FEDERAL TELECOMMUNICATIONS INSTITUTE

Press Release
Number 09/2013

Mexico City, November 25th, 2013

THE TELECOMMUNICATIONS SECTOR GREW 6.8 PERCENT DURING THE 2013 FOURTH QUARTER

- **The connections to mobile broadband increased 51.2 percent and reached 15.2 million**
- **Mobile telephony prices were reduced by 10.4 percent**
- **Mobile telephony increased by 551,275 subscriptions during the second quarter**
- **Restricted television service reached a total of 14.6 million subscriptions, impelled mainly by the growth of 17.8 and 13.9 percent in the cable and satellite segments**
- **Outgoing international long distance registered an increase of 24.1 percent**

During the third quarter of 2013, the Telecommunications Sector Production Volume Index (*Índice de Producción del Sector Telecomunicaciones ,* ITEL)[1], which measures the behavior of the variations of the main variables of production of the telecommunications sector in the country, registered a growth of 6.8 percent in relation to the same quarter in 2012, figure superior to the growth of the Gross Domestic Product (GDP): 1.3 percent. It represents five times more than the economy as a whole, with which telecommunications continue to consolidate as one of the sectors that help the growth of the country.

Although it continues to decelerate in growth, with a smaller rate than the previous quarters of the present year, the growth average of the ITEL from January to September, 2013 was of 9.6 percent.

1 An explanation of the methodology used to calculate ITEL can be consulted at: http://www.cofetel.gob.mx/es_mx/Cofetel_2008/Cofe_metodologia

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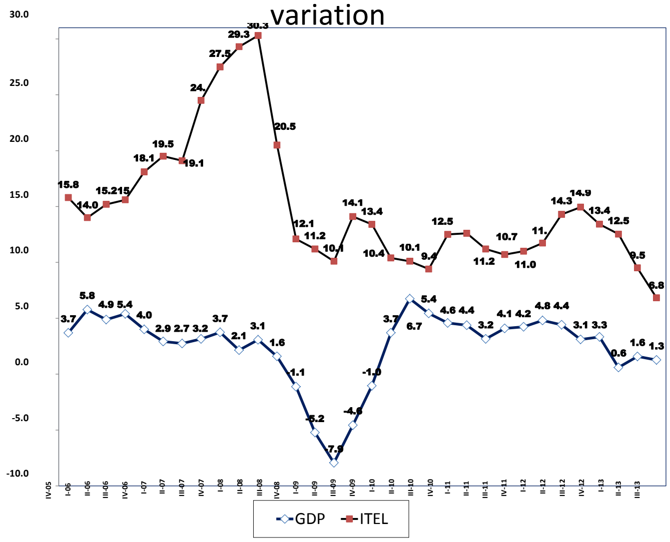
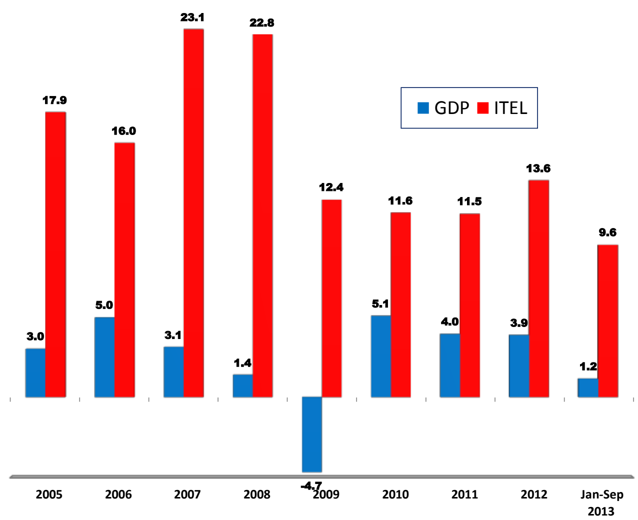
ITEL versus the GDP
- Inter annual quarterly percentage variation



ITEL versus the GDP
- Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators and INEGI

According to ITEL results, the services with better performance in the quarter were: outgoing international long distance, registering a growth of 24.1 percent; cable television, with an increase of 17.8 percent; television via satellite, with an increase of 13.9 percent; provision of satellite capacity, with an adjustment of 10.6 percent and mobile cellular telephony, with an advance of 9.5 percent, all measured in inter annual quarterly rates.

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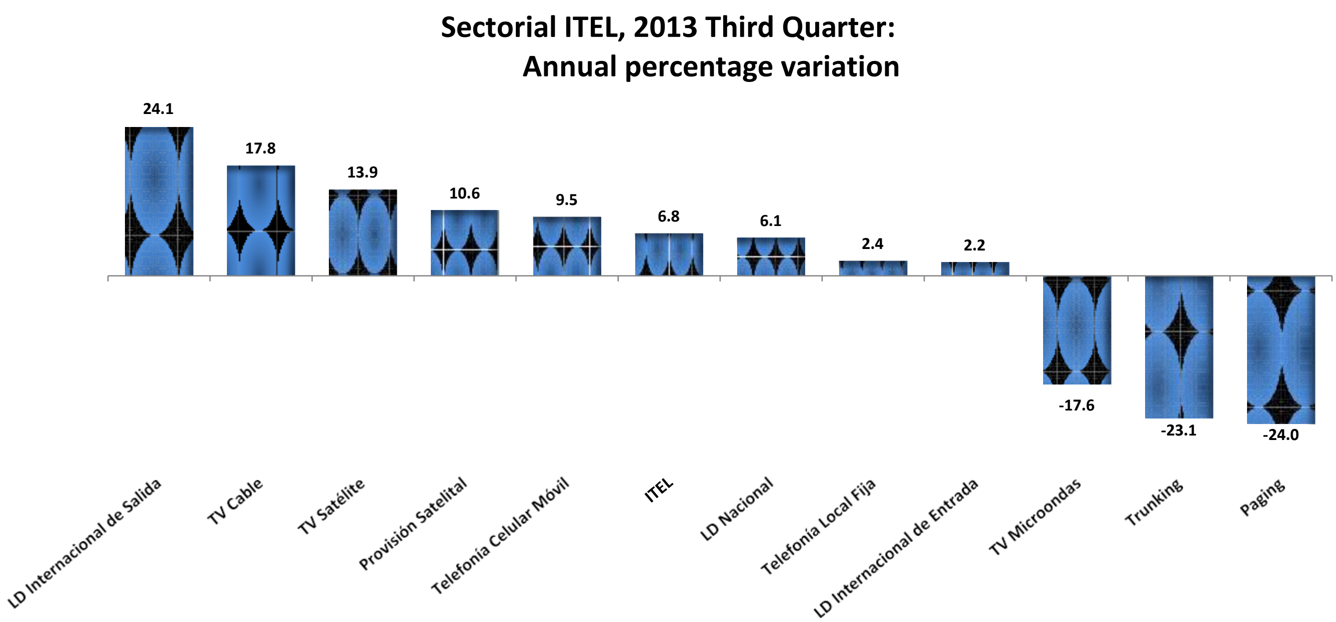

Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators

The growth of the sector in recent years has been impelled by a telecommunications market reconfiguration, which has lead to diverse forms of competition and strategic alliances between the main service providers. The continuous technological changes have made possible new and innovating forms of communication in which services of broadband and data transmission had become the main conductor toward growth through fixed or mobile accesses, as well as the increasing adoption of paid television in Mexican homes.

Due to this, users consumption patterns have been modified: the services of fixed telephony are yielding in importance to the services of mobile telephony, and data services are becoming more important than voice services.

