Sprint

Tony H. Key
Director,
State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Mailstop GAATLN0802
Telephone (404) 649-5144
Fax (404) 649-5174

October 10, 1997

DEPOSIT D633 DATE OCT 13 1997

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, FL 32399-0850

RE: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida for Telmex/Sprint Communications, L.L.C.

DOCUMENT NUMBER-DATE
10469 OCT 13 97
FPSC-RECORDS/REPORTING

Dear Sir:

Enclosed is the original and six (6) copies of the Application of Telmex/Sprint Communications, L.L.C. for Authority to Provide Interexchange Telecommunications Service Within the State of Florida. Also, enclosed is a check in the amount of $250.00 for the application fee. Please date stamp the extra cover letter that is enclosed and return to me in the stamped self-addressed envelope.

Thank you for your attention to this application for service. Should there be any questions concerning this application, please let me know.

Sprint® Sprint Corporation
901 E. 104th
Kansas City, MO 64131
816-854-5424

Paying Agents for Itself and Affiliates
Sprint Services
Sprint/United Management Company

56-382
412

850471

THE FACE OF THIS CHECK HAS A COLORED BACKGROUND, NOT A WHITE BACKGROUND

PAY	DATE	CHECK NO.	NET AMOUNT
	10/08/97	00850471	********250.00

TWO HUNDRED FIFTY AND 00/100 DOLLARS

TO THE ORDER OF
FLORIDA PUBLIC SERVICE COMMISSION
2540 SHUMARD OAK BLVD
TALLAHASSEE, FL 32399-0850

VOID AFTER 180 DAYS

Norwest Bank Van Wert, N. A.
Van Wert, OH. 45891
1-800-827-6535

M. Jeannine Strandford
Authorized Signature

[redacted]

Sprint

Tony H. Key
Director,
State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Mailstop GAATLN0802
Telephone (404) 649-5144
Fax (404) 649-5174

October 10, 1997

DEPOSIT D633 DATE OCT 13 1997

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, FL 32399-0850

RE: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida for Telmex/Sprint Communications, L.L.C.

Dear Sir:

Enclosed is the original and six (6) copies of the Application of Telmex/Sprint Communications, L.L.C. for Authority to Provide Interexchange Telecommunications Service Within the State of Florida. Also, enclosed is a check in the amount of $250.00 for the application fee. Please date stamp the extra cover letter that is enclosed and return to me in the stamped self-addressed envelope.

Thank you for your attention to this application for service. Should there be any questions concerning this application, please let me know.

Sincerely,

Tony H. Key

Tony H. Key
Director, State Regulatory

THK/cc

encl.

Sprint

Tony H. Key
Director,
State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Mailstop GAATLN0802
Telephone (404) 649-5144
Fax (404) 649-5174

October 10, 1997

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, FL 32399-0850

RE: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida for Telmex/Sprint Communications, L.L.C.

Dear Sir:

Enclosed is the original and six (6) copies of the Application of Telmex/Sprint Communications, L.L.C. for Authority to Provide Interexchange Telecommunications Service Within the State of Florida. Also, enclosed is a check in the amount of $250.00 for the application fee. Please date stamp the extra cover letter that is enclosed and return to me in the stamped self-addressed envelope.

Thank you for your attention to this application for service. Should there be any questions concerning this application, please let me know.

Sincerely,

Tony H. Key

Tony H. Key
Director, State Regulatory

THK/cc

encl.

Check received with filing and
forwarded to Fiscal for deposit.
Fiscal to forward a copy of check
to RAR with proof of deposit.
Initials of person who forwarded check:

Sprint

Tony H. Key
Director.
State Regulatory

3100 Cumberland Circle
Atlanta, GA 30339
Mailstop GAATLN0802
Telephone (404) 649 5144
Fax (404) 649 5174

October 10, 1997

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, FL 32399-0850

971319-TI

RE: Application for Authority to Provide Interexchange Telecommunications Service Within the State of Florida for Telmex/Sprint Communications, L.L.C.

Dear Sir:

Enclosed is the original and six (6) copies of the Application of Telmex/Sprint Communications, L.L.C. for Authority to Provide Interexchange Telecommunications Service Within the State of Florida. Also, enclosed is a check in the amount of $250.00 for the application fee. Please date stamp the extra cover letter that is enclosed and return to me in the stamped self-addressed envelope.

Thank you for your attention to this application for service. Should there be any questions concerning this application, please let me know.

Sincerely,

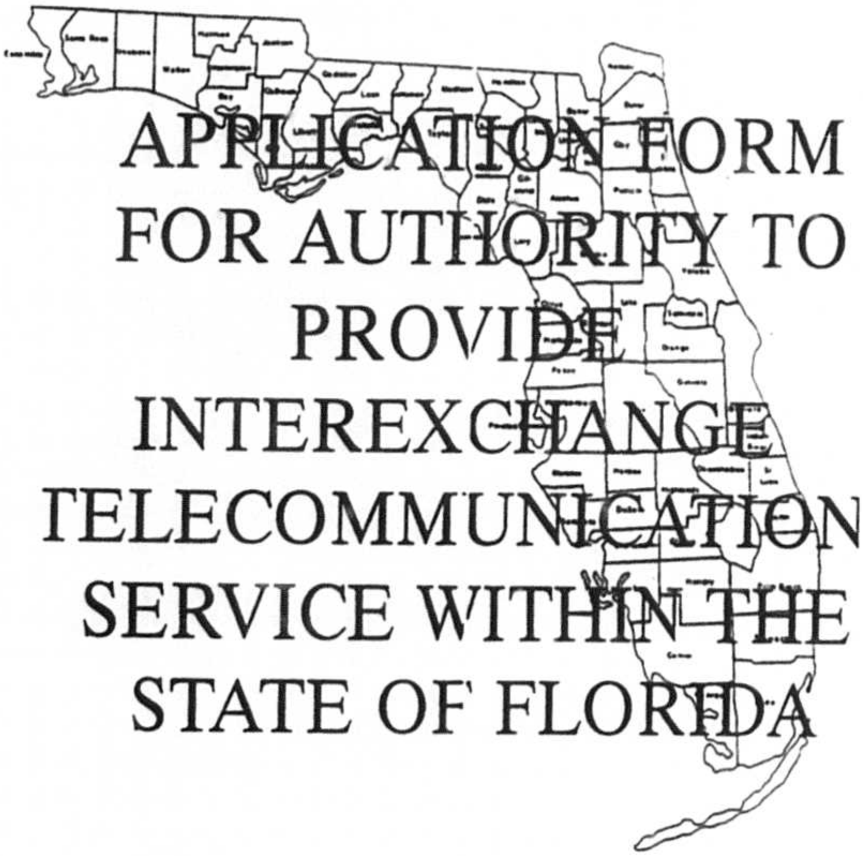
Tony H. Key

Tony H. Key
Director, State Regulatory

THK/cc

encl.

DOCUMENT NUMBER-DATE
10469 OCT 13 5
FPSC-RECORDS/REPORTING



APPLICATION FORM FOR AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATION SERVICE WITHIN THE STATE OF FLORIDA

** **FLORIDA PUBLIC SERVICE COMMISSION** *

DIVISION OF COMMUNICATIONS
BUREAU OF SERVICE EVALUATION

APPLICATION FORM for AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE WITHIN THE STATE OF FLORIDA

Instructions

A. This form is used for an original application for a certificate and for approval of sale, assignment or transfer of an existing certificate. In case of a sale, assignment or transfer, the information provided shall be for the purchaser, assignee or transferee (See Appendix A).

B. Respond to each item requested in the application and appendices. If an item is not applicable, please explain why.

C. Use a separate sheet for each answer which will not fit the allotted space.

D. If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Communications
Bureau of Service Evaluation
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6600

E. Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of $250.00 to:

Florida Public Service Commission
Division of Administration
2540 Shumard Oak Blvd.
Gunter Building
Tallahassee, Florida 32399-0850
(904) 413-6251

1. Select what type of business your company will be conducting (check all that apply):

( ) **Facilities based carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

( ) **Reseller** - company has or plans to have one or more switches but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

(X) **Switchless Rebiller** - company has no switch or transmission facilities but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers. Then offers the resold service by enrolling unaffiliated customers.

(X) **Prepaid Debit Ca Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

6. Florida address (including street name & number, post office box, city, state and zip code):

7. Structure of organization;

( ) Individual ( ) Corporation
( ) Foreign Corporation ( ) Foreign Partnership
( ) General Partnership ( ) Limited Partnership
(X) Other, Limited Liability Company

See Exhibit 1 - Secretary of State Filing Document and Joint Venture Agreement

8. If applicant is an individual or partnership, please give name, title and address of sole proprietor or partners. N/A

(a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169 FS), if applicable.

(b) Indicate if the individual or any of the partners have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

9. If incorporated, please give: N/A

(a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

Corporate charter number: ______________

(b) Name and address of the company's Florida registered agent.

(c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number: ________

(c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

10. Who will serve as liaison with the Commission in regard to (please give name, title, address and telephone number):

(a) The application;

Ben Fincher (404) 649-5145
3100 Cumberland Circle, Atlanta, GA 30339

(b) Official Point of Contact for the ongoing operations of the company;

Tony Key (404) 649-5144
3100 Cumberland Circle, Atlanta, GA 30339

(c) Tariff;

Don Fowler (913) 624-6815
8140 Ward Pkwy., Kansas City, Missouri 64114

(d) Complaints/Inquiries from customers;

James Thomas, Sprint Executive Consumer Service
1603 LBJ Freeway
Farmers Branch TX 75234 800-347-8988

11. List the states in which the applicant:

(a) Has operated as an interexchange carrier.

None

(b) Has applications pending to be certificated as an interexchange carrier.

None

(c) Is certificated to operate as an interexchange carrier.

None

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

None

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None

(f) Has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None

12. What services will the applicant offer to other certificated telephone companies: NONE

( ) Facilities. ( ) Operators.
( ) Billing and Collection. ( ) Sales.
( ) Maintenance.
( ) Other: ____________________

13. Do you have a marketing program?

Yes

14. Will your marketing program:

(X) Pay commissions?
( ) Offer sales franchises?
( ) Offer multi-level sales incentives?
(X) Offer other sales incentives?

15. Explain any of the offers checked in question 14 (To whom, what amount, type of franchise, etc.).

See attached.

16. Who will receive the bills for your service (Check all that apply)?

(X) Residential customers. (X) Business customers.
(X) PATS providers. (X) PATS station end-users.
( ) Hotels & motels. ( ) Hotel & motel guests.
( ) Universities. ( ) Univ. dormitory residents.
( ) Other: (specify)____________________.

17. Please provide the following (if applicable):

Yes

(a) Will the name of your company appear on the bill for your services, and if not who will the billed party contact to ask questions about the bill (provide name and phone number) and how this information provided?

Yes

(b) Name and address of the firm who will bill for your service.

Sprint Communications Company Limited Partnership

15. Explain any of the offers checked in question 14 (To whom, what amount, type of franchise, etc.).

Initially, Telmex/Sprint Communications, L.L.C. shall act as a non-exclusive marketing agent for Sprint Corporation in the sale of Sprint Services. As such, Telmex/Sprint Communications, L.L.C. shall receive a commission on all sales of Sprint Services, based upon a fair and equitable commission schedule. In the future, it is contemplated that Telmex/Sprint will change its business activities to resale of Sprint Services and of Telmex's telecommunications services. Resale arrangements and its co-branded products, unless otherwise agreed to by the parties, shall be limited to long distance products.

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida. See attached.

A. Financial capability.

Regarding the showing of financial capability, the following applies:

The application should contain the applicant's financial statements for the most recent 3 years, including:

1. the balance sheet

2. income statement

3. statement of retained earnings.

Further, a written explanation, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the applicant has sufficient financial capability to meet its lease or ownership obligations.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

If available, the financial statements should be audited financial statements.

statements, it shall be so stated. The unaudited financial statements should then be signed by the applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

B. Managerial capability.

C. Technical capability.

19. Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

See Exhibit 5

20. The applicant will provide the following interexchange carrier services (Check all that apply):

___ **MTS with distance sensitive per minute rates**
___ Method of access is FGA
___ Method of access is FGB
_X_ Method of access is FGD
___ Method of access is 800

___ **MTS with route specific rates per minute**
___ Method of access is FGA
___ Method of access is FGB
_X_ Method of access is FGD
___ Method of access is 800

_X_ **MTS with statewide flat rates per minute (i.e. not distance sensitive)**
___ Method of access is FGA
___ Method of access is FGB
_X_ Method of access is FGD
___ Method of access is 800

18. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide interexchange telecommunications service in Florida.

A. Financial capability.

Telmex/Sprint has the financial, technical, managerial resources and experience to provide the proposed services. Telmex/Sprint will be sufficiently financed by capital contributions made by the joint venture partners, Telmex International Ventures USA, Inc. and Sprint Ventures, Inc., which are backed by the financial resources of their respective parent companies, Telefonos de Mexico and Sprint Corporation. The 1996 annual report for Telefonos de Mexico is attached as Exhibit 2 and the 1996 annual report for Sprint Corporation is attached as Exhibit 3. These exhibits demonstrate that the financial resources available to Telmex/Sprint are more than adequate to provide the proposed service.

B. Managerial capability.
C. Technical capability.

Telmex/Sprint also has the experience and managerial resources for the provision of telecommunications services in the state of Florida. Exhibit 4 lists the officers of Telmex/Sprint and contains copies of their resumes. The experience and qualifications of these officers demonstrate that Telmex/Sprint has vast experience and technical and managerial resources and abilities.

___ **MTS for pay telephone service providers**

_____ **Block-of-time calling plan (Reach out Florida, Ring America, etc.).**

X___ **800 Service (Toll free)**

___ **WATS type service** (Bulk or volume discount)
_____ Method of access is via dedicated facilities
_____ Method of access is via switched facilities

___ **Private Line services** (Channel Services)
(For ex. 1.544 mbs., DS-3, etc.)

___ **Travel Service**
_____ Method of access is 950
_____ Method of access is 800

___ **900 service**

X___ **Operator Services**
X___ Available to presubscribed customers
_____ Available to non presubscribed customers (for example to patrons of hotels, students in universities, patients in hospitals.
_____ Available to inmates

Services included are:

X___ Station assistance
X___ Person to Person assistance
X___ Directory assistance
X___ Operator verify and interrupt
X___ Conference Calling

21. What does the end user dial for each of the interexchange carrier services that were checked in services included (above

1+ No CIC code.

22. ___ **Other:**

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** APPLICANT ACKNOWLEDGEMENT STATEMENT ****

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** A non-refundable application fee of $250.00 must be submitted with the application.

5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange service.

6. **ACCURACY OF APPLICATION:** By my signature below, I the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that to the best of my knowledge and belief, the information is a true and correct statement.

   Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775.083".

UTILITY OFFICIAL: Tony H. Key — Signature — 10/8/97 — Date

DIRECTOR, STATE REGULATORY — Title — (404) 649-5144 — Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** APPENDIX A ****

CERTIFICATE TRANSFER STATEMENT

I, **(TYPE NAME)** ____,

(TITLE) _________________________________, of **(NAME OF COMPANY)**

____, and current

holder of certificate number __________________, have reviewed

this application and join in the petitioner's request for a

transfer of the above-mention certificate.

UTILITY OFFICIAL: ____________________________ ____________

Signature Date

____

____________________________ ______________

Title Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

**** APPENDIX B ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant please check one):

(✓) **The applicant will not collect deposits nor will it collect payments for service more than one month in advance.**

( ) **The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)**

UTILITY OFFICIAL:

Tony H. Key
Signature

10/8/97
Date

Director, State Regulatory
Title

(404) 649-5144
Telephone No.

FORM PSC/CMU 31 (11/95)
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

** APPENDIX C **

INTRASTATE NETWORK

1. **POP:** Addresses where located, and indicate if owned or leased.

   1) None 2)

   3) 4)

2. **SWITCHES:** Address where located, by type of switch, and indicate if owned or leased.

   1) None 2)

   3) 4)

3. **TRANSMISSION FACILITIES:** Pop-to-Pop facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

   1) POP-to-POP TYPE OWNERSHIP

   2) None

4. **ORIGINATING SERVICE:** Plea provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate (Appendix D).

   All Florida exchanges currently serviced by Sprint Communications Company Limited Partnership

5. **TRAFFIC RESTRICTIONS:** Please explain how the applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471 (4) (a) (copy enclosed).

N/A

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (X) previously provided intrastate telecommunications in Florida. If the answer is has, fully describe the following:

   a) What services have been provided and when did these services begin?

   b) If the services are not currently offered, when were they discontinued?

UTILITY OFFICIAL: Tony H. Key
Signature

October 8, 1997
Date

Director, State Regulatory
Title

(404) 649-5144
Telephone No.

FLORIDA TELEPHONE EXCHANGES

AND

EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

Extended Service Area	with	These Exchanges
PENSACOLA:		Cantonment, Gulf Breeze Pace,Milton Holley-Navarre.
PANAMA CITY:		Lynn Haven, Panama City Beach, Youngstown-Fountain and Tyndall AFB.
TALLAHASSEE:		Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.
JACKSONVILLE:		Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg Orange Park, Ponte Vedra and Julington.
GAINESVILLE:		Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo.
OCALA:		Belleview, Citra, Dunnellon,

Forest Lady Lake (B21),
McIntosh, Oklawaha,
Orange Springs, Salt Springs and
Silver Springs Shores.

DAYTONA BEACH: New Smyrna Beach.

TAMPA:

Central	None
East	Plant City
North	Zephyrhills
South	Palmetto
West	Clearwater

CLEARWATER: St. Petersburg, Tampa-West and Tarpon Springs.

ST. PETERSBURG: Clearwater.

LAKELAND: Bartow, Mulberry, Plant City, Polk City and Winter Haven.

ORLANDO: Apopka, East Orange, Lake Buena Vista, Oviedo, Windermere, Winter Garden, Winter Park, Montverde, Reedy Creek, and Oviedo-Winter Springs.

WINTER PARK: Apopka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs Reedy Creek, Geneva and Montverde.

TITUSVILLE: Cocoa and Cocoa Beach.

COCOA: Cocoa Beach, Eau Gallie, Melbourne and Titusville.

MELBOURNE: Cocoa, Cocoa Beach, Eau Gallie and Sebastian.

SARASOTA: Bradenton, Myakka and Venice.

FT. MYERS: Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres and Sanibel-Captiva Islands.

NAPLES: Marco Island and North Naples.

WEST PALM BEACH: Boynton Beach and Jupiter.

POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach and Ft. Lauderdale.
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood and Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami and Perrine.
MIAMI:	Homestead, North Dade and Perrine

** APPENDIX E **

** GLOSSARY **

ACCESS CODE: The term denotes a uniform four or seven digit code assigned to an individual IXC. The five digit code has the form 10XXX and the seven digit code has the form 950-XXXX.

BYPASS: Transmission facilities that go direct from the local exchange end user to an IXC point of presence, thus bypassing the local exchange company.

CARRIERS CARRIER: An IXC that provides telecommunications service, mainly bulk transmission service, to other IXC only.

CENTRAL OFFICE: A local operating unit by means of which connections are established between subscribers' lines and trunk or toll lines to other central offices within the same exchange or other exchanges. Each three (3) digit central office code (NXX) used shall be considered a separate central office unit.

CENTRAL OFFICE CODE: The term denotes the first three digits (NXX) of the seven (7) digit telephone number assigned to a customer's telephone exchange service.

COMMISSION: The Florida Public Service Commission.

COMPANY, TELEPHONE COMPANY, UTILITY: These terms may be used interchangeably herein and shall mean any person, firm, partnership or corporation engaged in the business of furnishing communication service to the public under the jurisdiction of the Commission.

DEDICATED FACILITY: The term denotes a transmission circuit which is permanently for the exclusive use of a customer or a pair of customers.

END USER: The term denotes any individual, partnership, association, corporation, governmental agency or any other entity which (A) obtains a common line, uses a pay telephone or obtains interstate service arrangements in the operating territory of the company or (B) subscribes to interstate services provided by an IXC or uses the services of the IXC when the IXC provides interstate service for its own use.

EQUAL ACCESS EXCHANGE AREAS: EAEA means a geographic area, configured based on 1987 planned toll center/access tandem areas, in which local exchange companies are responsible for providing equal access to both carriers and customers of carriers in the most economically efficient manner.

EXCHANGE: The entire telephone plant and facilities used in providing telephone service to subscribers located in an exchange area. An exchange may include more than one central office unit.

EXCHANGE (SERVICE) AREA: The territory, including the base rate suburban and rural areas served by an exchange, within which local telephone service is furnished at the exchange rates applicable within that area.

EXTENDED AREA SERVICE: A type of telephone service furnished under tariff provision whereby subscribers of a given exchange or area may complete calls to, and receive messages from, one or more other contiguous exchanges without toll charges, or complete calls to one or more other exchanges without toll message charges.

FACILITIES BASED: An IXC that has its own transmission and/or switching equipment or other elements of equipment and does not rely on others to provide this service.

FOREIGN EXCHANGE SERVICES: A classification of exchange service furnished under tariff provisions whereby a subscriber may be provided telephone service from an exchange other than the one from which he would normally be served.

FEATURE GROUPS: General categories of unbundled tariffs to stipulate related services.

Feature Group A: Line side connections presently serving specialized common carriers.

Feature Group B: Trunk side connections without equal digit or code dialing.

Feature Group C: Trunk side connections presently serving AT&T-C.

Feature Group D: Equal trunk access with subscription.

INTEREXCHANGE COMPANY: means any telephone company, as defined in Section 364.02(4), F.S. (excluding Payphone Providers), which provides telecommunication service between exchange areas as those areas are described in the approved tariffs of individual local exchange companies.

INTER-OFFICE CALL: A telephone call originating in one central office unit or entity but terminating in another central office unit or entity both of which are in the same designated exchange area.

INTRA-OFFICE CALL: A telephone call originating and terminating within the same central office unit or entity.

INTRASTATE COMMUNICATIONS: The term denotes any communications in Florida subject to oversight by the Florida Public Service Commission as provided by the laws of the State.

INTRA-STATE TOLL MESSAGE: Those toll messages which originate and terminate within the same state.

LOCAL ACCESS AND TRANSPORT AREA: LATA means the geographic area established for the administration of communications service. It encompasses designated exchanges, which are grouped to serve common social, economic and other purposes.

LOCAL EXCHANGE COMPANY (LEC): Means any telephone company, as defined in Section 364.02(4), F.S., which, in addition to any other telephonic communication service, provides telecommunication service within exchange areas as those areas are described in the approved tariffs of the telephone company.

OPTIONAL CALLING PLAN: An optional service furnished under tariff provisions which recognizes a need of some subscribers for extended area calling without imposing the cost on the entire body of subscribers.

900 SERVICE: A service similar to 800 service, except this service is charged back to the customer based on first minute plus additional minute usage.

PIN NUMBER: A group of numbers used by a company to identify their customers.

PAY TELEPHONE SERVICE COMPANY: Means any telephone company, other than a Local Exchange Company, whi provides pay telephone service as defined in Section 364.335(4), F.S.

POINT OF PRESENCE (POP): Bell-coined term which designates the actual (physical) location of an IXC's facility. Replaces some applications of the term "demarcation point."

PRIMARY SERVICE: Individual line service or party line service.

RESELLER: An IXC that does not have certain facilities but purchases telecommunications service from an IXC and then resells that service to others.

STATION: A telephone instrument consisting of a transmitter, receiver, and associated apparatus so connected as to permit sending and/or receiving telephone messages.

SUBSCRIBER, CUSTOMER: These terms may be used interchangeably herein and shall mean any person, firm, partnership, corporation, municipality, cooperative organization, or governmental agency supplied with communication service by a telephone company.

SUBSCRIBER LINE: The circuit or channel used to connect the subscriber station with the central office equipment.

SWITCHING CENTER: Location at which telephone traffic, either local or toll, is switched or connected from one circuit or line to another. A local switching center may be comprised of several central office units.

TRUNK: A communication channel between central office units or entities, or private branch exchanges.

ATTACHMENTS:

A - CERTIFICATE TRANSFER STATEMENT
B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
C - INTRASTATE NETWORK
D - FLORIDA TELEPHONE EXCHANGES and EAS ROUTES
E - GLOSSARY

EXHIBIT 1

FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

July 22, 1997

SUSANA ROMAGOSA
CSC NETWORKS
TALLAHASSEE, FL

Qualification documents for TELMEX/SPRINT COMMUNICATIONS, L.L.C. were filed on July 18, 1997, and assigned document number M97000000434. Please refer to this number whenever corresponding with this office.

Your limited liability company is now qualified and authorized to transact business in Florida as of the file date.

A limited liability company annual report will be due this office between January 1 and May 1 of the year following the calendar yearof the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the limited liability company address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Registration and Qualification Section.

Buck Kohr
Corporate Specialist
Division of Corporations

Letter Number: 697A00037146

Account number: 072100000032

Account charged: 285.00

I.

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 608.503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN LIMITED LIABILITY COMPANY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

1. Telmex/Sprint Communications,LL.C.
(Name of foreign limited liability company must end with the words "limited company" or their abbreviation "L.C." if not so contained in the name at present. Please Note: L.L.C. is not an acceptable suffix in Florida.)

2. Delaware
(Jurisdiction under the law of which foreign limited liability company is organized)

3. 76-053-2710
(FEI number, if applicable)

4. February 27, 1997
(Date of Organization)

5. Perpetual
(Duration: Year limited liability company will cease to exist or "perpetual")

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 JUL 18 PM 2: 12

6. UPON FILING
(Date first transacted business in Florida. (See sections 608.501, 608.502, and 817.155, F.S.)

7. 2330 Shawnee Mission Pkwy.
Westwood, KS 66205
(Street address of principal office)

8. List and indicate in title space provided the name, title, and business address of each managing member (MGRM) or manager (MGR). It is not necessary to list members.
(attach additional page if necessary)

NAME AND ADDRESS:	TITLE:	NAME & ADDRESS:	TITLE:
Telmex International Ventures (USA), Inc. 2400 Augusta Street Houston, TX 77057	Manager	Sprint Ventures, Inc. 2330 Shawnee Mission Pkwy. Westwood, KS 66205	Managing Member

AFFIDAVIT OF MEMBERSHIP AND CONTRIBUTIONS OF FOREIGN LIMITED LIABILITY COMPANY

The undersigned member or authorized representative of a member of Telmex/Sprint Communications, L.C. deposes and says:

1) the above named limited liability company has at least two members

2) the total amount of cash contributed by the member(s) is $ 1,000,000 .

3) if any, the agreed value of property other than cash contributed by member(s) is $ ________ . A description of the property is attached and made a part hereto.

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 JUL 18 PM 2: 12

4) the total amount of cash or property anticipated to be contributed by member(s) is $ 1,000,000 . This total includes amounts from 2 and 3 above.

Sprint Ventures, Inc.

By: Lauren F Wright

Signature of a member or authorized representative of a member
(In accordance with section 608.408(3), Florida Statutes, the execution of this affidavit constitutes an affirmation under the penalties of perjury that that facts stated herein are true.)

Lauren F. Wright
Vice President

CERTIFICATE OF DESIGNATION OF
REGISTERED AGENT/REGISTERED OFFICE

PURSUANT TO THE PROVISIONS OF SECTION 608.415 or 608.507, FLORIDA STATUTES, THE UNDERSIGNED LIMITED LIABILITY COMPANY, ORGANIZED UNDER THE LAWS OF THE STATE OF FLORIDA, SUBMITS THE FOLLOWING STATEMENT IN DESIGNATING THE REGISTERED OFFICE/REGISTERED AGENT, IN THE STATE OF FLORIDA.

1. The name of the limited liability company is: Telmex/Sprint Communications, L.L.C.

2. The name and address of the registered agent and office is:

Corporation Service Company
(Name)

1201 Hays Street
(P.O. Box or Mail Drop Box NOT acceptable)

Tallahassee, Florida 32301
(City/State/Zip)

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
97 JUL 18 PM 2:12

Having been named as registered agent and to accept service of process for the above stated limited liability company at the place designated in this certificate, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relating to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

By: Kim Kugzner
(Signature)

7-15-97
(Date)

Tariff Schedule

Applicable To

Interexchange Telephone Communications

of

TELMEX/SPRINT COMMUNICATIONS, L.L.C.

TELMEX/SPRINT
2400 Augusta
Houston, Texas 77057

SPRINT/TELMEX JOINT VENTURE AGREEMENT - SUMMARY

I. The parties to the Joint Venture Agreement ("the Agreement") are Sprint Ventures, Inc., an indirect wholly-owned subsidiary of Sprint Corporation, formed under the laws of the state of Kansas, USA, having its principal business office in Kansas City, Missouri, USA ("Sprint"), and Telmex International Ventures USA, Inc., an indirect wholly-owned subsidiary of Telefonos de Mexico, an S.A. de C.V., formed under the laws of the state of Delaware, and having its principal place of business in Houston, Texas ("Telmex Sub").

