

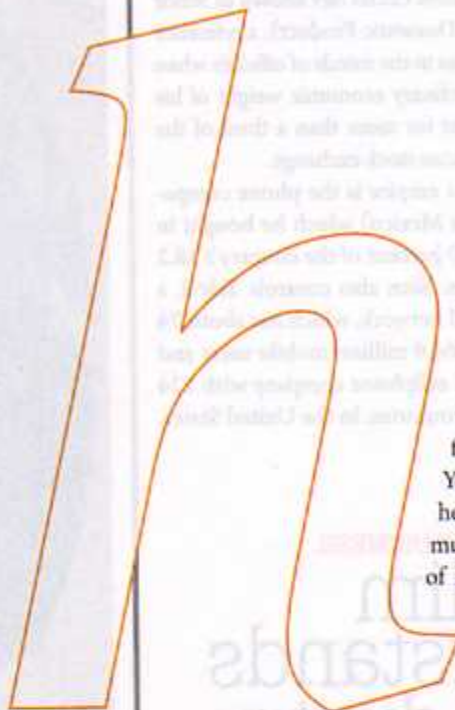
Mexico's TELEPHONE



by david adams.

IS THE
BUSINESS
EMPIRE OF
ONE OF THE
RICHEST
MEN IN
THE WORLD
ABOUT TO
LOSE ITS
GLOSS?

TITAN



He's tied with Bill Gates for the title of the richest man on the planet. Carlos Slim Helú is perhaps the most famous—or infamous—man in Mexico. Yet few Americans have heard of him, let alone have much idea about the nature of his corporate empire, or how he created it.

For a portrait of this portly, 70-year-old son of Lebanese immigrants, there are a variety of popular opinions to draw from. On the one hand he's the brilliant businessman and telephone tycoon poised to eclipse Gates on the *Forbes* list of the world's most wealthy. Others see him as an opportunistic robber baron and crass monopolist who made his fortune thanks to political favors and weak government regulation. Lately, he has re-tooled his image, highlighting his humble immigrant roots and supposedly modest lifestyle, while also posing as a philanthropist alongside celebrities, from Bill Clinton to Colombian pop singer Shakira and Nobel Peace Prize winner Mohammad Yunus.

Measuring the reach of his business interests is no easy task. He is said to own as many as 220 companies. Despite his reputation for micro-managing it's likely even he doesn't know the full extent of his holdings. But today, the very size of his empire may have become his biggest problem, placing his operations under an intense glare. In a country where 40 percent of the people live in poverty and thousands emigrate each year to look for better-paying jobs in the U.S., Slim has become a symbol of how economic growth is being held back by a lack of competition.

"He's proven himself to be one the smartest businessmen in Mexico's entire history," says Eduardo García, editor of Mexican magazine *Sentido Común*, which monitors Slim's fortune and regularly updates the public. "It's just that he has too much power for the good of the country."

To Slim's 218,000 employees he is known simply as *El ingeniero*, an old-fashioned Latin American title meaning, literally, "engineer," commonly used to show

respect for the elite of university graduates. To others he is Don Carlos. In government circles he's known as Señor PIB, or Mr. GDP (Gross Domestic Product), a reference to the awe his name arouses in the minds of officials when they consider the extraordinary economic weight of his companies, which account for more than a third of the capitalization on the Mexican stock exchange.

The foundation of his empire is the phone company Telmex (Teléfonos de Mexico) which he bought in 1990, and which owns 80 percent of the country's 18.2 million fixed phone lines. Slim also controls Telcel, a unit of his América Móvil network, which has about 74 percent of the country's 64.6 million mobile users and is the world's fifth-largest cellphone company with 124 million customers in 15 countries. In the United States,

SMART BUSINESS.

Slim
understands
the industry
better than the
regulators—one of the
trademarks of
his success.