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Restricted television

Restricted television market acquired a new dynamic resulting from the competition between operators. This has taken them to offer their clients an ampler range of plans and rates, accessible to a greater number of people with smaller incomes. Adding the segments of television via satellite, cable television and microwave television in the quarter of July-September, there is a growth of 15.4 percent with respect to the same period in 2012.

Television via satellite or DTH presented a growth in the third quarter of 2013, with a rate of 13.9 percent, which although significant, is the lowest registered from the second quarter of 2009. This segment totalized 7.5 million subscriptions at the end of the third quarter of 2013, and continues to consolidate as the main access technology of the Mexican market for paid television.

Television by cable observed a greater growth in the quarter, with a rate of 17.8 percent, and concluded the quarter with 6.9 million subscriptions. These represent 47.3 percent of the total of the subscriptions of restricted television.

The number of subscriptions of television via microwave (MMDS) services maintains its negative trend, falling by 17.6 percent at an annual rate in the third quarter of 2013 with regards to the same quarter in 2012. At the end of the period, this service had 140 thousand subscriptions; this data continues to confirm the migration of clients to cable and satellite television services, which offer greater content.

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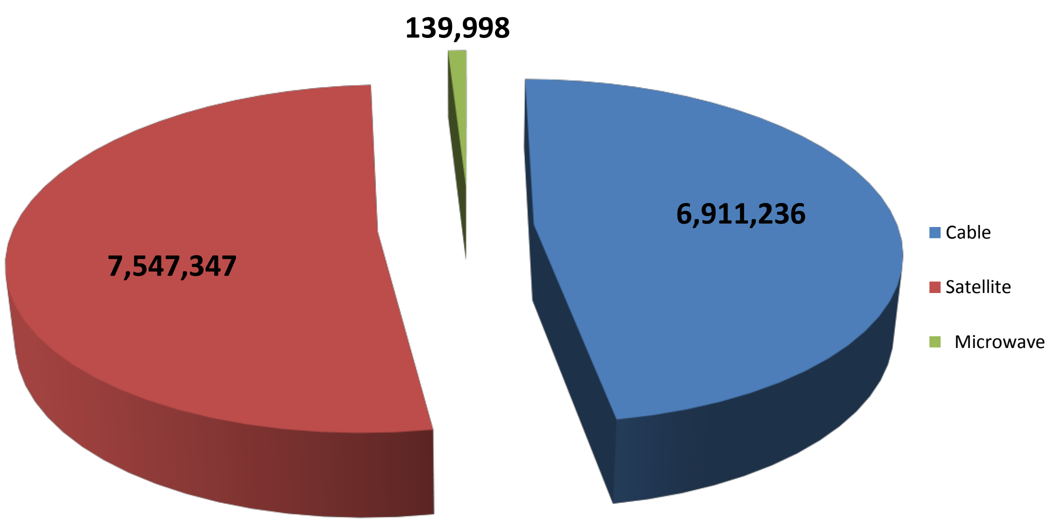
Restricted television subscriptions by type of technology



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute. With information from the operators.

The previous is consistent with the results presented by restricted television companies with stock in the Mexican Stock Exchange. Megacable reports an increase in its subscriptions of 6 percent with respect to the third quarter of 2012, whereas Cablevisión observed an increase of 9.5 percent in the same period. Restricted television companies have supported the positive growth tendency in double and triple-play offers.

For its part, SKY, which provides its services through satellite technology, reported that the number of active net subscribers increased by 232,671 on September 30th, 2013, in comparison with the same period in 2012.

Mobile telephony

Mobile telephony service registered an increase of 9.5 percent in traffic minutes within the network during the reported quarter. From June to September, 2013; 551,275 subscriptions were added, which represent a 4.3 percent increase with regards to the same period the previous year. The base totals 103.1 million subscriptions and represents 86.9 subscriptions for each 100 inhabitants.

Particularly, during the third quarter of 2013, there was an unfavorable effect due to the deceleration of the Mexican economy, in which América Móvil[2] reports a slight growth of 0.9 percent income in mobile income and zero growth in minutes by subscription; on its side, Telefónica indicates that it observed a reduction of the income of the mobile service by 2.6 percent, which is partly due to the reduction of prices and a reduction of the Average Revenue Per User (ARPU) by 9.2 percent, as a result of a strong competitive pressure and the reduction of tariffs of interconnection rates[3]. The dynamics of the mobile telephony sector, in addition to voice traffic, has in the last years rested in the diversification of services, especially in short messages and more recently in the subscriptions to mobile broadband.

[2] América Móvil, S.A.B. de C.V. Financial and operative report for the third quarter of 2013.
[3] Telefónica, Results January-September 2013.

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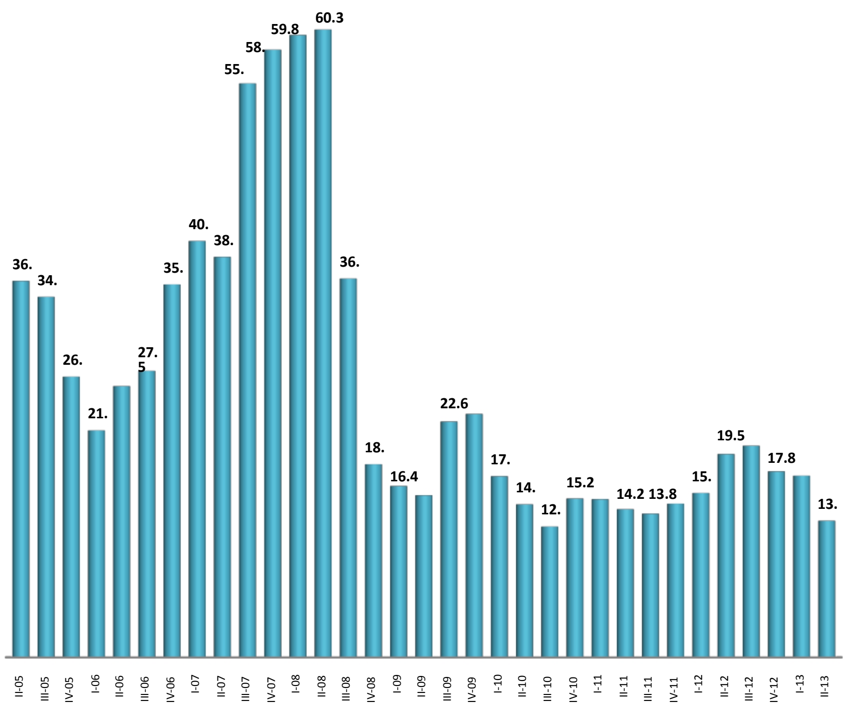
Mobile cellular telephony (in minutes): Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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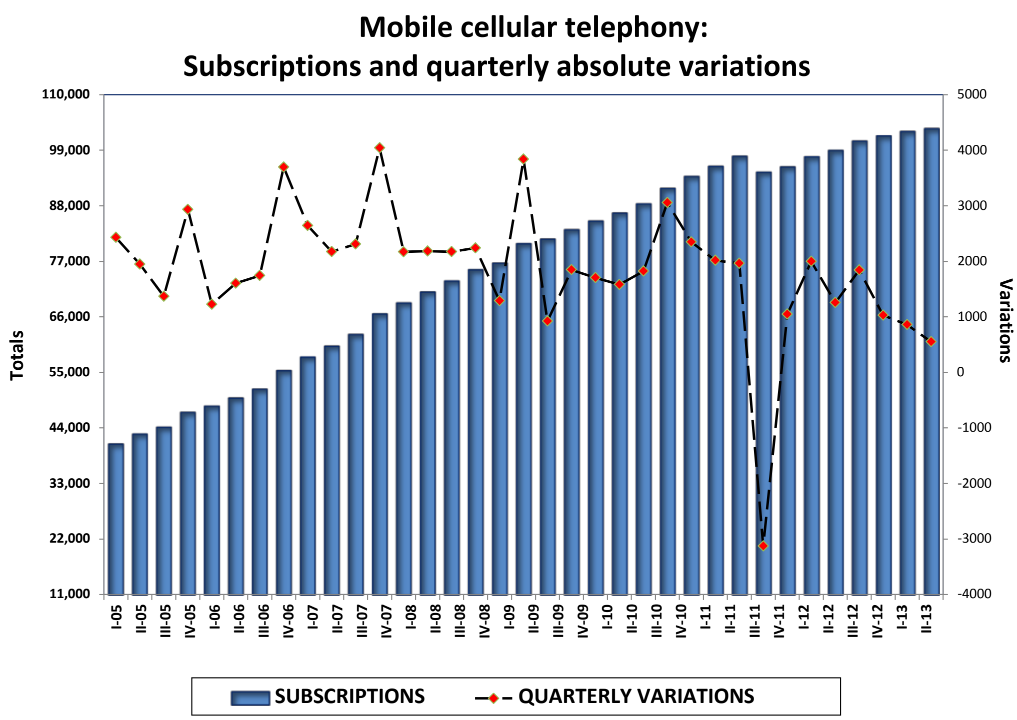

Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

With regard to the composition of the market by type of subscription, at the closing of the third quarter of 2013, 16.2 million postpay subscriptions were reported, which represent 15.7 percent of the market total, this modality continues in a constant growing. Whereas the number closed in the prepayment modality at 87.0 million subscriptions, which represents a growth of 3.9 percent with regards to the same period in 2012, and 84.3 percent of the total market. As seen in the following graph, the composition of

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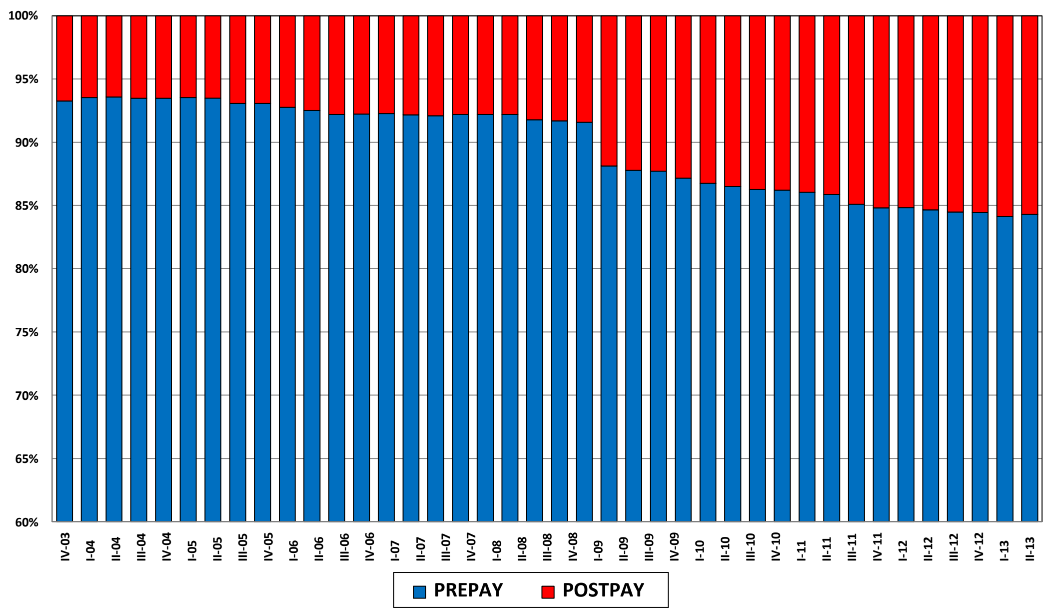
subscriptions has been changing, strengthening the percentage that uses post pay; e.g. América Móvil mentions that closed September with 72.5 million mobile subscribers, 3.0 percent over the number at the beginning of the year, after adding 499 thousand net subscriptions in the quarter, 186 thousand of which were post pay subscribers.

Mobile telephony subscriptions by contracting (post pay): Percentages

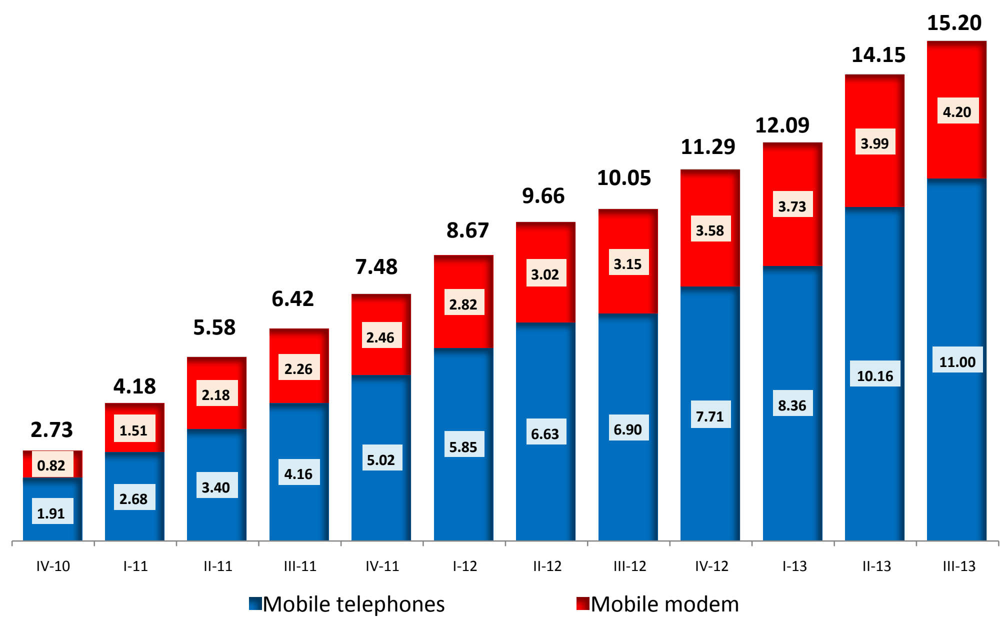


Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

Regarding the data services of mobile operators. The subscriptions of mobile broadband registered a growth rate of 51.2 percent with respect to the same period in 2012, which represents 15.2 million connections.

As indicated, mobile operators have focused their commercial strategies to the diversification of services, including mobile Internet services in their offers; Telefónica reports that the accesses of mobile broadband are the main lever for growth of mobile access and present an inter-annual increase of 36 percent, impelled by the strong growth of "smartphones", which increase 50 percent in a year-on-year period. On its side, América Móvil mentions that mobile data continues to be one of the most dynamic lines of business.

Mobile broadband subscriptions
(in millions)



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

The messages sent (SMS) by mobile cellular telephony networks decreased by
25.9 percent, with regards to the third quarter of 2012, which equals an average of 175 messages sent by subscription in the period, the lowest number registered since the fourth quarter of 2009, with a historical maximum of 252 SMS in the second quarter of 2012.

