

# Index of Telecommunications Sector Production – ITEL –

2004 FOURTH QUARTER (PRELIMINARY FIGURES)

## I. GENERAL ANALYSIS

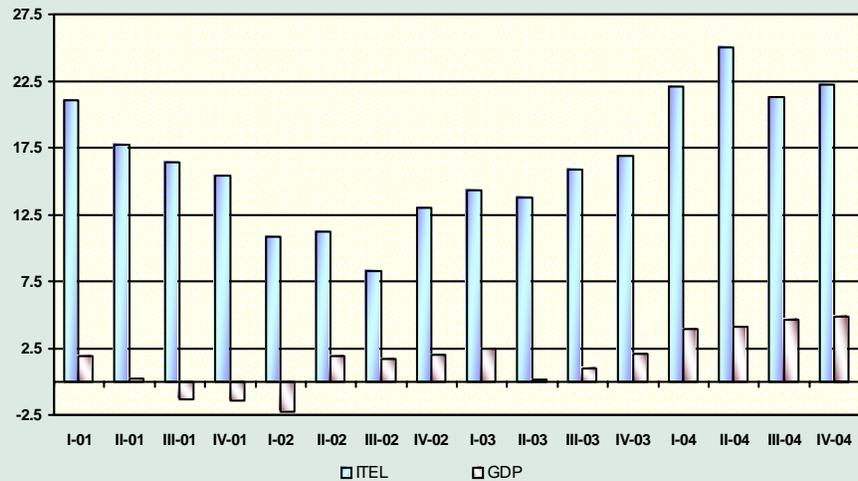
During the year 2004, Mexican telecommunications sector experienced the highest growth<sup>1</sup> since the year 2000 with a 22.2 per cent year-on-year increase, which means an annual growth of 22.6 per cent.

Transportation, Storage and Communications sector grew 9.9 per cent year-on-year, according to the figures provided by Mexico's National Institute of Statistics (INEGI), which means a total annual growth of 9.7 per cent. Telecommunications sector growth overcame Mexican economy behavior, which registered a 4.4 per cent increase.

The positive trend in telecommunications sector is a result of several factors: Mexican economy registered its highest growth rate since the year 2000, which helped to increase the number of telecommunications users, as well as the traffic sent over public telecommunications networks.

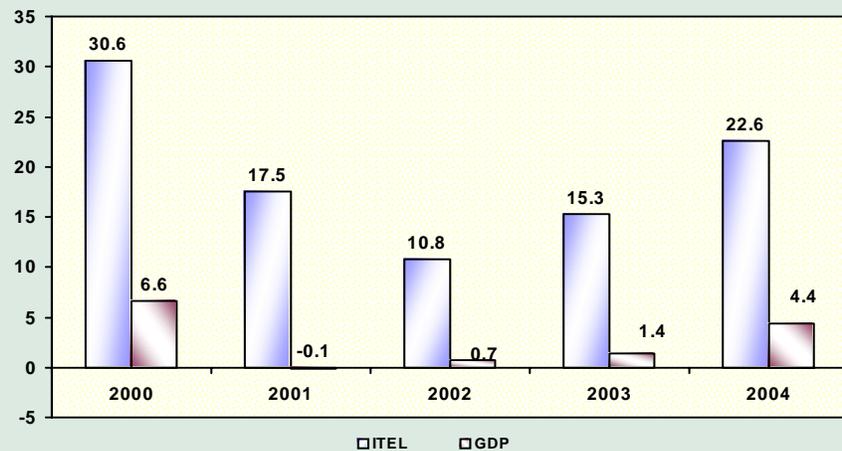
This performance can also be explained by the permanence of attractive tariff plans and promotions for users, the successful conclusion of the financial reorganization process of some operators and the search for inland new users. Additionally, the International Telecommunications Rules, issued by Cofetel during 2004, promoted an important increase in Incoming International Long Distance traffic.

