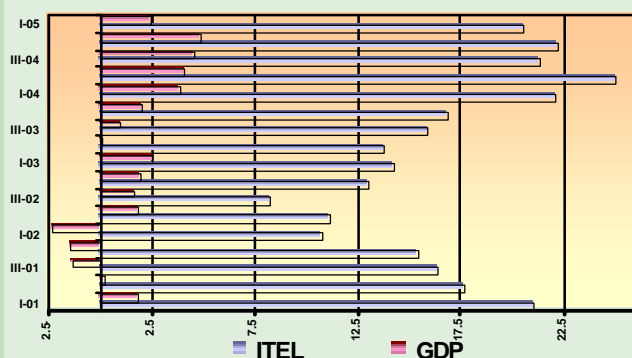


# Index Telecommunications Sector Production – ITEL –

2005 FIRST QUARTER (PRELIMINARY FIGURES)

## I. GENERAL ANALYSIS

### ITEL vs GDP: ANNUAL PERCENTAGE VARIATION

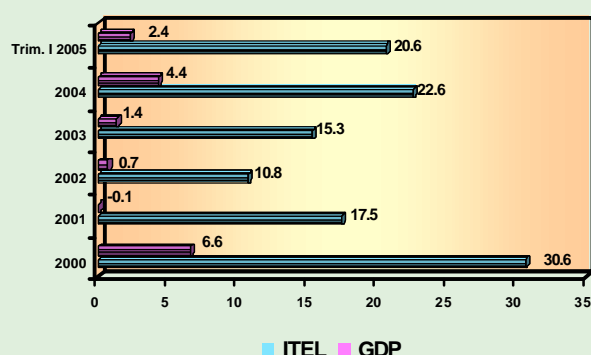


Source: Cofetel whit information provided by the operators

Telecommunications sector keeps the dynamic trend experienced all through the year 2004. During the first quarter of year 2005, telecommunications sector grew<sup>1</sup> 20.6 per cent year-on-year; it overcame Mexican economy growth, which was 2.4 per cent, a lower rate than the 4.9 per cent registered on the fourth quarter of 2004.

Transportation, Storage and Communications sector grew 7.8 per cent year-on-year, according to the figures provided by Mexico's National Institute of Statistics (INEGI); this institution highlighted the favorable behavior of fixed and mobile telephony.

### ITEL vs GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel whit information provided by the operators

<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

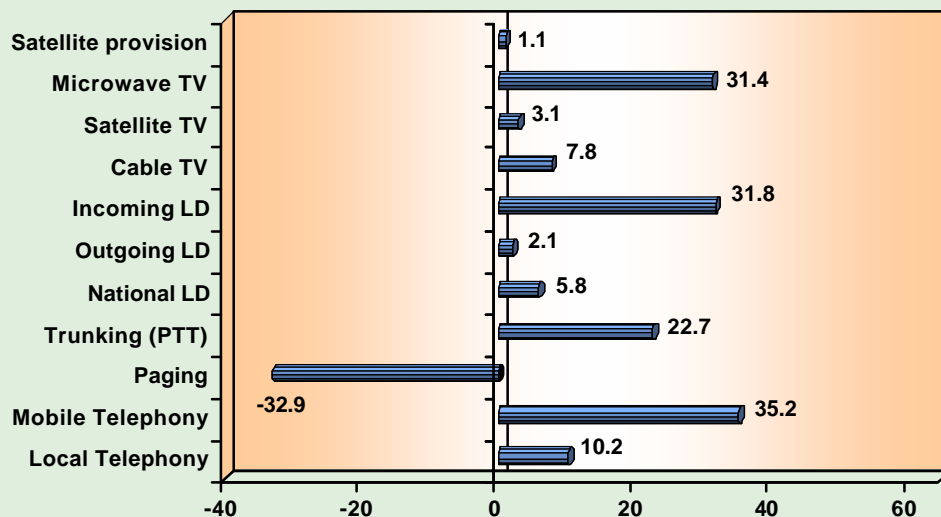
This behavior can be explained by several facts: the permanence of attractive tariff plans and promotions, especially in Mobile and Long Distance segments. Some operators