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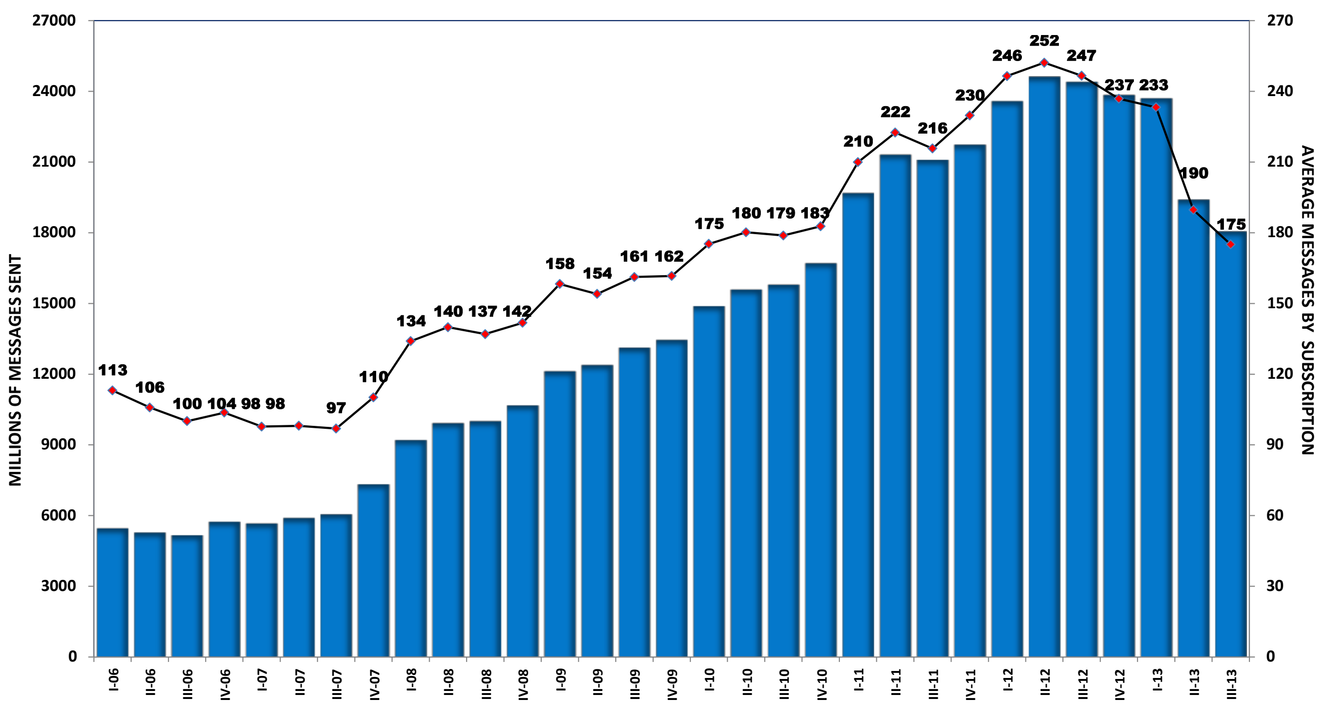
The spiraling adoption of mobile access devices, especially smartphones and tablets, has favored a growth of the demand of mobile data and the options have been multiplied where the developers can place their applications. The following graph shows that the SMS service continues to decrease, due to a substitution process for other options provided on the broadband Internet service.

Messages sent (SMS) and messages sent by subscription



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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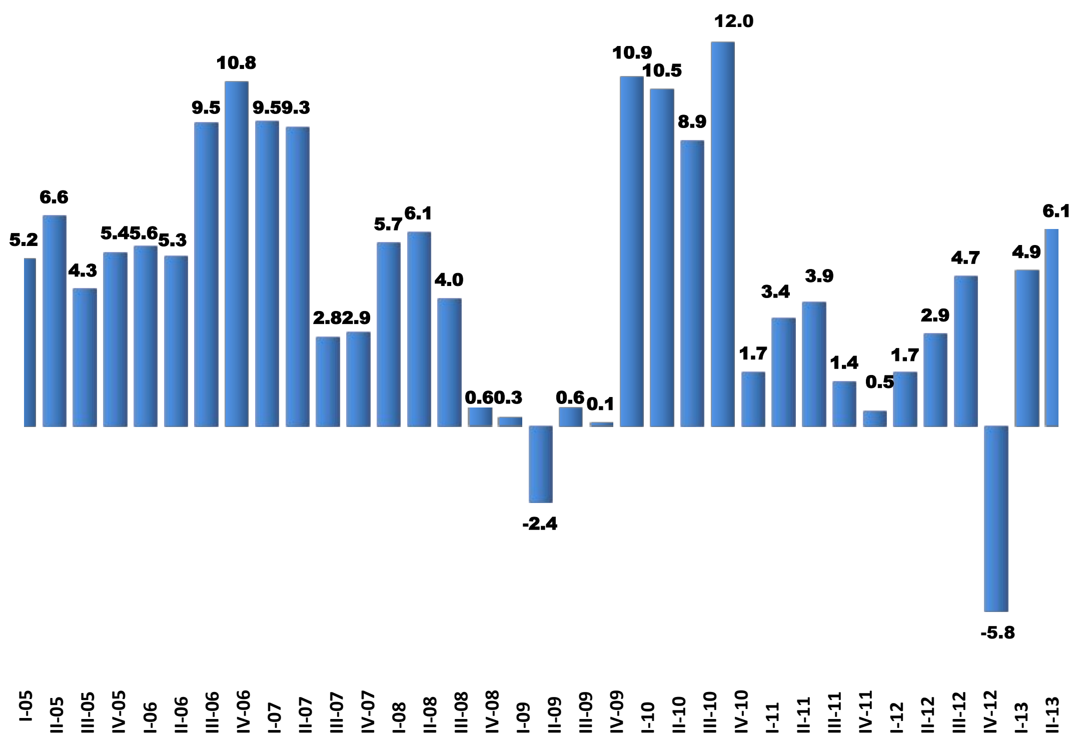
National long distance

During the reported quarter, the traffic measured in minutes grew 6.1 percent in regards to the same quarter the previous year. This registers the largest growth rate since the fourth quarter of 2010. On its side, the average long distance rate was 0.69 pesos per minute, i.e., 13.7 percent less than the data observed in the same quarter of 2012.