II. The Agreement was entered into on March 5, 1997.

III. Sprint and Telmex Sub have caused the organization of a limited liability company under the Delaware Limited Liability Company Act, the name of which is "Telmex/Sprint Communications, L.L.C." ("the Joint Venture").

IV. The principal offices of the Joint Venture shall be located in Houston, Texas.

V. Sprint and Telmex Sub, as initial members in the Joint Venture, shall each own a fifty (50) percentage interest in the Joint Venture.

VI. Initially, the Joint Venture shall act as a non-exclusive marketing agent for Sprint Corporation in the sale of the Sprint Services. The Joint Venture shall receive a commission on all sales of such Sprint Services, based upon a fair and equitable commission schedule.
In the future it is contemplated that the Joint Venture will change its business activities to resale of Sprint Services and of Telmex's telecommunications services. The Joint Venture's resale arrangements and its co-branded products, unless otherwise agreed to by the parties, shall be limited to long distance products.

VII. Sprint and Telmex shall each contribute and make available employees that will be dedicated to the formation of the Joint Venture and to the development of strategic and business plans.

VIII. The Joint Venture shall be governed by a Board of Directors ("the Venture Board") of no more than four; two directors shall be appointed by Sprint ("Sprint Directors") and two directors shall be appointed by Telmex Sub ("Telmex Directors").

IX. The officers of the Joint Venture shall be the Chief Executive Officer, the Chief Financial Officer, and the Chief Marketing Officer. Each officer shall be elected to office by the Venture Board.

X. The Venture Board shall have the power to delegate authority to such officers, employees, and agents as it deems appropriate, including the right to appoint a substitute representative.

XI. The directors appointed by Sprint and Telmex Sub shall (together) have voting power equal to the percentage interest held by such party that appointed such directors as in effect from time to time; provided, however, that any matter requiring approval of the Venture Board must receive the affirmative vote of at least one Sprint Director and one Telmex Director.

XII. Day-to-day operations will be arranged by the officers and staff of the Joint Venture.

XIV. The term of the Agreement shall be twenty-five (25) years.

CONSOLIDATED STATEMENTS OF INCOME

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT MARCH 31, 1997)

	THREE MONTHS ENDED MAR / 31 / 97	MAR / 31 / 96	PERCENT CHANGE
OPERATING REVENUES:			
INTERNATIONAL L.D.	2,936	3,705	(20.8)
DOMESTIC L.D.	3,641	3,830	(4.9)
LOCAL SERVICE	5,836	5,032	16.0
INTERCONNECTION	81	71	14.1
OTHER	496	464	6.9
TOTAL	**12,990**	**13,102**	**(0.9)**
OPERATING COSTS AND EXPENSES:			
COST OF SALES AND SERVICES	2,729	2,824	(3.4)
COMMERCIAL, ADMINISTRATIVE AND GENERAL	2,263	2,332	(3.0)
CASH OPERATING EXPENSES	**4,992**	**5,156**	**(3.2)**
EBITDA	**7,998**	**7,946**	**0.7**
DEPRECIATION AND AMORTIZATION	3,098	3,301	(6.1)
TOTAL	**8,090**	**8,457**	**(4.3)**
OPERATING INCOME	4,900	4,645	5.5
COMPREHENSIVE FINANCING (INCOME) COST:			
NET INTEREST	(15)	(456)	(96.7)
EXCHANGE (GAIN) LOSS, NET	(171)	(620)	(72.4)
MONETARY EFFECT	(212)	(621)	(65.9)
TOTAL	**(398)**	**(1,697)**	**(76.5)**
INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING	**5,298**	**6,342**	**(16.5)**
INCOME TAX AND EMPLOYEE PROFIT SHARING	**2,091**	**2,009**	**4.1**
NET INCOME	**3,207**	**4,333**	**(26.0)**

WIRELESS OPERATIONS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT MARCH 31, 1997)

	THREE MONTHS ENDED MAR / 31 / 97	MAR / 31 / 96	PERCENT CHANGE
TOTAL REVENUES*	808	850	(4.9)
COST OF SERVICES*	408	451	(9.5)
COMMERCIAL, ADMINISTRATIVE AND GENERAL	357	343	4.1
TOTAL OPERATING COSTS AND EXPENSES	765	794	(3.7)
OPERATING INCOME	43	56	(23.2)

*Including Long Distance associated Revenues and Costs

KEY RATIOS AND STATISTICS

	THREE MONTHS ENDED MAR / 31 / 97	MAR / 31 / 96	PERCENT CHANGE
FINANCIAL RATIOS (%)			
CONSOLIDATED OPERATING MARGIN	38	35	
CONSOLIDATED EBITDA MARGIN	62	6[illegible]	
WIRELESS OPERATING MARGIN	5		
OPERATING STATISTICS (Thousands)			
ACCESS LINES ADDED	55	41	34.7
ACCESS LINES IN SERVICE	8,881	8,842	0.4
CELLULAR SUBSCRIBERS ADDED	106	36	193.2
TOTAL CELLULAR SUBSCRIBERS	762	435	75.2
L.D. BILLED MINUTES (Millions)			
DOMESTIC	2,000	1,926	3.9
INTERNATIONAL	908	837	8.5
SHARES OUTSTANDING (Millions)	**8,510**	**9,314**	**(8.6)**

CONSOLIDATED BALANCE SHEETS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT MARCH 31, 1997)

	MAR / 31 / 97	MAR / 31 / 96		MAR / 31 / 97	MAR / 31 / 96
ASSETS			**LIABILITIES & STOCKHOLDERS' EQUITY**		
CURRENT ASSETS	29,737	21,767	CURRENT PORTION OF LONG-TERM DEBT	12,352	6,248
PLANT, PROPERTY AND EQUIPMENT, NET	90,999	103,834	OTHER CURRENT LIABILITIES	10,461	7,735
INVENTORIES	1,032	1,830	LONG TERM DEBT	9,658	13,967
OTHER ASSETS	511	2,592	LABOR OBLIGATIONS	1,006	544
INTANGIBLE ASSET	1,006	0	DEFERRED CREDITS	794	902
			TOTAL LIABILITIES	**34,271**	**29,396**
			STOCKHOLDERS' EQUITY	**89,014**	**100,627**
TOTAL ASSETS	**123,285**	**130,023**	**TOTAL LIABILITIES & STOCKHOLDERS' EQUITY**	**123,285**	**130,023**

Highlights

- TELMEX earned US$0.96 per ADR in the 1997 first quarter.
- Total consolidated revenues decreased slightly from the year-earlier first quarter, declining 0.9%.
- Cash operating expenses decreased 3.2% from the 1996 period.
- Operating income increased 5.5% over the same period a year ago.
- Domestic long distance minutes billed increased 3.9%, and international long distance minutes were up 8.5%.

Operating Results

Net income for the first quarter was $3,207 million or US$0.96 per ADR, down 26.0% from the year earlier $4,333 million. The year-ago period particularly benefited from a higher level of comprehensive financing income.

Total operating revenues declined slightly in the first quarter to $12,990 million, down 0.9% from the 1996 period. A 16.0% increase in local revenues was offset by lower domestic and international long distance revenues. Domestic long distance revenues decreased 4.9%, while international long distance revenues declined 20.8%.

Competition in the Mexican long distance market began in the first quarter of 1997 and is likely to become a more significant factor in revenues as the year progresses. In constant peso terms, TELMEX revenues declined in the first quarter. However, measured in U.S. dollars, which are used to set international rates, revenues increased compared with a year ago. In addition, TELMEX's first-quarter long distance revenues were affected by a decline in settlement revenues.

In the first quarter domestic long distance minutes billed increased 3.9% and international long distance minutes 8.5%, mainly due to the increase in incoming traffic.

Local service revenues of $5,836 million, primarily reflected rate increases which exceeded the rate of inflation and overcame the regulatory lag cause by the economic crisis of 1995. Eventhough TELMEX continues experiencing a lag in the basic services basket.

TELMEX added 55,195 local access lines in the first quarter. At March 31, 1997, total lines were 8,881,343, an increase of 0.4% over a year ago.

First-quarter cash operating expenses were $4,992 million, down 3.2% from year earlier. The decrease was attributable to continued expense control and a smaller contribution to the TELMEX Foundation of $150 million in this year's first quarter compared with $373 million in the same 1996 period.

The cash operating margin increased to 62% from 61% in last year's first quarter.

Reflecting the decline in operating expense, operating income was $4,900 million in this year's first quarter, up 5.5%.

Comprehensive financing income for the 1997 first quarter was $398 million compared with the year-earlier $1,697 million. The decline in this year's first quarter was due to decreases in net interest income, monetary gains and foreign exchange gains compared with 1996. The decreases in interest income and monetary gains were due primarily to a more stable economic environment in Mexico with lower interest rates and inflation. Foreign exchange gains for the 1997 first quarter declined to $171 million compared with $620 million in 1996 due to a more favorable peso exchange rate in the 1996 period.

Stock Repurchase Program

TELMEX repurchased 364 million shares during the 1997 first quarter under a program authorized at the stockholders' meeting in December 1996. At March 31, 1997, TELMEX had 8,510,484,006 shares outstanding versus 9,313,806,744 a year ago.

Payment of Dividends

On March 12, 1997, the Board of Directors recommended that stockholders at the April 29, 1997, meeting approve cash dividends of $0.525 per share in 1997, payable in three installments of $0.175 each in June, September and December.

Financing

During the first quarter of 1997, TELMEX initiated a commercial paper line of credit in the Mexican financial market for up to $3,000 million. The commercial paper has been rated "mxA-1+" by Standard & Poor's, the highest quality debt rating available in Mexico.

Long Distance Opening

Interconnection between TELMEX and new long distance operators in Mexico started January 1 as planned and is proceeding on schedule. The interconnection process has been completed in 21 of 60 Mexican cities and for 39% of the lines expected to be covered under interconnection agreements during 1997. Interconnection is fully operational in Monterrey and Guadalajara and the process is under way in Mexico City, where it is schedule to be completed in 1997's second quarter.

Participation in the U.S. Market

A strategic partnership made up of TELMEX and Sprint in February submitted a "214 filing" to the U.S. Federal Communications Commission (FCC) for participation in the U.S. long-distance market. The strategic alliance recognizes Sprint's network strengths and TELMEX's strong brand and name recognition in Hispanic markets in the U.S.

Cellular Telephony

TELCEL, TELMEX's cellular company, added 105,676 customers during the 1997 first quarter, primarily through its prepaid plans marketed under the names "Sistema Amigo" and "Amigo Kit". As of March 31, 1997, TELCEL had a total of 762,399 customers, a 75.2% increase over the same period of 1996.

TELCEL reported an operating margin of 5% during the first quarter of 1997 compared with an operating loss of 4% for the year ended December 31, 1996. The improvement in profitability was due to a decline in operating costs from the deployment of fraud systems and other cost control efforts.

Stock information

TELMEX	Bolsa Mexicana de Valores Ticker Symbol
TMX	NYSE Ticker Symbol
TFONY	NASDAQ Ticker Symbol

TELEFONOS DE MEXICO, S.A. DE C.V.
Parque Via N° 198, Oficina 701 Col. Cuauhtemoc Mexico, D.F. 06599
Tel. 52(5)703-3990 / 52(5)222-5462 Fax 52(5)545-5550
Dirección de Finanzas / Gerencia de Relaciones con Inversionistas

HIGHLIGHTS
FIRST QUARTER 1997

TELEFONOS DE MEXICO

operating margin of 7% compared favorable to 5% in the same period of 1995. Churning ratio was lower than 3% for the quarter due to new tariff plans offered to our subscribers. The monthly income per subscriber was 544 pesos, aproximately.

UniNet

During the first quarter of 1996, Telmex, through its subsidiary, Uninet, began offering national and international packet switching and other digital services.

Repurchase Program

Telmex continued the execution of its share repurchase program approved by shareholders in December, 1995. During the first quarter of 1996 a total of 367.6 million shares were repurchased. As of March 31, 1996, a total of 530.4 million shares remain authorized for repurchase by the company.

Sock Information

TELMEX	:	Bolsa Mexicana de Valores Ticker Symbol
TMX	:	NYSE Ticker Symbol
TFONY	:	NASDAQ Ticker Symbol

TELEFONOS DE MEXICO, S.A. DE C.V.
Parque Via Nº 198 Oficina 201 Col. Cuauhtémoc México, D.F. 06599
Tel. 52(5)703-3990 / 52(5)222-5462 Fax 52(5)545-5550
Dirección de Finanzas / Dirección de Comunicación

Teléfonos de México

Highlights
First Quarter

1996

TELMEX

CONSOLIDATED INCOME STATEMENT
RESTATED FOR INFLATION

	[illegible]	[illegible]	[illegible]
REVENUES			
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]
OTHER	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]
OPERATING COSTS AND EXPENSES			
COST OF SALES AND SERVICES	[illegible]	[illegible]	[illegible]
COMMERCIAL, ADMINISTRATIVE AND GENERAL	[illegible]	[illegible]	[illegible]
CASH OPERATING EXPENSES	[illegible]	4,305	[illegible]
EBITDA	6,384	8,302	(23.1)
DEPRECIATION AND AMORTIZATION	2,652	2,209	20.0
TOTAL	6,795	6,514	4.3
OPERATING INCOME	3,732	6,093	(38.8)
TELEPHONE SERVICE TAX	0	1,096	(100.0)
COMPREHENSIVE FINANCING COST			
NET INTEREST	(367)	(752)	(51.3)
EXCHANGE (GAIN), LOSS	(498)	6,122	(108.1)
MONETARY EFFECT	(499)	(135)	270.5
TOTAL	(1,364)	5,235	(126.1)
INCOME BEFORE TAXES AND PROFIT SHARING	5,096	(238)	(2238.4)
INCOME TAX AND EMPLOYEE PROFIT SHARING	1,615	323	400.0
NET INCOME	3,481	(561)	(720.4)

KEY RATICS AND STATISTICS

	THREE MONTHS ENDED MAR / 31 / 96	MAR / 31 / 95	PERCENT CHANGE
FINANCIAL RATIOS			
CONSOLIDATED OPERATING MARGIN (%)	35	48	
CONSOLIDATED EBITDA MARGIN (%)	61	66	
WIRELESS OPERATING MARGIN (%)	7	5	
OPERATING STATISTICS (000)			
ACCESS LINES ADDED	41	182	(77.5)
ACCESS LINES IN SERVICE	8,842	8,674	1.9
CELLULAR SUBSCRIBERS ADDED	36	28	29.0
TOTAL CELLULAR SUBSCRIBERS	435	334	30.1
L.D. BILLED MINUTES (Millions)			
DOMESTIC	1,926	1,791	7.5
INTERNATIONAL	826	694	19.0
SHARES OUTSTANDING (Millions)	9,314	10,425	(11.0)

WIRELESS OPERATIONS
RESTATED FOR INFLATION

	THREE MONTHS ENDED MAR / 31 / 96	MAR / 31 / 95	PERCENT CHANGE
TOTAL REVENUES	604	604	0.0
COST OF SERVICES	184	209	(12.0)
SELLING, GENERAL & ADMINISTRATIVE EXPENSES	267	269	(0.7)
TOTAL OPERATING EXPENSES	559	573	(2.4)
OPERATING INCOME	45	30	50.0

*Excluding Long Distance associated Revenues and Costs

CONSOLIDATED BALANCE SHEET
RESTATED FOR INFLATION

	[illegible]	MAR [illegible]
ASSETS		
CURRENT ASSETS	[illegible]89	25,387
PROPERTY, PLANT AND EQUIPMENT, NET	83,427	96,559
OTHER ASSETS	2,083	789
MATERIALS AND SUPPLIES	1,471	1,718
INTANGIBLE ASSETS	0	5,099
TOTAL ASSETS	104,470	129,552

	MAR / 31 / 96	MAR / 31 / 95
LIABILITIES & STOCKHOLDERS' EQUITY		
DEBT MATURING WITHIN ONE YEAR	5,020	3,663
OTHER CURRENT LIABILITIES	6,215	4,987
LONG TERM DEBT	11,222	17,685
DEFERRED CREDITS	724	1,756
RESERVE FOR PENSIONS AND SENIORITY PREMIUMS	438	6,102
TOTAL LIABILITIES	23,619	34,193
STOCKHOLDERS' EQUITY	80,851	95,359
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	104,470	129,552

Telefonos de Mexico has had a continued decline in revenues and operating income due to a lag in tariff increases, a reduction in international settlement rates with the U.S.A. and continued pressure on local demand due to economic slow-down. These decreases were offset partially by first quarter tariff adjusments, increased calling volumes for international and national long distance and continued emphasis on expense control.

Operating highlights for the quarter are summarized below:

Net Income

For 1996, net income of 3,481 million pesos was reported compared with a net loss of 561 million pesos in 1995 due to the foreing exchange losses experienced in 1995 and favorable peso exchange rate during the first quarter of 1996. The comprehensive financing cost for 1996 reflects a net income of 1,364 million pesos due to foreign exchange gains, monetary gains and interest income earned on short-term investments in excess of interest expense of debt.

Revenues

Revenues for the first quarter of 1996 decreased 16.5% driven primarily by a lag in tariff increases on local and national long distance rates. Partially offsetting these decreases were increases in call volumes for international and national long distance. Billed minutes for international long distance increased 19.0% and national long distance increased 7.5%, respectively during 1996.

Access lines increased 40,966 or 1.9% over same period last year. Moderate access line growth and an increase in the rate of disconnects were the result of economic slowdown.

Operating Costs and Expenses

During the first quarter, Telmex reclassified its operating costs and expenses in order to make its result more comparable with other telecommunications companies. Operating costs and expenses are now classified into the following three components: "Costs of Sales and Services", "Commercial, Administrative and General" expenses and "Depreciation and Amortization".

Costs of Sales and Services include those costs directly associated with the provision of telecommunications services and sales of products.

Commercial, Administrative and General expenses include those costs for the administration and overhead to support all services of the company.

These changes will make it easier to understand and compare Telmex's results with other telecommunication companies. The prior year has also been reclassified for comparative purposes.

Operating costs and expenses, excluding the impact of the Telephone Service Tax that was repealed effective January 1, 1996, increased 4.3% during 1996. The increase was due to an increase of 20% in depreciation and amortization charges and an increase in the provision for bad debts, offset partially by decreases in other operating expenses from the continued emphasis on costs control. The repeal of the Telephone Service Tax will not have a significant impact on net income during 1996 as the reduction in operating costs and expenses will be offset by corresponding increase in income taxes. Depreciation and amortization expenses increased due to an adjustment in the estimated useful lives of assets consistent with technological changes and other international telecommunications companies.

The operating margin for the first quarter of 1996 was 35.5% compared with 48.3% for 1995, excluding the Telephone Service Tax.

Cellular Telephony

Telcel, the wireless operation of Telmex, reported continued strong growth in suscribers adding 36,045 during the first quarter . The total number of suscribers is now 435,106, a 30.1% year over year increase. Telcel reported an

TOTAL REVENUES*	**615**	609	1.0	1,257	1,251	0.5
COST OF SERVICES*	257	163	57.7	459	340	35.0
COMMERCIAL, ADMINISTRATIVE AND GENERAL	383	401	(4.5)	768	816	(5.9)
TOTAL OPERATING COSTS AND EXPENSES	**640**	564	13.5	1,227	1,156	6.1
OPERATING INCOME	**(25)**	45	(155.6)	30	95	(68.4)

*Excluding Long Distance associated Revenues and Costs

OPERATING STATISTICS (Thousands)						
ACCESS LINES ADDED	27	52	(48.1)	68	233	(70.8)
ACCESS LINES IN SERVICE	8,869	8,726	1.6	8,869	8,726	1.6
CELLULAR SUBSCRIBERS ADDED	72	20	260.0	108	48	125.0
TOTAL CELLULAR SUBSCRIBERS	507	354	42.9	507	354	42.9
L.D. BILLED MINUTES (Millions)						
DOMESTIC	1,933	1,760	9.8	3,859	3,551	8.7
INTERNATIONAL	836	753	11.0	1,662	1,447	14.9
SHARES OUTSTANDING (Millions)	9,097	10,209	(10.9)	9,097	10,209	(10.9)

CONSOLIDATED BALANCE SHEETS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT JUNE 30, 1996)

	JUN 30/96	JUN 30/95		JUN 30/96	JUN 30/95
ASSETS			LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT ASSETS	16,754	22,575	CURRENT PORTION OF LONG TERM DEBT	[illegible]	[illegible]
PLANT, PROPERTY AND EQUIPMENT, NET	85,573	89,683	OTHER CURRENT LIABILITIES	[illegible]	[illegible]
INVENTORIES	1,500	1,848	LONG TERM DEBT	10,278	14,282
OTHER ASSETS	2,076	803	LABOR OBLIGATIONS	239	5,430
INTANGIBLE ASSET	-	4,577	DEFERRED CREDITS	764	1,383
			TOTAL LIABILITIES	22,560	29,596
			STOCKHOLDERS' EQUITY	83,343	89,890
TOTAL ASSETS	105,903	119,486	TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	105,903	119,486

Highlights

- **Second quarter earnings of $0.95 US per ADR.**
- **National billed long-distance minutes increased 9.8 percent.**
- **International billed long-distance minutes up 11.0 percent.**
- **Annual cellular growth rate at 42.9 percent.**
- **Annual growth rate for lines in service at 1.6 percent.**
- **Cash operating expenses decreased 9.9 percent.**

TELMEX's cash operating earnings (EBITDA) were $6,751 million in the second quarter, compared with $6,838 million a year ago.

Operating income for the quarter was $4,089 million, compared with $4,853 million in the second quarter of 1995.

The company said the quarter's results reflect several key factors including growth in long-distace call volumes and continued improvement in cost control offset by increased depreciation and amortization and by a lag in tariff increases for local and long distance services.

Depreciation and amortization expenses were also substantially higher in the quarter, up 34.1 percent or $2,662 million compared with $1,985 million for the second quarter of 1995, due to a decrease in the useful lives of the assets and recognition of replacement market value. However, TELMEX's cash operating expenses decreased 9.9 percent in the second quarter, resulting from implementation of cost control programs throughout the company.

Second quarter 1996 net income was $3,286 million compared to $5,961 million in the second quarter of 1995. On a per-ADR basis, TELMEX's second quarter earnings were $0.95 US.

Earnings comparisons also were affected by $1,326 million in exchange gains in the second quarter of 1995, resulting from fluctuations in the value of the Mexican peso, and by greater interest income in the second quarter a year ago.

Since December 5, 1995, TELMEX has repurchased 7.01 percent (34.3 million ADR's) of its total outstanding shares. As of June 30, 1996, its outstanding shares totaled 9,097.1 million.

On April 19, the shareholders meeting approved a dividend of $0.35 pesos per ordinary share to be paid in two equal payments of $0.175 pesos each. The first one was paid on June 20 and the second one will be paid on November 21, 1996.

At the end of the quarter 89 percent of TELMEX's telephone network was digital. Total digitalization of the Mexico City metropolitan area was completed on June 28, creating the world's largest telephone complex with 100 percent digital telephone technology.

Volume and Customer Growth

TELMEX's long-distance volumes continued their growth in the second quarter, reflecting Mexico's increased export business activity.

Second-quarter international long-distance billed minutes increased 11.0 percent, to 836 million compared with 753 million billed minutes in the second quarter of 1995. International long-distance revenues increased 5.1 percent, to $3,267 million compared with $3,109 million in the second quarter 1995.

National billed long-distance minutes increased 9.8 percent in the second quarter, compared to the same quarter last year. National long-distance revenues decreased 2.3 percent, second quarter 1996 versus second quarter 1995.

Consolidated access lines grew to 8,868,894 at the end of second quarter, for an annual growth rate of 1.6 percent. The net gain in access lines was 26,898 lines during the second quarter and 67,864 lines during the first six months of 1996. These growth rates reflect the fact that line demand is still repressed due to the overall economy, the company said, and because of intensified efforts to reduce uncollectables which increased the level of disconnections.

TELMEX increased rates for both local and long distance services during the second quarter. However, these increases combined with volume growth have not yet been sufficient to overcome a lag in tariff adjustment and a reduction in international settlements rates with the United States, which took effect January 1, 1996. As a result overall revenues declined in the second quarter by 5.0 percent.

New Services

During September 1996, TELMEX established the new service "Lada Collect to the United States", which offers customers a competitively priced, and simple option for making collect calls to Mexico while in the US.

Transformation of Commercial Offices

As part of the company's on-going efforts to improve customer service and quality, a total of more than 300 commercial offices are being converted into new Customer Attention Centers. These new centers will handle service orders, billing payments and inquiries, and offer video conference, Internet services and the sale of customer premise equipment. As of September, the company had completed the conversion of 34 new Customer Attention Centers.

Cellular Telephony

Revenues for the company's cellular company, TELCEL, increased 2.4% for the nine months ended September 30, 1996, compared to the same period of 1995. The operating margin for the nine months of 1996 was 2% compared with 6% reported in 1995.

The decrease in the level of operating income in 1996 is due primarily to an increase in the level of fraudulent calls experienced by the company. As a result, TELCEL is implementing a new call monitoring system and has begun the installation of a new system which allows the validation of radio frequencies of each user in order to minimize fraudulent calls.

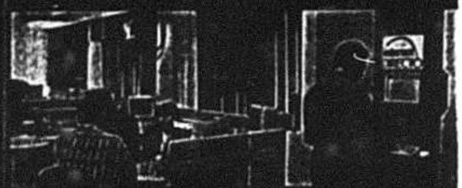
Stock Information

TELMEX	:	Bolsa Mexicana de Valores Ticker Symbol
TMX	:	NYSE Ticker Symbol
TFONY	:	NASDAQ Ticker Symbol

TELEFONOS DE MEXICO, S.A. DE C.V.
Parque Via Nº 198, 7º piso Col. Cuauhtémoc México, D.F. 06599
Tel. 52(5)703-3990 / 52(5)222-5462 Fax 52(5)545-5550
Dirección de Finanzas / Gerencia de Relaciones con Inversionistas

Teléfonos de México

Highlights
Third Quarter



1996

TELMEX

CONSOLIDATED STATEMENTS OF INCOME

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT SEPTEMBER 30, 1996)

	THREE MONTHS ENDED SEP 30/96	SEP 30/95	PERCENT CHANGE	NINE MONTHS ENDED SEP 30/96	SEP 30/95	PERCENT CHANGE
OPERATING REVENUES:						
INTERNATIONAL L.D.	3,588	[illegible]	20.2	[illegible]	[illegible]	[illegible]
DOMESTIC L.D.	3,976	[illegible]	18.8	[illegible]	[illegible]	[illegible]
LOCAL SERVICE	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER	470	658	(28.6)	[illegible]	[illegible]	[illegible]
TOTAL	13,315	[illegible]	[illegible]	38,015	[illegible]	[illegible]
OPERATING COSTS AND EXPENSES:						
COST OF SALES AND SERVICES	[illegible]	[illegible]	26.8	9,478	7,757	[illegible]
COMMERCIAL, ADMINISTRATIVE AND GENERAL	2,740	809	49.8	5,821	5,691	2.1
CASH OPERATING EXPENSES	5,841	[illegible]	35.5	15,299	[illegible]	5.9
EBITDA	7,474	7,674	(2.6)	21,616	24,040	(10.1)
DEPRECIATION AND AMORTIZATION	2,378	2,030	17.1	8,104	6,558	23.6
TOTAL	8,219	6,308	30.3	23,403	21,006	11.4
OPERATING INCOME	5,096	5,644	(9.7)	13,512	17,482	(22.7)
TELEPHONE SERVICE TAX		1,046			3,372	
COMPREHENSIVE FINANCING (INCOME) COST:						
NET INTEREST	27	(369)	(107.3)	(501)	(2,897)	(82.7)
EXCHANGE (GAIN) LOSS, NET	(178)	586	(130.4)	(656)	6,004	(110.9)
MONETARY EFFECT	(215)	(617)	(65.2)	(1,166)	(907)	28.6
TOTAL	(366)	(400)	(8.5)	(2,323)	2,200	(205.6)
INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING	5,462	4,998	9.3	15,835	11,910	33.0
INCOME TAX AND EMPLOYEE PROFIT SHARING	1,902	560	239.6	4,977	1,872	165.9
NET INCOME	3,560	4,438	(19.8)	10,858	10,038	8.2

Operating Income for the respectively periods of 1995 is different that the reported to the Mexican Stock Exchange, due to the exclusion of the Telephone Tax within the Operating Costs and Expenses.

