

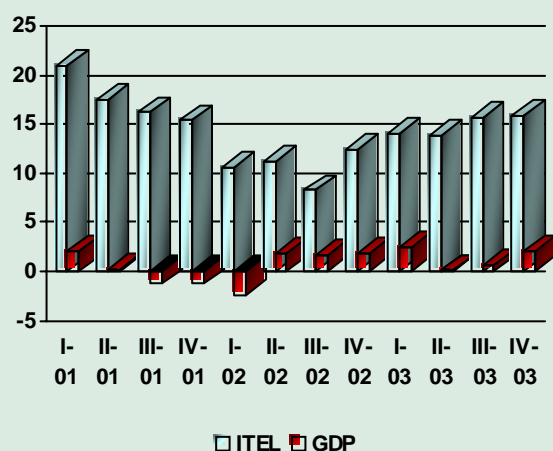
# Index of Telecommunications Sector Production

## – ITEL –

2003 FOURTH QUARTER (PRELIMINARY FIGURES)

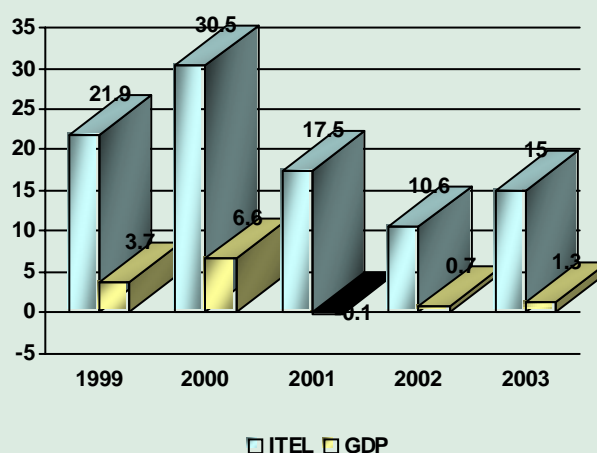
### I. GENERAL ANALYSIS

ITEL VS GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

ITEL VS GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

ITEL, the Index of Telecommunications Sector Production in Mexico, grew 15.9 per cent year-on-year for the fourth quarter of 2003, outperforming national economic growth for the same period (which was two per cent). This is the largest increase since the fourth quarter of 2001.

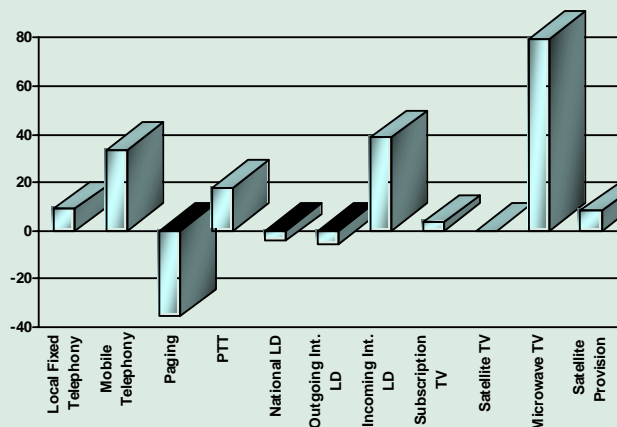
During 2003, the telecommunications sector grew 15 per cent overall year-on-year.

At the macroeconomic level, Mexico's service sector grew 4.7 per cent<sup>1</sup> year-on-year for the quarter, which had a positive impact on the telecommunications industry. By contrast, the manufacturing sector suffered a 0.6 per cent decline in the same period.

<sup>1</sup> Mainly financial services, insurance and real estate activity. At the same time, transport, storage and communications services grew at an annual rate of 4.7 per cent during the quarter.