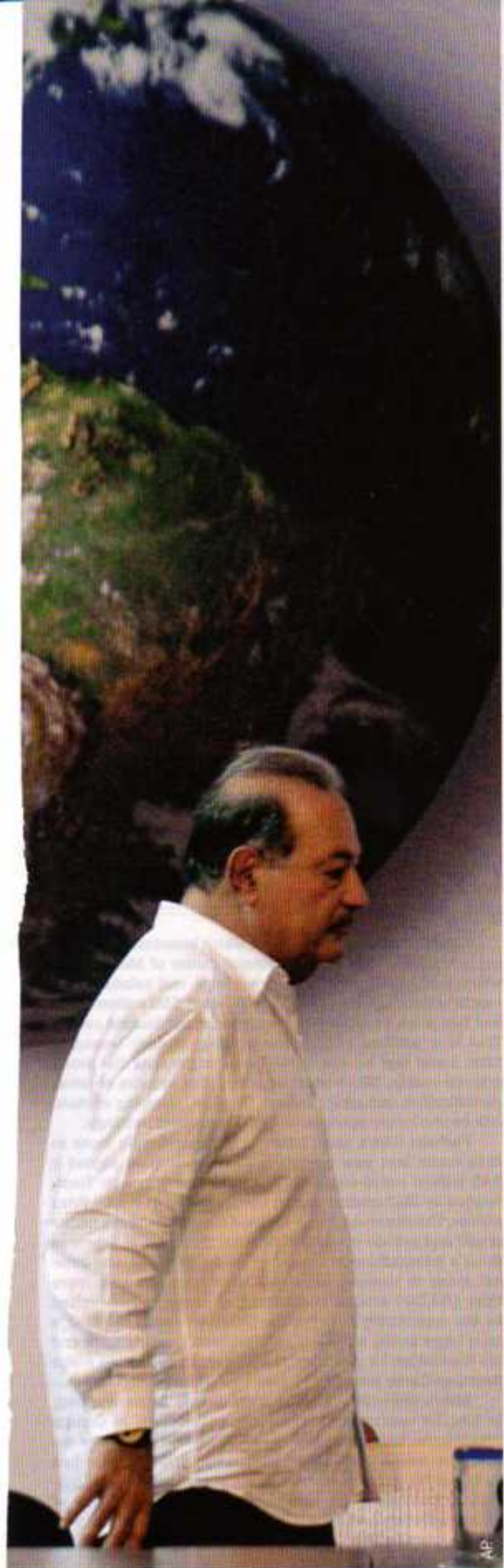
he controls Tracfone, a pre-paid cellphone company that claims 12.4 million customers.

His major Mexican holdings, Inbursa Financial Group and the Carso Group, cover a mind-boggling range of services from banking to construction, hotels, mining, oil drilling, highways, healthcare, a low-cost airline, a cigarette manufacturer, and much valuable real estate in the heart of Mexico City's colonial downtown.

Beyond Mexico, his telecom investments stretch the length and breadth of the Americas. The Slim family is also Saks' biggest shareholder, with 17.4 percent of the U.S. company's shares. He also held a major stake in now-bankrupt Circuit City, as well as the telecom giant Global Crossing, and a 1 percent stake in Citigroup.

In 2008, Slim purchased stock that gave him a 6.9 percent ownership stake in The New York Times Company. Last year he helped bail out the struggling news-





paper with a \$250 million loan, giving Slim 15.9 million shares and making him the company's largest creditor, as well as one of its largest stockholders.

As his wealth rises and he attracts more international attention, Slim has poured billions into a previously neglected aspect of his businesses: corporate social responsibility. "There is tremendous social pressure to give back to the country that has given him so much," Garcia says.

In 2007 he announced plans to pump one-fifth of his fortune into philanthropy. Various charities, mostly cultural, educational or health-oriented, have benefited. He created his own healthcare foundation while also pouring money into the restoration and redevelopment of the old colonial center of Mexico City, as well as making large donations to the Clinton Global Initiative and to the Alas Foundation, created by Shakira. That has won him favorable press in many quarters.

However, his critics remain unconvinced. "It all looks like a deliberate PR strategy to bolster his public image," says Denise Dresser, a leading political scientist at the prestigious Autonomous Mexican Institute of Technology (ITAM). Slim barely hides his disdain for charity, she notes, highlighting comments he made to *The New Yorker* magazine last year. "I don't believe in charities too much," he was quoted as saying. "They can make you popular... but you don't solve any problems."

Slim has also publicly scoffed at Bill Gates and Warren Buffett for "going around like Santa Claus" trying to cure society's ills. "Poverty isn't solved with donations," he said at the unveiling of his own \$450 million foundation for health research and care. Building businesses and creating jobs is his preferred solution.

"One must take him at his word," says Dresser. "His incursion into the world of philanthropy pretty much espouses that view."