WIRELESS OPERATIONS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT SEPTEMBER 30, 1996)

	THREE MONTHS ENDED SEP 30/96	SEP 30/95	PERCENT CHANGE	NINE MONTHS ENDED SEP 30/96	SEP 30/95	PERCENT CHANGE
TOTAL REVENUES*	664	624	6.4	1,979	1,933	2.4
COST OF SERVICES*	210	156	34.6	689	518	33.3
COMMERCIAL, ADMINISTRATIVE AND GENERAL	451	441	2.3	1,255	1,295	(3.1)
TOTAL OPERATING COSTS AND EXPENSES	661	597	10.7	1,944	1,808	7.5
OPERATING INCOME	3	27	(88.9)	35	125	(72.0)

*Excluding Long Distance associated Revenues and Costs

KEY RATIOS AND STATISTICS

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FINANCIAL RATIOS						
CONSOLIDATED OPERATING MARGIN	[illegible]	[illegible]		[illegible]	[illegible]	
CONSOLIDATED EBITDA MARGIN	[illegible]	[illegible]		[illegible]	[illegible]	
WIRELESS OPERATING MARGIN	[illegible]	[illegible]		[illegible]	[illegible]	
OPERATING STATISTICS (thousands)						
ACCESS LINES ADDED	(18)	48	(137.3)	50	281	(82.2)
ACCESS LINES IN SERVICE	8,851	8,774	0.9	8,851	8,774	0.9
CELLULAR SUBSCRIBERS ADDED	110	15	646.4	218	63	244.4
TOTAL CELLULAR SUBSCRIBERS	617	369	67.1	617	369	67.1
L.D. BILLED MINUTES (Millions)						
DOMESTIC	2,037	1,840	10.7	5,896	5,391	9.4
INTERNATIONAL	940	781	20.5	2,602	2,227	16.8
SHARES OUTSTANDING (Millions)	**8,976**	**9,898**	**(9.3)**	**8,976**	**9,898**	**(9.3)**

CONSOLIDATED BALANCE SHEETS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT SEPTEMBER 30, 1996)

ASSETS	[illegible]	[illegible]	LIABILITIES & STOCKHOLDERS' EQUITY	[illegible]	[illegible]
CURRENT ASSETS	[illegible]	[illegible]	CURRENT PORTION OF LONG-TERM DEBT	[illegible]	[illegible]
PLANT, PROPERTY AND EQUIPMENT, NET	[illegible]	[illegible]	OTHER CURRENT LIABILITIES	[illegible]	[illegible]
INVENTORIES	1,268	2,082	LONG TERM DEBT	[illegible]	[illegible]
OTHER ASSETS	2,043	2,148	LABOR OBLIGATIONS	0	5,185
INTANGIBLE ASSET	0	4,416	DEFERRED CREDITS	785	1,219
			TOTAL LIABILITIES	**20,894**	**28,721**
			STOCKHOLDERS' EQUITY	**84,588**	**92,566**
TOTAL ASSETS	**105,482**	**121,287**	**TOTAL LIABILITIES & STOCKHOLDERS' EQUITY**	**105,482**	**121,287**

Highlights

- **Third Quarter earnings of $1.05 US per ADR and,**
- **$3.21 US per ADR for the nine months ended September 30, 1996.**
- **Total consolidated revenues increased by 11.4%**
- **Domestic long distance minutes increased 10.7%**
- **International long distance minutes up 20.5%**
- **Operating income for the quarter decreased by 9.7%**
- **Net income fell by 19.8%**

Operation

Total revenues of $13,315 million for the third quarter increased 11.4% compared to the same period in 1995. The increase in revenues is primarily due to increases of 20.2% and 18.3% for international and domestic long distance, respectively. This growth resulted from increases in both call volumes and rates. For international long distance, billed minutes have increased 20.5% compared to the same period of 1995. For domestic long distance, billed minutes have increased 10.7% compared to the third quarter of the prior year. This growth in long distance revenues has been aided by an improvement in the Mexican economy, particularly in the industrial and export sectors.

Local service revenues have also increased 6.3% in the third quarter compared with 1995, primarily due to rate increases and an increase in local calling volumes.

Cash operating expenses increased 36.5% compared with the third quarter of 1995. However, this comparison has been impacted by adjustments in each period. In the third quarter of 1995, expenses were reduced by $220 million from the reversal of prior period accruals for expected changes in international settlement rates with the US long distance carriers. In the third quarter of 1996, the company changed its policy regarding expenditures for the rehabilitation of the telephone network. These expenditures, previously capitalized during a period of rapid growth, are now recognized as maintenance expenses and totaled $304 million during the third quarter of 1996.

EBITDA and Operating income for the quarter were $7,474 million and $5,096 million, compared with $7,674 million and $5,644 million reported in the third quarter of 1995.

Third quarter 1996 net income was $3,560 million, a decrease of 19.8% compared with the third quarter of 1995. On a per-ADR basis, TELMEX's third quarter earnings were $1.05 US. For the nine months ended September 30, 1996, net income totaled $10,858 million, an increase of 8.2% compared with the same period of the prior year. Nine months earnings per ADR totaled $3.21 US.

As of September 30, 1996, TELMEX had a total of 8,976 million shares outstanding. Since its share repurchase authorization on December 5, 1995, the company has repurchased a total of 779 million shares. A total of 221 million shares remain authorized for repurchase by the company.

Customer Growth

Consolidated lines in service were 8,851,105 on September 30, 1996, representing an increase of 0.9% from the prior year. For the quarter, lines in service decreased 17,789 and for the nine months ended September 30, 1996, lines in service increased 50,075. The decrease in lines in service growth is due to a decrease in demand and an increase in disconnects for non-payment.

Digitalization

As of September 30, 1996, 100% of the telephone lines in Mexico's three largest cities, Mexico City, Monterrey and Guadalajara, are digital. Nationwide, about 90% of the company access lines are digital.

CONSOLIDATED STATEMENTS OF INCOME

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT DECEMBER 31, 1996)

	THREE MONTHS ENDED DEC/31/96	THREE MONTHS ENDED DEC/31/95	PERCENT CHANGE	TWELVE MONTHS ENDED DEC/31/96	TWELVE MONTHS ENDED DEC/31/95	PERCENT CHANGE
OPERATING REVENUES:						
INTERNATIONAL L.D.	3,491	3,723	(6.2)	14,387	14,285	0.7
DOMESTIC L.D.	4,211	3,337	26.2	15,483	14,621	5.9
LOCAL SERVICE	5,736	4,999	14.7	21,465	22,463	(4.4)
OTHER	120	341	(64.8)	1,379	1,855	(25.7)
TOTAL	13,558	12,400	9.3	52,714	53,224	(1.0)
OPERATING COSTS AND EXPENSES:						
COST OF SALES AND SERVICES	2,776	2,767	0.3	11,768	11,006	6.9
COMMERCIAL, ADMINISTRATIVE AND GENERAL	3,159	1,951	61.9	9,331	9,037	3.3
CASH OPERATING EXPENSES	5,935	4,718	25.8	21,099	20,043	5.3
EBITDA	7,623	7,682	(0.8)	31,615	33,181	(4.7)
DEPRECIATION AND AMORTIZATION	2,768	2,659	4.1	11,365	9,615	18.2
TOTAL	8,703	7,377	18.0	32,464	29,658	9.5
OPERATING INCOME	4,855	5,023	(3.3)	20,250	23,566	(14.1)
TELEPHONE SERVICE TAX	-	1,126	-	-	4,703	-
NON-RECURRING CHARGES	2,705	-	-	3,767	-	-
COMPREHENSIVE FINANCING (INCOME) COST:						
NET INTEREST	(12)	(658)	(98.2)	(542)	(3,732)	(85.5)
EXCHANGE (GAIN) LOSS, NET	481	2,772	(82.6)	(215)	9,141	(102.4)
MONETARY EFFECT	(106)	284	(137.3)	(1,343)	(677)	98.4
TOTAL	363	2,398	(84.9)	(2,100)	4,732	(144.4)
INCOME BEFORE INCOME TAX AND EMPLOYEE PROFIT SHARING	1,787	1,499	19.2	18,583	14,131	31.5
INCOME TAX AND EMPLOYEE PROFIT SHARING	1,704	262	550.4	6,983	2,247	210.8
NET INCOME	83	1,237	(93.3)	11,600	11,884	(2.4)

Operating Income for the respectively periods of 1995 is different that the reported to the Mexican Stock Exchange, due to the exclusion of the Telephone Tax within the Operating Costs and Expenses.

WIRELESS OPERATIONS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT DECEMBER 31, 1996)

	THREE MONTHS ENDED DEC/31/96	THREE MONTHS ENDED DEC/91/95	PERCENT CHANGE	TWELVE MONTHS ENDED DEC/31/96	TWELVE MONTHS ENDED DEC/31/95	PERCENT CHANGE
TOTAL REVENUES*	635	651	(2.5)	2,734	2,701	1.2
COST OF SERVICES*	374	207	80.7	1,105	751	47.1
COMMERCIAL, ADMINISTRATIVE AND GENERAL	397	423	(6.1)	1,728	1,797	(3.8)
TOTAL OPERATING COSTS AND EXPENSES	771	630	22.4	2,833	2,548	11.2
OPERATING INCOME	(136)	21	(747.6)	(99)	153	(164.7)

*Excluding Long Distance associated Revenues and Costs.

WIRELESS OPERATING MARGIN	(21)	3		(4)	6	
OPERATING STATISTICS (Thousands)						
ACCESS LINES ADDED	(25)	27	(190.8)	25	309	(91.9)
ACCESS LINES IN SERVICE	8,826	8,801	0.3	8,826	8,801	0.3
CELLULAR SUBSCRIBERS ADDED	40	30	33.6	258	93	176.9
TOTAL CELLULAR SUBSCRIBERS	657	399	64.6	657	399	64.6
LD BILLED MINUTES (Millions)						
DOMESTIC	1,972	1,903	3.6	7,867	7,294	7.9
INTERNATIONAL	911	796	14.4	3,513	3,024	16.2
SHARES OUTSTANDING (Millions)	8,875	9,681	(8.3)	8,875	9,681	(8.3)

CONSOLIDATED BALANCE SHEETS

(MILLIONS OF MEXICAN PESOS WITH PURCHASING POWER AT DECEMBER 31, 1996)

	DEC/31/96	DEC/31/95		DEC/31/96	DEC/31/95
ASSETS			LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT ASSETS	19,158	20,587	CURRENT PORTION OF LONG-TERM DEBT	3,552	6,088
PLANT, PROPERTY AND EQUIPMENT, NET	89,984	104,783	OTHER CURRENT LIABILITIES	8,436	6,241
INVENTORIES	1,205	1,746	LONG TERM DEBT	9,804	14,946
OTHER ASSETS	497	2,671	LABOR OBLIGATIONS	8	766
INTANGIBLE ASSET	0	0	DEFERRED CREDITS	664	830
			TOTAL LIABILITIES	22,464	28,871
			STOCKHOLDERS' EQUITY	88,380	100,916
TOTAL ASSETS	110,844	129,787	TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	110,844	129,787

Highlights

- **Total consolidated revenues increased 9.3% in the quarter.**
- **Domestic long distance minutes increased 3.6% in the quarter and 7.9% for the year.**
- **International long distance minutes were up 14.4% for the quarter and 16.2% for the year.**
- **Fourth quarter earnings of $0.03 US per ADR and $3.34 US for the year.**
- **Non-recurring charges reported in the quarter:**
  - **Goodwill write-off of $1,561 million.**
  - **A charge of $895 million for certain expenses related to the opening of the long distance market in Mexico.**
  - **Charitable contributions of $249 million to the FUNDACION TELMEX.**

Operation

Total revenues of $13,558 million for the fourth quarter increased 9.3% compared to the same period of 1995. The increase in revenues is primarily due to increases in domestic long distance of 26.2% and local service of 14.7%. This growth resulted from increases in call volumes and better prices. International long distance revenues declined 6.2% in the quarter due to a reduction in accounting settlement rates with US carriers as well as the impact of a strong peso during 1996. For the entire year of 1996, total revenues were $52,714 million, a decline of 1.0% compared with 1995.

For the quarter, domestic long distance traffic increased to 1,972 million minutes, or 3.6% over the same period of 1995. International traffic grew 14.4% to 911 million minutes. For the year, domestic long distance volume grew 7.9% reaching 7,867 million minutes. International long distance volume increased 16.2% over 1995, for a total of 3,513 million minutes.

Cash operating expenses for the quarter increase 25.8%, besides the non-recurring charges mentioned before, due to increases in the provision for bad debts, a change in accounting for maintenance expenses related to telephone plant previously capitalized and increases in advertising expenses due to the competitive long distance marketplace in Mexico.

Depreciation and amortization expanses of $2,768 million for the quarter increased 4.1% compared to 1995 due to the restatement of assets to replacement value in accordance with Mexican accounting principles. For the year, depreciation increased by 18.2% due to a reduction in the estimated useful lives of assets.

TELMEX continues its conservative policy of applying high depreciation rates, to more appropriately reflect the fast changing technology and more competitive telecommunications industry. Likewise, restatement on fixed assets has followed the same policy, which is reflected in a reduced book value, despite of they are one of the most modern in the world. Value per line is lower in comparisson with many other telephone companies, including those which have a lag in capital expenditures.

Operating income for the fourth quarter was $4,855 million compared with $5,023 million reported in 1995, a decrease of 3.3%.

Comprehensive financing cost was $363 million during the fourth quarter of 1996. This compares with a cost of $2,398 million reported in the fourth quarter of 1995. The improvement during 1996 is due to a more favorable peso exchange rate with reported exchange losses of $481 million in 1996 compared to losses of $2,772 million in 1995.

Net income for 1996 was $11,600 million, a decrease of 2.4% compared to 1995.

As of December 31, 1996, TELMEX had 8,874,557,648 shares outstanding, a decrease of 806,853,914 shares from the prior year due to the company's share repurchase program. On a per-ADR basis, TELMEX's earnings for 1996 were $3.34 US compared to $3.14 US for 1995. In December, the shareholders authorized the repurchase of an additional 800,000,000 shares and approved cancellation of 844,794,306 shares repurchased under the previous authorization.

Customer Growth

Access lines growth continued to be depressed by the number of disconnects experienced. For the year, TELMEX added 25,118 lines, or 0.3% and ended the year at 8,826,148 lines.

Competition in Long Distance

TELMEX has demostrated its commitment to the opening of the long distance marketplace by successfully meeting its schedule for interconnection in Mexico's largest 60 cities and providing

Figures in million of pesos, unless otherwise indicated

FINANCIAL RESULTS*

	1996	1995	1994	1993	1992
Total Revenues	52,714	53,224	56,693	51,109	46,459
Cost of Sales and Services	11,768	15,709	17,005	15,729	14,131
Commercial, Administrative and General Expenses	11,598	9,104	8,691	7,815	7,071
Depreciation and Amortization	12,509	9,208	6,883	6,205	5,093
Total Expenses	35,875	34,021	32,579	29,749	26,295
Operating Income	16,839	19,203	24,114	21,360	20,164
Net Income	11,600	11,884	15,256	18,704	17,895
Total Assets	111,682	129,787	146,016	109,902	97,707
Total Liabilities	13,356	21,034	20,508	14,895	14,524
Stockholders' Equity	89,215	100,916	107,207	76,968	69,461
Total Liabilities/Capitalization (%)	13.0	17.2	16.1	16.2	17.3
Net Annual Investment	5,238	10,762	16,408	14,722	16,441

STATISTICS

	1996	1995	1994	1993	1992
Communities with Telephone Service	20,694	20,554	20,447	18,281	15,783
Access Lines in Service (1)	8,826	8,801	8,493	7,621	6,754
Kms. of L.D. Circuits in Service (1)	96,493	87,428	81,956	82,491	83,106
Domestic L.D. Minutes (2)	7,867	7,294	6,746	5,923	5,293
International L.D. Minutes (2)	3,513	3,024	2,622	2,221	2,001

DATA PER SHARE (pesos)*

	1996	1995	1994	1993	1992
Earnings per Share	1.27	1.17	1.45	1.77	1.69
Book Value	10.05	10.45	10.21	7.28	6.57
Market Value at Year-End	12.980	12.360	10.240	10.450	8.775
Nominal Dividend per Share	0.525 (3)	0.350	0.300	0.250	0.150
Outstanding Shares (2)	8,875	9,654	10,499	10,566	10,576

(*) The numbers from 1992 to 1995 have been updated according with the third re-expression document of Bulletin B-10 and, accordingly, they are stated in pesos with a purchasing power as of December 31, 1996.
(1) In Thousands
(2) In Millions
(3) Proposed

Letter to Our Shareholders

In 1996 Teléfonos de México achieved a significant milestone in our preparation for competition. We completed an important stage of our technological modernization process, undertaken when the company was privatized and accomplished with the support of our employees and our financial strength.

Teléfonos de México now has one of the most modern long distance telecommunications networks in the world. Our fully digitized 30,000- kilometer fiber optic network delivers our long distance service, under the trademark LADA, to 20,694 communities. If a failure occurs, the network's redundant ring state-of-the-art technological architecture resets the service in only milliseconds. In addition, our Long Distance Network National Supervision Center, located in the City of Querétaro, and the Long Distance Supervision Centers in Monterrey, Guadalajara and Puebla constantly monitor operation of the complete system.

The enormous effort made by TELMEX during the past few years, the major investments, the work done jointly with our personnel to better serve our clients, and the presence of the company throughout Mexico, all are fundamental factors in maintaining a leadership position in the market. By segmenting the market and identifying our customers' needs, we have responded to their expectations on a timely basis with better products and services and discounts on their long distance calls.

During 1996 we carried out all the work necessary for new long distance operators to establish interconnection beginning on January 1, 1997. Our process was unprecedented anywhere in the world because of the short time available to us. We invested 550 million dollars, and it required full-time participation of more than 500 company employees.

In accordance with the agreement, the country's 60 major cities will be interconnected in 1997, 100 cities in 1998 and 150 in 1999. TELMEX is committed to carrying out the opening of the telecommunications market in Mexico. Our commitment is evident in our timely compliance with the interconnection schedule and the dedication of the human and financial resources this process has demanded.

Despite the big advantages with which our competitors have entered this market — and our competitors include two of the world's major transnational communications companies — all of them use our local and long distance infrastructure even more than they originally expected to because their own investments in infrastructure have been delayed. Under the interconnection arrangement, the long distance suppliers can take advantage of the existing local service infrastructure with its high operating expenses, maintenance and investment, and they have access to it at reduced prices, significantly below what they pay in their own countries. Therefore, we have gone from a situation where, for social reasons, long distance historically subsidized local service, to the current situation, in which the subsidy in effect has been reversed and everybody helps pay for long distance, for reasons we do not understand.

We know that, in addition to technological support, quality service requires extraordinary customer service. Therefore, our old commercial offices were upgraded to turn them into modern Telecommunications Service Centers. Their integrated service concept allows customers to pay for services, ask questions about telephone bills, obtain information and contract for products and services, all at one location. Due to our customers' outstanding acceptance of these new Service Centers, we are expanding this integrated service concept in many communities and cities throughout Mexico. Our company's daily efforts to improve quality measurements based on internal indicators as well as customer satisfaction surveys are yielding good results.

In recognition of new conditions in our market, we have created specific service centers to attend to the needs of the long distance carriers. These facilities include the Telecommunications Carriers Service Center (CAT, as per initials in Spanish), in charge of installation, maintenance and consultation, and the Telecommunications Carriers Commercial Service Center (CAO, as per initials in Spanish), which handles contracting, billing, and other commercial services.

technological architecture allows us to offer uninterrupted service, supported by total redundancy and continuous monitoring.

needs and to measure up to world-class quality standards. This internal process ended in 1996, and a new phase began: competition in long distance.

At present, the Mexico City, Monterrey, Guadalajara and Puebla networks are completely digital, and therefore we can guarantee quality and efficiency of service.

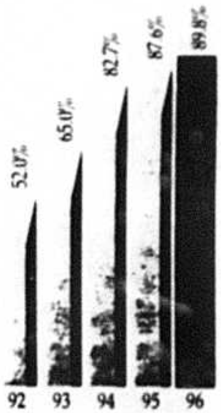
This is a truly historical process through which our country becomes better integrated with the globalized economic environment.

Teléfonos de México is the only company in Mexico capable of offering a full range of telecommunications products and services to our customers, thus allowing them to meet their needs from a single provider.

We offer our customers integrated solutions to their telecommunication needs.

The Long Distance Network National Supervision Center located in the City of Querétaro provides ongoing monitoring of the LADA network operation. In 1996, this Center received the Quality Award for the State of Querétaro, due to the high-quality service it renders. This Center is supplemented by the Long Distance Supervision Centers located in Monterrey, Guadalajara and Puebla.

We have one of the most modern long distance telecommunications networks in the world. Our fiber-optic network extends more than 30,000 kilometers, is completely digitized and carries communications to 20,694 communities. Its technological architecture, based on rings, gives it complete redundancy and the capacity to reset the service in a matter of milliseconds. With these capabilities it guarantees



Digitalization of the Local Network
(Consolidated)

We complied with the commitment to guarantee the interconnection of all the long distance carriers to our local network beginning in January 1, 1997.

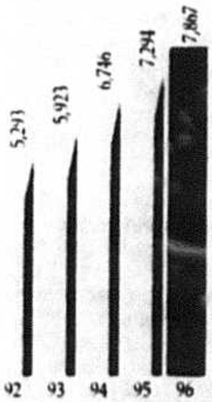
process, which is manifest in the execution of the interconnection process. This process demanded the disbursement of approximately 550 million dollars and the participation of more than 500 Company employees full-time. The technical effort required the expansion and adaptation of the technological plant to interconnect the equipment of the new long distance carriers, install new signaling systems and communication protocols, and provide billing systems and specialized service centers for these carriers.

Specialized areas such as the Telecommunications Carriers Service Center (CAT) and the Telecommunications Carriers Commercial Service Center (CAO) were created for the new long distance carriers, in order to offer them high quality and efficient services.

Teléfonos de México network to service their customers.

According to the schedule previously defined by the authorities, in 1997 the 60 major cities of Mexico will be interconnected. The number of cities will increase to 100 in 1998 and 150 in 1999.

Teléfonos de México infrastructure is a key element in the opening of telecommunications to competition in Mexico.



Domestic Long Distance Minutes
(millions)
(Consolidated)

We have the Capacity to Offer Our Customers Integrated Telecommunications Services

In a single source, without having to go to several suppliers, we offer our customers advanced services that make use of state-of-the-art telecommunications technology.

In 1996 we introduced innovative payment and access systems that use prepaid calling cards. They are marketed under the names "Sistema Amigo" and "Amigo Kit." The latter includes an activated cellular telephone ready to place calls.

TELCEL is the leading company in cellular telephony in the market. In 1996, the number of users of this service continued to increase. We had a net addition of 257,662 customers, which was a 64.6 percent increase. The gain was the net result of adding 563,210 new cellular lines in service and canceling 305,548 lines. The service infrastructure was extended in 1996 to reach 249 communities with a total of 421 cells.

Through our Data Public Network, with national and international multi-protocol link services, we provide broad routing capacity and package switching, to respond to new applications such as client-server, multimedia software, videoconferencing, file transfer, virtual terminals, electronic mail, protocol conversion and access to the internet.

Teléfonos del Noroeste (TELNOR) has a completely digitized telephone plant with 324,537 lines in service, which represents 7.6 percent growth in comparison with 1995.

The Intelligent Network supports availability of the Virtual Private Network (VPN) service. It emulates a voice private network, using the resources of the switched public network. The service focuses on customers with communication needs in various locations, and companies use it to create their own networks with a private numbering system and abbreviated dialing.

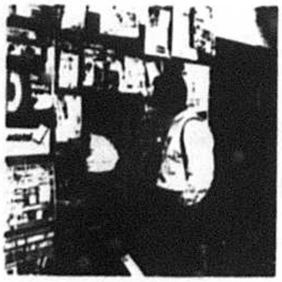
"Internet Directo" was launched at the end of the year. This product offers residential customers access to the Internet worldwide network and its extensive range of possibilities to search for information, carry out business, enjoy various kinds of entertainment and share common interests with other people anywhere in the world.

ERS

We Have a Strong Commitment to Mexico and the World

Juntos con LADA (Jointly with LADA), the Plan LADA Ahorro (LADA Savings Plan), LADA Unica (Only LADA) and the Plan LADA Unión Empresarial (Business Union LADA Plan) guarantee big discounts to customers that have chosen Teléfonos de México as their long distance supplier.

We continue to expand and refurbish the public telephone plant. We installed 25,552 public telephone sets activated by debit cards with microchip technology. Of those, 1,677 telephone sets operate through cellular technology. This type of wireless service and the advantage of its compatibility with the LADATEL card offer a new field for expansion. At the end of 1996, we had a total of 240,239 public telephones installed throughout México.

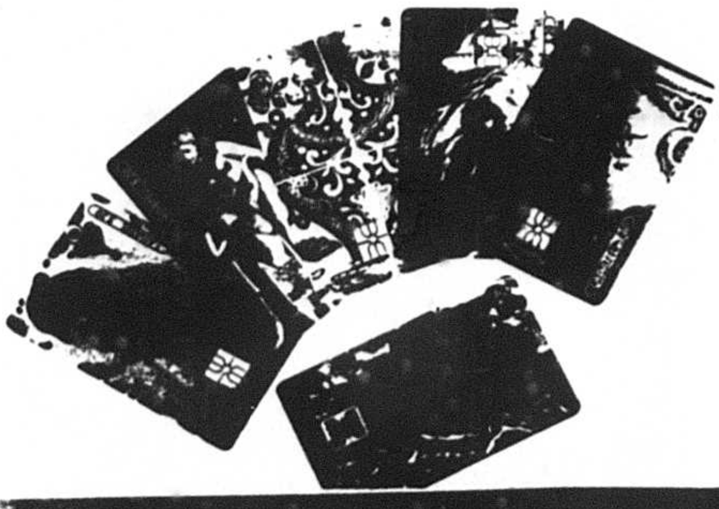


The distribution of the LADATEL card benefits from the participation of 30 independent wholesalers who in turn service 25,000 points of sale throughout the country.

As an expansion of our long distance special discount promotion strategy, through our trademark LADA we offered residential customers up to a 20 percent discount on long distance calls. Also, in order to show our appreciation for their preference, beginning in January 1997, under the name "Todo México, juntos con LADA" (All of México, together with LADA), our residential customers obtained a special additional 12 percent discount applicable to calls placed through LADA.

The Paging TELBIP service, in its numerical version, supplements our range of communication alternatives for our customers.

In 1997 we established a long distance one-rate policy under the "LADA Unica" (Only LADA). These flat rates are highly competitive at the international level and provide the advantage of simplicity both in billing and in terms of our customers feeling comfortable they understand what their calls will cost.



Also, for commercial customers, TELMEX launched the "Plan LADA Unión Empresarial" (Business Union LADA Plan). The commercial customers who enroll in it receive 25 percent to 38 percent discounts, depending on their long distance volume.

In Teléfonos de México our service philosophy is based not only on offering attractive prices but also on guaranteeing that our customers receive high quality service every day and the opportunity to take advantage of more and better products over time.

At present, we are preparing to try new opportunities such as the long distance telephone market in the United States of America. In February 1997, jointly with Sprint Corporation, Teléfonos de México formally requested U.S. Federal Communications Commission approval for a joint venture to access that market. The initial focus will be the Spanish-speaking market, which accounts for 10.3 percent of the total population.

In the Spanish-speaking market in the United States, our Company currently has good brand recognition and customer acceptance.

We have placed great emphasis on training our personnel in Mexico, which constitute our major strength, to offer our customers high levels of attention and service.

The continuing training of Teléfonos de México personnel is fundamental in maintaining our vanguard position in the market.

In support of the ongoing training, the Instituto Tecnológico de Teléfonos de México (INTTELMEX) implemented several training programs that in total taught 12,761 courses with 96,887 participants in 1996.

Also in 1996, 1,666 events took place as part of our Social Welfare Program. These activities support the individual and professional development of our employees and help develop a spirit of teamwork that benefits them as well as TELMEX.

BIENESTAR SOCIAL
Camino al Cambio

Besides INTTELMEX, Teléfonos de México provides activities in the area of social well-being to promote its workers' personal development.

As part of operating effectively in our new competitive environment, we undertook several organizational changes in the Marketing division. We created the Business Units division to develop the services and products preferred by different segments of the market. We established a Customer Service division, which expedites relationships with our customers and helps make these contacts more efficient.

We also improved the Operation Support Area. It includes the Technical and Commercial Service Centers which serve Telecommunications Carriers(CAT y CAO, respectively).

A new Engineering division was established to reinforce and maintain our technological infrastructure. It has been given the responsibility of coordinating technical efforts throughout the company to assure optimum operation of our equipment and facilities.

In addition, the Technical Planning Area was reinforced in order to coordinate upgrades of the technological infrastructure with the integration of new products and services and to prepare for increased demand in various market segments.

Finally, in order to establish a closer and more direct relationship with the various regulatory authorities for the telecommunications sector in Mexico, we created a Regulatory division. It has responsibility for all legal and competition-related issues.