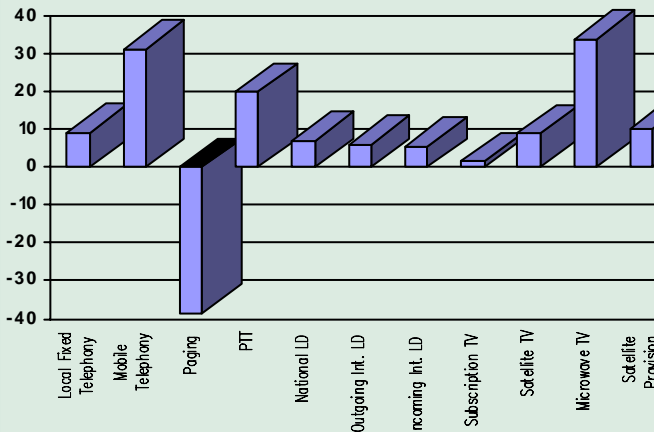
## II. ANALYSIS BY SERVICE SEGMENT

**ITEL BY SERVICE SEGMENT:  
ANNUAL PERCENTAGE VARIATION 4TH QUARTER 2003**



Source: Cofetel

**ITEL BY SERVICE SEGMENT.  
ANNUAL PERCENTAGE VARIATION**



Source: Cofetel

Growth in the telecommunications sector was driven by a sharp increase in microwave TV subscriptions, which grew 79.9 per cent year-on-year for the quarter. Incoming international long-distance traffic grew 38.9 per cent – the highest growth in this segment since the second quarter of 2000. Mobile telephony also continued to show strong growth for the quarter, increasing 33.7 per cent year-on-year.

Among the most significant changes for the fourth quarter of 2003 were:

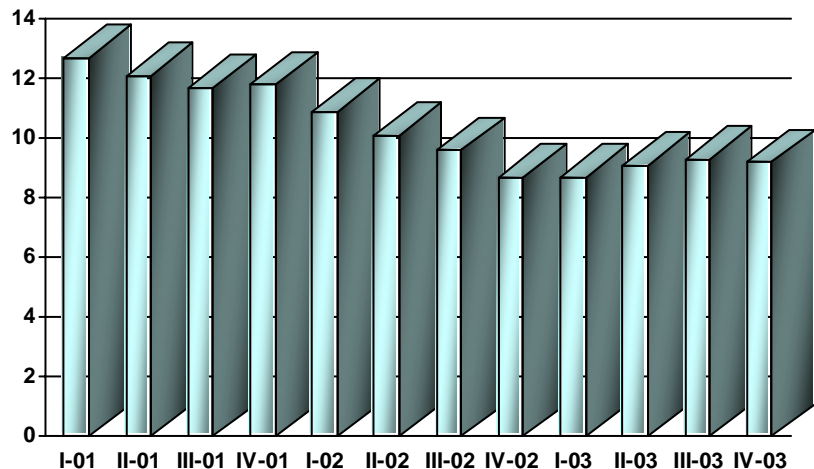
- a 17.9 per cent year-on-year increase in trunking (push-to-talk (PTT)) services
- local telephony finished the quarter with 16,205,099 lines, representing a 9.2 per cent year-on-year increase
- outgoing international long-distance traffic fell 5.3 per cent year-on-year
- national traffic declined 4.3 per cent year-on-year
- satellite TV subscriptions grew 0.2 per cent year-on-year
- satellite service provision (measured in megahertz) finished the quarter 8.2 per cent up on a year earlier.

For the whole of 2003, the most dynamic sectors were microwave TV, which grew 33.7 per cent year-on-year; mobile telephony, which grew 31.2 per cent; PTT services, which grew 20 per cent; satellite provision (megahertz), which grew 10.2 per cent; and local fixed telephony, which grew 9.1 per cent.

### LOCAL FIXED TELEPHONY

In spite of the slow-down in this segment – resulting mainly from the low investment by the main local telephony operators – there were 354,000 new local fixed telephony lines registered in the quarter, bringing the total to 16,312,656 lines (16 per cent teledensity). This equates to 9.2 per cent year-on-year growth for the quarter. Overall for 2003, this segment expanded 9.1 per cent compared with 2002.