But, others say Slim's philanthropy owes at least part of its origins to the 1999 death of his wife, Soumaya Domit de Slim from kidney disease. He quietly began funding hospitals and a kidney transplant center. That evolved into educational scholarships through the Telmex Foundation. "I think Mr Slim's philanthropy is in large part a personal decision that has opened his eyes to new horizons," says Jorge Villalobos, 59, director of the Mexican Center for Philanthropy.

He hopes that Slim's example could help build a stronger culture of giving in Mexico, which has a huge equality gap, yet only a fraction of the charities in the U.S. For centuries Mexicans have looked to the Roman Catholic Church as the fount of all charity, and civil society has only emerged more recently as an alternative.

Mexico also has no estate tax, so there is no incentive to divest large fortunes to charity, making Slim's generosity all the more notable. "In the end Mr. Slim's

SLIM'S EMPIRE

[ALIAS]

El Ingeniero, Don Carlos. El Señor Pib (Mr. Gdp)

[NUMBER OF EMPLOYEES]

218,000

[TELMEX]

Owens 80 percent of fixed phone lines. Telmex also has an important share of the broadband market with 5 million accounts.

[AMÉRICA MÓVIL]

World's fifth-largest cellphone company with 124 million customers in 15 countries.

[TELCEL]

Mexico unit of América Móvil, which is also controlled by Slim; had 72 percent of the wireless market at the end of last year, with 56.4 million subscribers.

[INBURSA FINANCIAL GROUP]

Huge banking interest with 6.7 million clients, 134 commercial offices and 638 ATMs in Mexico.

[GRUPO CARSO]

Industrial, construction and hotel conglomerate.

[IN THE U.S.: TRACFONE]

Pre-paid cellphone company that claims 8 million customers.

[SAKS]

biggest shareholder, with 17.4 percent of the company's shares.



motives aren't what's important," said Villalobos. "What matters more is that he is putting it into practice, which enriches everyone."

To be sure, Slim's new philanthropic push comes in the wake of a number of recent reports that pointed an embarrassing finger at the lack of competition and anti-trust legislation in Mexico. Slim defends himself saying

his companies are no different than other big corporations such as Microsoft, Walmart, and Boeing who also dominate competitors in their markets.

But analysts roll their eyes at the very suggestion that there is any similarity between the competitive business climate in Mexico and the U.S. They point to the 1990 sale of Telmex, a former state monopoly. Critics say Slim ac-

HOW WILL SLIM'S LEGACY BE PERCEIVED?

He's a billionaire, but he famously likes to say he doesn't believe in charity. Even so, Carlos Slim's generosity has been growing a lot lately. His charitable foundations now have a whopping \$10 billion in endowments. But critics still question the sincerity of his giving. Many of the charities he has funded are entities he created and controls, or has a direct interest in.

"Even though he gives more than anyone else in Mexico, many argue he doesn't 'get' philanthropy in the way other top global billionaires do, while others claim he is on his way," says Alexis Rovzar, a Mexican attorney in New York who does pro-bono work and sits on the board of several non-profit organizations. "It's not only about writing checks. It's more about setting example and devoting substantial time, which is his most precious asset." It's also about the importance of giving back, says Rovzar. "In Mexico the competition still is between who accumulates more, while North of the border, it's who gives more back."

For example, Slim's Inbursa Financial Group announced the establishment of Inbursa Foundation in September with a \$75 million endowment, to jointly operate with La Caixa of Barcelona. But how much is this a philanthropic marriage, or simply a smart business partnership?

At the signing, Isidro Fainé, president of the board of La Caixa, congratulated Slim and his sons because of their "outstanding philanthropic and social work initiatives, and their entrepreneurial brightness and social commitment." But he made little secret of the business benefit of the alliance. "Our partnership is neither mere chance, nor occasional interest," he said. "We stand here to permanently collaborate with this great country in the financial, the entrepreneurial, and the social fields."

Similar questions swirl around Slim's investment in cleaning up and restoring the old colonial center of Mexico City, which many see as tied to his own large real estate investments in the area. He has reportedly spent \$50 million in the last two years buying up 46 properties in the historic center. That is in addition to 12 other buildings already owned by Slim. Some fear his charitable touch might spoil the area's colonial charm. Slim's redevelopment plan smacks of urban gentrification, including cinemas, theaters, shopping centers, offices and luxury apartments in the renovated buildings.