The TELMEX Foundation, A.C., has given approximately 5,000 scholarships and computers to outstanding young students throughout the country, in order to improve education levels in Mexico. The Foundation also created the Science and Humanities Studies Center and the Casa del Becario Telmex (Telmex Fellow Home).

Financial Results

Comments on the Operating Results and the Financial Position

Financial Statements

Consolidated as of December 31, 1996 and 1995 with the Auditors Report

...de Mexico S.A. de C.V. ...s subsidiaries and associat- ...mpanies (TELMEX) provide ...broadest range of telecommu- ...tion services at national and ...national levels to customers ...practically all economic activity ...eas. TELMEX is the most ...portant telecommunications ...mpany in Mexico, and one of ...e largest in the world, measured ...its lines in service. It is ranked ...mong the seventeen major ...communication companies in ...the world.

Operating Results

During 1996, TELMEX had a net increase of 25,118 lines in service and by the end of the year reached a total of 8,826,148 lines in service. This reduced rate of growth was due to the lower rate of new contracts and the cancellation of lines because of lack of payment, which to a large extent was generated by the country's economic situation.

Domestic long distance traffic was 7,867 million minutes billed, which meant a 7.9 per cent growth versus the volume registered the previous year. International long distance traffic was 3,513 million minutes billed, a 16.2 percent increase versus 1995.

In 1996 new products were launched into the market including "Internet Directo" for residential use and the availability of the Yellow Pages Directory through the Internet.

Financial Results

The following comments on the main financial results obtained by TELMEX during 1996 are based on the consolidated financial statements and their notes included in this Annual Report. The consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles. In accordance with Bulletin B-10 of the Mexican Institute of Public Accountants, A.C., the financial information in this report has been restated in pesos with purchasing power of December 31, 1996.

The following charts first show income expenses and operating income of TELMEX and then the breakdown of the operating income for cellular telephony.

TELMEX
Years ended December 31

	1996		1995	
	Million pesos	% of operating revenue	Million pesos	% of operating revenue
OPERATING REVENUES				
Long Distance Service:				
International	14,387	27.3	14,285	26.8
Domestic	15,483	29.4	14,621	27.5
Local Service	21,465	40.7	22,463	42.2
Other	1,379	2.6	1,855	3.5
Total Revenues	52,714	100.0	53,224	100.0
OPERATING COSTS AND EXPENSES				
Cost of Sales and Services	11,768	22.3	11,006	20.7
Commercial, Administrative and General Expenses	9,392	17.8	9,104	17.1
Depreciation and Amortization	10,948	20.8	9,208	17.3
Telephone Tax			4,703	8.8
Special Cost and Expenses	3,767	7.2		
Total Costs and Expenses	35,875	68.1	34,021	63.9
OPERATING INCOME	16,839	31.9	19,203	36.1

after the fourth quarter of 1995, amounted to 286 million pesos.

Commercial, Administrative and General Expenses

In 1996 commercial, administrative and general expenses grew [illegible] percent compared with 4.8 percent in 1995. The 1996 increase was due to an increase in bad accounts, which amounted to [illegible] million pesos for the year, and to an increase in advertising expenses.

The 1995 increase reflected higher expenses associated with the implementation of systems to improve billing and to an increase in the bad accounts provisions.

Depreciation and Amortization

Depreciation and amortization increased 18.9 percent in 1996 and [illegible] percent in 1995. The increase in both years in part can be attributed to the replacement value of telephone assets in peso terms and to new investments. In 1996, TELMEX increased its depreciation rate on a significant portion of its equipment to reflect advancements in technology, which translated into an increase of 1,085 million pesos in depreciation.

Special Costs and Expenses

In 1996, TELMEX registered special costs and expenses amounting to 3,767 million pesos, due to three separate items:

- Anticipated write-off of the remaining goodwill amounting to 1,561 million pesos, attributable to the purchase of a microwave network from a government agency and investments made in 1995 in Empresas Cablevision, S.A. de C.V. and in Consorcio Red Uno, S.A. de C.V.
- A charge to expenses of 895 million pesos, representing a portion of the expenses incurred in 1996 for changes in the network and other expenses related to the opening of the long distance market in Mexico.
- The initial contribution of 1,311 million pesos to create the TELMEX Foundation, A.C., which is a non-profit organization to promote education and health in Mexico.

Operating Income

In 1996, operating income decreased 12.3 percent due to the reduction in revenues and the increase in operating costs and expenses and the special charges, which resulted in an operating margin of 36.1 percent in 1995 and 31.9 percent in 1996.

Integral Financing Cost (Income)

In 1996, this account reflected a net income of 2,100 million pesos, while in 1995 it reported a net cost of 4,731 million pesos.

During 1996, interest income decreased 67.3 percent, due to lower interest rates in México and a lower average level of interest bearing assets. Interest income increased 129.0 percent during 1995, basically due to higher interest rates compared with the prior year.

Interest expense decreased 48.4 percent during 1996 due to lower foreign interest rates and a lower indebtedness level. Interest expense increased 83.0 percent in 1995, due to the effect of the peso devaluation on foreign currency debt.

The relative stability of the peso to the U.S. dollar during 1996 and the appreciation of the peso against other currencies translated into net exchange income. The significant devaluation of the peso against other currencies in 1995 generated severe exchange losses on TELMEX's debts in foreign currencies.

In 1996 and 1995, the monetary liabilities average exceeded the average of monetary assets, resulting in net gains in the monetary position in both years. The 1995 to 1996 increase was due to the higher level of monetary liabilities versus monetary assets, and this compensated for the decrease in inflation.

Net Income

Net consolidated income in 1996 amounted to 11,600 million pesos, which meant a 2.4 per cent reduction versus 1995 net income.

Investments

TELMEX's consolidated investments amounted to 5,238 million pesos during 1996.

Financial Structure

TELMEX's financial structure is still sound, as can be seen in the total debt to capitalization ratio at year-end 1996, when it was [illegible] percent compared with 17.2 percent a year earlier.

Stock Repurchase

During 1996, TELMEX repurchased 779 million of its shares, equal to 8.0 percent of the capital stock of the company at the beginning of the year. In December of that year [illegible] million company shares were canceled and the program to repurchase 500 million additional shares was approved. At the close of 1996, TELMEX had 8,874.5 million shares outstanding, made up of 2,163.0 million serie "AA" shares, 279.5 million serie "A" shares and 6,432.0 million serie "L" shares.

MANCERA, S.C.
ERNST & YOUNG

To the Stockholders of
Teléfonos de México, S.A. de C.V.

We have audited the accompanying consolidated balance sheets of Teléfonos de Mexico, S.A. de C.V. and subsidiaries as of December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Mexico. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement and are prepared in conformity with accounting principles generally accepted in Mexico. An audit includes examining, on a test basis, evidence supporting the amounts and the disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teléfonos de Mexico, S.A. de C.V. and subsidiaries at December 31, 1996 and 1995, and the consolidated results of their operations, changes in their stockholders' equity, and changes in their financial position for the years then ended in conformity with accounting principles generally accepted in Mexico.

Mancera, S.C.
a Member of
Ernst & Young International

C.P. Alberto Tiburcio

Mexico City, Mexico,
March 7, 1997

		Year ended December 31		
		1996		1995
Operating revenues:				
Long-distance service:				
International	Ps.	14,387,336	Ps	14,284,862
Domestic		15,483,004		14,621,441
Local service		21,464,971		22,463,339
Other		1,378,626		1,854,704
		52,713,937		53,224,346
Operating costs and expenses:				
Cost of sales and services		11,768,080		11,006,057
Commercial, administrative and general		9,391,806		9,103,653
Depreciation and amortization (Note 3)		10,948,221		9,208,415
Telephone service tax (Note 13)				4,702,719
Special charges (Note 7)		3,767,308		
		35,875,415		34,020,844
Operating income		16,838,522		19,203,502
Comprehensive financing (income) cost:				
Interest income		(2,394,674)		(7,318,153)
Interest expense		1,852,083		3,586,207
Exchange (gain) loss, net (Note 8)		(214,928)		9,140,770
Monetary effect		(1,342,640)		(677,419)
		(2,100,159)		4,731,405
Income before income tax and employee profit sharing		18,938,681		14,472,097
Provisions for (Notes 12 and 13):				
Income tax		5,531,823		1,077,759
Employee profit sharing		1,450,882		1,169,674
		6,982,705		2,247,433
Income before equity in results of affiliates		11,955,976		12,224,664
Equity in results of affiliates and amortization of goodwill (Note 2)		355,577		340,248
Net income	Ps.	11,600,399	Ps	11,884,416
Weighted average common shares outstanding (in millions)		9,154		10,150
Net income per share (in Mexican pesos)	Ps.	1.267	Ps	1.171

See accompanying notes.

(THOUSANDS OF MEXICAN PESOS)

	Year ended December 31			
		1996		1995
Operating activities :				
Net income	Ps.	11,600,399	Ps.	11,884,416
Add: Items not requiring the use of resources:				
Depreciation		10,745,153		9,146,646
Amortization		1,763,023		161,769
Equity in results of affiliates and amortization of goodwill		355,577		340,248
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts due from subscribers	(	785,668)		2,197,801
Other accounts receivable	(	1,397,621)		2,499,616
Prepaid expenses	(	277,739)		191,810
Trust fund contribution				604,181
Increase (decrease) in:				
Employee pensions and seniority premiums:				
Reserve		2,154,508		2,361,220
Contributions to trust fund	(	1,870,390)	(	1,662,480)
Payments to employees	(	943,920)	(	918,100)
Monetary effect of reserve	(	99,094)	(	465,453)
Accounts payable and accrued liabilities		1,064,615	(	850,990)
Taxes payable		1,125,322		59,417
Deferred credits	(	165,484)	(	412,650)
Resources provided by operating activities		23,268,681		23,058,250
Financing activities :				
New loans		6,417,478		3,843,508
Repayment of loans	(	9,513,069)	(	3,473,837)
Effect of exchange difference and of inflation on debt	(	4,582,518)		106,935
Application of advances on sale of receivables			(	1,568,016)
Decrease in capital stock and retained earnings due to purchase of Company's own shares	(	10,821,506)	(	12,167,028)
Cash dividends paid	(	3,382,652)	(	4,163,684)
Resources used in financing activities	(	21,882,267)	(	17,372,122)
Investing activities :				
Investment in telephone plant	(	5,173,336)	(	9,075,967)
Reduction in telephone plant inventories		11,101		468,968
Investment in subsidiary company	(	75,577)		
Investment in affiliated companies			(	2,154,908)
Resources used in investing activities	(	5,237,812)	(	10,761,907)
Net decrease in cash and short term investments	(	3,851,398)	(	3,075,779)
Cash and short-term investments at beginning of year		8,938,485		12,014,264
Cash and short-term investments at end of year	Ps.	5,087,087	Ps.	8,938,485

See accompanying notes.

Consolidated Balance Sheets
(Thousands of Mexican pesos with purchasing power at December 31, 1996)

		December 31 1996		1995
Assets				
Current assets:				
Cash and short-term investments	Ps.	5,087,087	Ps.	[illegible]
Accounts receivable:				
Subscribers		9,214,072		[illegible]
Net settlement receivables		1,624,448		[illegible]
Other		1,730,586		[illegible]
		12,569,106		[illegible]
Prepaid expenses		1,501,456		[illegible]
Total current assets		19,157,649		20,567,171
Plant, property and equipment, net (Note 3)		90,820,122		104,782,528
Inventories, primarily for use in construction of the telephone plant		1,205,030		1,746,366
Equity investment in affiliates (Note 2)		496,606		[illegible]
Goodwill, net (Note 2)				1,329,077
Other assets (Notes 3 and 5)		3,007		808,914
Total assets	Ps.	111,682,414	Ps.	129,786,665

		December 31		
		1996		1995
Liabilities and stockholders' equity				
Current liabilities:				
Current portion of long-term debt (Note 4)	Ps.	3,551,867	Ps.	6,088,131
Accounts payable and accrued liabilities		5,589,719		4,518,722
Taxes payable		2,847,840		1,722,359
Total current liabilities		11,989,426		12,329,212
Long-term debt (Note 4)		9,804,362		14,946,217
Reserve for employee pensions and seniority premiums (Note 5)		9,622		765,676
Deferred credits (Note 6)		663,970		829,454
Total liabilities		22,467,380		28,870,549
Stockholders' equity (Note 11):				
Capital stock:				
Historical		887,456		965,387
Restatement increment		33,403,890		33,414,919
		34,291,346		34,380,306
Premium on sale of shares		5,920,459		5,920,459
Retained earnings:				
Unappropriated earnings of prior years		60,393,798		62,624,580
Net income for the year		11,600,399		11,884,416
		71,994,197		74,508,996
Deficit from restatement of stockholders' equity	(	22,990,968)	(	13,893,645)
Total stockholders' equity		89,215,034		100,916,116
Total liabilities and stockholders' equity	Ps.	111,682,414	Ps.	129,786,665

See accompanying notes.

Consolidated Statements of Changes in Stockholders' Equity

(Thousands of Mexican pesos with purchasing power at December 31, 1996, except for dividends [illegible]

	Capital stock	Premium on sale of shares	Legal reserve	
Balance at December 31, 1994	Ps. 34,502,501	Ps. 5,920,459	Ps. 5,674,429	Ps.
Appropriation of earnings approved at stockholders' meeting held on April 21, 1995:				
Cash dividends paid, at Ps. 0.30 per share				
Increase in legal reserve			781,794	
Increase in reserve for purchase of Company's own shares				
Cash purchase of Company's own shares	(122,195)			
Deficit from holding nonmonetary assets				
Net income				
Balance at December 31, 1995	34,380,306	5,920,459	6,456,223	
Appropriation of earnings approved at stockholders' meeting held on April 19, 1996:				
Cash dividends paid, at Ps. 0.35 per share				
Increase in legal reserve			631,777	
Increase in reserve for purchase of Company's own shares				
Cash purchase of Company's own shares	(88,960)			
Deficit from holding nonmonetary assets				
Net income				
Balance at December 31, 1996 (Note 11)	**Ps. 34,291,346**	**Ps. 5,920,459**	Ps. 7,088,000	

See accompanying notes.

1. Description of the Business and Significant Accounting Policies

I. Description of the business

Teléfonos de México, S.A. de C.V. and its subsidiaries (collectively "the Company" or TELMEX) provide telecommunication services to users of domestic and international telephone services in Mexico.

TELMEX obtains its revenues primarily from telephone services, including domestic and international long-distance and local telephone services throughout the country. The Company also obtains revenues from other activities related to its telephone operations, such as the publishing of the telephone directory.

The Company is the only authorized provider of basic local telephone service throughout the country. Beginning at the end of 1996 and gradually during 1997, the competition is allowed to provide domestic and international long distance telephone service. The competing companies offering this service are doing so basically by interconnecting with the TELMEX system.

The amended concession under which the Company operates was signed on August 10, 1990. The concession runs through the year 2026, but it may be renewed for an additional period of fifteen years. The concession defines, among other things, the quality standards for telephone service and establishes the basis for regulating rates.

II. Significant accounting policies

The significant accounting policies and practices observed in the preparation of these financial statements are described below:

a) Consolidation

The consolidated financial statements include the accounts of Teléfonos de México, S.A. de C.V. and its twenty-four subsidiaries, all of which are wholly owned, except for one subsidiary, in which the Company holds an 80% equity interest. All of the companies operate in the telecommunications sector or they provide services to companies operating in this sector. Important intercompany accounts and transactions have been eliminated in the consolidation.

b) Recognition of revenues

All service revenues are recognized as they accrue. Local service revenues are derived from new-line installation charges, monthly service fees, measured usage charges based on the number of calls made, and other service charges to subscribers. Revenues from domestic and international long-distance telephone calls are determined on the basis of the duration of the calls, the distance, and the type of service used. All these services are billed monthly, based on the rates authorized by the Ministry of Communications and Transportation.

International long-distance service revenues include the revenues earned under agreements with foreign telephone service providers or operators for the use of facilities in interconnecting international calls. These agreements define the rates for the use of these international interconnecting facilities. These service revenues represent the net settlement between the parties.

c) Recognition of the effects of inflation on financial information

The Company recognizes the effects of inflation on financial information as required by Mexican Accounting Principles Bulletin B-10 ("Accounting Recognition of the Effects of Inflation on Financial Information"), as amended, issued by the Mexican Institute of Public Accountants (MIPA). Consequently, the amounts shown in the financial statements and in these notes are expressed in thousands of Mexican pesos with purchasing power at December 31, 1996. The December 31, 1996 restatement factor applied to the financial statements at December 31, 1995 was 27.70% (corresponding to inflation for 1996).

Plant, property and equipment, and construction in progress are restated using the specific-cost method. Depreciation is calculated on the restated investment using the retirement and replacement method, based on the estimated useful lives of the assets.

Inventories are valued at average cost and are restated on the basis of specific costs. The stated value of inventories is not in excess of market.

The fifth set of amendments to Bulletin B-10, which went into effect on January 1, 1997, eliminates the use of the specific-cost method to restate inventories and plant, property and equipment, permitting restatement only by means of adjustment factors obtained from the Mexican National Consumer Price Index (NCPI). The impact that this new rule will have on the valuation of inventories, plant, property and equipment effective January 1, 1997 cannot be anticipated at this time.

Capital accounts, the premium on the sale of shares, and retained earnings are restated using adjustment factors obtained from the NCPI.

The deficit from restatement of stockholders' equity consists of the accumulated monetary position loss at the time the provisions of Bulletin B-10 were first applied (Ps. 6,493,324 at December 31, 1996)

b) Items comprising the telephone plant are restated based on the acquisition date and cost, applying the factors derived from the specific indexes determined by the Company and validated by an independent expert appraiser registered with the National Banking and Securities Commission.

c) Because of the important progress and technological changes in telecommunications equipment, the Company makes a periodic assessment of the estimated useful lives of its telephone plant and equipment, adjusting annual depreciation whenever it believes this to be appropriate. In 1996, the Company increased the annual depreciation rates of a large part of its telephone plant and equipment so as to better reflect in accounting the technological advances in telecommunications equipment.

As a result of this increase in depreciation rates, depreciation expense for 1996 was increased by approximately Ps. 1,100,000.

Depreciation of the telephone plant has been calculated at annual rates ranging from 3.3% to 16.7%. The other assets are depreciated at rates ranging from 3.3% to 20%. Depreciation charged to income was Ps. 10,745,153 in 1996 and Ps. 9,046,646 in 1995.

d) In December 1990, the Company purchased the Federal Microwave Network from Telecomunicaciones de México, a decentralized agency of the Mexican Government. The Company paid U.S.$ 300 million based on the prevailing exchange rate at the purchase date, Ps. [illegible] (Ps. 2,636,833 constant pesos at December 31, 1996). [illegible] Ps. 1,617,580 difference between the purchase price of the Federal Microwave Network and the appraised value of the assets acquired was included in other assets and was being amortized over a [illegible] period.

At the end of 1996, the Company decided to charge to income the unamortized excess cost on this acquisition (Ps. 646,990), recognizing a deferred tax asset of Ps. 245,378.

4. Long-Term Debt

The long-term debt consists of the following:

	1996 average interest rate*	Maturities from 1997 through	Balance at December 31			
				1996		1995
Debt denominated in foreign currency:						
Banks	6.5%	2006	Ps.	2,989,941	Ps.	5,534,443
Fiduciary debt instruments	6.0%	1997		561,865		
Mexican Government	6.4%	2006		226,859		301,870
Suppliers' credits	6.9%	2021		9,352,141		14,439,863
Financial leases	10.8%	2000		199,272		411,766
Total				13,330,078		20,687,942
Debt denominated in Mexican pesos:						
Banks	35.5%	1999		26,151		43,027
Debentures						297,625
Financial leases						5,744
Total				26,151		346,396
Total debt				13,356,229		21,034,338
Less current portion of long-term debt				3,551,867		6,088,131
Long-term debt			Ps.	9,804,362	Ps.	14,946,207

* Net of taxes, subject to variances in international and local rates.

An analysis of the foreign currency denominated debt at December 31, 1996 is as follows:

	Foreign currency (in thousands)	Exchange rate at December 31, 1996 (in units)		Mexican peso equivalent	
U.S. dollar	1,271,459	Ps.	7.8509	Ps.	9,982,119
Japanese yen	40,260,079		0.0675		2,717,555
French franc	339,203		1.5089		511,823
German mark	14,148		5.0929		72,054
Swiss franc	7,959		5.8458		46,527
Total				Ps.	13,330,078

At December 31, 1996, the Company has unused lines of credit from certain banks of approximately Ps. 3,220,000, at a floating interest rate of approximately LIBOR plus 0.8 points when the Company draws on them.

Long-term debt maturities at December 31, 1996 are as follows:

Year		Amount
1998	Ps.	2,052,778
1999		1,584,370
2000		1,368,955
2001		1,108,320
2002 and beyond		3,689,939
	Ps.	9,804,362

5. Employee Pensions and Seniority Premiums

Substantially all the Company's employees are covered under defined retirement and seniority premium plans.

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

In 1990, the Company set up an irrevocable trust fund to cover the payment of these obligations. It adopted the policy of making annual contributions to the fund, which totaled Ps. 1,870,390 in 1996 and Ps. 1,662,480 in 1995. These contributions are deductible for Mexican corporate income tax purposes.

The Company recognizes these labor obligations on the basis of independent actuarial calculations, using the projected unit-credit method, in accordance with Mexican Accounting Principles Bulletin D-3, "Labor Obligations," which defines the accounting treatment of pensions and seniority premiums.

The related charge to income of the year ended December 31, 1996 was Ps. 2,154,508 (Ps. 2,361,220 in 1995). An analysis of basic actuarial assumptions considered in the pension plan calculations for the years ended December 31, 1996 and 1995, is as follows:

Analysis of the net period cost:

		1996		1995
Labor cost	Ps.	746,300	Ps.	797,862
Financial cost of projected benefit obligations		4,650,290		2,025,189
Return on plan assets		(3,644,988)		(1,216,873)
Amortization of past service costs		402,906		547,085
Amortization of variances in assumptions				207,957
Net period cost	Ps.	2,154,508	Ps.	2,361,220

Reserve for employee pensions and seniority premiums

		1996		1995
Projected benefit obligations	Ps.	19,805,053	Ps.	17,469,673
Plan assets		(15,024,933)		(12,440,989)
Transition liability		(2,927,026)		(4,187,196)
Past service costs		(40,460)		(56,734)
Actuarial loss		(1,806,019)		(19,243)
Net projected liability		6,615		765,511
Additional liability		3,007		165
Reserve for employee pensions and seniority premiums	Ps.	9,622	Ps.	765,676
Accumulated benefit obligations	Ps.	11,524,543	Ps.	10,816,799
Intangible asset	Ps.	3,007	Ps.	165

The transition liability, the past service cost and the variances in assumptions will be amortized over a twelve-year period.

The rates used in the actuarial study were:

	1996	1995
Discount of labor obligations:		
First year	27.0%	[illegible]
Long-term average	14.8%	[illegible]
Increase in salaries:		
First year	19.0%	[illegible]
Long-term average	10.5%	[illegible]
Annual returns from the fund:		
First year	27.0%	[illegible]
Long-term average	14.8%	[illegible]

Select nominal rates were used to compute 1996 and 1995 labor obligations. Select nominal rates are based on rates that vary annually through a certain year and that remain constant thereafter.

Based on the requirements of Circular 50 issued by the MIPA, the effective date of which is January 1, 1997, actuarial valuations must be based on financial hypotheses net of inflation. This change in financial assumptions is not expected to have a significant impact on 1997 results of operations.

The employee pension and seniority premium obligations at December 31, 1996, determined on the basis of financial assumptions net of inflation, are as follows:

Accumulated benefit obligations	Ps.	18,703,704
Projected benefit obligations	Ps.	19,805,053

11. Stockholders' Equity

a) Capital stock is represented by 8,875 million common shares issued and outstanding with no par value (9,654 million shares in 1995). An analysis is as follows:

		1996		1995
2,163 million series "AA" shares	Ps.	16,635,406	Ps.	16,635,406
280 million (342 million in 1995) series "A" shares		2,246,735		2,729,756
6,432 million (7,149 million in 1995) series "L" shares		15,409,205		15,015,144
	Ps.	34,291,346	Ps.	34,380,306

b) At the stockholders' meeting held in April 1994, it was resolved to establish a reserve of Ps. 891,250 (nominal) (Ps. 1,851,548 restated to December 31, 1996) for the purchase of the Company's own shares.

At stockholders' meetings held in 1995, resolutions were adopted to increase by Ps. 27,716,404 the reserve for the purchase of up to 1,750 million of the Company's own shares. In the year ended December 31, 1995, the nominal value of the shares purchased was Ps. 8,459,344 (Ps. 12,138,860 restated to December 31, 1996). The shares purchased were 844,867,456 series "L" shares.

At a stockholders' meeting held in 1996, it was resolved to increase by Ps. 8,415,731 the reserve for the purchase of the Company's own shares to acquire up to an additional 800 million shares. In the year ended December 31, 1996, the Company acquired 779,314,789 series "L" shares for Ps. 10,881,358 (Ps. 9,534,050 nominal).

c) In conformity with the Securities Trading Act, the Company's fixed capital was modified at a stockholders' meeting held on December 5, 1995. This modification involved the cancellation of 880,000 of the Company's own series "A" and 818,961,939 series "L" treasury shares that the Company finished acquiring on December 4, 1995.

At a stockholders meeting held on December 10, 1996, it was decided to cancel 844,794,306 of the Company's own series "L" treasury shares that Teléfonos de México, S.A. de C.V. had acquired in terms of the Securities Trading Act. This cancellation reduced the Company's fixed capital.

d) Series "AA" shares, which may be subscribed only by Mexican individuals and corporate entities, must represent at all times no less than 20% of capital stock and no less that 51% of the common shares. Common series "A" shares, which may be freely subscribed, must account for no more than 19.6% of capital stock and no more than 49% of the common shares. Series "AA" and "A" shares combined may not represent more than 51% of capital stock. The combined number of series "L" shares, which have limited voting rights and may be freely subscribed, and series "A" shares may not exceed 80% of capital stock.

e) In conformity with the Mexican Corporations Act, at least 5% of net income of the year must be appropriated to increase the legal reserve. This practice must be continued each year until the legal reserve reaches 20% of capital stock issued and outstanding.

f) Cash dividends paid from the so-called "net tax profit" (i.e., from earnings on which corporate income taxes have already been paid) will be exempt from taxation. Dividends paid from sources other than the net tax profit will be subject to Mexican income tax, which is payable by the Company, so that the stockholder will receive the net equivalent of 66% of the dividend paid.

12. Income Tax and Asset Tax

a) The Ministry of Finance and Public Credit authorized TELMEX to consolidate for tax purposes starting January 1, 1995. The subsidiaries Instituto Tecnológico de Teléfonos de México, S.C., Fundacion Telmex, A.C. and Aerofrisco, S.A. de C.V. and the affiliated companies, are excluded from this tax consolidation.

b) The asset tax for the years ended December 31, 1996 and 1995 was Ps. 1,128,278 and Ps. 1,140,107, respectively. In both years these amounts were credited against income tax, and in 1995 against the telephone service tax.

c) The most important differences between book and tax results relate primarily to the difference in depreciation expense for book and tax purposes, the amortization of goodwill, tax losses of subsidiaries and other nondeductible expenses, and in 1995 the deduction of the telephone service tax (see Note 13).

13. Telephone Service Tax

Through the year ended December 31, 1995, the Company was subject to payment of a 29% telephone service tax on all revenues obtained from telephone related services. Sixty-five percent (65%) of this tax could be credited against investments in fixed assets during the year. In the year ended December 31, 1995, the telephone service tax was Ps. 13,436,340, and the creditable portion of the tax was Ps. 8,733,621 so that the net amount charged to income was Ps. 4,702,719. This amount was included in operating costs and expenses.

For income tax purposes, the telephone service tax was deductible in its entirety. The telephone service tax was eliminated effective January 1, 1996.

14. Generally Accepted Accounting Principles in the United States Reconciliation

The Company's consolidated financial statements are prepared in conformity with Mexican GAAP, which differ in certain significant respects from Accounting Principles Generally Accepted in the United States ("U.S. GAAP").

The principal differences between Mexican GAAP and U.S. GAAP, as they relate to the Company, consist of the accounting for pension plan costs and deferred income taxes and deferred employee profit sharing

With respect to the dividends payment for the 1996 fiscal year, and based on Clause forty-five of the by-laws of Teléfonos de México, S.A. de C.V. the following amounts are available to the Shareholders:

		Amount
Prior year's unappropriated earnings	Ps.	30,920,391
Net income for the year		10,736,449
Total	Ps.	41,656,840

It is proposed that the balance of Ps. 41,656,840 made available to the shareholders to be allocated as follows:

		Amount
To increase the legal reserve 5% of the net income for the year	Ps.	536,822
To pay the cash dividend of Ps. 0.525 per share, coming from the Net Fiscal Profit (1)		4,471,647
To the retained earnings account		36,648,371
Total	Ps.	41,656,840

The cash dividend proposed to the Shareholders' Meeting shall be Ps. 0.525 per share, payable in three equal payments of Ps. 0.175 each: the first, as of June 19, 1997, the second as of September 18, 1997 and the third as of December 18, 1997, for all outstanding shares which make up the capital stock of the Company, against coupons 01, 02 and 03, respectively. While such balance is not allocated to the shareholders, it shall continue in the Company's retained earnings account.