National long distance (in minutes): Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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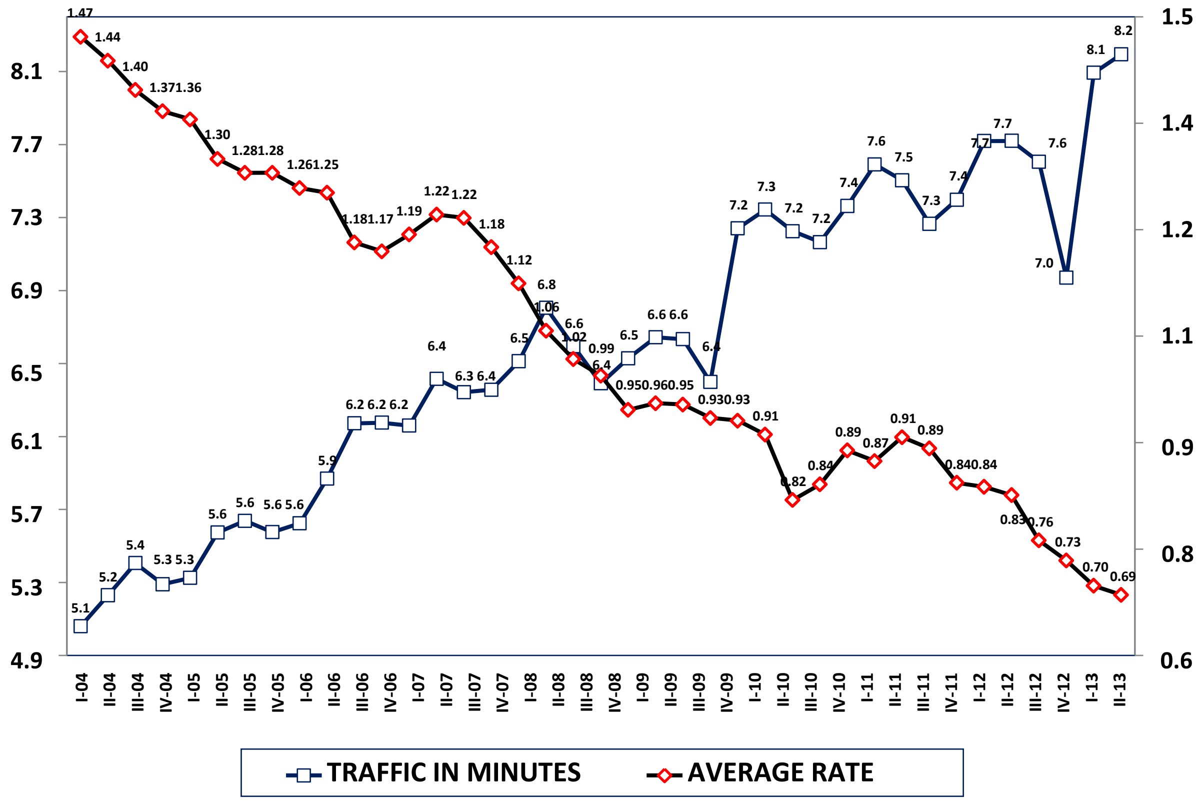
National long distance:
Traffic (billions of minutes) versus the average rate (pesos to 2013 IIIT costs)



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

International long distance

During the quarter, the traffic minutes of incoming international long distance increased by 2.2 percent with regards to the third quarter of 2012. Annual quarterly growth is the lowest since the fourth quarter of 2009.

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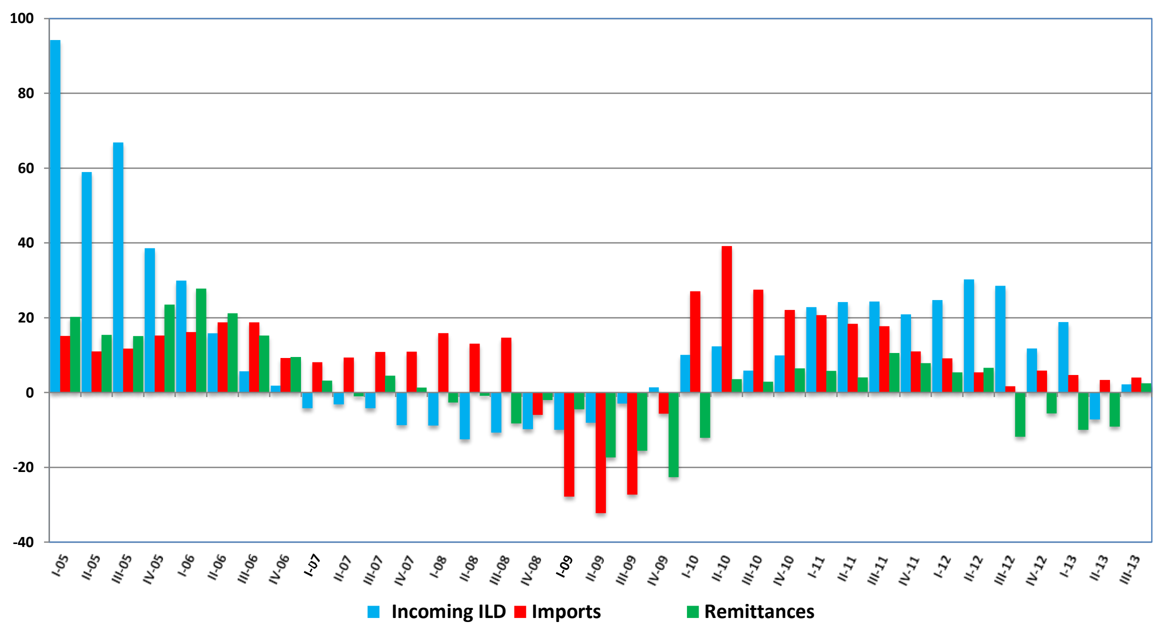
Incoming international long distance versus Imports and Remittances:
Inter-annual quarterly growth rate



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators and BANXICO.

For its part, the minutes of outgoing international long distance traffic experienced a growth of 24.1 percent in the reported quarter, compared to the same period of the previous year. The highest observed since the 2000 third quarter.

The previous graph shows that the growth of international long distance during the last quarter goes hand in hand with the level of the remittances and is less than the total imports.

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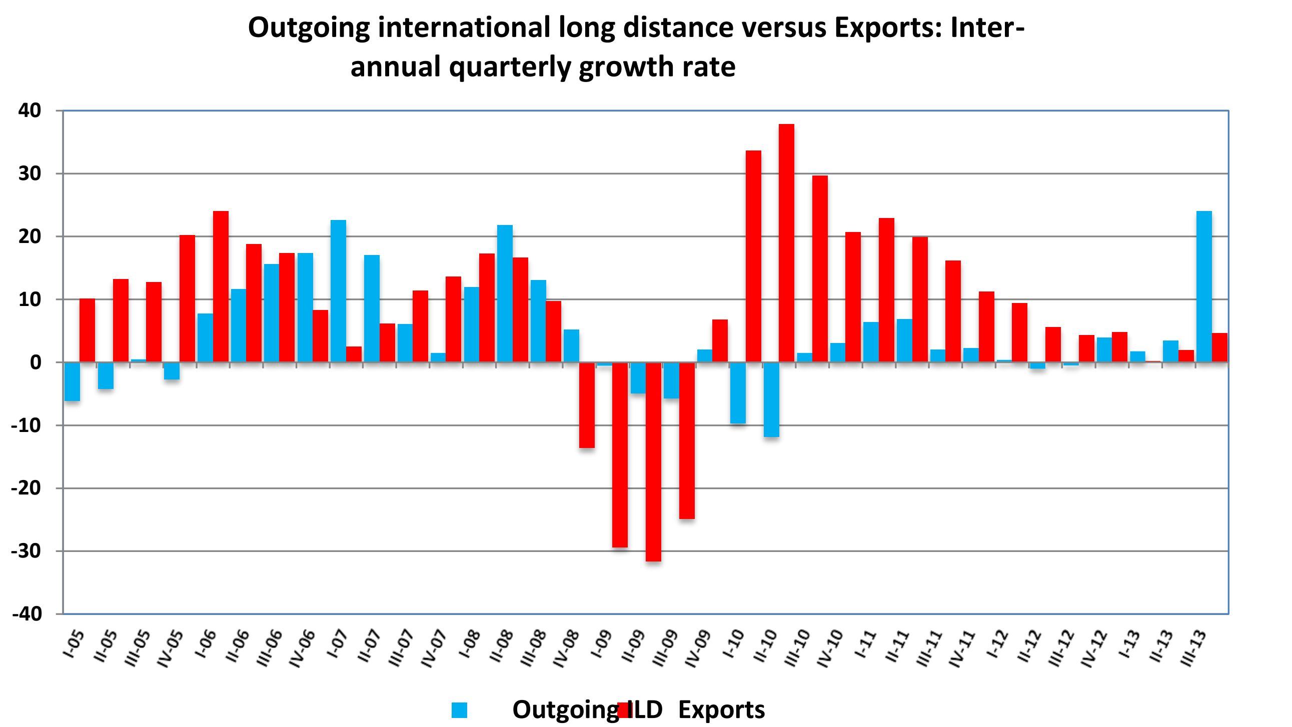

Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators and BANXICO.