Perhaps Slim's most interesting philanthropic move to date came last year when the Slim Foundation signed a \$45 million micro-credit project with the Grameen Trust, headed by Muhammad Yunus, the 2006 Nobel Peace Prize winner. The Grameen-Carso alliance aims to increase micro-credit and reduce poverty in Mexico through the Grameen Bank's internationally renowned model of small, low-interest loans to women. Grameen-Carso hopes to give more than 100,000 credits in its first five years. "I am excited by the opportunity to bring the Grameen model to Mexico on a large scale, and I am very pleased that Mr. Slim and his foundation for providing the resources needed to make Grameen-Carso a reality," Yunus said at the inauguration.

Slim's philanthropic campaign seems to be working. In June he was awarded the President's Medal at George Washington University, where he won lavish praise for his business and humanitarian leadership. "Carlos Slim has matched his extraordinary success in business with a passionate commitment to improve the standard of living of future societies," said GWU President Steven Knapp. It was quite a coup for Slim, putting his name alongside the likes



GIVING BACK

Slim has created numerous philanthropic entities. The Carlos Slim Foundation was created in 1986 with the mission "to establish a range of non-lucrative projects in education, health, justice and personal and community development," its website says. The foundation also supports sports and culture, and provides aid to hospitals, orphanages and disadvantaged children. Among its projects is the Soumaya Museum, named after Slim's late wife, which has 64,000 artworks, including the second largest collection of works by French sculptor Auguste Rodin.

The Carlos Institute of Health was created by the Slim Foundation in 2007 to promote research into priority health issues in Latin America, with a focus on maternal and child health as well as noncommunicable diseases. It also promotes health through the correct use of ecological stoves in rural areas; health applications for the Internet; the use of genomics in the study of diabetes, cancer and chronic kidney disease.

The Carlos Slim Foundation and TELMEX also have donated 100,000 computers to more than 1,400 public schools in Mexico. Slim created the Historical Center of Mexico City Foundation to "restore, rescue and revitalize" the capital's city center.

quired the prized franchise under dubious circumstances. Since then he has grown Telmex using what many consider to be unfair trading practices, with the protection of the Mexican government, effectively turning what was once the state's monopoly into a private one.

Last year the World Bank published a book, *No Growth without Equity?*, warning that special interest

groups in Mexico enjoyed a quasi-monopoly over key economic areas such as telecommunications and the oil and gas industry, and were an obstacle to creating a more efficient and productive economy. Furthermore, those groups had deliberately frustrated attempts to introduce competition, the book claimed, by exercising undue influence over Mexico's weak government institutions.



of former Russian President Mikhail Gorbachev, the former Primer Minister of Israel, Shimon Peres, and former President of the Czech Republic, Václav Havel.

When enumerating Slim's virtues, Knapp got even more effusive, calling him an "ideal human being: ethical, willful and spiritual." Guillermo Gutiérrez, professor and Head of the Lung Health Division at GWU Hospital and Slim's personal physician, was equally gushing. "We are in the presence of a giant, as were the Forbes, the Rockefellers or the Carnegies," he said. "I cannot think of anybody else who deserves this medal more than Carlos Slim."

Understandably pleased with himself, Slim hailed "the importance of George Washington University" noting that this judgement was based not just on academic excellence, "but on its influential position in the heart of the United States." GWU is located only three blocks from the White House.

Slim recently committed at least \$100 million to the Clinton Glustra Sustainable Growth Initiative. He has already directed \$50 million to education projects in Mexico, Peru and Colombia through the Clinton Global Initiative. In Janu-

ary he also announced a \$65 million pledge to the Carlos Slim Institute of Health to fund a genomic medicine project in partnership with real estate magnate Eli Broad and MIT. The initiative will help train Mexican genomic medicine experts and is focused on diabetes, a growing problem in Mexico. "This is going to create a very valuable platform of knowledge in order to create personalized, preventive medical treatments," said Dr. Roberto Tapia, director of the Carlos Slim Institute of Health. "There are genomic studies in other parts of the world but we don't know if they apply to us, because of our ethnic mix." Results of the research will be made available to Mexico's public health system for free.

Tapia has a hard time understanding those who question Slim's funding of health projects, which also include pre-natal care, health education and technology innovation. "It's a shame because he's benefiting an enormous number of people."