(1) Figure estimated considering a total of 8,517,422,131 outstanding shares.

Based on Transitory Article Eight of the Federal Telecommunications Law; on Transitory Item One of the Administrative Resolution through which the Ministry of Communications and Transports institutes the Tariff Regulations applicable to the interconnection services of Telecommunications public networks authorized to render long distance services dated April 26, 1996; on Article 136 of the Telecommunications Regulations and also Condition 7-5 of the Amendments to the Concession Title, the commitment to present independent accounting records for local and long distance services is established. Based on these provisions, the main financial figures as of December 31, 1996, of local and long distance service are shown separately.

Local service includes: the Monthly Rent (basic monthly fee of the local telephone service); Measured Service (amount of calls that exceed the number of calls allowed); Installation Charges (work carried out in installing the telephone service); Interconnection of Long Distance Carriers and of Cellular Companies (this revenue is received by the company for allowing the interconnection of long distance carriers and the cellular service), and other such as Digital Service and Caller ID Service.

Long distance service includes: Domestic Long Distance (switched traffic between communities in Mexican Territory); International Long Distance (switched traffic through authorized long distance exchanges such as international ports); International Settlements (net result of the settlement rate between Telephone Administrations for carrying international long distance calls); Private Circuits and Data Network (voice, data and video transmission to integrate links between points at different speeds through digital means designed in accordance with customer needs); Public Telephony (service through which the customers may place telephone calls using intelligent telephone sets activated by prepaid Ladatel cards) and other services such as Rural Telephony, Satellite Transmission, Videolink, 800 and 900 number services and Access to Internet.

	Local Service	Long Distance Service
Operating Revenues:		
Access, Rent, Measured Service and Others	17,682	1,105
Domestic Long Distance		15,616
International Long Distance		14,388
Interconnection	10,041	
Total Operating Revenues	**27,723**	**31,109**
Operating Cost and Expenses:		
Cost of Sales and Services	7,477	2,916
Commercial, Administrative and General	7,034	2,672
Depreciation and Amortization	8,390	2,744
Interconnection		9,736
Total Operating Cost and Expenses	**22,901**	**18,068**
Operating Income	**4,822**	**13,041**
Integral Financing (Income) Cost	(465)	866
Income before Income Tax and Employee Profit Sharing	**5,287**	**12,175**
Income Tax and Employee Profit Sharing	2,484	4,141
Net Income	**2,803**	**8,034**
Investment (gross)	**104,697**	**25,489**

The chart above shows information on the revenues, costs, expenses and net income for the year ended December 31, 1996, separated in local and long distance services.

This information varies from the information shown in the basic financial statements because of the following reasons:

a) Together with Teléfonos de México, S.A. de C.V., the consolidated financial information includes only three out of the twenty four subsidiary companies of Telmex, which are directly involved in rendering local and long distance telephone service: Teléfonos del Noroeste, S.A. de C.V., Compañía de Teléfonos y Bienes Raíces, S.A. de C.V., and Alquiladora de Casas, S.A. de C.V.

b) The information on local service includes the revenues that would have been received by allowing the long distance carrier to interconnect to the local network; and the information on long distance service includes the allocated interconnection cost.

Ing. Carlos Slim Helú
[illegible] Board

DIRECTORS

John H. Atterbury III
[illegible] Chief Executive Officer
SBC [illegible] Operations

Christian Chauvin
[illegible] Development [illegible]
[illegible]

Jaime Chico Pardo
[illegible] Officer
[illegible] México, S.A. de C.V.

Antonio Cosío Ariño
[illegible]
[illegible] del Río, S.A. de C.V.

Amparo Espinosa Rugarcía
[illegible]
[illegible]
[illegible]

Charles E. Foster
[illegible]
SBC [illegible]

Elmer Franco Macías
President and Director
[illegible], S.A. de C.V.

Claudio X. González L.
[illegible]
[illegible] de México, S.A. de C.V.

Jean Yves Gouiffes
Executive Vice President [illegible]
France Telecom

Michel Hirsch
President
France Telecom-FCR

David Ibarra Muñoz
Consultant

Angel Losada Moreno
Assistant President
Gigante, S.A. de C.V.

Romulo O'Farril Jr.
Chairman and President
Novedades Editores, S.A. de C.V.

Juan Antonio Pérez Simón
Vice-Chairman of the Board
Teléfonos de México, S.A. de C.V.

Bernardo Quintana Isaac
President
[illegible], S.A. de C.V.

François Schoeller
[illegible]
[illegible] de México, S.A. de C.V.

Arthur Dale Robertson
Executive Vice President-FCC
SBC [illegible] Inc.

Carlos Slim Domit
President
[illegible], S.A.

STATUTORY AUDITOR

Victor M. Aguilar Villalobos
President
[illegible], S.C.

SECRETARY

Sergio F. Medina Noriega
General Counsel
Teléfonos de México, S.A. de C.V.

ALTERNATE DIRECTORS

Jaime Alverde Goya
Executive Vice-President
[illegible], S.A. de C.V.

Carlos Bernal Verea
Partner
[illegible] Escobedo, A.C.

Paul Cardarella
Head of Operations
SBC International [illegible] Inc.

François Comet
Vice President-Business Unit
France Telecom

Moises Cosío Ariño
Chairman of the Board
[illegible] de Tepeji del Río, S.A. de C.V.

† Michel Daude
Head of Financial Budget Services
France Telecom

Antonio del Valle Ruiz
President
Banco Internacional, S.A.

Angeles Espinosa Rugarcía
President
Museo Amparo

Jorge Esteve y Campdera
Chairman of the Board
Tecnología Industrial Agropecuaria, S.A. de C.V.

Agustín Franco Macías
Chairman of the Board
Cryoinfra, S.A. de C.V.

Humberto Gutiérrez Olvera Z.
President
Grupo Condumex, S.A. de C.V.

Rafael Kalach Mizrahi
President
Grupo Kaltex, S.A. de C.V.

José Kuri Harfush
President
Janel, S.A. de C.V.

Federico Laffan Fano
Main Partner
Laffan, Mues y Garay

Sergio F. Medina Noriega
General Counsel
Teléfonos de México, S.A. de C.V.

Denis Petonnet
General Manager
France Cable et Radio de México, S.A. de C.V.

Xavier Peyretie
[illegible] Officer
France Cables et Radio

Alfredo Sánchez Alcántara
President
[illegible] Red Uno, S.A. de C.V.

Marco Antonio Slim Domit
President
Banco Inbursa, S.A.

ALTERNATE STATUTORY AUDITOR

Alberto Tiburcio Celorio
Partner
Mancera, S.C.

ASSISTANT SECRETARY

Rafael Robles Miaja
Partner
Frank, Galicia, Duclaud y Robles, S.C.

DERS INFORMATION.

EXHIBIT 3

1996 ANNUAL REPORT

Sprint

deliver

WH

Sprint is a company that breaks new ground | Sprint built the first and only nationwide, 100% digital fiber-optic network in the United States. | Sprint is the world's largest carrier of Internet traffic

IN THIS REPORT...

Y?

Sprint built the world's largest integrated global data network. | *Sprint was the first to offer nationwide commercial Asynchronous Transfer Mode or ATM* [illegible]

Our vision

SPRINT CORPORATION

Sprint.

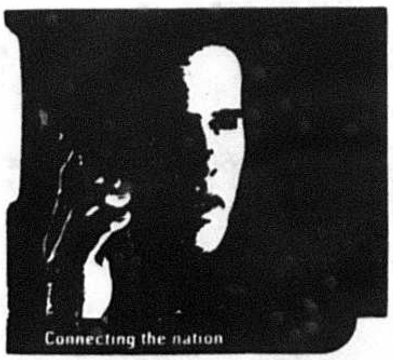
You must ask ... to get the best answers.

It's our job to ask tough questions about the future and to develop the best answers that work in the interests of our customers, shareholders and employees.

Consolidated Net Operating Revenues increased 10% in 1996

Dear shareholder:

What seems remarkable about Sprint's shareholders is your willingness to look ahead and to imagine what might be. On behalf of all Sprint employees, I want to thank you for the vote of confidence in the future of Sprint which your ownership represents. We consider ourselves to be a forward-looking, growth-oriented company — an agent of change in a rapidly changing environment. We understand the impact and opportunities technological change can present to individual companies as well as to society. Seizing those opportunities quickly and effectively can be a basis for great new successes. We believe you share our vision. Together, we have accomplished some remarkable things. But our greatest opportunities are ahead of us.



Connecting the nation

What's the replacement for traditional cellular communication? It's *Sprint PCS*, a joint venture (in which Sprint has a 40% interest) to provide personal communication services. Sprint and its partners will offer PCS to a population of nearly 260 million.

In this annual letter, I not only want to celebrate the successes of 1996 but also to talk about the future and the necessary costs related to our future success.

We have much to be proud of this year.

- We enjoyed record profits. When our strategic joint ventures and non-recurring charges are excluded, income from continuing operations grew 35.5% in 1996 to $1.4 billion. On the same basis, earnings per share increased from $2.95 per share in 1995 to $3.29 per share in 1996. That

You must ask tough questions to get the best answers.

Continued from page 3

We must define our business differently for the future.

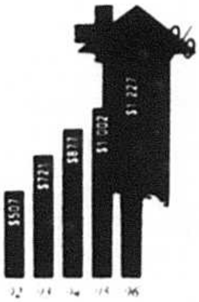
Historically, we have reported our operating results under the categories of long distance, local, and product distribution and directory publishing — and you will see the details of the performance of these units in the financial section of this report, beginning on page 28.

But this approach may be too limiting, too much a habit of the status quo, because our future is not necessarily going to break down that way. Sprint already can be viewed as two companies — as a company aggressively growing its core businesses and as a company aggressively pursuing emerging opportunities, such as newly competitive local markets, PCS, Internet products and international markets. These new businesses will change the very nature and direction of the entire company. Therefore, I expect that we will further reshape our traditional business units as our technology, our brand strategy and our customers' needs change the way we define ourselves as a company.

If we are resourceful in rethinking who we are, what we do, and how we do it, I am certain that our potential is now greater than it has ever been. We will no longer be simply a local company, or a long distance company. Instead we will be your complete telecommunications company, providing a total package of communications services and products whether they be wireless or wired; voice, data or video; local, long distance or international. We are prepared to service all of the communications needs of our customers.

Income from Continuing Operations increased 22% in 1996

(in millions)



Excludes nonrecurring items

Industry benchmark

One long distance company, Sprint, figured out that the simplicity of one-rate pricing would bring customers flocking. Now the concept is quickly changing the entire industry.

— *Business Week*, January 13, 1997

DELIVERING ON OUR PROMISES

We have delivered on our promises in 1996 to offer our services to a much broader marketplace.

- We delivered on our promise to join a global venture. Global One started operations in 1996 and is generating revenues at a $1 billion annual run rate.
- We delivered on our promise to begin our buildout of PCS wireless service on a national scale. At year-end 1996, Sprint PCS offered service in eight markets and is on schedule to serve 65 markets by this time next year.
- We delivered on our promise to position Sprint ahead of the competition in rapidly growing data markets. Already, Sprint has established itself as the undisputed leader in data communications and the market leader in most data categories.

Earnings Per Share from Continuing Operations increased [illegible] in 1996

Excludes nonrecurring items

But what is the cost of this promising future?

Accompanying the unprecedented opportunities are significant upfront costs. We face the costs of fulfilling the potential of wireless, the costs of increasing the capacity and installing new technologies on our fiber-optic network, the challenge of seizing the newly created opportunities to compete in local markets nationwide, and the normal costs of investing for tomorrow. As expected, some of these new initiatives, including the Global One and Sprint PCS ventures, experienced losses in 1996.

I expect earnings from our core businesses to continue to grow significantly. However, in the near term, our new initiatives will likely cause overall earnings per share to be below last year's level. You may say, "Oh, that's bad." Well, no, that's good, because it shows we have created worthwhile opportunities in which to invest for our future. We know that we must incur significant upfront costs to achieve success in our emerging businesses. So while earnings per share may temporarily go down, the important thing to remember is that they are going to go down for the right reasons — we will be building large future businesses that will be of great importance to our company, and should generate considerable shareholder value.

Your own future-oriented outlook as investors has allowed those of us in Sprint management to commit the company to the exciting new opportunities we see. The extraordinary path Sprint is pursuing also says a great deal about the caliber and confidence of the people who work at this company. Their vision, teamwork and dedication is remarkable. Like you, they believe in the future, and I am proud to work alongside them.

With our employees' continued creativity and your continued vision, Sprint has great and exciting days ahead.

Bill Esrey

William T. Esrey
Chairman and Chief Executive Officer
March 7, 1997

Making a difference

Chairman and CEO Bill Esrey (far right) joins Sprint employees representing all parts of our business. They are, from left, Lori Smith, Bill Randall, Sanjive Sharma, Sue Fowler, Mark Edmunds, Ritu Aggarwal, Eugene Agee, Cynthia Lu, Ross Marsh, Rudy Moreno, Susan Sarna, Cynthia Florio, Jeff Goergen and Joanne Rochel.

We have made our brand stand for...

responsiveness simplicity.

We have invested more than $1 billion to create one of the most valuable assets a company can possess — a brand that will help deliver explosive growth.

In the last 10 years, a newly opened long distance market gave us the rare opportunity to create a new and widely known brand. This achievement serves Sprint well today as the entire U.S. communications market deregulates.

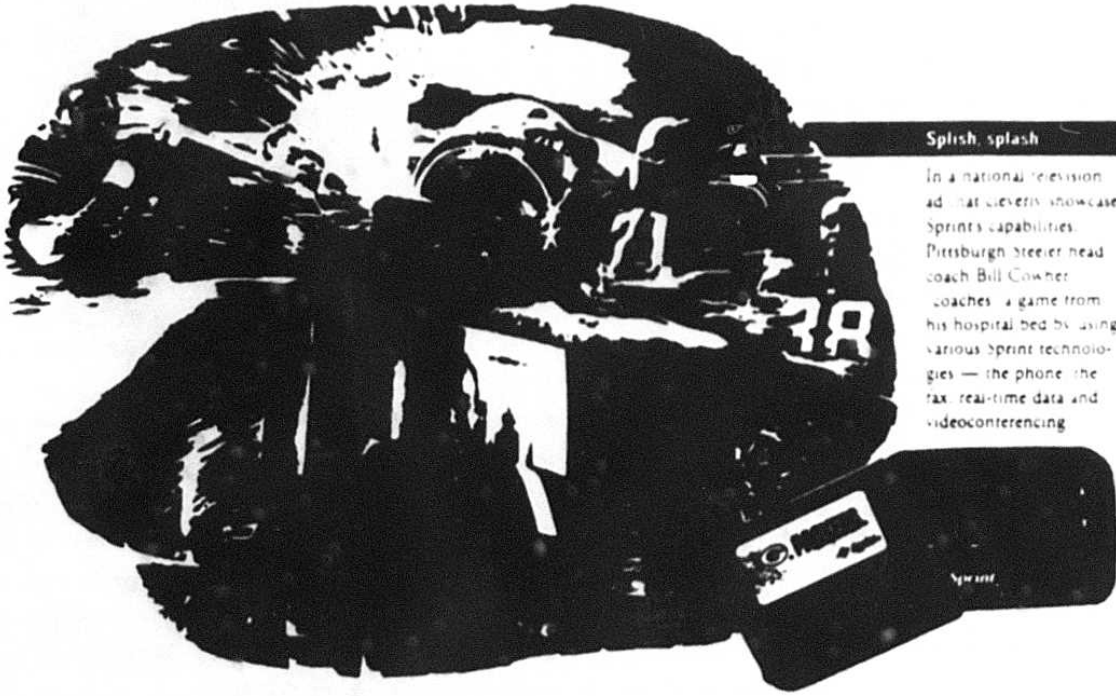
In these times of rapid change, the brand stands as a beacon to customers facing a proliferation of choice. Customers come to a familiar brand for quality and consistency. They rely on the brand to assure full service and a fair price. They look to the brand for assurance they will enjoy all the benefits of today's new technologies and products.

On the move

When Shannon Downer needs communications faster than she moves herself, she pushes the speed dial on her *Sprint PCS*™ phone in Portland, Oregon.

We have made our brand stand for speed, responsiveness and simplicity.

Continued from page 7



Splish, splash

In a national television ad that cleverly showcases Sprint's capabilities, Pittsburgh Steeler head coach Bill Cowher "coaches" a game from his hospital bed by using various Sprint technologies — the phone, the fax, real-time data and videoconferencing.

Marketing success stories such as Sprint Sense® and Fridays Free offer tangible proof of our brand's marketplace power. The simplicity of our Sprint Sense flat-rate, dime-a-minute calling plan has attracted record numbers of new residential customers for the long distance division. Sprint Business Sense® and Fridays Free are generating similar results among commercial customers.

Meanwhile, our local telephone companies in 19 states have retired their traditional names and adopted the Sprint identity. As a result, the Sprint brand now reinforces marketing across all our existing market segments.

This is only the beginning. Our objective is to leverage our brand to the fullest in new geographic and product markets.

The Sprint brand is pivotal to nationwide thrusts into the market for PCS wireless service and into newly competitive local telephone markets. The Sprint reputation also drives much of our growth in fast-expanding data markets. Among the data targets: Internet, Intranet and a variety of advanced switching applications.

An influential and respected brand packs even greater punch in combination with other high-powered names.

TELEMEDICINE: THE NEXT GENERATION

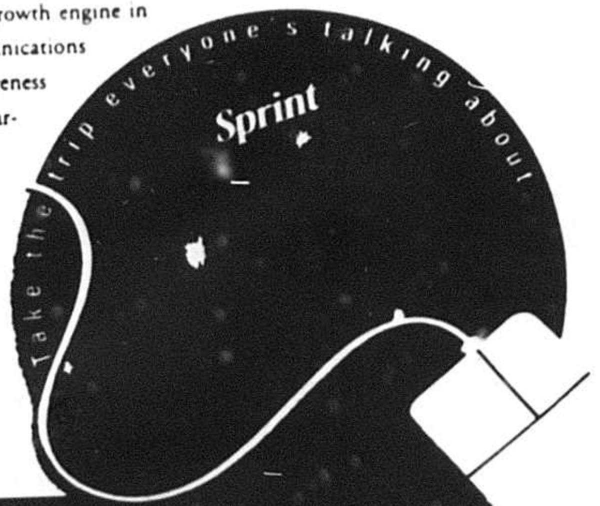
Saint Luke's-Shawnee Mission Health System didn't look far for next-generation telemedicine and health data network services. The Kansas City-based hospitals signed a $15 million agreement with Sprint in 1996 to develop a comprehensive healthcare network. It gives physicians, nurses and administrators the ability to have a full complement of patient information at their fingertips. Healthcare is one of several niche markets Sprint is targeting. Others include education, entertainment/advertising, finance and government.

In the United States, we gained a savvy consumer marketing partner during the year in RadioShack. Sprint-branded pagers, long distance, wireless, Internet service and more will be sold in RadioShack stores nationwide, just a five-minute drive from home or work for 94% of the U.S. population. Combine this with other established distribution channels, and the Sprint brand is positioned to support sales at every level of customer awareness, through national advertising and in local communities.

Worldwide, Sprint is already well known as an international force, including our pioneering position as the developer of the world's largest integrated global data network, SprintNet℠. By associating our brand with those of Deutsche Telekom and France Telecom through the Global One joint venture, we gain even more leverage on a global scale.

In the final analysis, our brand is a growth engine in and of itself. It helps us enter new communications markets, which helps ratchet up brand awareness all the more, in a self-reinforcing cycle of market penetration and reputation building.

Across consumer and business markets alike, Sprint is in all the right places as customers gain the opportunity to choose. Wherever they go they'll find Sprint — a name they can trust for every communications need.



Delivering on its promise to provide a world-class consumer Internet service, Sprint announced the general availability of *Sprint Internet Passport*℠ in 1996.

We live and breathe the ... *long distance,* *&*

All the pieces are in place to deliver telecom's most comprehensive package — domestic and international long distance, local service, data transfer, Internet and wireless services.

Helping your business

To help generate record sales in [illegible], Sprint sponsored small business seminars throughout the United States. In Washington, D.C., talk show host Larry King was a keynote speaker. *Fridays Free* calling delivers powerful incentives for small- and medium-sized businesses to use Sprint and become more productive and profitable.

To deliver in the 21st Century, a full-service company will need broad-based resources and knowledge. And the best kind of knowledge comes through first-hand experience. Sprint comes to the emerging market for integrated services with a solid and long-standing performance record in all major facets of telecommunications.

- We have in-depth knowledge of every major market segment, including consumer, business and government.
- We're a proven competitor in long distance.
- With local telephone companies across the United States, we know what local customers want and expect.
- We have extensive experience in providing wireless communications.
- We've been serving the international marketplace for more than a decade with what is now the world's largest global data network.
- We are an industry leader in both product distribution and directory publishing.

SHE'S NO. 1... AGAIN

For the second year in a row, Sprint spokesperson Candice Bergen was ranked the nation's No. 1 celebrity endorser. In an annual survey, Video Storyboard Tests queries people across the country about the effectiveness and credibility of famous spokespeople in advertisements.

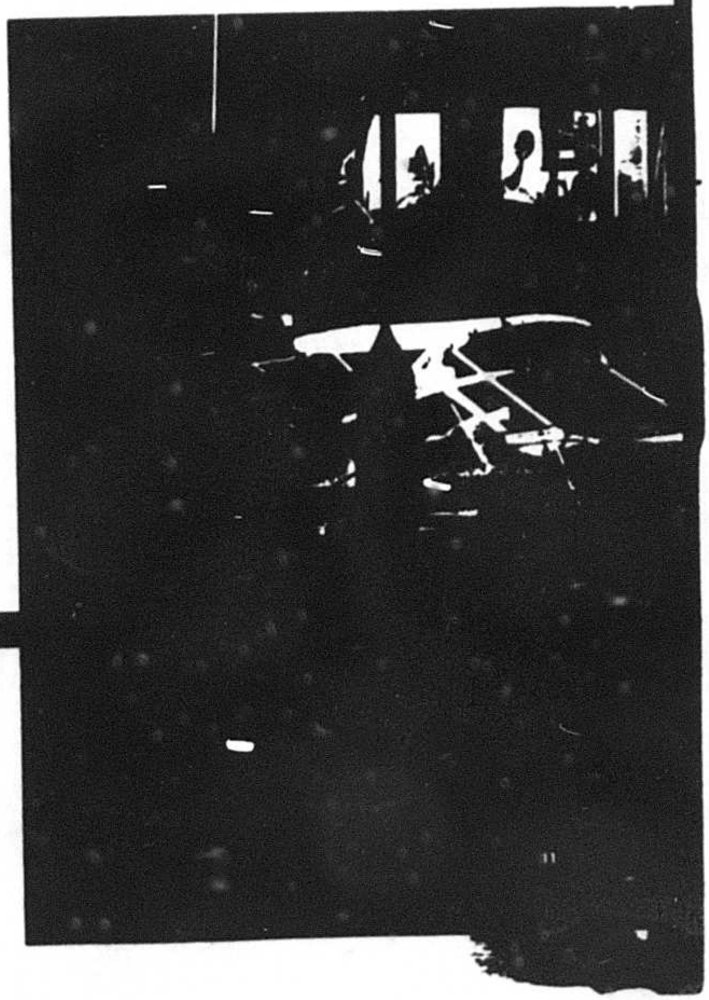
Ms. Bergen's humorous portrayal of the Dime Lady helped sales skyrocket for the dime-a-minute Sprint Sense® calling plan. For the first time, the Emmy Award-winning actress appeared in commercials designed to strengthen awareness of the Sprint brand in our local telephone markets.

wireless businesses.

No company is better equipped to earn customer loyalty in the 21st Century.

Again and again we've led in bringing the most advanced data transmission technologies to the long distance marketplace. We lead all major local telephone companies in the percentage of customer lines served by digital switching. Through the Sprint PCS joint venture, we're joining our partners in building a nationwide wireless network based on unsurpassed digital technology.

Our approach: Blend this marketing and technological expertise to offer a complete selection of products and services, with full support — a package that makes communications simple, yet satisfies the most demanding and sophisticated of customers.

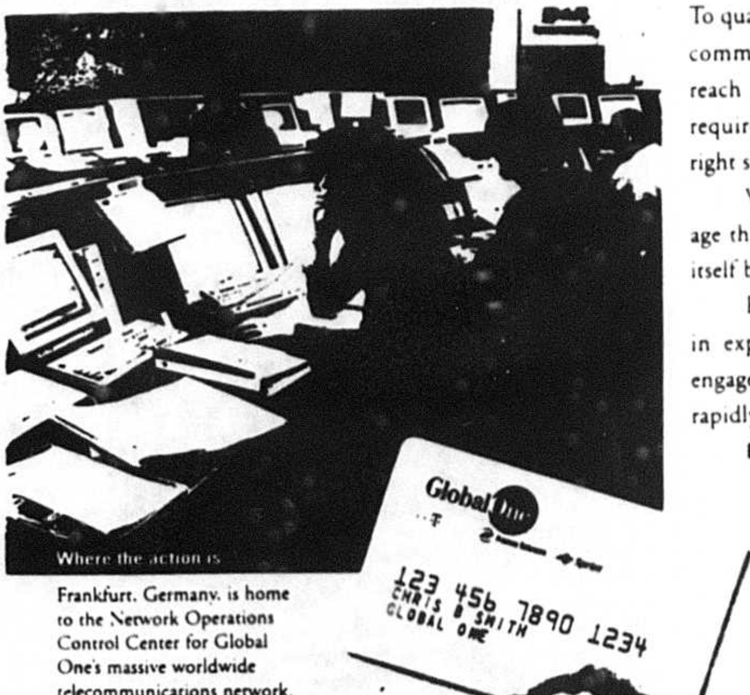


New market opportunities

A year ago, Coronado, California, residents had only one choice in their local service. Since the passage of the Telecommunications Act of 1996, California residents in selected communities have the opportunity to become Sprint local service customers. California is one of the first true battlegrounds for competitive local service in the United States.

We have ... leveraged our to become global

We've matched our experienced, diverse work force with the world's best partners. We will deliver an unparalleled level of quality and value.



Where the action is

Frankfurt, Germany, is home to the Network Operations Control Center for Global One's massive worldwide telecommunications network.

To qualify as a premier full-service provider of integrated communications, today's competitor must extend its reach on a scale never before imagined. The resources required are massive, but achievable, if you select the right strategic partners.

Well-structured alliances enable us to fully leverage the solid market position Sprint has established for itself both domestically and internationally.