**LOCAL FIXED TELEPHONY (# OF LINES)  
ANNUAL PERCENTAGE VARIATION**



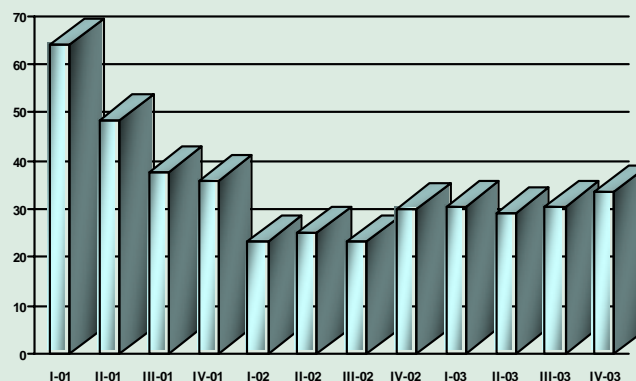
Source: Cofetel

## MOBILE TELEPHONY (MINUTES OF USE)

This segment sustained its high growth, thanks to strong competition between mobile operators, the expansion of new services and the introduction of new technologies such as Short Message Services (SMS)<sup>2</sup> and other GSM services. The tariff reduction that followed the introduction of the Production Service Special Tax also contributed to growth during the quarter. For the fourth quarter, mobile traffic grew 33.7 per cent year-on-year, while for the whole of 2003, it grew 31.2 per cent. At the end of 2003, there were 30,094,985 mobile subscribers, 16.1 per cent up on 2002.

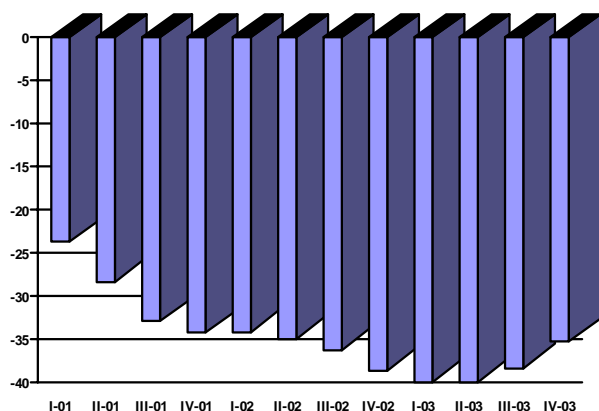
<sup>2</sup> On 8th October 2003, Cofetel resolved an interconnection dispute between Iusacell and Telcel which enabled SMS message to be sent between two networks.

## MOBILE TELEPHONY (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION



Source: Cofetel

## PAGING (# USERS): ANNUAL PERCENTAGE VARIATION



Source: Cofetel

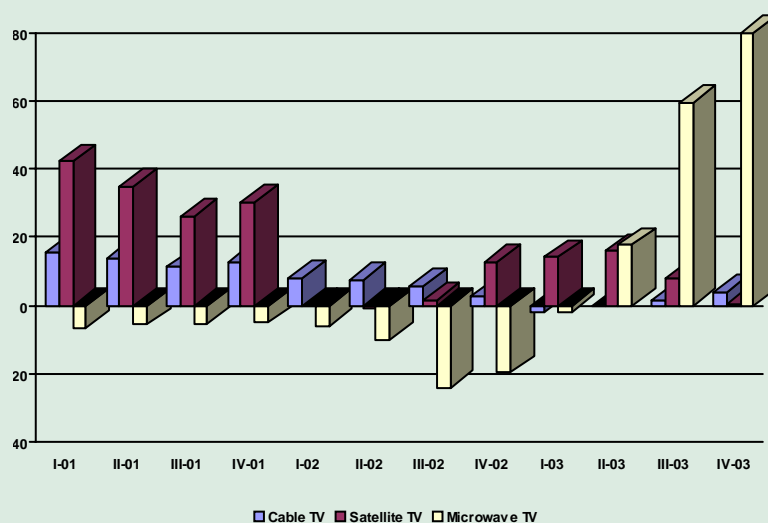
## PAGING (NUMBER OF USERS)

This segment has suffered as a result of consumers being attracted away by the mobile 'calling party pays' program and the availability of pre-paid mobile and SMS. For the quarter, paging users in Mexico declined 35.3 per cent compared with a year earlier, bringing the total number of paging users down to 174,908.

## SUBSCRIPTION TV (NUMBER OF USERS)

The fourth quarter of 2003 saw a 28 per cent year-on-year increase in subscription TV users, thanks to an upturn in microwave and cable subscriptions (resulting from aggressive tariff reductions) and a reorientation of the microwave TV market. For the quarter, microwave TV subscriptions grew 79.9 per cent, cable TV grew 3.8 per cent and satellite TV grew 0.2 per cent year-on-year.