ITEL vs GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

ITEL vs GDP: ANNUAL PERCENTAGE VARIATION

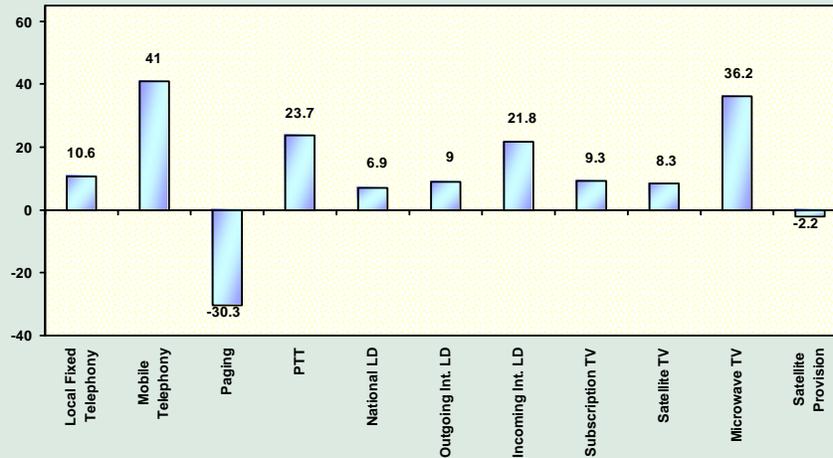


Source: Cofetel and INEGI

<sup>1</sup> This growth is determined by the Index of Telecommunications Sector Production (ITEL), a global indicator made by Cofetel, which evaluates the behavior of the main services offered in telecommunications sector.

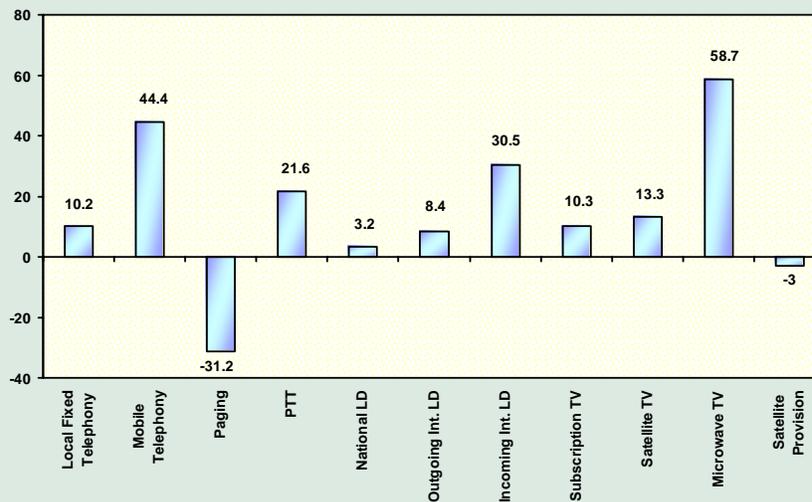
## II. ANALYSIS BY SERVICE SEGMENT

ITEL BY SERVICE SEGMENT. ANNUAL PERCENTAGE VARIATION: FOURTH QUARTER 2004



Source: Cofetel

ITEL BY SERVICE SEGMENT. ANNUAL PERCENTAGE VARIATION: 2004



Source: Cofetel

Among the most significant changes for the fourth quarter of 2004 were:

- Mobile Telephony, which is one of the most dynamic segments, increased 41 per cent year-on-year in terms of minutes.
- Microwave TV grew 36.2 per cent year-on-year in terms of users.
- Trunking users grew 23.7 per cent year-on-year.
- Incoming International Long Distance Traffic experienced a 21.8 per cent year-on-year growth.
- The number of fixed lines registered a 10.6 per cent year-on-year increase, and reached 18,073,238 users.

- Cable TV grew 9.3 per cent.
- Outgoing International Long Distance traffic registered a 9 per cent growth.
- Satellite TV subscribers increased 8.3 per cent year-on-year.
- A 6.9 increase in National Long Distance traffic, figure which contrasts with the 4.4 per cent decrease registered in 2003.
- Satellite provision registered a 2.2 per cent decrease on the last quarter of 2004.
- Paging registered a 30.3 per cent year-on-year fall in the number of users.