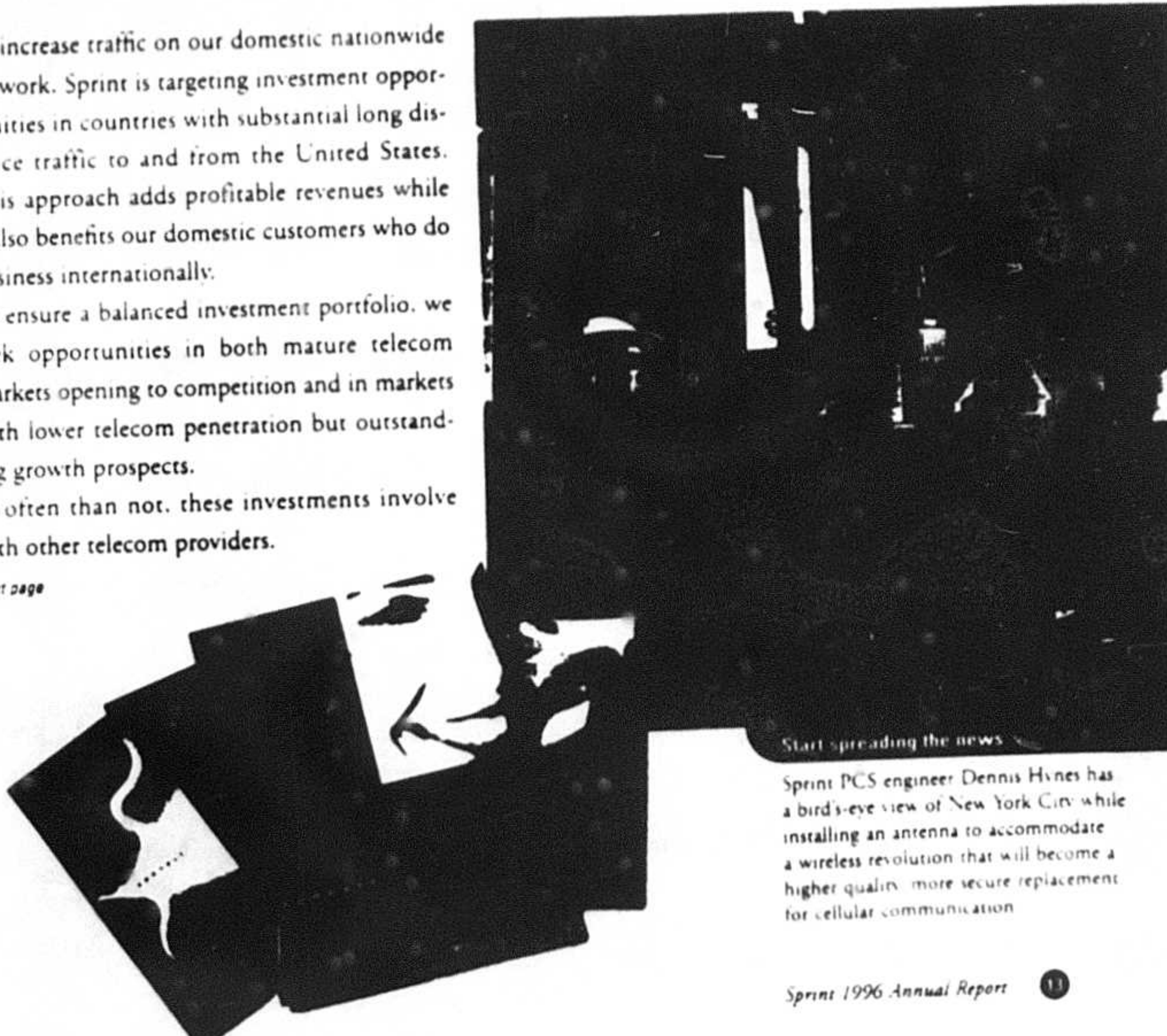
For example, critical new opportunities abound in expanding international markets. Sprint is fully engaged globally, with multifaceted strategies aimed at rapidly growing markets worldwide.

- To most efficiently deploy our resources, Sprint looks to those countries where we already have established relationships and where we can most easily apply our technological know-how

- To increase traffic on our domestic nationwide network, Sprint is targeting investment opportunities in countries with substantial long distance traffic to and from the United States. This approach adds profitable revenues while it also benefits our domestic customers who do business internationally.
- To ensure a balanced investment portfolio, we seek opportunities in both mature telecom markets opening to competition and in markets with lower telecom penetration but outstanding growth prospects.

More often than not, these investments involve alliances with other telecom providers.

Continued on next page



Start spreading the news

Sprint PCS engineer Dennis Hynes has a bird's-eye view of New York City while installing an antenna to accommodate a wireless revolution that will become a higher quality, more secure replacement for cellular communication.

We have leveraged our resources to become a global force.

Continued from page 13

Sprint's North American presence features strategic alliances in both Canada and Mexico. These include a 25% interest in Call-Net Enterprises, which markets under the name Sprint Canada. Sprint also has an alliance to develop and provide cross-border services with Telefonos de Mexico (Telmex), Mexico's largest telecommunications carrier.

Expanded opportunities

Sprint is leveraging its strong relationship with China Unicom and others to pursue wireline telecommunications opportunities throughout Asia's rapidly developing markets. A Sprint venture in Tianjin, China, involves construction of a modern local telephone network that will be capable of serving up to 300,000 customers in a city of 9 million.

Our most far-reaching alliance by far is Global One. This worldwide partnership of Deutsche Telekom, France Telecom and Sprint takes the idea of global service to a new level. Unlike most other alliances, Global One is a company unto itself, with its own network and staff, serving consumers, businesses and other telecom carriers. It has the resources and the flexibility needed to bring true single-source global communications to customers of varying size and requirements.

Global One has met the criteria Sprint sets for its alliance commitments: strong, committed partners, minimal duplication of resources among the partners and maximal opportunities to penetrate new markets.

With Global One, Sprint and its partners retain control over their own domestic market agendas, along with freedom to pursue individual international initiatives outside the venture's scope. Within the venture, the partners achieve efficiencies by combining many of their international assets; they tap into valuable knowledge of markets and cultures worldwide; and they associate their brands with a comprehensive international business.

The venture also brought the infusion of new capital into Sprint, as Deutsche Telekom and France Telecom invested $3.7 billion to acquire a 20% stake in Sprint.

In the United States market, we have a 40% interest in a partnership to provide nationwide personal communication services, or PCS. Marketing under the Sprint brand, the venture is aggressively introducing the replacement for traditional cellular communications.

With an investment of more than $3.2 billion for PCS licenses and network construction, the capital required is substantial. Our strategic alliance with three of the nation's largest cable television companies offered an opportunity to share these upfront costs.

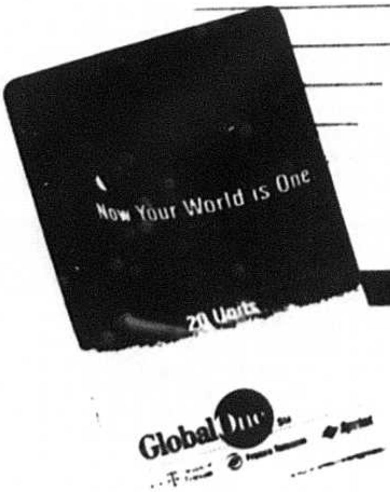
ANOTHER SPRINT MILESTONE

Sprint International's Julie D'Agostino, right, is a board member of Barak I.T.C., an international consortium that was awarded one of Israel's two alternative carrier licenses in 1996. The award represents the first direct joint equity investment made since Sprint joined Deutsche Telekom and France Telecom in the Global One partnership early last year. Barak will be a model for similar efforts by the global partners throughout the world.

With the number of U.S. wireless subscribers expected to more than triple by 2005, the investment can yield extraordinary returns.

Sprint PCS will approach this market as the only wireless operator with the ability to provide 100% nationwide, 100% digital PCS service, using a single technology throughout the United States. As a result, customers will enjoy clearer, more secure and more convenient communications. In addition to marketing wireless service and phones through Sprint PCS Centers, the venture will also benefit from Sprint's marketing alliance with RadioShack, which includes Sprint PCS among products to be sold through RadioShack stores nationwide.

Both domestically and internationally, our strategic partners and marketing alliances give Sprint extended power to increase profitable market share and build shareholder value.



Seamless globalization

Global One's strategy is to serve customers with a seamless platform of products and services on a global basis. The company is moving rapidly toward single-source service for consumers, businesses and other telecom carriers.

■ Countries offering Global One Business Solutions and Consumer Solutions

■ Countries offering Global One Consumer Solutions

We are

our

(

Sprint is cro
to provide a

CONSOLIDATING FOR EFFICIENCY

Business process improvement is a Sprint priority. Continuing to increase efficiency and value of customer support operations, Sprint is creating two consolidated mainframe computer centers (in the metro Dallas and Kansas City areas) to support Sprint's centralized data processing needs.

To serve the customer billing needs of its local and long distance divisions, Sprint also has created three state-of-the-art mailing services centers — in Lenexa, Kansas; in Sacramento, California; and in Apopka, Florida, shown here with operations technician Tommy Betsinger.

evolving marketplace.

Sprint will have an edge in serving customers as our business units gain greater access to one another's advanced technologies.

Sprint will be an innovator in developing integrated service packages as we draw on the specialized expertise already present in our business units and among our strategic partners.

Most of all, Sprint will gain remarkable marketing leverage. We are in position to take full advantage of our simultaneous exposure to customers on a local, national and global scale as we move quickly to cross-market under a single brand.

Across the board, this is a company that is well positioned and well prepared to create increasing value for its investors.

Pictured below, from left, are Sprint Business service representatives Valerie Sanderson, Pat Dawson, Mohammed Mohammed, Molly Contreras, Donna Clayton, Allyn Tyler-Shaw and Mae Hawkins.

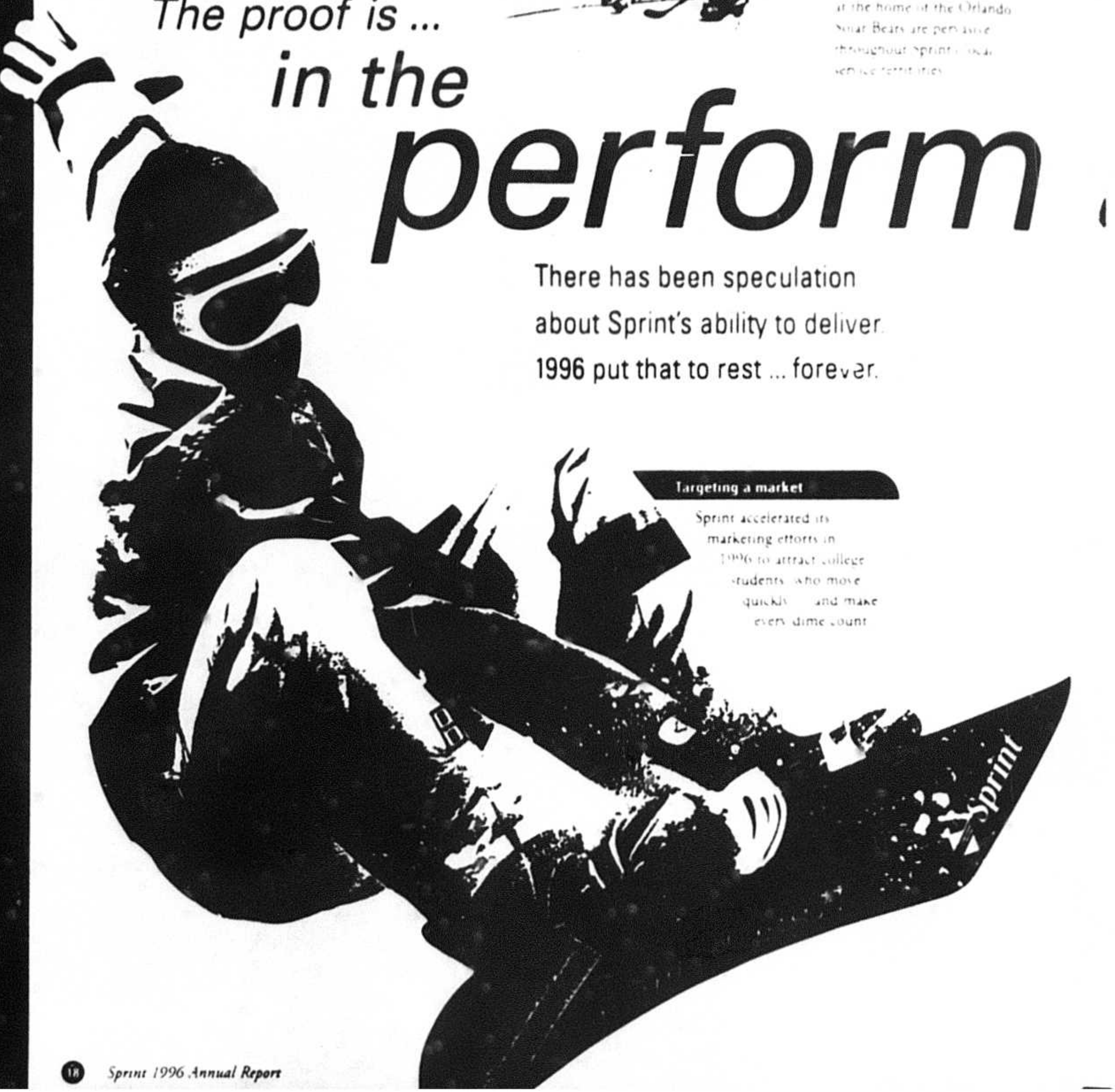
We're No 1

According to the J.D. Power Survey in 1996, Sprint led the long distance industry in overall customer satisfaction. Sprint employees in Dallas Customer Service Center rank exceptional customer satisfaction as their highest goal.

Extending the brand

The Sprint brand was extended to include more than 7 million local telephone customers in 1996. Signs like this one at the home of the Orlando Solar Bears are pervasive throughout Sprint's local service territories.

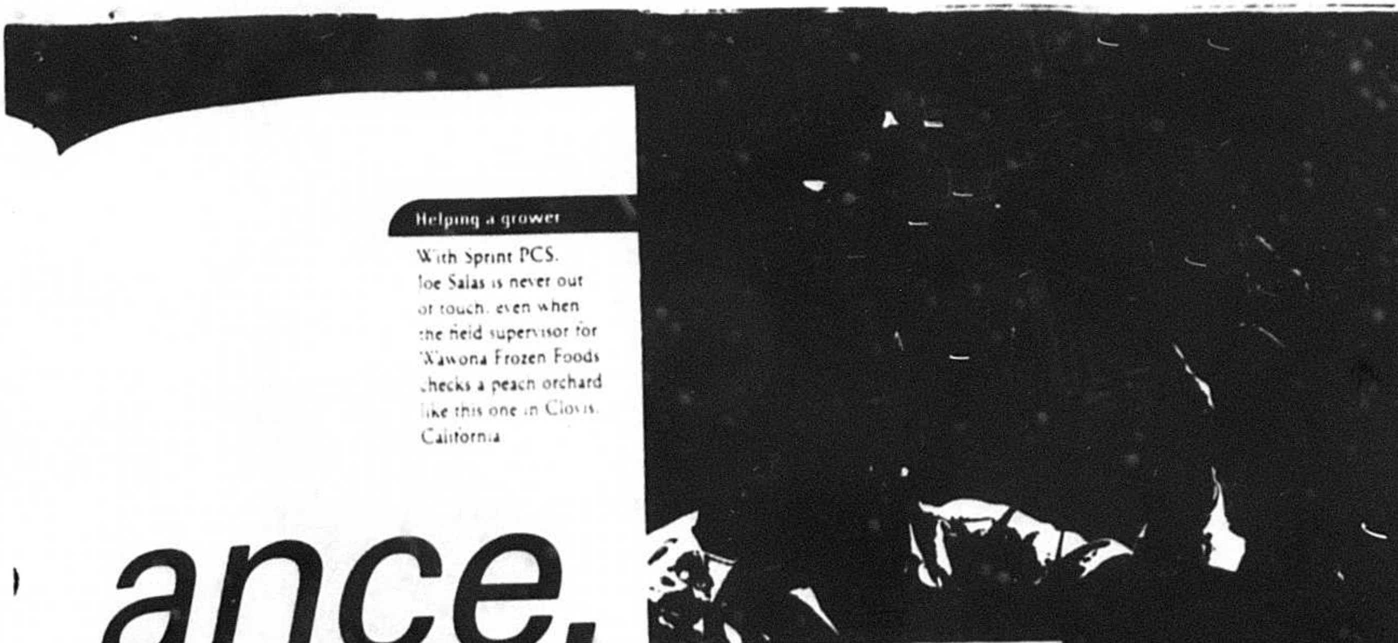
The proof is ... in the perform



There has been speculation about Sprint's ability to deliver. 1996 put that to rest ... forever.

Targeting a market

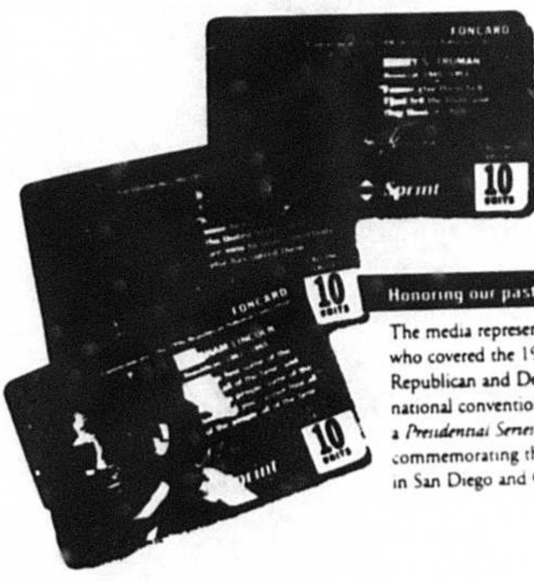
Sprint accelerated its marketing efforts in 1996 to attract college students who move quickly and make every dime count.



Helping a grower

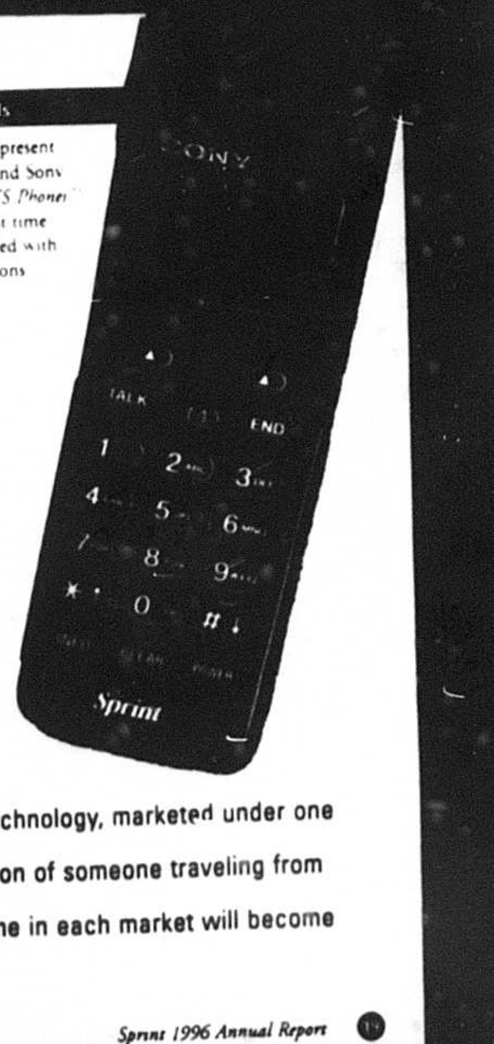
With Sprint PCS, Joe Salas is never out of touch, even when the field supervisor for Wawona Frozen Foods checks a peach orchard like this one in Clovis, California.

ance.



Sharing our brands

Two brands that represent quality — Sprint and Sony — grace *Sprint PCS Phones*. This marks the first time Sony has co-branded with a telecommunications company.



Honoring our past

The media representatives who covered the 1996 Republican and Democratic national conventions enjoyed a *Presidential Series FONCARD* commemorating the events in San Diego and Chicago.

Unprecedented Service

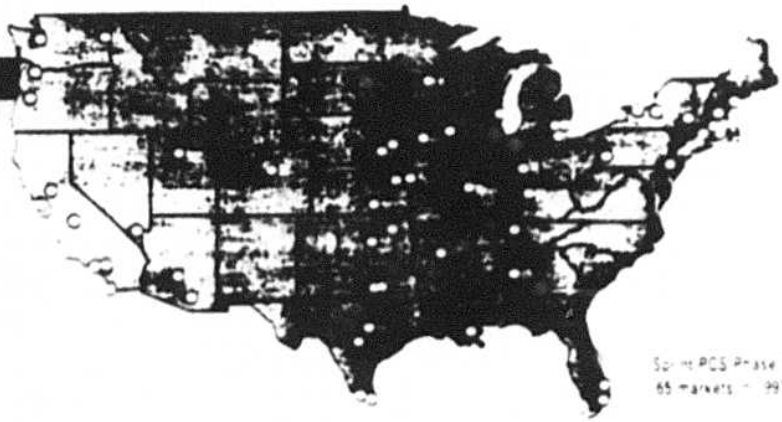
Sprint PCS, which will provide one wireless service, using one technology, marketed under one brand on a national scale, is an unprecedented offering. The notion of someone traveling from Los Angeles to New York with service features that work the same in each market will become a reality on a truly nationwide scale.

Helping to define a new landscape

Despite the doubters, Sprint took a giant technological leap 10 years ago, with our investment in a nationwide network designed for advanced communications. Today, we have the resources, the know-how and the balance sheet needed to take full advantage of revolutionary competitive opportunities. Whether it's PCS, newly competitive local markets or selected international markets, Sprint is ready to deliver.

First steps

Sprint PCS has taken its first steps into the national wireless market. Geographic scope for Sprint-branded PCS will increase dramatically in the years ahead with coverage that includes nearly 260 million people across the United States, Puerto Rico and the U.S. Virgin Islands.

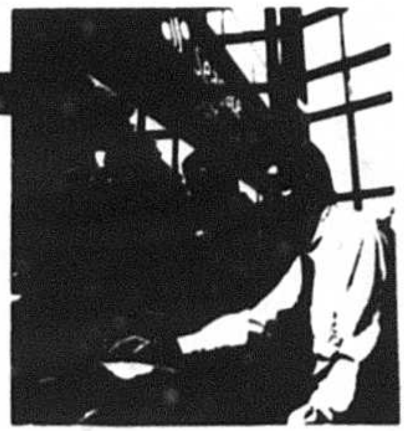


The proof is in the performance.

Continued from page 19

New local customer

Increased bandwidth at competitive prices was key in Seagate Software's selecting Sprint for local service and advanced data and Internet capabilities near Orlando. From left are Seagate's Ben Hill and Martin Palacios and Sprint's Paul Ryan



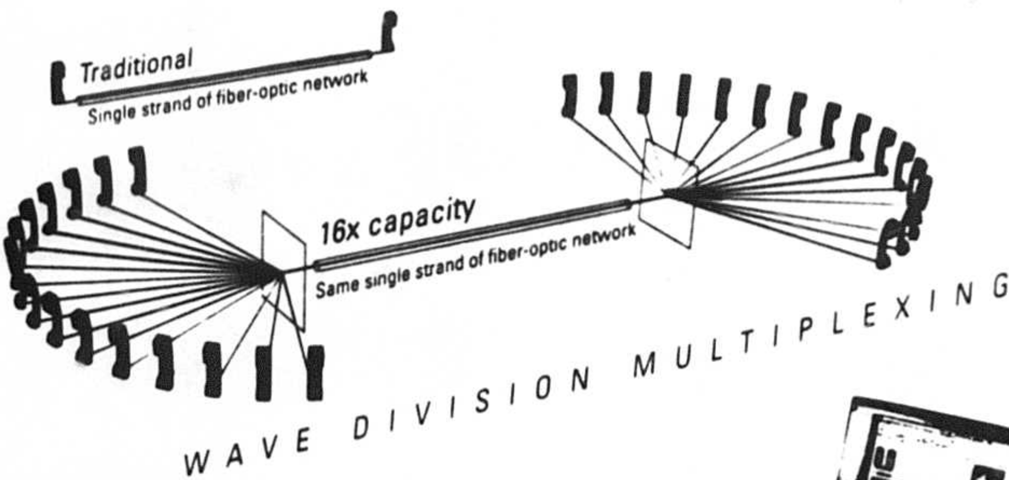
[redacted] [redacted]

The proof is in the performance.

Continued from page 23

Marketing partners

Virgin Atlantic Airways joined forces with Sprint in 1996, offering frequent flyer miles to its passengers who switched to Sprint long distance.



"Bandwidth blowout"

That was the headline in a *Communications Week* cover story touting a major technological advancement from Ciena Corporation — wave division multiplexing, which will allow Sprint to increase the capacity on its long distance network by 16 times.

Powerhouse data user

Over the past five years, Sprint has helped Unilever build an advanced global data network. Unilever, a London and Rotterdam-based conglomerate with 308,000 employees and business operations in more than 90 countries, is a Global One customer.

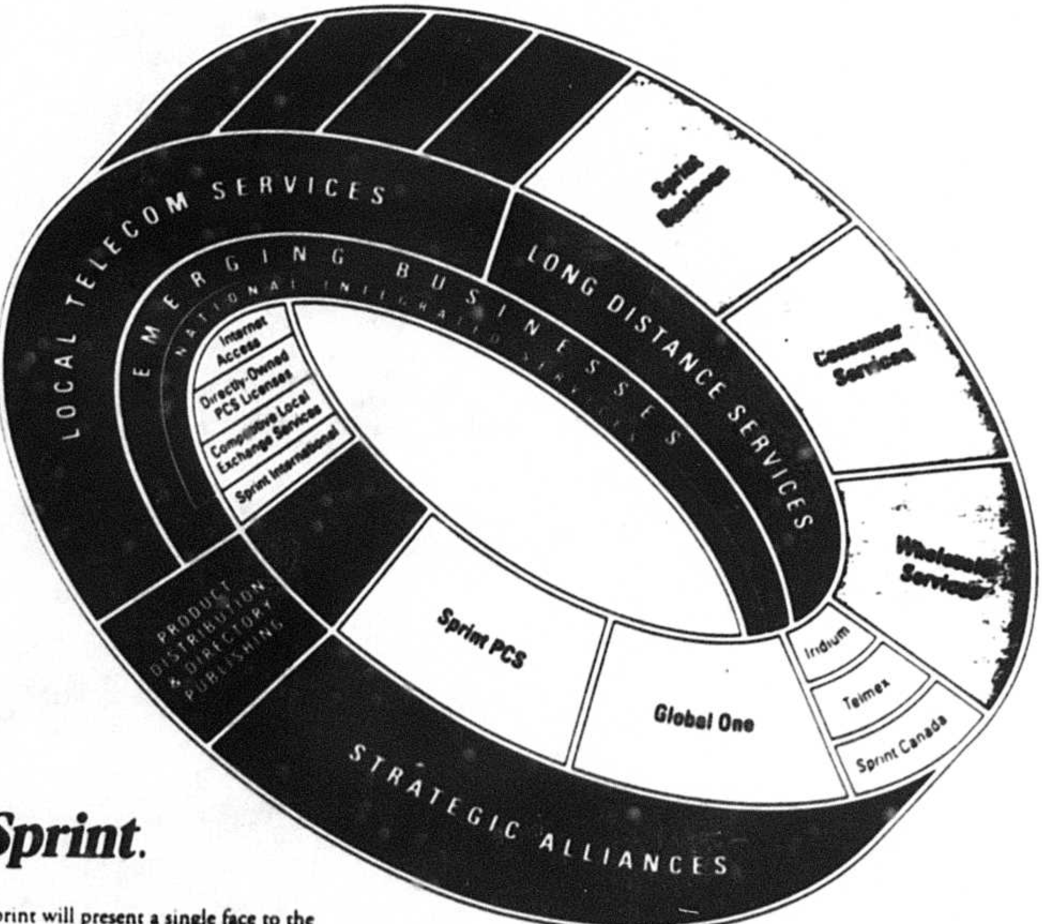
Record growth for Sprint Sense®

After a solid 1995 product launch, Sprint Sense continued to achieve record revenues in '96, becoming the most successful consumer product in Sprint's history. In two years, the simple dime-a-minute Sprint Sense rate has changed the industry, helping Sprint's long distance growth rate increase three times faster than AT&T's growth rate in 1996.

We are...

than the sum of our parts.

Nimble, connected businesses focused on listening to the marketplace ... and delivering.



Sprint.

Sprint will present a single face to the customer across our growing existing markets and in burgeoning new wireline and wireless markets, both domestically and internationally.

[redacted]

General

Sprint Corporation and its subsidiaries (Sprint) include certain estimates, projections and other forward-looking statements in its reports, presentations to analysts and others, and other material disseminated to the public. There can be no assurances of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from estimates or projections contained in forward-looking statements include:

- the effects of vigorous competition in the markets in which Sprint operates;
- the cost of entering new markets necessary to provide seamless services;
- the risks associated with Sprint's investments in Sprint Spectrum L.P. (Sprint PCS) and Global One, which are presently in the early stages of development;
- the impacts of any unusual items resulting from ongoing evaluations of Sprint's business strategies;
- requirements imposed on Sprint and its competitors by the Federal Communications Commission (FCC) and state regulatory commissions under the Telecommunications Act of 1996;
- unexpected results of litigation filed against Sprint; and
- the possibility of one or more of the markets in which Sprint competes being affected by variations in political, economic or other factors such as monetary policy, legal and regulatory changes or other external factors over which Sprint has no control.

Sprint's principal activities consist of the following:

Long Distance Communications Services

The long distance communications services division is the nation's third-largest long distance telephone company. It operates a nationwide, all-digital long distance communications network that uses state-of-the-art fiber-optic and electronic technology. The division primarily provides domestic and international voice, video and data communications services. The division offers its services to the public subject to different levels of state and federal regulation, but rates are not subject to rate-base regulation except nominally in some states.

Local Communications Services

The local communications services division consists of regulated local exchange carriers (LECs) that serve more than seven million access lines in 19 states. The division provides local exchange services, access by telephone customers and other carriers to Sprint's local exchange facilities, sales of telecommunications equipment, and long distance services within specified geographical areas

Emerging Businesses

Emerging businesses consists of consumer Internet access services, competitive local exchange carrier (CLEC) services, international development activities (outside the scope of Global One), and personal communication services (PCS) controlled by Sprint.