For Mexican Telecommunications sector it was also very important to accomplish two priority projects: the bidding process for 800 and 1900 MHz bands which will help to impro-

Among the most significant moves during this quarter were:

- Mobile traffic in minutes increased 35.2 per cent. This segment remains as one of the most dynamic areas of telecommunications sector.
- Incoming International Long Distance traffic increased 31.8 per cent.
- A 31.4 per cent growth in terms of users in Microwave TV.
- Trunking services, (Push To Talk PTT) increased 22.7 per cent year-on-year.
- Fixed Telephony experienced a 9.8 per cent year-on-year increase and reached 18,466,874 users.
- Cable TV segment keeps its positive trend and during this quarter experienced a 8.1 per cent year-on-year increase and reached almost 3 million households.
- Satellite TV subscribers grew 2.5 per cent year-on-year.
- Outgoing International Long Distance traffic experienced a 2.1 year-on-year growth.
- A 5.8 per cent year-on-year increase in National Long Distance traffic.
- Satellite Provision segment was able to overcome the negative trend experienced before and during this quarter; it grew 1.1 per cent year-on-year.
- Paging segment fell 32.9 per cent year-on-year.

**ITEL BY SECTOR ANNUAL PERCENTAGE VARIATION: FIRST QUARTER 2005**



Source: Cofetel whit information provided by the operators

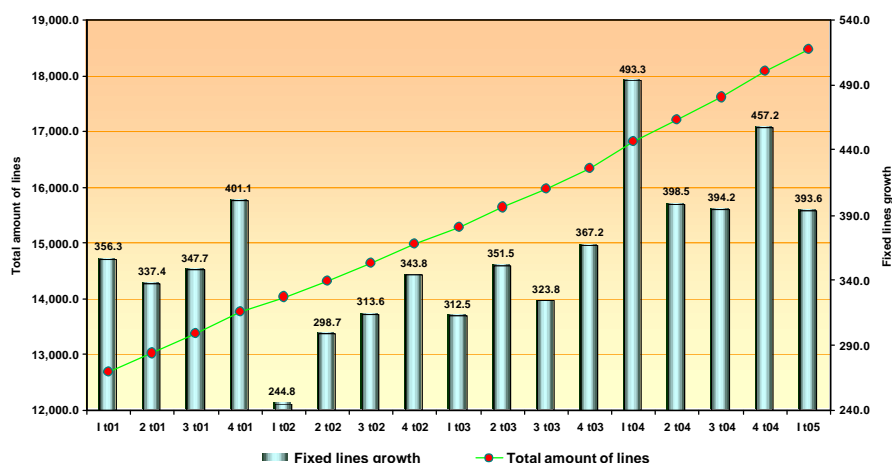
keep searching different strategies for increasing their shares in data markets and, in some cases, they are looking for alliances with some providers to supply data, Internet and voice services. Telmex competitors keep expanding their presence in different cities.

ve the coverage and service providing for PCS and Trunking, as well as the first stage of the Telecommunications Social Coverage Fund. This Fund has been established in 3,930 poor communities with an average of 900 inhabitants each, in benefit of 3.6 million of Mexicans.

## LOCAL FIXED TELEPHONY (THOUSAND OF LINES)

During this quarter 393,636 new lines were installed, and 7.7 per cent of them belong to Telmex competitors. The number of fixed lines reached 18,466,874; that is a 9.8 per cent year-on-year increase. By the end of March, Mexico had a 17.7 teledensity.