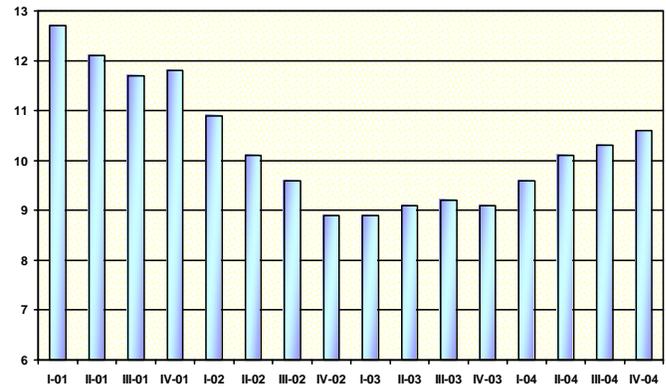
## LOCAL TELEPHONY (# OF LINES)

Local service operators continue the expansion of their networks within the country. During the fourth quarter 428,000 new lines were installed.

At the end of 2004 there were 18,073,238 millions lines, which means a 10.6 per cent year-on-year increase. The last important increase in this segment was during the first quarter of 2002, when Local Telephony grew 10.9 per cent. During 2004, 1,712,600 new lines were installed; Telmex's competitors operate 14.6 per cent of them.

Mexico has a 17.1 per cent teledensity. Nowadays, 55.4 per cent of Mexican households have access to Local Telephony service; this figure overcomes the 52.6 per cent goal established in the Communications Sector Program for the year 2006.

LOCAL FIXED TELEPHONY (NUMBER OF LINES)  
ANNUAL PERCENTAGE VARIATION



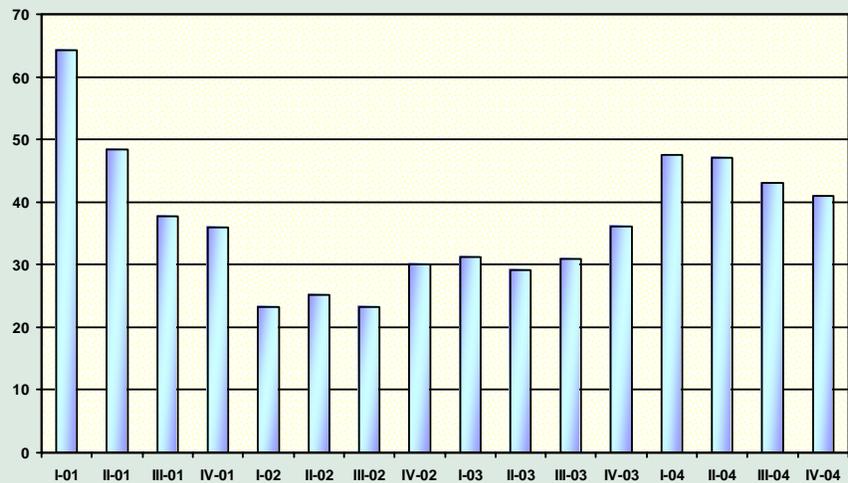
Source: Cofetel

## MOBILE TELEPHONY /PCS (THOUSAND OF MINUTOS)

This segment sustained its high growth thanks to several factors like: strong tariff competition between mobile operators, and the expansion of new technologies such as Short Message Service (SMS)<sup>2</sup> and GSM Technology.

Mobile traffic among mobile operator's networks registered a 41 per cent year-on-year increase during the fourth quarter. This segment registered a 44 per cent annual increase. At the end of 2004 there were 38.5 million users of mobile telephony, which means a 27.9 per cent year-on-year increase. Mobile teledensity reached 36.4 per cent.

MOBILE TELEPHONY (THOUSAND OF MINUTES):  
ANNUAL PERCENTAGE VARIATION

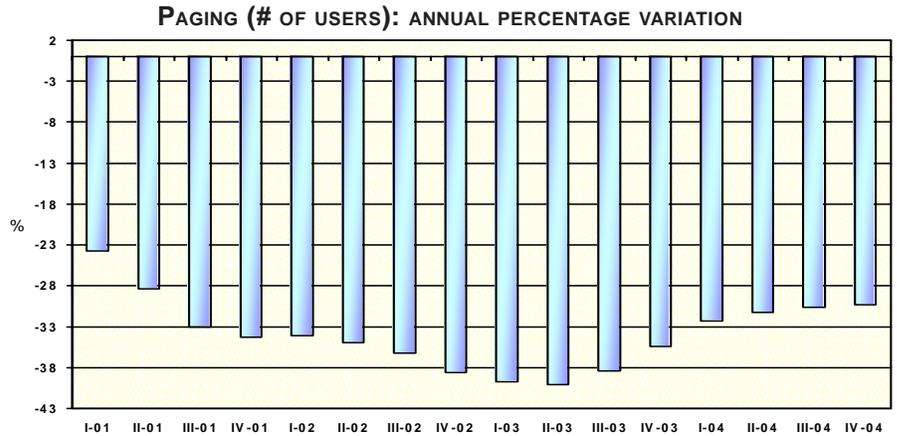


Source: Cofetel

<sup>2</sup> SMS traffic has grown fivefold since all mobile operators concluded the interconnection of their networks.