The behavior of international long distance traffic in our country is related to the economic activity of the United States, given the integration of both nations, country with 98 percent of the incoming traffic and 86.1 percent of the outgoing traffic.

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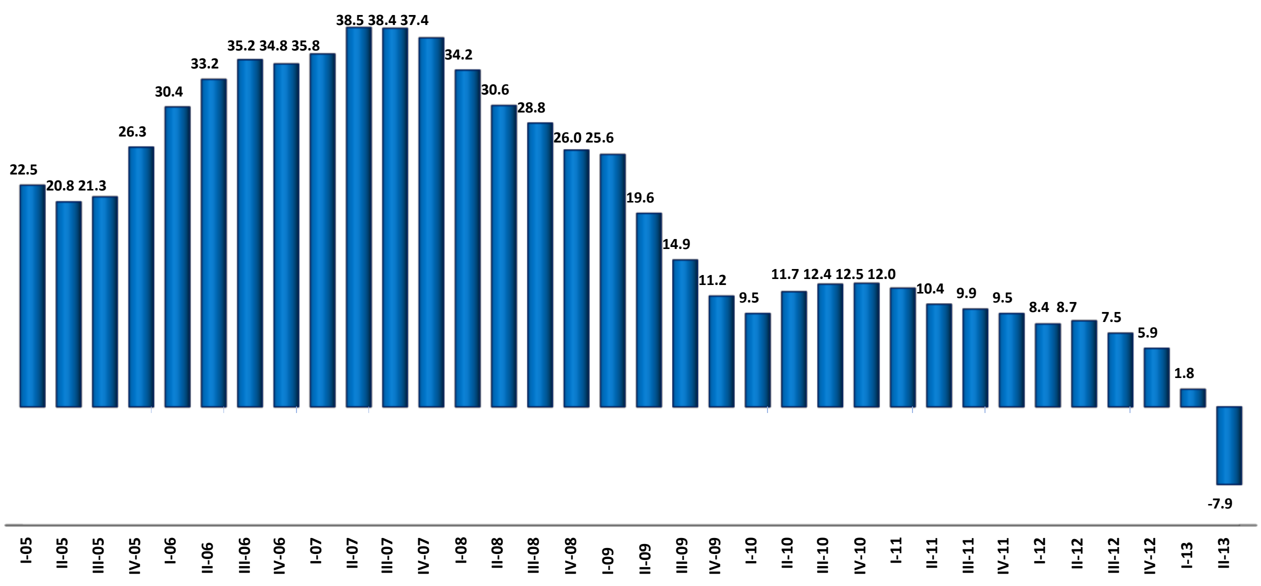
Trunking

During the third quarter of 2013, the number of users in this segment decreased by 23.1 percent with regards to the same period in 2012, which meant the lowest rate reported from the ITEL start of development.

The users of specialized radio communication services (Trunking) are migrating toward state-of-the-art mobile telephony services, with 2.8 million users in September of 2013.

Trunking (number of users):
Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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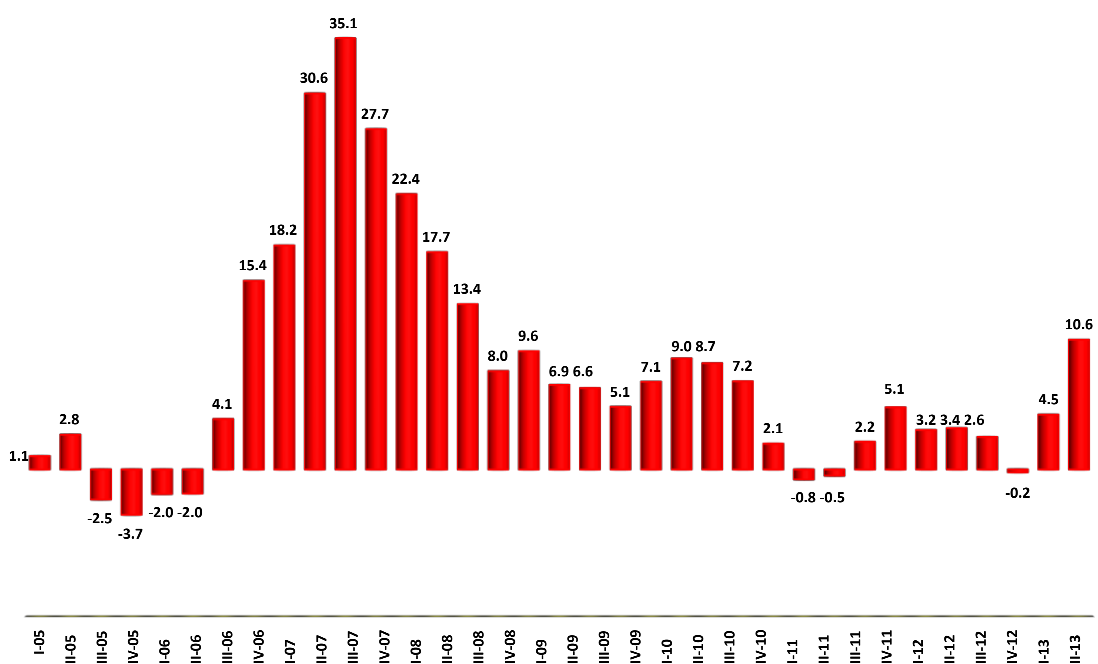
Satellite provision

This segment, measured in Megahertz, registered an increase of 10.6 percent during the third quarter of 2013, being the greatest growth from the third quarter of 2008. The increase in the growth of this service can be explained, partly, by the start-up of new satellites for public and private services, which positively affects the demand of this service, since the supply for the companies that contract the service of satellite capacity provision is increased.

Provision of satellite capacity (MHZ):
Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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Local fixed telephony