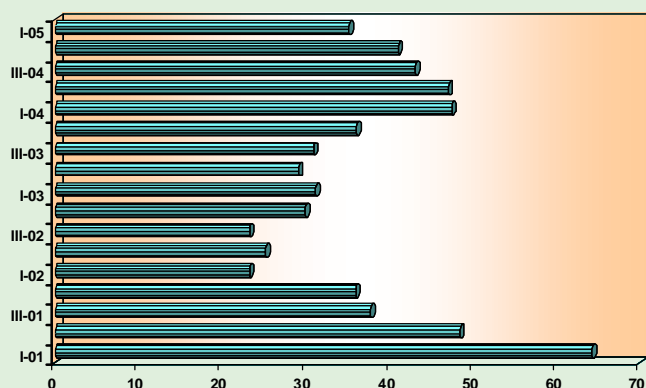
### TOTAL AMOUNT OF FIXED LINES (THOUSAND OF LINES)



Source: Cofetel whit information provided by the operators

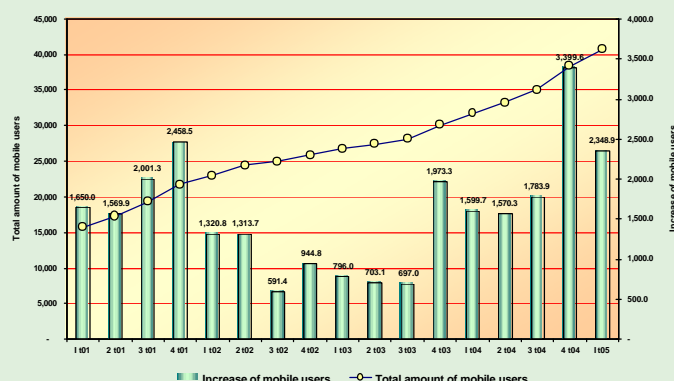
## MOBILE TELEPHONY/PCS (THOUSAND OF MINUTES)

### MOBILE TELEPHONY (THOUSAND OF MINUTES)



Source: Cofetel whit information provided by the operators

### MOBILE TELEPHONY USERS (THOUSAND)



Source: Cofetel whit information provided by the operators

This segment remains as one of the most dynamic markets of Mexican telecommunications sector. It has been benefited by the strong competition between mobile operators, which lead to a tariff reduction: 33.5 per cent for the "postpaid" mode and 14 per cent for the "prepaid" mode, which has helped to increase traffic and the number of subscribers.

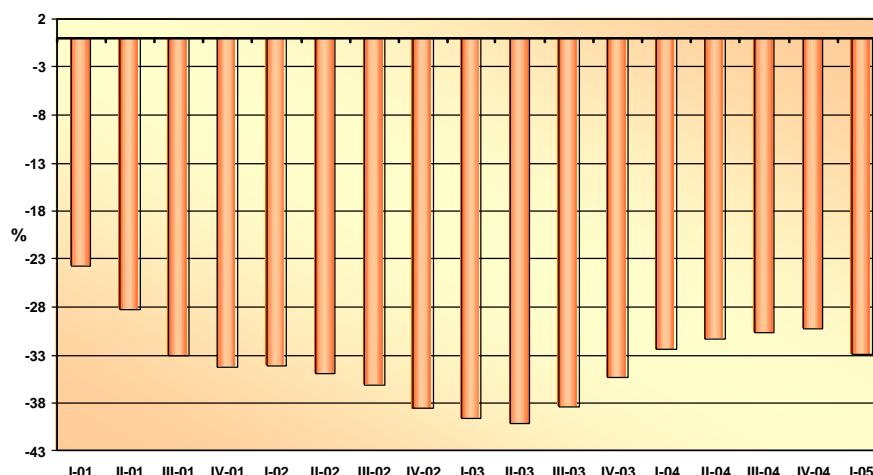
The number of minutes increased 35.2 per cent year-on-year; nevertheless, this figure does not consider yet

the 10 per cent decrease in the "Calling Party Pays" tariff, from 2.50 to 2.25, which has been applied since January the 1<sup>st</sup>.