## PAGING (THOUSAND OF USERS)

This segment keeps a slow down trend as a result of consumers being attracted away by the mobile "Calling Party Pays" program and the availability of pre-paid mobile, SMS and trunking services. During the fourth quarter, there was a 30.3 per cent year-on-year fall in the number of Paging users. At the end of the year 2004, there were 121,781 paging users, figure that represents a 31.2 per cent annual decrease.



Source: Cofetel

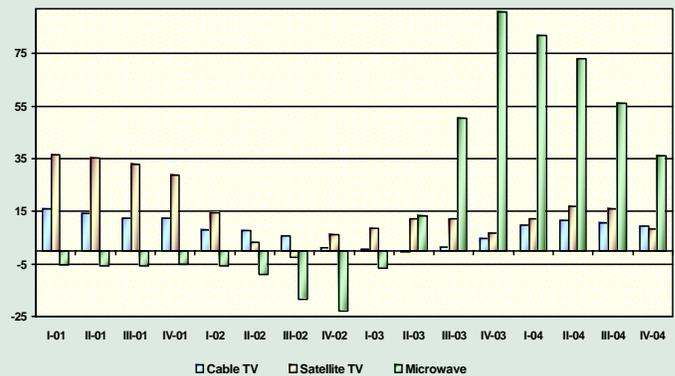
## SUBSCRIPTION TV (THOUSAND OF SUBSCRIBERS)

The number of Subscription TV subscribers increased 17.9 per cent year-on-year during the fourth quarter. This sector reduced its growth rate due to the consolidation of tariff reductions established by some operators, especially in Microwave and Satellite segments. Microwave TV users grew 36.2 per cent year-on-year; this segment reached 657,000 subscribers at the end of the year. This increase can be explained by the marketing strategies implemented towards low-income users and thanks to the introduction of wireless Internet service.

Cable TV experienced a 9.3 per cent year-on-year growth; the number of users reached the 2.9 million users. During the year 2004, Mexican authorities issued 44 new concessions titles for Cable TV operators.

Satellite TV (DTH) grew 8.3 per cent year-on-year and reached 1.06 million users.

### PAY TV (# OF SUBSCRIBERS): ANNUAL PERCENTAGE VARIATION

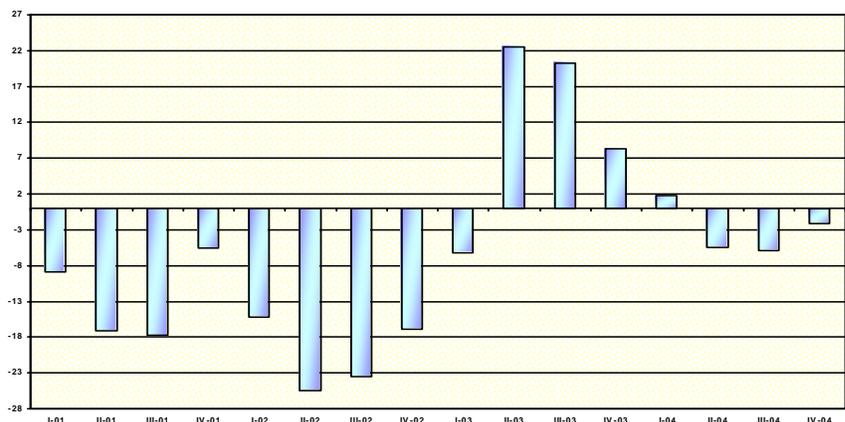


Source: Cofetel

## SATELLITE PROVISION (MEGAHERTZ)

Satellite Provision segment registered a 2.2 per cent year-on-year decrease during the fourth quarter of 2004. This segment registered a 3 per cent annual fall.