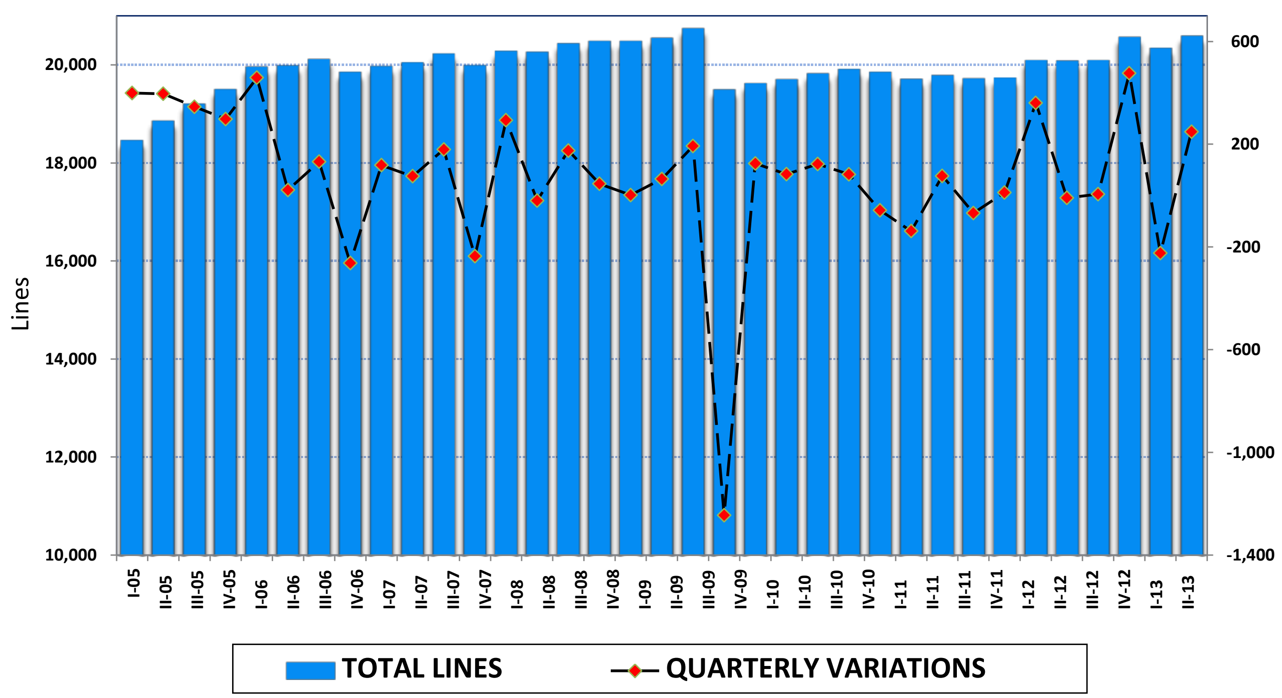
The third quarter of 2013 registered a total number of 20.6 million fixed telephone subscriptions, which represent 505 thousand lines above the same quarter in 2012, and corresponds to a yearly increase of 2.4 percent quarterly in that period. As reported, the tendency of this service to rise comes from the fixed telephony alternative suppliers and from the cable television operators who incorporate the telephony service to their commercial offers. In this sense, América Móvil reports a decrease of 1.1 percent in the amount of fixed lines in relation to December of 2012; whereas Maxcom reports that related to the third quarter of 2012 their voice clients have grown 3.0 percent, and Cablevisión registers an increase of 29.5 percent in its telephony users.

With these modifications in the fixed telephony market, the density of this service in Mexico in the third quarter of 2013 was 17.4 fixed telephone subscriptions for each 100 inhabitants.

In fixed local telephony segment we observe a tendency toward smaller growth rates in the amount of lines, as well as two tendencies. On the one hand, a disposition in the market exists towards a decreasing use in homes of the use of fixed voice lines, as a result of a greater preference for mobile telephony services; on the other hand, one of the strategies followed by the fixed local telephone operators is to maintain the generation of income with package services. In this sense, it is possible to obtain within the commercial offers that fixed telephony suppliers provide, services of local telephony, long distance, Internet, television and, in some cases, mobile telephony in a same monthly rent.

Particularly broadband Internet supply is consolidating like one of the main sources of income of the operators and a mechanism to retain clients; in this sense even though América Móvil reports a reduction in its fixed voice lines, it indicates that fixed broadband accesses were increased by 401 thousand in the annual comparative; on the other hand, Axtel reports a growth of 20 percent on its broadband subscribers; and Maxcom indicates that it had an increase of 21 percent on its data clients.

Local fixed telephony:
Lines and quarterly absolute variations (in the thousands)



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

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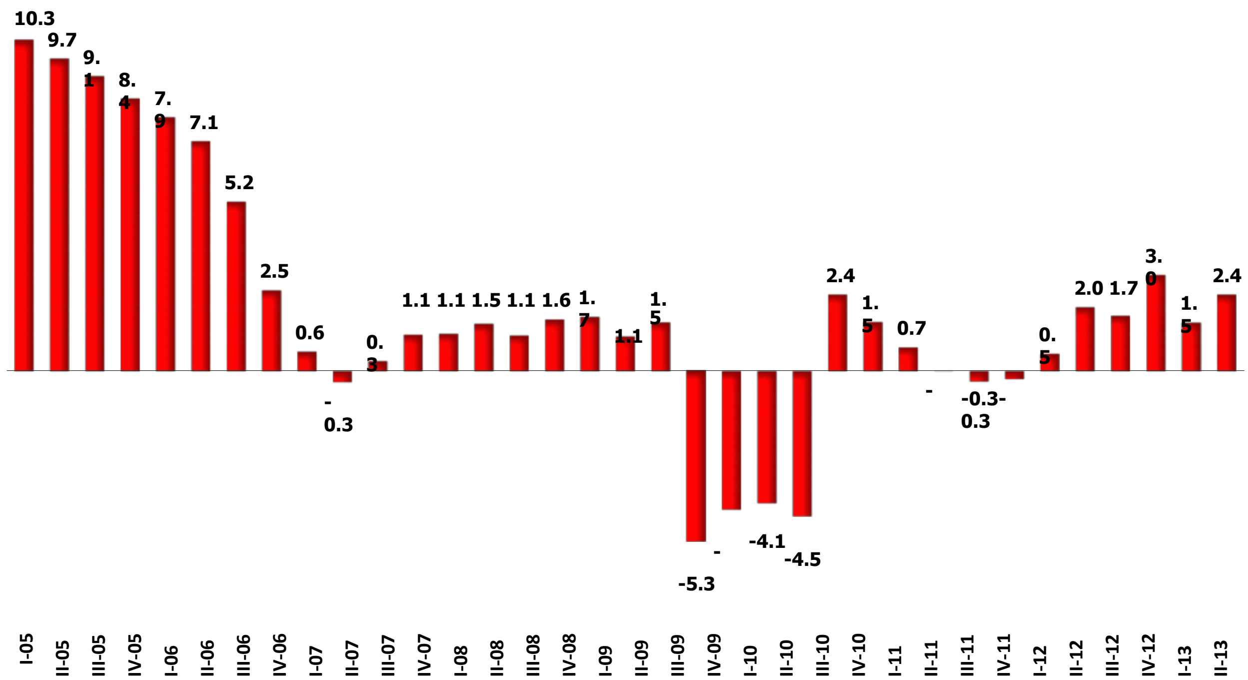
Local fixed telephony (number of lines): Annual percentage variation



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, with information from the operators.

Paging

With regards to the Paging market, the number of users continues decreasing as a consequence of alternatives to communication, such as cellular telephony. In the third quarter of 2013, the number of users decreased by 24.0 percent, with respect to the same period of 2012, closing with 2,733 users.