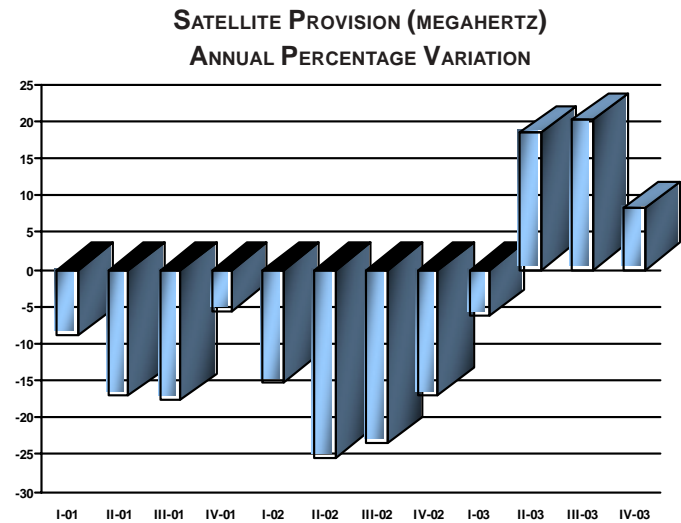
## SUBSCRIPTION TV (# OF SUBSCRIBERS) ANNUAL PERCENTAGE VARIATION



Source: Cofetel

## SATELLITE PROVISION (MEGAHERTZ)

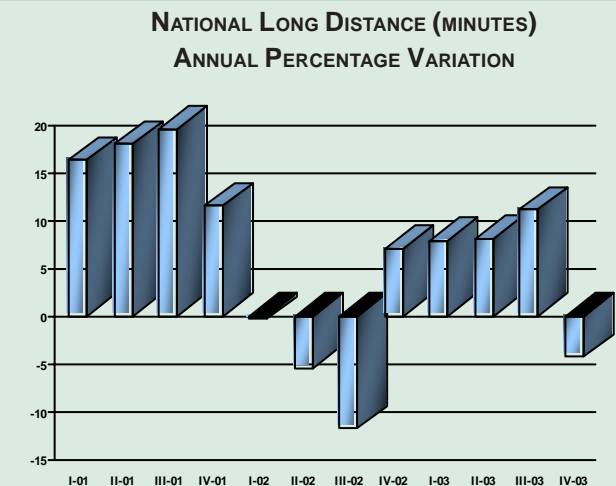
The provision of satellite bandwidth grew by 8.2 per cent year-on-year for the fourth quarter of 2003. During 2003, this segment grew 10.2 per cent.



Source: Cofetel

## NATIONAL LONG DISTANCE (MINUTES OF USE)

Having shown steady recovery during most of 2003, this segment fell back 4.3 per cent for the fourth quarter year-on-year. This reduction in traffic is due mainly to a 10.6 per cent fall in the long-distance traffic carried by Telmex's competitors. However, this sector grew seven per cent overall in 2003 compared with 2002, when the segment declined by 2.9 per cent.

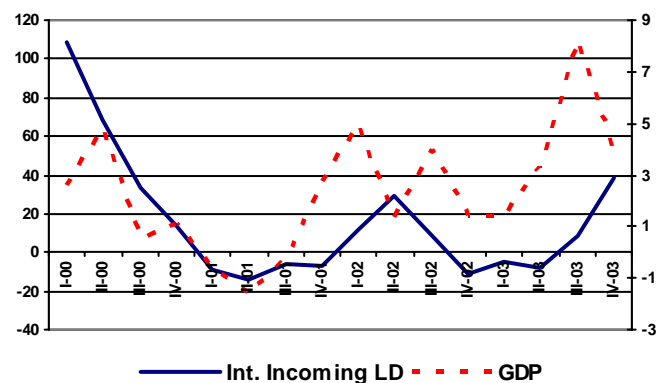


Source: Cofetel

## INCOMING INTERNATIONAL LONG-DISTANCE (MINUTES OF USE)

Despite continued uncertainty about US economic recovery and problems with 'by-pass' traffic, this segment grew 38.9 per cent for the quarter year-on-year. A major contributor was the four per cent growth in the US economy for the quarter year-on-year. During 2003 this segment grew 5.5 per cent overall.