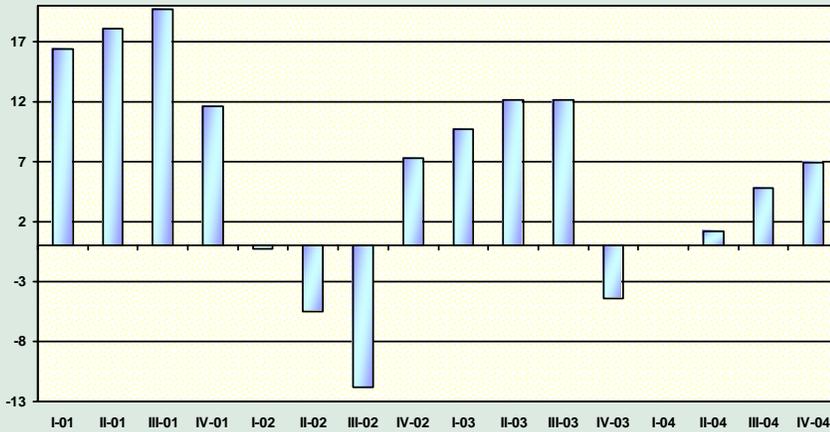
### SATELLITE PROVISION (MEGAHERTZ): ANNUAL PERCENTAGE VARIATION



Source: Cofetel

## NATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

NATIONAL LD (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION

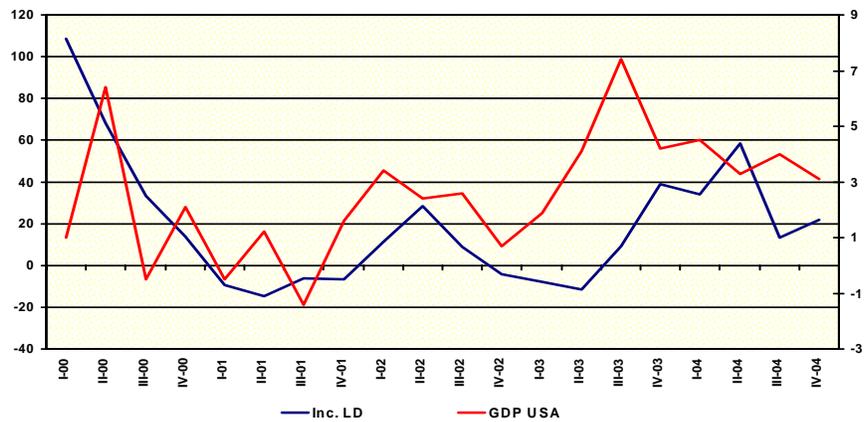


Source: Cofetel

This segment grew 6.9 per cent year-on-year, which is an important increase compared with the one registered on the third quarter, when National Long Distance increased 4.8 per cent. This boost reflects the growth in Mexican economy activity and the introduction of special offers from some operators. National Long Distance traffic registered an annual growth rate of 3.2 per cent.

## INTERNATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

INCOMING INTERNATIONAL LD vs US GDP (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION

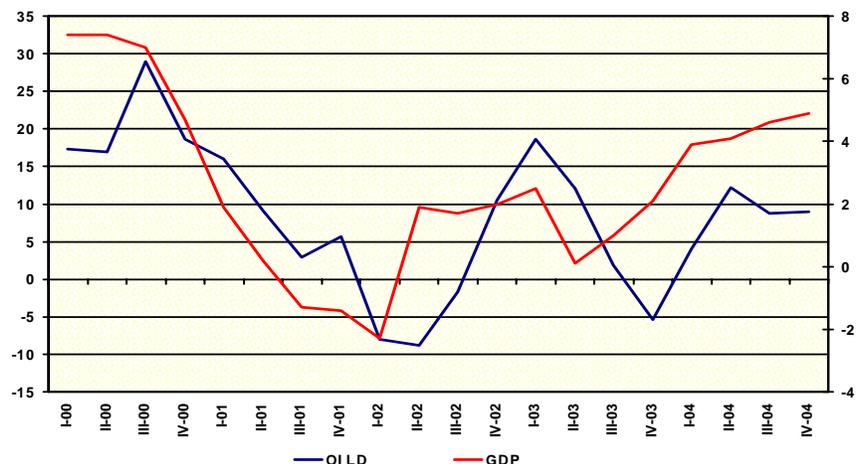


Source: Cofetel and U.S. Bureau of Economic Analysis

This segment shows an important recovery as a result of the 4.4 per cent growth in United States economy and the effect of the International Telecommunications Rules which have reduced the by so called by pass.