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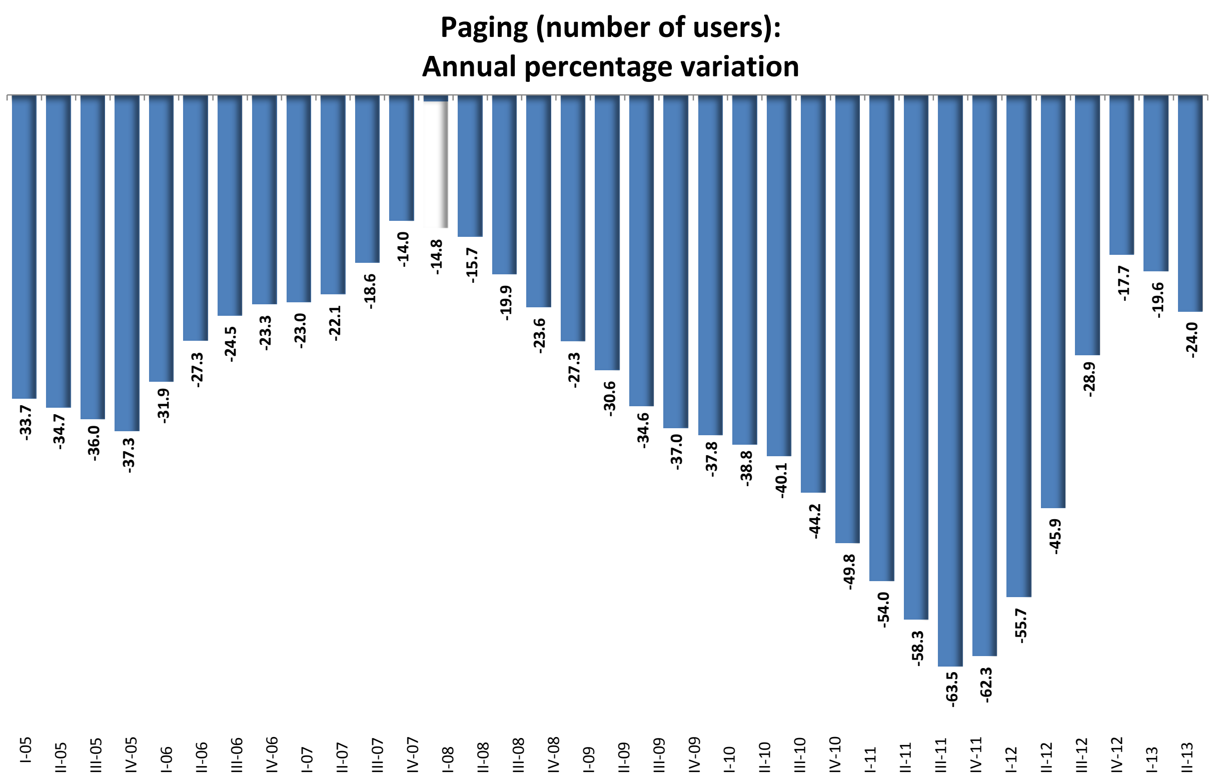


Source: Statistical and Market Information Directorate, Federal Telecommunications Institute. With information from the operators.

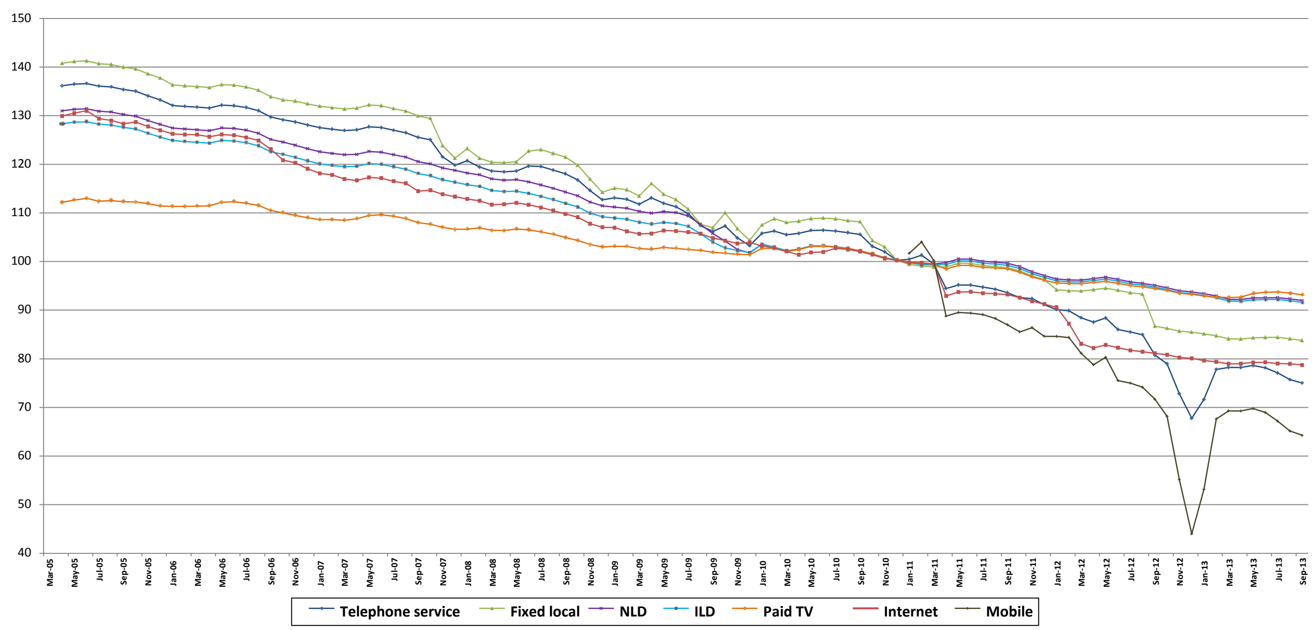
Evolution of rates

The expansion of broadband services, the introduction of technologies and the application of more attractive promotions have resulted in a general and constant decrease of rates during the past few years.

The competition in the telecommunications market has generated that the concessionaires offer packages and promotions with attractive rates, reason why these present a tendency to decrease in nominal and real terms, which has allowed that more and more inhabitants of the country have access to these services.

Price index of telephone services, paid television and Internet

(constant prices, 2nd fortnight of December 2010)



Source: Statistical and Market Information Directorate, Federal Telecommunications Institute, based on information from INEGI.

According to the National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía,* INEGI) information from the prices of telecommunications services, important reductions during the third quarter of 2013 were showed; measured based on subscripts that compose the National Consumer Price Index (NCPI), (*Índice Nacional de Precios al Consumidor*, INPC).

In September of this year, a reduction of the subscript of prices of the telephone service of 7.1 percent order was observed, in relation to September of 2012, which is made up of a decrease of 3.4 percent in the fixed local service, reductions of 3.3 percent both in the national and international long distance services and a decrease of 10.4 percent in the service of mobile telephony.

As part of the sub-index of other spreading services calculated by the INEGI, reductions in real terms of 1.4 and 3.0 percent in the services of paid television and Internet are observed, respectively, compared to the same period in 2012.

It is important to mention that the measurements of telecommunications services prices made by the INEGI are within the objectives of the INPC (*Índice Nacional de Precios al Consumidor*), to measure the evolution in time of the goods and services general level of prices that urban homes of the country consume; in this sense, its representativeness is focused on a basket of goods and services that reflect the consumption patterns in homes[4].

Final considerations

The mobile broadband segment has been constituted as the main generator of the continuous growth of mobile telephony operators, growing to two digit rates for total subscriptions, derivative of a greater consumption of data by user stimulated to a great extent by reductions in the prices and the new mobile devices; also the companies in this segment continue to diversify their income generation strategies by means of a greater integration to their offers for mobile Internet services.

[4] A more comprehensive explanation can be found in methodologic documents of INEGI (*Instituto Nacional de Geografía y Estadística*), which can be consulted at http://www.inegi.org.mx/est/contenidos/proyectos/inp/Default.aspx.

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However, during the trimester of reference, it is observed that the tendency continues toward a moderate growth of fixed voice telephony services, observing a reduction in the lines of some operators; this tendency has been compensated mainly by the advance in the subscriptions of the broadband services that the fixed telephony companies can provide on their same telecommunications infrastructure.

It is expected that during the following quarters, the tendency of growth of this industry maintains, supported, partly, by the expectation of growth of the Mexican economy, from 1.2 percent for this year to 3.4 percent for 2014, and the expectations regarding the American economy, which is expected to grow in 1.69 and 2.55 percent for 2013 and 2014, respectively[5].

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5 Source: Bank of Mexico: Survey on the expectations of the specialists in economy of the private sector: October, 2013.