### INT. INCOMING LD (MINUTES) vs US GDP: ANNUAL PERCENTAGE VARIATION

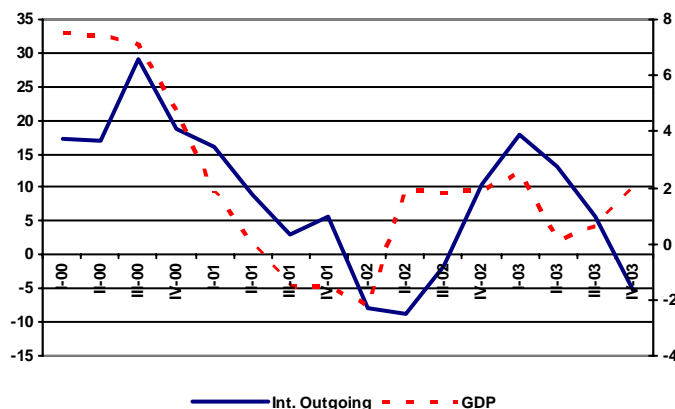


Source: Cofetel and Bureau of Economic Analysis

## OUTGOING INTERNATIONAL LONG DISTANCE (MINUTES OF USE)

Outgoing international long-distance traffic has been affected by the sluggish recovery of the Mexican economy, registering a 5.3 per cent decline year-on-year for the fourth quarter. For 2003 overall, this segment expanded 6.2 per cent, compared with a decline in 2002.

## INTERNATIONAL OUTGOING LD (MINUTES) vs US GDP ANNUAL PERCENTAGE VARIATION

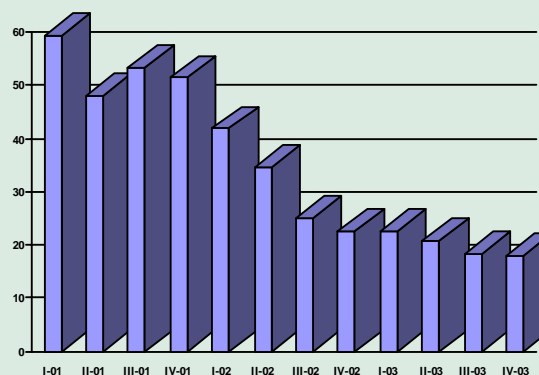


Source: Cofetel and INEGI

## TRUNKING (PUSH-TO-TALK, NUMBER OF USERS)

The number of push-to-talk (PTT) users grew 17.9 per cent year-on-year for the fourth quarter, while the annual increase for 2003 was 20 per cent.

## TRUNKING PUSH-TO-TALK (# OF USERS): ANNUAL PERCENTAGE VARIATION

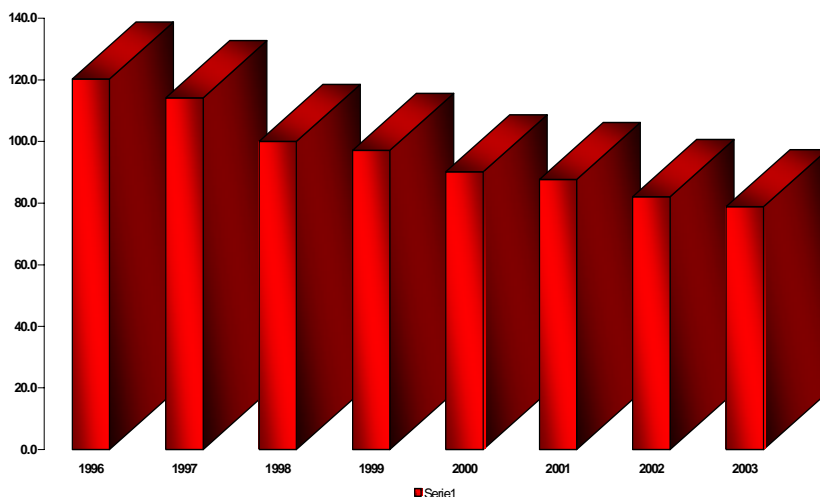


Source: Cofetel

## FINAL CONSIDERATIONS

The positive performance of the telecommunications sector in the last quarter of 2003, and throughout 2003 generally, reflects the moderate growth of both the US and Mexican economies – especially in the service sector – and the tariff reductions across several telecommunications services.