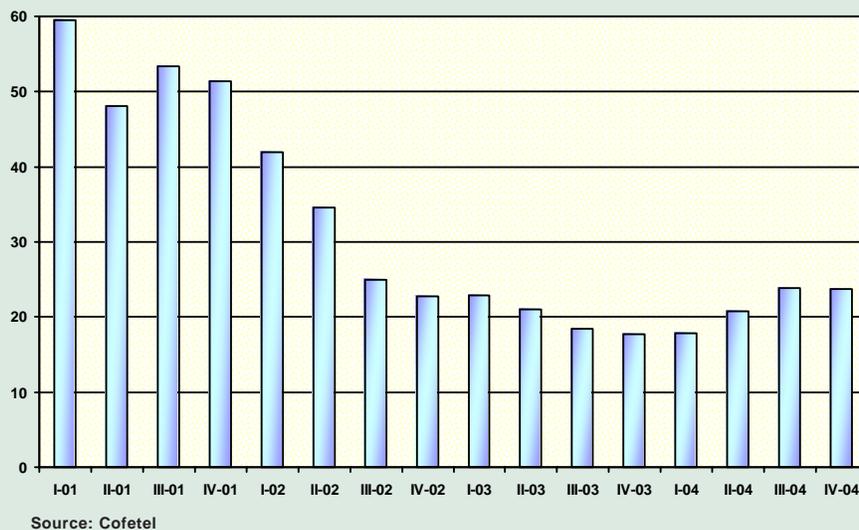
Incoming International Long Distance traffic (measured in minutes) grew 21.8 per cent year on year. The annual growth was 30.5 per cent. As mentioned above, International Telecommunications Rules helped the Long Distance operators to recover part of the traffic that was illegally made. Outgoing International Long Distance traffic increased 9 per cent year-on-year.

OUTGOING INT. LD vs GDP (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

TRUNKING (# OF USERS): ANNUAL PERCENTAGE VARIATION



During this quarter, the number of Trunking (PTT) subscribers increased 23.7 per cent year-on-year, thanks to the introduction of new services. At the end of the year there were 918,764 PTT users, which means a 21.6 annual increase.

## FINAL CONSIDERATIONS

The positive performance of the telecommunications sector throughout 2004 can be explained with these considerations:

- A favorable macroeconomic environment where both, the US and the Mexican economies, have experienced moderate growth, which helped to increase the number of users.
- Tariff reductions across several telecommunications services.
- The introduction of new services.
- The introduction of new regulatory frames, like the International Telecommunications Rules.

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 over the past year.<sup>3</sup>

- Mobile Telephony tariffs fell 31.5 per cent for the post-paid services and 15.9 per cent for the pre-paid services.
- Long Distance tariffs fell 9.5 per cent for National segment and 6.4 for International segment.
- Local telephony tariffs fell 6.2 per cent year-on-year.

Telecommunications sector has positive perspectives for the year 2005. It is expected a 3.6 per cent growth<sup>4</sup> in Mexican economy and it is also expected a 3.5 per cent increase in North American economy<sup>5</sup>, which will

help to increase the number of users and the demand of traffic.

An improvement is also expected in operator's financial position, resulting from the restructuring of their liabilities and enabling investment by some operators. New concessionaries aim to increase their presence in a greater number of Mexican cities and focus on new data and broadband services.

On the regulatory side, the reduction of the Mobile Telephony tariff –from 2.5 to 2.25 pesos in 2005- will drive an important growth in calls from fixed to mobile telephones. The Calling Party Pays Program will be applied within the country from July on; it is expected to drive an increase in mobile and long distance traffic. Also, the next release of the Resellers Rules will increase telecommunications services and offer better prices. These decisions, among others will promote services expansion and the introduction of new technologies, for the benefit of Mexican users.

<sup>3</sup> Variations: 1.- Mobile: The whole industry, preliminary figures. Post pay: minutes included; Prepay: outgoing minutes. 2.- National LD and Local Telephony: Telmex, basket of basic services.

<sup>4</sup> Survey made by Banco de México among specialists of the private sector. January 2005.

<sup>5</sup> The Economist Poll, February 19, 2005