Even so, Slim's generosity pales by comparison to Warren Buffett, the billionaire investor and founder of Berkshire Hathaway. In 2006 Buffett signed away 85 percent of his fortune to charity, including a whopping \$31 billion to fund the Bill and Melinda Gates Foundation's work in fighting infectious diseases and reforming education.

In fact, by not doing more, Slim could be missing an important opportunity to forge his legacy as something more than a very successful businessman, says Rovzar, who, together with his wife, founded Procura, a training center for non-profit professionals in Mexico.

"How does Carlos Slim wish to be remembered?" Rovzar asks. "Many people may remember him simply as a savvy investor, who competed forcefully and took advantage of opportunities in a non-leveled playing field."

SLIM'S STORY

Slim likes to tell the story of how his business career began on the school playground, trading baseball cards. He bought cards at a candy stand in downtown Mexico City, and kept records of his trades in a ledger, he said in an interview with *The Arizona Republic*.

By age 12, he was trading stocks and bonds, and by the time he turned 30 he owned a soft-drink company and a stock brokerage. "Buying well is a discipline," he told reporter Chris Hawley in a rare 2008 interview, noting that trading cards was "the first type of business negotiation you do as a child... There were always doubles, so you traded them with the other boys, the difficult ones to get and the easy ones. Some boys had a few and some had a lot."

The not-so-secret formula for his success has been his knack of exploiting economic lows to buy struggling businesses, then teaming them up with his existing companies to elbow out the competition. One of the corporate principles at his Carso Group holding company is, "Money that leaves the company evaporates."

Slim's rise began during the Mexican financial crisis in the 1980s, when he invested cheaply in Sanborn's chain of restaurants and department stores, as well as a tire company, hotels and paper mills. When the government of Carlos Salinas began auctioning off state-owned enterprises, Slim jumped at the chance to acquire Telmex, the state-run telephone company. Slim and his partners, France Telecom and Southwestern Bell, beat two other groups of bidders. The consortium paid \$1.76 billion for a 20 percent controlling stake.

Critics allege Slim was allowed to get Telmex cheap thanks to his political influence, including being a major campaign contributor to Mexico's ruling party, the PRI. It was certainly a sweet deal for Slim, and he reportedly remained a faithful contributor to the PRI's coffers in the years to come.

A year after Slim bought Telmex he was allowed to raise phone rates by 170 percent. (A previous proposal to allow rates to go up 247 percent caused such an outcry that a lower figure was negotiated.) Slim was one of an elite group of Mexican businessmen who attended a secret banquet in 1993 and pledged to contribute an average of \$25 million apiece to the PRI, according to Andres Oppenheimer in his 1997 book, *Bordering on Chaos*.

The Mexican government has always contended Slim won the Telmex sale because his was the best offer. For instance, AT&T turned down an offer to take 10 percent of Telmex for only \$700 million. That stake today would be worth \$14 billion.

It certainly worked out for Slim. In the two decades since acquiring Telmex, he has watched its market value soar from \$7.4 billion to \$41 billion.



[Carlos Slim's son, also named Carlos, is president of the board at Telmex.]



[Another son, Marco Antonio, is president of the board at Inbursa Financial Group.]

The book closely examined a series of regulatory decisions since Telmex was privatized in 1990. Regulators allowed Telmex to keep prices high and protected it from competitors, wrote Rafael del Villar, a former official in the communications and transport ministry who recently was named to Mexico's Federal Telecommunications Commission (COFETEL). "Telmex has exercised its substantial market power unchecked," he concluded.

Roger G. Noll, an economics professor at Stanford University, also argued that Mexico's telecommunications industry has been held back as a result, pointing out that fewer Mexicans have access to fixed lines or broadband Internet access than residents in similar countries. "Competition is hampered ... by limitations to the authority of the primary regulator, COFETEL, by an opaque, secretive, and cumbersome regulatory process; and by an inadequate oversight system," he wrote.

The Organization for Economic Cooperation and Development (OECD) said in March that Mexico should implement network unbundling rules and lift restrictions on foreign investment to boost competition in its telecommunications industry, to allow more competition with Telmex. "There is a lack of competition, particularly in broadband, here in Mexico. And because of that prices are going to be higher and speeds are going to be lower," OECD economist Taylor Reynolds said at a Mexico City press conference.