## BASIC SERVICES TARIFFS



Source: Cofetel, based in Telmex tariffs

The expansion of new services, the introduction of new technologies and a number of special promotions have led to a general reduction in tariffs in real terms<sup>3</sup> over the past year:

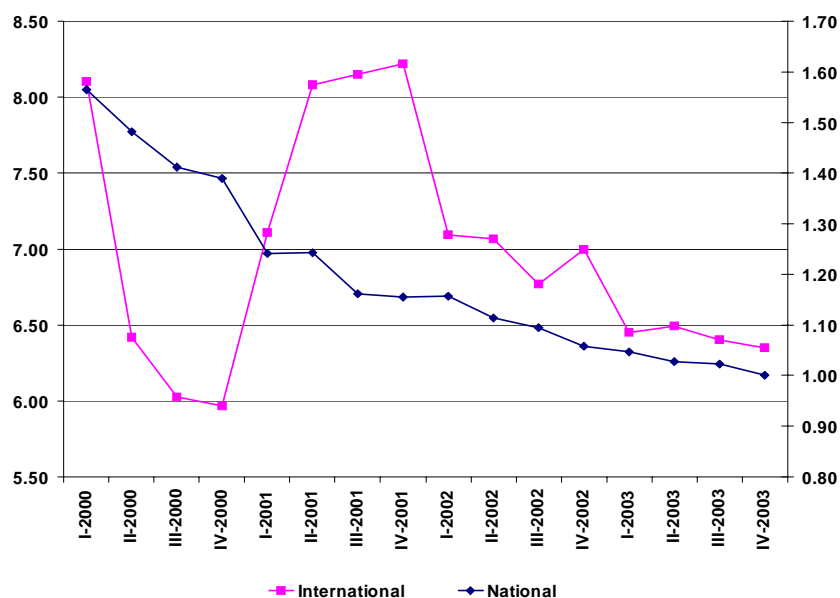
- mobile telephony tariffs fell 29 per cent for post-paid and 42 per cent for pre-paid services
- national long-distance tariffs fell 5.4 per cent, while international long-distance tariffs (except for the USA and Canada) fell 9.2 per cent
- local telephony tariffs fell 3.8 per cent for both residential and business services.

Dynamic activity in US industrial services, as well as the strengthening of private consumption and moderate growth in private investment in Mexico, point to a better outlook for the Mexican economy in 2004.

An improvement is also expected in the financial behavior of operators, resulting from the reorganization of their liabilities, which will enable companies like Telcel, Telmex and Telefónica Móviles to make some investments. In general, operators will aim to increase their presence in more Mexican cities and focus on new data transmission and broadband services.

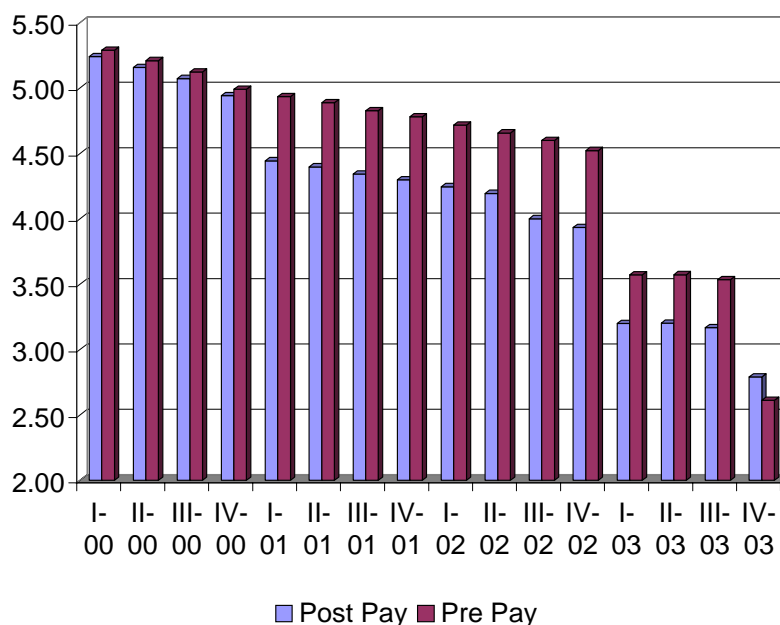
The licensing of new spectrum for mobile, satellite and PTT services, as well as awards from the Social Coverage Fund, are expected to contribute to the service expansion and the introduction of new technologies.

### LONG DISTANCE TARIFFS (PESOS - DECEMBER 2003)



Source: Cofetel based on operators data

### MOBILE TELEPHONY TARIFFS (PESOS - DECEMBER 2003)



Source: Cofetel based on Telcel data

<sup>3</sup> Variations: 1. Mobile: Telcel case. Post pay, number of minutes included; prepay, outgoing minutes, 2. Long Distance: all operators except Avantel and Marcatel 3. Local: Telmex basic services.