Product Distribution and Directory Publishing

The product distribution and directory publishing businesses include the wholesale distribution of telecommunications products and the publishing and marketing of white and yellow page telephone directories.

Strategic Alliances

Global One — Sprint is a partner in Global One, a joint venture with Deutsche Telekom AG (DT) and France Telecom (FT) to provide seamless global telecommunications services to business, residential and carrier markets worldwide. Sprint is a one-third partner in Global One's operating group serving Europe (excluding France and Germany), and is a 50% partner in Global One's operating group for the worldwide activities outside the United States and Europe.

In connection with the formation of the Global One joint venture on January 31, 1996, the long distance division contributed certain assets and related operations of its international business unit to Global One.

On January 31, 1996, DT and FT acquired shares of a new class of Sprint convertible preference stock for a total of $3.0 billion. This resulted in DT and FT each holding 7.5% of Sprint's voting power. In April 1996, following the March 1996 spin-off of Sprint's cellular and wireless communications services division (Cellular), the preference stock was converted into Sprint Class A common stock, and DT and FT each acquired additional shares of Class A common stock. Following their

Sprint's average debt outstanding decreased $1.9 billion in 1996, generally due to repayments funded by a portion of the cash received from DT and FT for their equity investments in Sprint and from Cellular's repayment of intercompany debt in connection with the Spin-off. In 1995, Sprint's average debt outstanding increased by $605 million, mainly due to short-term borrowings incurred to fund investments in Sprint PCS.

Sprint capitalizes interest costs on borrowings related to its investment in Sprint PCS. Capitalized interest costs increased in 1996 and 1995 due to Sprint's increased investment in Sprint PCS. Sprint will continue to capitalize these interest costs until Sprint PCS is no longer in the development stage. Sprint does not expect that Sprint PCS will meet the criteria of a development stage company beyond mid-1997.

Beginning in 1997, Sprint expects to capitalize interest costs related to the investment in PCS licenses directly acquired by Sprint and the related network buildout.

Sprint's effective interest rate increased to 8.9% in 1996 from 8.0% in 1995 mainly due to the decrease in short-term borrowings as a percentage of total borrowings.

Other Expense, Net

Other income (expense) consists of the following:

(in millions)	1996	1995	1994
Equity in loss of Sprint PCS	$ (191.8)	$ (31.4)	$ (1.3)
Equity in loss of Global One and related venture costs	(82.1)	(22.9)	(6.1)
Dividend and interest income	99.7	12.6	14.4
Gains on sales of assets	15.9	—	34.7
Loss on sales of accounts receivable	(4.2)	(38.6)	(28.7)
Other, net	3.9	(12.9)	(15.1)
Total other expense, net	$ (158.6)	$ (93.2)	$ (2.1)

Income Tax Provision

Sprint's income tax provisions for 1996, 1995 and 1994 resulted in effective tax rates of 37.7%, 36.1% and 35.2%, respectively. See Note 4 of Notes to Consolidated Financial Statements for information regarding the differences that cause the effective income tax rates to vary from the statutory federal income tax rate.

Discontinued Operations

During 1996, 1995 and 1994, Sprint recognized income (losses) of $(3), $15, and $(16) million, respectively, associated with its investment in Cellular, which was spun off to Sprint common shareholders in March 1996 (see Note 12 of Notes to Consolidated Financial Statements). During 1994, Sprint also recognized income of $7 million for the settlement of matters related to another discontinued operation.

Extraordinary Items

During 1996, Sprint redeemed, prior to maturity, $190 million of debt with interest rates ranging from 6.0% to 9.5%. These early redemptions resulted in a $5 million ($0.01 per share) after-tax loss.

At year-end 1995, Sprint adopted accounting principles for a competitive marketplace and discontinued applying Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," to its local division (see Note 11 of Notes to Consolidated Financial Statements). SFAS 71 requires the accounting recognition of regulators' rate actions where appropriate. Sprint determined that the local division no longer met the criteria for applying SFAS 71 due to changes in the regulatory framework and the evolving competitive environment. As a result, Sprint recorded an after-tax, noncash extraordinary charge of $565 million ($1.61 per share)

Consolidated Statements of Income

Years ended December 31, *(in millions, except per share data)*	1996	1995	1994
Net Operating Revenues	$ 14,044.7	$ 12,765.1	$ 11,986.6
Operating Expenses			
Costs of services and products	7,028.7	6,504.9	6,154.5
Selling, general and administrative	3,157.8	2,871.9	2,755.4
Depreciation and amortization	1,591.0	1,466.4	1,386.0
Restructuring costs	—	87.6	—
Total operating expenses	11,777.5	10,930.8	10,295.9
Operating Income	2,267.2	1,834.3	1,690.7
Interest expense	(196.7)	(260.7)	(300.7)
Other expense, net	(158.6)	(93.2)	(2.1)
Income from continuing operations before income taxes	1,911.9	1,480.4	1,387.9
Income tax provision	(721.0)	(534.3)	(488.7)
Income from Continuing Operations	1,190.9	946.1	899.2
Discontinued operations, net	(2.6)	14.5	(8.5)
Extraordinary items, net	(4.5)	(565.3)	—
Net income	1,183.8	395.3	890.7
Preferred stock dividends	(1.3)	(2.6)	(2.7)
Earnings applicable to common stock	$ 1,182.5	$ 392.7	$ 888.0
Earnings per Common Share			
Continuing operations	$ 2.79	$ 2.69	$ 2.57
Discontinued operations	—	0.04	(0.02)
Extraordinary items	(0.01)	(1.61)	—
Total	$ 2.78	$ 1.12	$ 2.55
Weighted average number of common shares	426.0	350.1	348.7
Dividends per common share	$ 1.00	$ 1.00	$ 1.00

See accompanying Notes to Consolidated Financial Statements.

Long Distance Communications Services

(In millions)	1996	1995	1994
Net operating revenues	$8,302.1	$7,277.4	$6,805.1
Operating expenses			
Interconnection	3,722.7	3,102.7	2,994.5
Operations	1,051.8	1,046.6	925.4
Selling, general and administrative	1,970.3	1,839.7	1,737.0
Depreciation and amortization	633.3	581.6	550.5
Total operating expenses	7,378.1	6,570.6	6,207.4
Operating income	$ 924.0[1]	$ 706.8	$ 597.7
Operating margin	11.1%[1]	9.7%	8.8%
Capital expenditures	$1,133.7	$ 861.7	$ 774.1
Identifiable assets	$6,040.6	$4,912.2	$4,546.0

[1] Excluding the $60 million charge related to litigation, operating income and margin for 1996 would have been $984 million and 11.9%, respectively.

On January 31, 1996, the long distance division contributed certain international assets and related operations to Global One (the Contribution to Global One). Accordingly, the operating results of the contributed operations have been reflected in the division's operating results only through the date of contribution. The contribution had two significant effects on the division's operating results. First, revenue was reduced because customers of Sprint's international operations became Global One customers. Because Global One traffic carried by the division is priced on a wholesale, rather than retail basis, the division's revenue yield related to these international customers declined. Second, operating expenses were reduced to the extent they related to contributed operations. Had the Contribution to Global One occurred on January 1, 1994, year-over-year operating income growth would have been an estimated 29% in 1996 (excluding the nonrecurring charge) versus 21% in 1995. The related operating margins would have been an estimated 12.0% in 1996 (excluding the nonrecurring charge), 10.9% in 1995 and 9.5% in 1994.

Operating Margin

*Excludes the nonrecurring charge

Net operating revenues increased 14% in 1996 and 7% in 1995. Traffic volumes increased 20% and 7% in the same periods. Revenue growth was mainly driven by strong volume growth in the residential, business and wholesale markets and continued growth in the data services markets. Growth in the residential market reflects the continuing success of Sprint Sense,® a flat-rate calling plan. The small-to-medium business market, which experienced declining revenue during 1995, produced increased revenue in 1996. This improvement generally reflects the success of the Fridays Free calling plan, which experienced strong domestic and international volume growth. Growth in the data services market, which includes sales of capacity on Sprint's network to Internet service providers, reflects continued growth in demand and expanded service offerings. The wholesale market experienced strong growth in both the international and domestic markets. Growth in the wholesale international market was due, in part, to Global One traffic. These increases in 1996 revenues were partly offset by reduced long distance rates. Average long distance rates have declined due to increased competition both domestically and internationally, and due to Global One traffic being priced on a wholesale, rather than retail, basis. Had the Contribution to Global One occurred as of January 1, 1994, the division's year-over-year growth in net operating revenues would have been an estimated 17% in 1996 and 6% in 1995.

Traffic Volume Growth

Interconnection costs consist of amounts paid to LECs, other domestic service providers, and foreign telephone companies to complete calls made by the division's domestic customers. Interconnection costs increased during 1996 and 1995 mainly due to strong growth in both international outbound and domestic traffic volumes. Interconnection costs were 44.8% of net operating revenues in 1996 versus 42.6% in 1995

Consolidated Statements of Cash Flows

Years ended December 31 (in millions)	1996	1995	1994
Operating Activities			
Net income	$ 1,183.8	$ 395.3	$ 890.7
Adjustments to reconcile net income to net cash provided by operating activities:			
Discontinued operations, net	2.6	(14.5)	8.5
Extraordinary items, net	4.9	565.3	—
Equity in net losses of affiliates	273.7	39.1	3.8
Depreciation and amortization	1,591.0	1,466.4	1,386.0
Deferred income taxes and investment tax credits	(10.3)	5.8	53.2
Changes in operating assets and liabilities			
Accounts receivable, net	(988.8)	(135.8)	(226.5)
Inventories and other current assets	15.7	(38.6)	(56.1)
Accounts payable and other current liabilities	368.7	178.5	120.2
Noncurrent assets and liabilities, net	(23.7)	124.0	128.5
Other, net	(14.0)	24.1	31.3
Net cash provided by continuing operations	2,403.6	2,609.6	2,339.6
Net cash provided (used) by cellular division	(0.1)	162.5	179.9
Net cash provided by operating activities	2,403.5	2,772.1	2,519.5
Investing Activities			
Capital expenditures	(2,433.6)	(1,857.3)	(1,751.6)
Proceeds from sale of investment in equity securities	—	—	117.7
Investments in and advances to affiliates	(446.1)	(948.7)	(74.1)
Investment in affiliate debt securities	(100.0)	—	—
Deposit for PCS licenses	(84.0)	—	—
Other, net	(51.8)	(53.6)	(45.0)
Net cash used by continuing operations	(3,115.5)	(2,859.6)	(1,753.0)
Repayment by cellular division of intercompany advances	1,400.0	—	—
Net cash used by cellular division	(140.7)	(324.6)	(272.4)
Net cash used by investing activities	(1,856.2)	(3,184.2)	(2,025.4)
Financing Activities			
Proceeds from long-term debt	9.4	260.7	107.9
Retirements of long-term debt	(433.1)	(630.0)	(597.0)
Net increase (decrease) in short-term borrowings	(1,986.8)	1,109.5	321.5
Proceeds from common stock issued	20.5	16.9	42.7
Proceeds from Class A common stock issued	3,661.3	—	—
Proceeds from employee stock purchase installments	38.1	38.8	33.1
Dividends paid	(419.6)	(351.5)	(349.4)
Purchase of treasury stock	(407.2)	—	(9.8)
Other, net	(3.5)	(21.8)	(5.9)
Net cash provided (used) by financing activities	479.1	422.6	(456.9)
Increase in cash and equivalents	1,026.4	10.5	37.2
Cash and equivalents at beginning of year	124.2	113.7	76.5
Cash and equivalents at end of year	$ 1,150.6	$ 124.2	$ 113.7

See accompanying Notes to Consolidated Financial Statements

December 31, *(in millions, except per share data)*	1996	1995
Assets		
Current assets		
Cash and equivalents	$ 1,150.6	$ 124.2
Accounts receivable, net of allowance for doubtful accounts of $117.4 and $125.8	2,463.5	1,523.7
Receivable from cellular division	—	1,400.0
Other	738.7	571.5
Total current assets	4,352.8	3,619.4
Investments in equity securities	254.5	262.9
Property, plant and equipment		
Long distance communications services	7,390.8	6,773.7
Local communications services	13,368.7	12,603.1
Other	651.3	539.1
	21,410.8	19,915.9
Less accumulated depreciation	10,946.7	10,200.1
	10,464.1	9,715.8
Investments in and advances to affiliates	1,527.1	1,195.7
Net investment in cellular division	—	106.9
Other assets	354.5	295.2
	$ 16,953.0	$ 15,195.9
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt	$ 99.1	$ 280.4
Short-term borrowings	200.0	2,144.0
Accounts payable	1,026.7	938.9
Accrued interconnection costs	828.9	617.7
Accrued taxes	189.2	235.5
Advance billings	199.7	202.9
Other	770.6	722.7
Total current liabilities	3,314.2	5,142.1
Long-term debt	2,981.5	3,253.0
Deferred credits and other liabilities		
Deferred income taxes and investment tax credits	846.9	843.4
Postretirement and other benefit obligations	919.7	889.3
Other	359.0	393.0
	2,125.6	2,125.7
Redeemable preferred stock	11.8	32.5
Common stock and other shareholders' equity		
Common stock, par value $2.50 per share, authorized 1,000.0 shares, issued 350.3 and 349.2 shares, and outstanding 343.9 and 349.2 shares	875.7	872.9
Class A common stock, par value $2.50 per share, authorized 500.0 shares, issued and outstanding 86.2 shares	215.6	—
Capital in excess of par or stated value	4,425.9	960.0
Retained earnings	3,211.8	2,763.0
Treasury stock, at cost, 6.4 shares	(262.2)	—
Other	53.1	46.7
	8,519.9	4,642.6
	$ 16,953.0	$ 15,195.9

See accompanying Notes to Consolidated Financial Statements.

Financial Condition

Sprint's financial condition at year-end 1996 compared with year-end 1995 mainly reflects the completion of strategic initiatives during the first half of 1996. A portion of the cash received from DT's and FT's investments in Sprint and from Cellular's repayment of intercompany debt was used to reduce short- and long-term debt. In addition, Sprint used a portion of the cash to terminate a $600 million accounts receivable sales agreement and to meet its commitments related to Sprint PCS. The remaining proceeds were invested on a temporary basis.

Sprint's accounts receivable increased $940 million in 1996, reflecting the termination of the accounts receivable sales agreement as well as the 10% increase in consolidated net operating revenues. The allowance for doubtful accounts as a percentage of gross accounts receivable decreased to 5% at year-end 1996 from 8% at year-end 1995 generally because the termination of the accounts receivable sales agreement did not require a related increase in the allowance for doubtful accounts. Property, plant and equipment, net of accumulated depreciation, increased $748 million in 1996. This increase was mainly due to increased capital expenditures to enhance and upgrade Sprint's networks, expand service capabilities and increase productivity.

Book Value per Share

At year-end 1996, Sprint's total capitalization was $11.8 billion, consisting of short-term borrowings, long-term debt (including current maturities), redeemable preferred stock, and common stock and other shareholders' equity. Short-term borrowings and long-term debt (including current maturities) declined to 27.8% of total capitalization at year-end 1996 from 54.8% at year-end 1995.

Capital Requirements

Sprint expects its 1997 investing activities, consisting of capital expenditures and investments in affiliates, to require cash of $4.5 to $5.0 billion. In addition, Sprint expects to pay dividends totaling $430 million. Sprint intends to fund these 1997 cash requirements with cash from operating activities, cash on hand, and from external sources.

Debt-to-Capital Ratio

Capital expenditures of $4.1 to $4.4 billion are anticipated in 1997. Capital expenditures for the long distance and local divisions are expected to total $2.5 billion. In early 1997, Sprint will pay $460 million for the balance due on the PCS licenses directly acquired in the recent FCC auction. The balance of anticipated capital expenditures will primarily be used to build out the network for these new PCS markets and the emerging CLEC markets.

Sprint expects to invest $400 to $600 million in its affiliates during 1997. Sprint PCS will require $350 to $500 million in 1997 to continue its network buildout and for operating cash requirements. Sprint also expects that Global One will require partner contributions for ongoing development activities.

Cash Paid for Dividends

(in millions)

In addition to these investing activities, international development opportunities apart from Global One may create further cash requirements during 1997.

Sprint expects to borrow $1.0 to $1.5 billion during 1997, excluding any borrowings that may be required to take advantage of any new international opportunities. A combination of long- and short-term borrowings will be used depending on capital market conditions during the year.

1. Summary of Significant Accounting Policies

Basis of Consolidation and Presentation

The consolidated financial statements include the accounts of Sprint Corporation and its wholly-owned and majority-owned subsidiaries (Sprint). Investments in entities in which Sprint exercises significant influence, but does not control, are accounted for using the equity method (see Note 2).

The consolidated financial statements are prepared in conformity with generally accepted accounting principles (GAAP). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Those estimates and assumptions also affect the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts previously reported have been reclassified to conform to the current year presentation in the consolidated financial statements. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation," revenues and related net income resulting from transactions between Sprint's nonregulated operations and its regulated local exchange carriers were not eliminated in the consolidated financial statements before 1996. Revenues related to these intercompany transactions were $262 and $285 million in 1995 and 1994, respectively. All other significant intercompany transactions have been eliminated.

Classification of Operations

The long distance communications services division provides domestic and international voice, video and data communications services. The division offers its services to the public subject to different levels of state and federal regulation, but rates are generally not subject to rate-base regulation.

The local communications services division consists of regulated telephone companies. These operations provide local exchange services, access by telephone customers and other carriers to local exchange facilities, sales of telecommunications equipment and long distance services within specified geographical areas.

Emerging businesses consists of activities related to consumer Internet access services, competitive local exchange carrier (CLEC) services, personal communication services (PCS) controlled by Sprint and international development activities outside the scope of the Global One joint venture.

The product distribution and directory publishing businesses include the wholesale distribution of telecommunications products and the publishing and marketing of white and yellow page telephone directories.

Revenue Recognition

Sprint recognizes operating revenues as services are rendered or as products are delivered to customers. The long distance division records operating revenues net of an estimate for uncollectible accounts.

Cash and Equivalents

Cash equivalents generally include highly liquid investments with original maturities of three months or less and are stated at cost, which approximates market value. As part of its cash management program, Sprint uses controlled disbursement banking arrangements. At year-end 1996 and 1995, outstanding checks in excess of cash balances of $127 and $131 million, respectively, were included in accounts payable. Sprint had sufficient funds available to fund these outstanding checks when they were presented for payment.

Investments in Debt and Equity Securities

Investments in debt and equity securities are classified as available for sale and reported at fair value (estimated based on quoted market prices). Gross unrealized holding gains and losses are reflected as adjustments to "Common stock and other shareholders' equity — Other," net of related income taxes.

Inventories
Inventories, consisting principally of those related to Sprint's product distribution business, are stated at the lower of cost (principally first-in, first-out method) or market.

Property, Plant and Equipment
Property, plant and equipment is recorded at cost. Generally, ordinary asset retirements and disposals are charged against accumulated depreciation with no gain or loss recognized. Repairs and maintenance costs are expensed as incurred.

Depreciation
The cost of property, plant and equipment is generally depreciated on a straight-line basis over estimated economic useful lives. Prior to the discontinued use of SFAS 71 as of year-end 1995, the cost of property, plant and equipment for Sprint's local division had been generally depreciated on a straight-line basis over the lives prescribed by regulatory commissions.

Income Taxes
Deferred income taxes are provided for certain temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Investment tax credits related to regulated telephone property, plant and equipment have been deferred and are being amortized over the estimated useful lives of the related assets.

Capitalized Interest
Sprint capitalizes interest costs related to the construction of capital assets and to its investment in Sprint Spectrum L.P. (Sprint PCS). Capitalized interest totaled $104, $57 and $8 million in 1996, 1995 and 1994, respectively.

Earnings Per Share (EPS)
EPS is based on the weighted average of both outstanding and issuable shares assuming all dilutive options are exercised, as applicable.

Had the Class A common stock discussed in Note 7 been issued as of January 1, 1996, and the related proceeds been used to repay debt or invested on a temporary basis at that time, Sprint's 1996 EPS from continuing operations would have decreased from $2.79 per share to an estimated $2.76 per share.

2. Investments

Investment in Affiliate Debt Securities
In August 1996, Sprint purchased $183 million (face value) of Sprint PCS Senior Discount bonds for $100 million. The bonds mature in 2006. At year-end 1996, the accreted cost of the bonds was $104 million and gross unrealized holding gains totaled $18 million. This investment has been included in "Current assets — Other" on the 1996 Consolidated Balance Sheet.

Investments in Equity Securities
The cost of equity securities was $105 and $109 million at year-end 1996 and 1995, respectively. Gross unrealized holding gains were $149 million in 1996 and $154 million in 1995.

Investments in and Advances to Affiliates
Investments accounted for using the equity method mainly consist of Sprint's investments in Sprint PCS and Global One.

Sprint is a 40% partner in Sprint PCS, a partnership with Tele-Communications Inc., Comcast Corporation and Cox Communications, Inc. Sprint PCS is building a wireless network to provide PCS on a broad geographic basis within the United States.

In 1996, Sprint became a partner in Global One, a joint venture with Deutsche Telekom AG (DT) and France Telecom (FT). Global One was formed to provide seamless global telecommunications services to business, residential and carrier markets worldwide. Sprint is a one-third partner in Global One's operating group serving Europe (excluding France and Germany), and is a 50% partner in Global One's operating group for the worldwide activities outside the United States

Defined Contribution Plans

Sprint sponsors defined contribution employee savings plans covering substantially all employees. Participants may contribute portions of their compensation to the plans. Contributions of participants represented by collective bargaining units are matched by Sprint based on defined amounts as negotiated by the respective parties. Contributions of participants not covered by collective bargaining agreements are also matched by Sprint. For these participants, Sprint provides matching contributions in Sprint common stock equal to 50% of participants' contributions up to 6% of their compensation. In addition, Sprint may, at the discretion of the Board of Directors, provide matching contributions based on the performance of Sprint common stock compared with other telecommunications companies. Sprint's matching contributions were $56, $51 and $47 million in 1996, 1995 and 1994, respectively. At year-end 1996, the plans held 22 million shares of Sprint common stock.

Postretirement Benefits

Sprint provides postretirement benefits (principally medical benefits) to substantially all employees. Employees retiring before specified dates are eligible for benefits at no cost, or a reduced cost. Employees retiring after specified dates are eligible for benefits on a shared-cost basis. Sprint funds the accrued costs as benefits are paid.

The net postretirement benefits cost consists of the following:

(in millions)	1996	1995	1994
Service cost – benefits earned during the period	$ 21.7	$ 22.2	$ 23.2
Interest on accumulated postretirement benefit obligation	49.9	58.7	53.2
Net amortization and deferral	(13.7)	(9.4)	(1.9)
Net postretirement benefits cost	$ 57.9	$ 71.5	$ 74.5

For measurement purposes, a weighted average annual health care cost trend rate of 9.6% was assumed for 1996, gradually decreasing to an ultimate level of 5% by 2001. The effect of a 1% increase in the assumed trend rates would have increased the 1996 net postretirement benefits cost by an estimated $12 million. The discount rates for 1996, 1995 and 1994 were 7.25%, 8.50% and 7.50%, respectively.

The amounts recognized in the Consolidated Balance Sheets, at year-end, are as follows:

(in millions)	1996	1995
Accumulated postretirement benefit obligation		
Retirees	$ 277.9	$ 312.4
Active plan participants – fully eligible	127.6	118.3
Active plan participants – other	320.7	328.6
	726.2	759.3
Unrecognized prior service benefit	5.7	5.6
Unrecognized net gains	178.7	115.3
Accrued postretirement benefits cost	$ 910.6	$ 880.2

The year-end 1996 and 1995 accumulated benefit obligations were based on discount rates of 7.75% and 7.25%, respectively. The assumed 1997 annual health care cost trend rate was 9%, gradually decreasing to an ultimate level of 5% by 2005. The effect of a 1% annual increase in the assumed health care cost trend rates would have increased the year-end 1996 accumulated postretirement benefit obligation by an estimated $96 million.

4. Income Taxes

The income tax provisions allocated to continuing operations consist of the following:

(in millions)	1996	1995	1994
Current income tax provision			
Federal	$ 655.4	$ 437.4	$ 355.7
State	75.9	91.1	79.8
	731.3	528.5	435.5
Deferred income tax provision (benefit)			
Federal	(22.2)	45.9	81.6
State	23.5	(23.6)	(6.4)
Amortization of deferred investment tax credits	(11.6)	(16.5)	(22.0)
	(10.3)	5.8	53.2
Total income tax provision	$ 721.0	$ 534.3	$ 488.7

The differences that cause the effective income tax rate to vary from the statutory federal income tax rate of 35% are as follows:

(in millions)	1996	1995	1994
Income tax provision at the statutory rate	$ 669.2	$ 518.1	$ 485.8
Less investment tax credits included in income	11.6	16.5	22.0
Expected federal income tax provision after investment tax credits	657.6	501.6	463.8
Effect of			
State income taxes, net of federal income tax effect	64.6	43.9	47.7
Equity in losses of foreign joint venture	8.6	—	—
Other, net	(9.8)	(11.2)	(22.8)
Income tax provision, including investment tax credits	$ 721.0	$ 534.3	$ 488.7
Effective income tax rate	37.7%	36.1%	35.2%

The income tax provisions (benefits) allocated to other items are as follows:

(in millions)	1996	1995	1994
Discontinued operations	$ 7.0	$ 31.2	$ 0.7
Extraordinary items	(2.9)	(437.4)	—
Unrealized holding gains on investments [1]	1.7	30.7	(11.6)
Stock ownership, purchase and options arrangements [1]	(14.1)	(7.5)	(8.1)

[1] *These amounts have been recorded directly to "Common stock and other shareholders' equity – Other"*

Deferred income taxes are provided for the temporary differences between the carrying amounts of Sprint's assets and liabilities for financial statement purposes and their tax bases. The sources of the differences that give rise to the deferred income tax assets and liabilities at year-end 1996 and 1995, along with the income tax effect of each, are as follows:

	1996 Deferred Income Tax		1995 Deferred Income Tax	
(in millions)	Assets	Liabilities	Assets	Liabilities
Property, plant and equipment	$ —	$1,304.3	$ —	$1,276.7
Postretirement and other benefits	360.3	—	347.0	—
Reserves and allowances	115.6	—	94.9	—
Unrealized holding gains on securities	—	57.3	—	55.6
Other, net	106.8	—	132.0	—
	582.7	1,361.6	573.9	1,332.3
Less valuation allowance	13.7	—	17.4	—
Total	$ 569.0	$1,361.6	$ 556.5	$1,332.3

During 1996, 1995 and 1994, the valuation allowance related to deferred income tax assets decreased $4, $4 and $1 million, respectively.

Sprint's management believes it is more likely than not that these deferred income tax assets, net of the valuation allowance, will be realized based on current income tax laws and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities or ordinary operations. Uncertainties surrounding income tax law changes, shifts in operations between state taxing jurisdictions, and future operating income levels may, however, affect the ultimate realization of all or some portion of these deferred income tax assets.

At year-end 1996, Sprint had available, for income tax purposes, $3 million of state alternative minimum tax credit carryforwards to offset state income tax payable in future years, and tax benefits of $18 million related to state operating loss carryforwards. The loss carryforwards expire in varying amounts per year from 1997 through 2011.

5. Borrowings

Long-term Debt

Long-term debt, at year-end, is as follows:

(in millions)	Maturing	1996	1995
Corporate			
Senior notes			
10.45%	1996	$ —	$ 100.0
9.2% to 9.8%	1997 to 2001	325.3	325.3
5.1% to 9.5%	2002 to 2006	350.0	350.0
Debentures			
9.25%	2022	200.0	200.0
Other			
8.25%[1]	2000	146.4	138.4
Long Distance Division			
Vendor financing agreements			
7.4% to 10.2%	1997 to 1999	67.9	177.6
Local Division			
First mortgage bonds			
5.3% to 6.3%	1996	—	31.6
2.0% to 9.4%	1997 to 2001	291.7	311.3
4.0% to 7.8%	2002 to 2006	507.1	510.9
6.9% to 9.8%	2007 to 2011	151.7	151.7
6.9% to 7.5%	2012 to 2016	90.0	90.0
8.8% to 9.9%	2017 to 2021	325.5	297.7
7.1% to 8.4%	2022 to 2026	145.0	173.8
Debentures and notes			
5.0% to 9.6%	1997 to 2016	275.3	415.6
Notes payable and commercial paper	1996	—	42.8
Other			
2.0% to 19.5%	1997 to 2009	6.2	9.8
Other			
Debentures			
9.00%	2019	150.0	150.0
Other			
5.4% to 12.5%	1997 to 2003	48.5	56.9
		3,080.6	3,533.4
Less current maturities		99.1	280.4
Long-term debt		$ 2,981.5	$ 3,253.0

[1] *Notes may be exchanged at maturity for shares of Southern New England Telecommunications Corporation (SNET) common stock owned by Sprint, or cash. Based on SNET's closing market prices, had the notes matured at year-end 1996 or 1995, they could have been exchanged for 3.8 million shares of SNET stock. At year-end 1996 and 1995, Sprint held 4.2 and 4.4 million shares, respectively, of SNET stock, which have been included in "Investments in equity securities" on the Consolidated Balance Sheets.*

Long-term debt maturities during each of the next five years are as follows:

(in millions)	
1997	$ 99.1
1998	128.3
1999	30.9
2000	648.4
2001	37.8

Property, plant and equipment with a total cost of $12.4 billion is either pledged as security for first mortgage bonds and certain notes or is restricted for use as mortgaged property.