The key to Telmex's success are the high interconnection fees the company charges to calls entering Mexico, as well as calls within the country that are made to its clients from competing companies. But Telmex argues that its rates are cost-based and that its own studies show Mexico's telecommunications fees are similar to those of other countries.

But times may be changing. The government of President Felipe Calderón has shown greater willingness than its predecessors to foster more competition in telecommunications. COFETEL announced plans in January to auction new wireless 1.9GHz and 1.7GHz bands for fixed and mobile telecommunications services, as well as consolidate the number of local service areas with a view to lowering domestic long-distance fees.

The move is expected to bring new competition to the mobile market. Also digital cable operators in Mexico, such as Cablevision, were recently allowed to operate telephone services, though they still have only a small share of the market.

COFETEL recently obliged Telmex to start connecting to Cablevision and was not allowed to set any preconditions for connection. COFETEL said in late October it will start two new investigations into Telmex's dominance, only the second time in a decade that the federal watchdog will probe the company.



NEW FOCUS.

As his wealth rises and he attracts more international attention, Slim has poured billions into a previously neglected aspect of his businesses: corporate social responsibility.

PENNY WISE

Slim has shot up the *Forbes* world ranking of billionaires in last five years.

He could be poised to overtake Bill Gates, according to the Mexican magazine *Sentido Común*, which monitors and regularly updates his fortune.

Boosted by a **43.5 PERCENT** rise in the Mexican Stock Market, Slim's wealth topped a staggering **\$59 BILLION** at the end of 2009, marking a growth of **\$15.3 BILLION** over 2008.

At the same time, *Sentido Común* calculated that Gates' wealth grew less, going up **18.5 PERCENT** in the last third to about **\$59 BILLION**.

[THE WORLD'S TOP THREE BILLIONAIRES]

CARLOS SLIM:
\$59 billion

BILL GATES:
\$59 billion.

WARREN BUFFETT:
\$37 billion

SOURCE:
SENTIDO COMÚN.

way he can offer the same service as his competitors, but he's undermining his own tremendous network," he adds, pointing out that Telmex's regulatory problems prevented it from offering its own TV service direct to the company's 18 million fixed line clients.

A lot is at stake. If Telmex gets its own cable services the network would enjoy such market penetration that it would likely gobble up exclusive rights to major channels, such as Discovery en Español and HBO en Español. Once again Slim's monopoly would survive in an even more expanded form. "It's all about managed competition," says one former telecom executive. "That's the key. That's what he wants, because that way he can control everything."

Analysts wonder if COFETEL has the means to stand up to Slim. The ruling National Action Party (PAN) is facing tough elections and likely won't risk losing Slim's economic support.

Slim also understands the industry better than the regulators—one of the trademarks of his success. "There is no capacity in COFETEL or the Secretary of Communications and Transport, as they are not experts in the sector," says one analyst. "The main problem is that the state has not decided what kind of telecom system it wants in the country. Slim never loses an opportunity to take advantage. That's how he stays ahead."

ADDITIONAL REPORTING BY ANDRÉS PIEDRAGIL GÁLVEZ

Slim's ambitions now sit at a crossroads. Telmex is facing tougher competition at home and lost ground on the stock exchange last year. América Móvil is also in a hemisphere-wide battle with Spain's Telefónica.

Telmex is now seeking a license to operate TV services, giving it the keys to what is known in the telecom business as "the triple play"—telephone, TV and Internet. Without it, Telmex cannot compete with Televisa (owners of *PODER* magazine) in the fast-growing new media field of cellphone technology.

Slim clearly understands the direction digital technology is headed. "It's the nervous system of the new society," Slim told Maria Bartiromo in a recent interview for CNBC, noting that cellphones now had 85 penetration of Latin America, while also predicting that two-thirds of Latin America would have broadband coverage in the next five years.

Mexican regulators are supposedly digging in their heels this time, in their effort to get Slim to lower his connectivity fees to internationally acceptable rates.

"[Regulators] have a great card up their sleeve," says Garcia at *Sentido Común*. "As long as [Slim] is misbehaving they are not going to give it to him. They are cracking down on him but he is still fighting every aspect of regulation."

Garcia thinks Slim is making a mistake. Telmex recently teamed up with Dish Network to offer a TV service that can be charged to a telephone account. "That