)
Operating revenues:				
Local service	Ps. 43,386	35.6%	Ps. 43,632	43.3%
Domestic long distance service	28,526	23.4	16,335	16.2
International long distance service	10,051	8.3	8,214	8.2
Interconnection service	13,758	11.3	14,422	14.3
Corporate networks				