During 1996, Sprint redeemed, prior to scheduled maturities, $190 million of debt with interest rates ranging from 6.0% to 9.5%. These early redemptions resulted in a $5 million after-tax extraordinary loss.

Short-term Borrowings

Notes payable and commercial paper outstanding and related weighted average interest rates, at year-end, are as follows:

(in millions)	1996	1995
Bank notes, 5.9%	$ 200.0	$ 1,551.8
Commercial paper, 6.3%	—	635.0
Total notes payable and commercial paper	$ 200.0	$ 2,186.8

At year-end 1995, $43 million of notes payable and commercial paper were classified as long-term debt based on Sprint's ability and intent to refinance the borrowings on a long-term basis.

The bank notes are renewable at various dates throughout the year. Sprint pays a fee to certain commercial banks to support current and future credit requirements based on loan commitments. Lines of credit could be withdrawn by the banks if there were a material adverse change in Sprint's financial condition. At year-end 1996, Sprint's unused bank lines of credit totaled $1.3 billion.

Other

Sprint is in compliance with all restrictive or financial covenants relating to its debt arrangements at year-end 1996.

restricted from the payment of dividends at year-end 1996. The indentures and financing agreements of certain of Sprint's subsidiaries contain various provisions restricting the payment of cash dividends on subsidiary common stock held by Sprint. In connection with these restrictions, $145 million of the related subsidiaries' $1.2 billion total retained earnings were restricted at year-end 1996. The flow of cash in the form of advances from the subsidiaries to Sprint is generally not restricted.

During 1990, the Savings Plan Trust, an employee savings plan, acquired common stock from Sprint in exchange for a $75 million promissory note payable to Sprint. The note bears interest at 9% and is to be repaid from the common stock dividends received by the plan and the contributions made to the plan by Sprint according to plan provisions. The remaining $51.2 million note receivable balance at year-end 1996 is reflected as a reduction to "Common stock and other shareholders' equity — Other."

Class A Common Stock

On January 31, 1996, DT and FT acquired shares of a new class of convertible preference stock for a total of $3.0 billion. This resulted in DT and FT each holding 7.5% of Sprint's voting power. In April 1996, following the spin-off of Sprint's cellular and wireless communications services division (Cellular) (see Note 12), the preference stock was converted into Class A common stock, and DT and FT each acquired additional shares of Class A common stock. Following their total investment of $3.7 billion, DT and FT each own shares of Class A common stock with 10% of Sprint's voting power. During 1996, Sprint declared and paid dividends of $0.16 per share for the preference stock and $0.75 per share for the Class A common stock.

DT and FT, as the holders of the Class A common stock, have the right in most circumstances to proportionate representation on Sprint's Board of Directors and to purchase additional shares of Class A common stock from Sprint to maintain their total ownership level at 20%. In addition, the holders of Class A common stock have disapproval rights with respect to Sprint's undertaking certain types of transactions. DT and FT have entered into a standstill agreement with Sprint that contains restrictions on their ability to acquire voting securities of Sprint other than as contemplated by their investment agreement with Sprint and related agreements. The standstill agreement also contains customary provisions restricting DT and FT from initiating or participating in any proposal with respect to the control of Sprint.

8. Stock-based Compensation

Sprint's Management Incentive Stock Option Plan (MISOP) provides for the granting of stock options to employees who are eligible to receive annual incentive compensation. Eligible employees are entitled to receive stock options in lieu of a portion of the target incentive under Sprint's management incentive plans. The options generally become exercisable on December 31 of the year granted and have a maximum term of 10 years. MISOP options are granted with exercise prices equal to the market price of Sprint's common stock on the grant date. At year-end 1996, authorized shares under this plan approximated eight million. This amount increased by approximately three million shares on January 1, 1997.

The Sprint Corporation Stock Option Plans (SOP) provide for the granting of stock options to officers and key employees. The options generally become exercisable at the rate of 25% per year, beginning one year from the grant date, and have a maximum term of 10 years. SOP options are granted with exercise prices equal to the market price of Sprint's common stock on the grant date. At year-end 1996, authorized shares under these plans approximated 18 million. This amount increased by approximately two million shares on January 1, 1997.

Every two years, the ESPP offers all employees the election to purchase Sprint common stock at a price equal to 85% of the market value on the grant or exercise date, whichever is less. At year-end 1996, authorized shares under this plan approximated 18 million.

A summary of stock option plan activity is as follows:

(in millions, except per share data)	Number of Shares[1]	Weighted Average per Share Exercise Price[1]
Outstanding January 1, 1994	7.8	$ 21.38
Granted	3.3	30.02
Exercised	1.2	17.25
Forfeited/Expired	0.6	26.46
Outstanding December 31, 1994	9.3	24.67
Granted	4.3	24.69
Exercised	0.8	19.81
Forfeited/Expired	0.5	27.06
Outstanding December 31, 1995	12.3	24.88
Granted	4.9	36.94
Exercised	2.6	22.28
Forfeited/Expired	1.0	29.22
Outstanding December 31, 1996	13.6	$ 29.42

Due to the spin-off of Cellular, the number of shares and the related exercise prices have been adjusted to maintain both the total fair market value of common stock underlying the options, and the relationship between the market value of Sprint's common stock and the options' exercise price.

Outstanding options held by Cellular employees were converted into options and grants to purchase Cellular common stock and are not included in the above table.

After adjustment for the spin-off of Cellular, options exercisable at year-end 1995 and 1994 were 6.4 and 4.5 million, respectively. The following table summarizes outstanding and exercisable options at year-end 1996:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding (in millions)	Weighted Average Remaining Contractual Life (in years)	Weighted Average Exercise Price	Number Exercisable (in millions)	Weighted Average Exercise Price
$11.56-$14.96	0.3	2.3	$13.14	0.3	$13.14
$15.18-$19.24	0.3	4.3	17.69	0.3	17.69
$20.08-$24.50	3.9	6.8	23.48	2.2	22.79
$25.07-$29.96	2.6	5.4	27.32	2.0	26.62
$30.12-$34.80	2.0	7.2	30.60	1.8	30.27
$35.32-$39.88	4.4	9.1	36.84	1.8	36.82
$40.19-$44.06	0.1	5.9	42.12	—	—

9. Commitments and Contingencies

Litigation, Claims and Assessments

In December 1996, an arbitration panel entered a $61 million award in favor of Network 2000 Communications Corporation (Network 2000) on its breach of contract claim against Sprint. The arbitrators directed Sprint to pay one-half of this award to Network 2000, and the remaining amount to the Missouri state court in which a proposed class action by Network 2000's independent marketing representatives (IMRs) against Network 2000 and Sprint is pending. The arbitrators denied all other claims by Network 2000, including claims of fraud and deceit.

In December 1996, Sprint filed an action in federal district court in Kansas City, Missouri, naming as defendants Network 2000, Network 2000's attorneys, and representatives of a proposed class of IMRs. Sprint seeks to have the arbitration panel's award vacated, modified, or corrected, and has asked the court to enter an order regarding the distribution of the award among the defendants.

In the proposed class action, the IMRs seek to certify a class to pursue breach of contract and tort claims against Network 2000 and Sprint. Sprint believes the IMRs' contract claims have been or will be addressed by the arbitration panel's award and the related federal court action filed by Sprint. Further, Sprint believes the IMRs' tort claims are not appropriate for class action treatment.

In 1996, Sprint accrued $60 million based on its ongoing assessment of the potential liability related to actions by Network 2000 and its IMRs. This charge reduced income from continuing operations by $36 million ($0.08 per share).

Following the announcement in 1992 of Sprint's merger agreement with Centel Corporation (Centel), class action suits were filed against Centel and certain of its officers and directors in federal and state courts. The state suits were dismissed. In June 1996, Centel and the other defendants were granted summary judgment in the federal action. The plaintiffs have appealed the court's order. In October 1995, the New York trial

The fair value of all other issues is estimated based on the present value of estimated future cash flows using a discount rate based on the risks involved. The fair value of interest rate swap agreements is estimated as the amount Sprint would receive (pay) to terminate the swap agreements at year-end 1996 and 1995, taking into account the then-current interest rates. The fair value of foreign currency contracts is estimated as the replacement cost of the contracts at year-end 1996 and 1995, taking into account the then-current foreign currency exchange rates.

Concentrations of Credit Risk

Sprint's accounts receivable are not subject to any concentration of credit risk. Interest rate swap agreements and foreign currency contracts involve the risk of dealing with counterparties and their ability to meet the contract terms. Notional principal amounts are often used to express the volume of these transactions, but the amounts subject to credit risk are significantly smaller. In the event of nonperformance by the counterparties, Sprint's accounting loss would be limited to the net amount it would be entitled to receive under the terms of the applicable interest rate swap agreement or foreign currency contract. However, Sprint does not anticipate nonperformance by any of the counterparties associated with these agreements. Sprint controls credit risk and the concentration of credit risk of its interest rate swap agreements and foreign currency contracts through credit approvals, dollar exposure limits and internal monitoring procedures.

Interest Rate Swap Agreements

Sprint uses interest rate swap agreements as part of its interest rate risk management program. Net interest paid or received related to these agreements is recorded using the accrual method and is recorded as an adjustment to interest expense. Sprint had interest rate swap agreements with notional amounts of $350 and $275 million outstanding at year-end 1996 and 1995, respectively. Net interest expense (income) related to interest rate swap agreements was $2 million, $(400,000) and $1 million for 1996, 1995 and 1994, respectively. There were no deferred gains or losses related to any terminated interest rate swap agreements at year-end 1996, 1995 or 1994.

Foreign Currency Contracts

As part of its foreign currency exchange risk management program, Sprint purchases and sells over-the-counter forward contracts and options in various foreign currencies. Sprint had outstanding $46 and $13 million of open forward contracts to buy various foreign currencies at year-end 1996 and 1995, respectively.

Sprint had $3 and $24 million of outstanding open purchase option contracts to call various foreign currencies at year-end 1996 and 1995, respectively. The premium paid for an option is expensed as incurred and the fair value of an option is recorded as an asset at the end of each period. The forward contracts open at year-end 1996 and 1995 all had original maturities of six months or less. The net gain or loss recorded to reflect the fair value of these contracts is recorded in the period incurred. Total net losses of $400,000, $1 million and $2 million were recorded related to foreign currency transactions and contracts for 1996, 1995 and 1994, respectively.

11. Adoption of Accounting Principles for a Competitive Marketplace

As of year-end 1995, Sprint determined that its local division no longer met the criteria necessary for the continued use of SFAS 71. As a result, 1995 results include a noncash, extraordinary charge of $565 million, net of income tax benefits of $437 million.

The decision to discontinue the use of SFAS 71 was based on changes in the regulatory framework and the convergence of competition in the telecommunications industry.

Management Report

The management of Sprint Corporation has the responsibility for the integrity and objectivity of the information contained in this Annual Report. Management is responsible for the consistency of reporting such information and for ensuring that generally accepted accounting principles are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and codes of conduct are understood and practiced by its employees.

The consolidated financial statements included in this Annual Report have been audited by Ernst & Young LLP, independent auditors. Their audit was conducted in accordance with generally accepted auditing standards and their report is included herein.

The responsibility of the Board of Directors for these financial statements is pursued mainly through its Audit Committee. The Audit Committee, composed entirely of directors who are not officers or employees of Sprint, meets periodically with the internal auditors and independent auditors, both with and without management present, to assure that their respective responsibilities are being fulfilled. The internal and independent auditors have full access to the Audit Committee to discuss auditing and financial reporting matters.

WTEsrey

William T. Esrey
Chairman and Chief Executive Officer

Arthur B. Krause

Arthur B. Krause
Executive Vice President and Chief Financial Officer

Report of Independent Auditors

The Board of Directors and Shareholders, Sprint Corporation

We have audited the accompanying consolidated balance sheets of Sprint Corporation (Sprint) as of December 31, 1996 and 1995, and the related consolidated statements of income, cash flows, and common stock and other shareholders' equity for each of the three years in the period ended December 31, 1996, appearing on pages 34, 40, 42 and 45 through 60. These financial statements are the responsibility of the management of Sprint. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sprint at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements, Sprint discontinued accounting for the operations of its local telecommunications division in accordance with Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation," in 1995.

Ernst + Young LLP

Kansas City, Missouri
February 4, 1997

Principal Corporate Officers

William T. Esrey
Chairman and Chief Executive Officer

Ronald T. LeMay
President and Chief Operating Officer

J. Richard Devlin
Executive Vice President
Law and External Affairs

Gary D. Forsee
President and Chief Operating Officer
Long Distance Division

Michael B. Fuller
President and Chief Operating Officer
Local Telecommunications Division

Arthur B. Krause
Executive Vice President
Chief Financial Officer

D. Wayne Peterson
President
National Integrated Services

Gene M. Betts
Senior Vice President
Corporate Finance

John R. Hoffman
Senior Vice President
External Affairs

John P. Meyer
Senior Vice President
Controller

Theodore H. Schell
Senior Vice President
Strategic Planning and Corporate Development

Richard C. Smith Jr.
Senior Vice President
Quality Development and Public Relations

M. Jeannine Strandjord
Senior Vice President
Treasurer

I. Benjamin Watson
Senior Vice President
Human Resources

Don A. Jensen
Vice President
Secretary

Principal Operating Company Officers

Long Distance Division

Robba L. Benjamin
Senior Vice President
Staff Operations

Kevin E. Brauer
President
Sprint Business

R. Michael Franz
President
Wholesale Services Group

George N. Fuciu
President
Technology Services

William J. Gunter
Senior Vice President
Finance

Thomas E. Weigman
President
Consumer Services Group

Local Telecommunications Division

J. Darrell Kelley
President
Southern Operations

William E. McDonald
President
Mid-Atlantic Operations

Randy W. Osler
President
North Central Operations

Robert E. Thompson III
President
Western Operations

William C. Prout
Senior Vice President
Network

National Integrated Services

Bruce H. Branyan
Senior Vice President
Marketing, Sales and Service

Product Distribution/Directory Publishing Division

William G. Obermayer
President
Sprint North Supply

Robert J. Walsh
President
Sprint Publishing & Advertising

One call does it all

To switch your long distance service to Sprint and enjoy other communications benefits, call **1-800-538-0952**. Simplify your life with Sprint — whether you need long distance, pagers, Internet, PCS, calling cards or telephone equipment.

Free Internet Package

Sprint and non-Sprint customers can call **1-800-359-3900** to receive a free Internet package that includes everything needed to take full advantage of Sprint's world-class Internet Passport consumer product.

Sprint World Headquarters
2330 Shawnee Mission Parkway
Westwood, KS 66205
(913) 624-3000

Sprint's Long Distance Division

Headquarters
8140 Ward Parkway
Kansas City, MO 64114
(913) 624-6000

Sprint Business
(Businesses, state and local governments, universities and pay phone markets)
Business Marketing
5420 LBJ Freeway
Dallas, TX 75240
(214) 405-3000

Consumer Services Group
(Residential customers)
8140 Ward Parkway
Kansas City, MO 64114
(913) 624-6000

Government Services Division
(Federal government)
13221 Woodland Park Road
Herndon, VA 22071
(703) 904-2000

Wholesale Services Group
(Wholesale solutions)
8140 Ward Parkway
Kansas City, MO 64114
(913) 624-6000

Sprint's Local Telecommunications Division

Headquarters
2330 Shawnee Mission Parkway
Westwood, KS 66205
(913) 624-3000

Mid-Atlantic Operations
14111 Capital Boulevard
Wake Forest, NC 27587
(919) 554-7900

North Central Operations
665 Lexington Avenue
Post Office Box 3555
Mansfield, OH 44907
(419) 755-8011

Southern Operations
555 Lake Border Drive
Apopka, FL 32703
(407) 889-6000

Western Operations
5454 West 110th Street
Overland Park, KS 66211
(913) 345-7600

Sprint's Product Distribution/ Directory Publishing Division

Sprint North Supply
600 Industrial Parkway
Industrial Airport, KS 66031
(913) 791-7000

Sprint Publishing & Advertising
7015 College Boulevard
Suite 400
Overland Park, KS 66211
(913) 491-7000

Strategic Alliances

Global One
(Corporate and European headquarters)
Park Atrium
Rue des Colonies 11
B-1000 Brussels, Belgium
(011) 32-2-545-2000

(World)
12490 Sunrise Valley Drive
Reston, VA 22096
(703) 689-6000

Sprint PCS
4717 Grand Avenue
Kansas City, MO 64112
(816) 559-1000

Printed entirely on recycled paper meeting or exceeding the Environmental Protection Agency minimum requirements for recycled stock.

RadioShack is a service mark of the Tandy Corporation.

Design: The Falk Design Group St. Louis

Sprint will deliver

BECAUSE

we know how to listen to the market.

Sprint.

Alfonso Lara López (CFO)

Academic Formation:

Year	Degree	Speciality	University	Country
1988 - 1989	Post Graduate	Project Financing	Universidad Panamericana	México
1985 - 1987	Master	MBA	Instituto Panamericano de Alta Dirección de Empresa IPADE	México
1981 - 1985	Engineer	Civil Engineering	Universidad Anáhuac	México

Work Experience:

Year	Title	Company
1995 - 1996	CFO International Investments	Teléfonos de México
1994 - 1995	M&A Director	Grupo Condumex
1993 - 1994	Comercial Director	INTEC (Grupo Condumex)
1987 - 1993	Financial Director	Grupo Condumex

José Antonio Gómez-Chibli (Director, Network/Systems Ops)

Academic Formation:

Year	Degree	Speciality	University	Country
1981 - 1982	Master	Master in Industrial and Management Engineering	Rensselaer Politechnic Institute Troy, N.Y.	U.S.A.
1974 - 1978	Engineer	Industrial Engineering	Universidad Anáhuac	México

Work Experience:

Year	Title	Company
1996 - 1996	Long Distance Vice President	Teléfonos de México
1992 - 1996	Long Distance Quality Director	Teléfonos de México
1991 - 1992	Development and Engineering Long Distance Manager	Teléfonos de México
1989 - 1991	Strategic Planning Assistant Manager	Teléfonos de México
1985 -1989	Rural Telephony Assistant Manager	Teléfonos de México
1984 - 1985	Planning Manager's Counselor	Teléfonos de México
1983 - 1984	Development Analist	Teléfonos de México
1982 - 1983	Tariff Analist	Teléfonos de México

Javier Humberto Rosado Machain

(Director, Advertising / Promo

Academic Formation:

Year	Degree	Speciality	University	Country
1993 - 1994	Master of Science	Management	Arthur D. Little Management Education Institute	U.S.A.
1992 - 1993	Certificate of Special Studies	Business and Management	Harvard University	U.S.A.
1984 - 1989	Bachelor	Business Administration	Instituto Tecnológico Autónomo de México (ITAM)	México

Work Experience:

Year	Title	Company
1994 - 1996	Assistant Marketing Vice President	Teléfonos de México
1991 - 1992	General Manager	Autopartes Macros
1989 - 1991	Assistant Brand Manager	Procter and Gamble
1988 - 1989	Brand Assistant	Procter and Gamble
1987 - 1988	Marketing Assistant	Banco Nacional del Ejército y las Fuerzas Armadas

CHECK SHEET

* Asterisk indicates changes in current tariff filing. Current sheets in this tariff are as follows.

Page	Revision
Title	Original
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original
10	Original
11	Original
12	Original
13	Original

TABLE OF CONTENTS

EXPLANATION OF SYMBOLS

When changes are made on any tariff page, a revised page will be issued canceling the tariff page affected; such changes will be identified through the use of the following symbols:

(C) - To signify changed regulation or rate.

(D) - To signify the Deletion/Discontinuance of rates, regulations, and/or text.

(I) - To signify an Increase.

(M) - To signify matter Moved/Relocated within the tariff with no change to the material.

(N) - To signify New text, regulation, service, and/or rates.

(R) - To signify a Reduction.

(T) - To signify a Text Change in tariff, but no change in rate or regulation.

The above symbols will apply except where additional symbols are identified at the bottom of an individual page.

This tariff applies to intercity interLATA and intraLATA telecommunications services furnished by Telmex/Sprint Communications, L.L.C. ("Carrier") between and among points within the State of Florida in conjunction with Carrier's interstate and international telecommunications that originate and terminate in Florida. The services are provided in accordance with the terms and conditions which are set forth in this tariff and the Carrier's F.C.C. tariffs.

2. TERMS AND CONDITIONS

.1 DEFINITIONS

Certain terms used generally throughout this tariff for services furnished by the Carrier are defined below.

Carrier - Company

The terms "Carrier and Company" refer to Telmex/Sprint Communications, L.L.C. unless they refer specifically to the Local Exchange Company (LEC).

Casual Caller

The term "Casual Caller" denotes any person who uses Telmex/Sprint service from an equal access end office who does not have a current account with Carrier, to include:

a. Any person who has not established an account with Carrier who places calls over the Carrier's network from an equal access area by dialing 10XXX.

b. Any previously presubscribed customer located in an equal access area who has since either voluntarily terminated his Telmex/Sprint service or has had service terminated in accordance with the terms and conditions as set forth in Sections 2.10.2.

c. New customers whose accounts are not yet established in Carrier's billing system.

End User

Any person, firm, corporation, partnership or other entity which uses the services of the Carrier under the provisions and regulations of this tariff. The End User is responsible for payment unless the charges for the services utilized are accepted and paid by another Customer.

.2 Undertaking Of The Carrier

Telmex/Sprint Communications, L.L.C. undertakes to provide 24-hour intrastate, interstate and international long distance telephone service, subject to the availability of facilities, in accordance with the terms and conditions set forth in this tariff.

2. TERMS AND CONDITIONS (Continued)

.3 Limitation Of Liability

.1 Liability of the Carrier

The liability of Carrier, if any, for damages arising out of mistakes, omissions, interruptions, delays, errors, or defects in transmission during the course of furnishing service shall in no event exceed an amount equivalent to the charge to Customer for the service during which such mistakes, omissions, interruptions, delay, errors, or defects in transmission occurred. However, any such mistakes, omissions, interruptions, delays, errors, or defects in transmission or service which are caused by or contributed to by the negligence or willful act of customer, or which arise from facilities or equipment used by Customer, shall not result in the imposition of any liability whatsoever upon Carrier. Carrier is not liable for the quality of service provided by any local exchange carrier. Carrier is not liable for any act, omission or negligence of any local exchange carrier or other provider whose facilities are used in furnishing any portion of the service received by Customer. Under no circumstances whatever shall Carrier or its officers, agents, or employees be liable for indirect, incidental, special or consequential damages. Carrier shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to civil disorders, labor problems, and fire, flood, atmospheric conditions or other phenomena of nature, such as radiation. In addition, Carrier shall not be liable for any failure of performance hereunder due to necessary network reconfiguration, system modifications due to technical upgrades, or regulations established or actions taken by any court or government agency having jurisdiction over Carrier.

.2 Overpayment

The Carrier shall not be obligated to refund any overpayment by a user unless a written claim for such overpayment, together with substantiating evidence which will allow Carrier to verify such claim, is submitted within two (2) years from the date of the alleged overpayment.

.3 Disclaimer of Warranties

Except as expressly provided in this tariff, Carrier makes no understanding, agreements, representations or warranties, expressed or implied (including any regarding the merchantability or fitness for a particular purpose).

.4 Refunds for Interruption or Impairment to Carrier Service

It shall be the obligation of the customer to immediately notify the Carrier of any service interruption.

2. TERMS AND CONDITIONS (Continued)

.4 Use of Service

Neither subscribers nor their authorized users may use the services furnished by the Carrier for any unlawful purpose.

.5 Customer Application for Service

Service requests may be placed by written application, by telephone and/or through telephone confirmation with the local exchange company.

.6 Establishment of Credit

Carrier reserves the right to examine the credit record and check the references of all applicants and customers.

.7 Deposits

Each applicant for service will be required to establish credit. Any applicant whose credit has not been duly established may be required to make a deposit to be held as a guarantee of payment of charges at the time of application. In addition, an existing subscriber may be required to make a deposit or increase a deposit presently held.

.1 A deposit is not to exceed the estimated charges for two (2) months' service plus installation. A deposit will be returned:

(a) when an application for service has been canceled prior to the establishment of service. The deposit will be applied to any charges applicable in accordance with the tariff and the excess portion of the deposit will be returned.

(b) at the end of six (6) months of a satisfactory credit history.

(c) or upon the discontinuance of service. The Carrier will refund the subscriber's deposit or the balance in excess of unpaid bills for the service.

.2 The fact that a deposit has been made in no way relieves the subscriber from complying with the regulations with respect to the prompt payment of bills on presentation.

.3 The Carrier will pay interest on deposits pursuant to the rules and regulations of the State of Florida.

2400 Augusta
Houston, Texas 77057

2. TERMS AND CONDITIONS (Continued)

.10 Discontinuance Of Service

Service continues to be provided until canceled, by Customer, in writing, or until canceled by Carrier as set forth below.

.1 Cancellation by Customer

Customer may have service discontinued 30 days after giving notice to Carrier. Carrier will hold customer responsible for payment of all bills for service furnished until the cancellation date specified by the customer or until 30 days after the cancellation notice is received.

.2 Cancellation for Cause

The Carrier, by written notice to subscriber or applicant, may immediately cancel the application for and/or discontinue service without incurring any liability for any of the following reasons:

.1 Non-payment of any sum due to the Carrier for service for more than 30 days beyond the date of rendition of the bill for bill for such service; or

.2 A violation of or failure to comply with any regulation governing the furnishing of service; or

.3 An order of a court or other government authority having jurisdiction which prohibits the Carrier from furnishing service.

.11 Adjustments For Taxes and Fees

When any municipality, or other political subdivision or local agency of government imposes upon and collects from the Carrier a gross receipts tax, occupation tax, license tax, permit fee, franchise fee or any such other tax, such taxes and fees shall, insofar as practicable, be billed pro rata to the Carrier's customers receiving service within the territorial limits of such municipality, other political subdivision or local agency of government.

3. SERVICE AND RATE DESCRIPTION

.1 Basic Voice Service

Basic Voice Service is available for use by residential customers 24 hours a day, seven days a week. Basic Voice Service offers customers flat rated, non-distance sensitive per minute usage rate. The per minute usage rate and monthly service charge are set forth in the Rate Schedule attached to this tariff.

.2 Residential Toll Free Service

Residential Toll Free Service (RTFS) is a flat-rated, inbound calling service for residential customers which allows calls to be terminated over the subscriber's residential phone line. The RTFS subscriber does not need to change phone numbers or add additional lines. Residential Toll Free Service is available to customers who have selected Telmex/Sprint as their primary interexchange carrier. No installation charge is required. Rates and charges are set forth in the Rate Schedule attached to this tariff.

4. RATES

All calls are billed in one minute increments. Fractional minutes are rounded up to the next minute. The following per-minute usage rate and charges apply.

.1 Basic Voice Service

Per-Minute Usage Rate $.20

.2 Residential Toll Free Service

Per-Minute Usage Rate $.20

3. Monthly Service Charge

There will be a $3.00 per month recurring charge per customer.

5. PROMOTIONAL OFFERINGS

The Carrier may from time to time engage in special promotional service offerings designed to attract new customers or to increase existing customer's awareness of a particular tariff offering. These offerings may be limited to certain dates, times and/or locations.
These promotions will be approved by the FPSC with specific starting and ending dates and under no circumstances run for longer than 90 days in any 12 month period.

RECEIVED
FEB 18 1998
FPSC - Records/Reporting

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center ● 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

FEBRUARY 26, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF COMMUNICATIONS (ISLER)
DIVISION OF AUDITING & FINANCIAL ANALYSIS (P. LESTER)
DIVISION OF LEGAL SERVICES (PEÑA)

RE: REQUEST FOR APPROVAL TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE IN FLORIDA

AGENDA: MARCH 10, 1998 - CONSENT AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

Please place the following interexchange telecommunications service docket on the consent agenda for approval:

1. **Docket No.** 971319-TI; Application for certificate to provide interexchange telecommunications service by Telmex/Sprint Communications, L.L.C.

Florida Public Service Commission Certificate No. 5346

DOCUMENT NUMBER-DATE
02312 FEB 18 98
FPSC-RECORDS/REPORTING