By the end of march, there were in México 40.8 million of users of mobile telephony, which means a 28.8 per cent year-on-year increase. Mexico has a 39.1 per cent teledensity. During this quarter there were 2.3 million of new subscribers to mobile telephony.

## PAGING (THOUSAND OF SUBSCRIBERS)

PAGING (NUMBER OF USERS): ANNUAL PERCENTAGE VARIATION



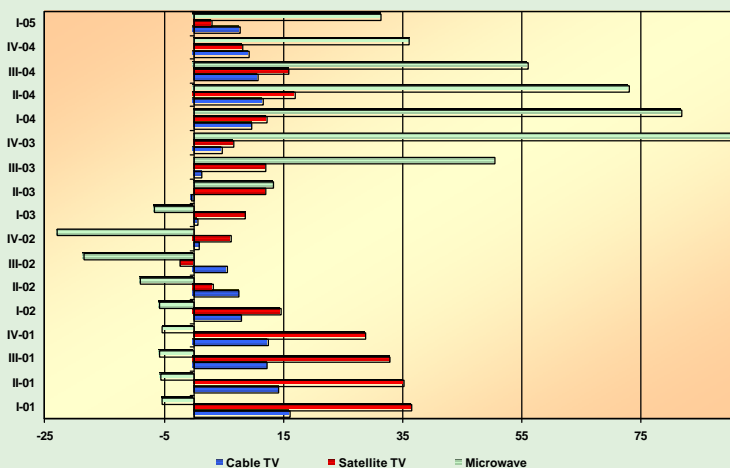
Source: Cofetel whit information provided by the operators

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 prepaid mobile, SMS and trunking services.

During this quarter there was a 32.9 per cent year-on-year fall in the number of paging users. Currently there are 108,491 users of this service.

## PAY TV (THOUSAND OF SUBSCRIBERS)

PAY TV (THOUSAND OF SUBSCRIBERS): ANNUAL PERCENTAGE VARIATION



Fuente: Cofetel

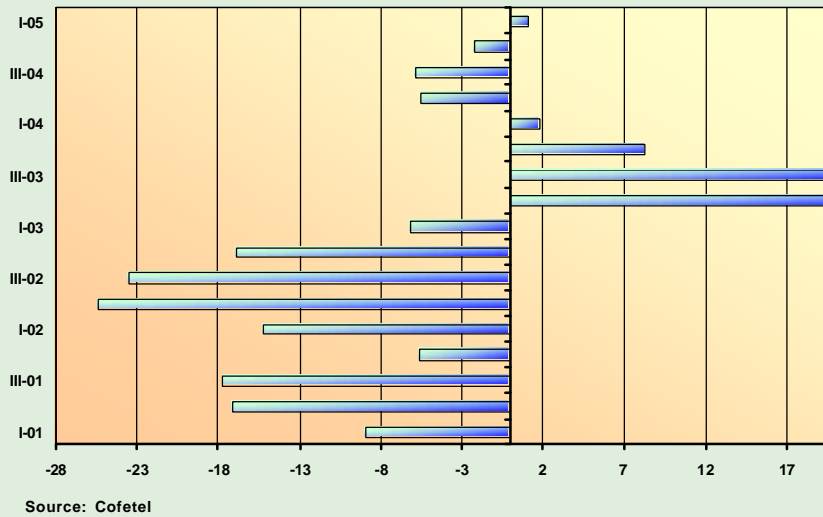
The number of Pay TV subscribers increased 9.5 per cent year-on-year. Microwave TV (MMDS) users grew 29.3 per cent year-on-year and reached 730,000 thousand subscribers.

This growth can be explained by the marketing strategies implemented towards low-income users and by the introduction of wireless Internet service.

Cable TV grew 8.1 per cent year-on-year and reached 2.97 million users. Satellite TV (DTH) increased 2.4 per cent and reached 1.08 million subscribers.

## SATELLITE PROVISION (MEGAHERTZ)

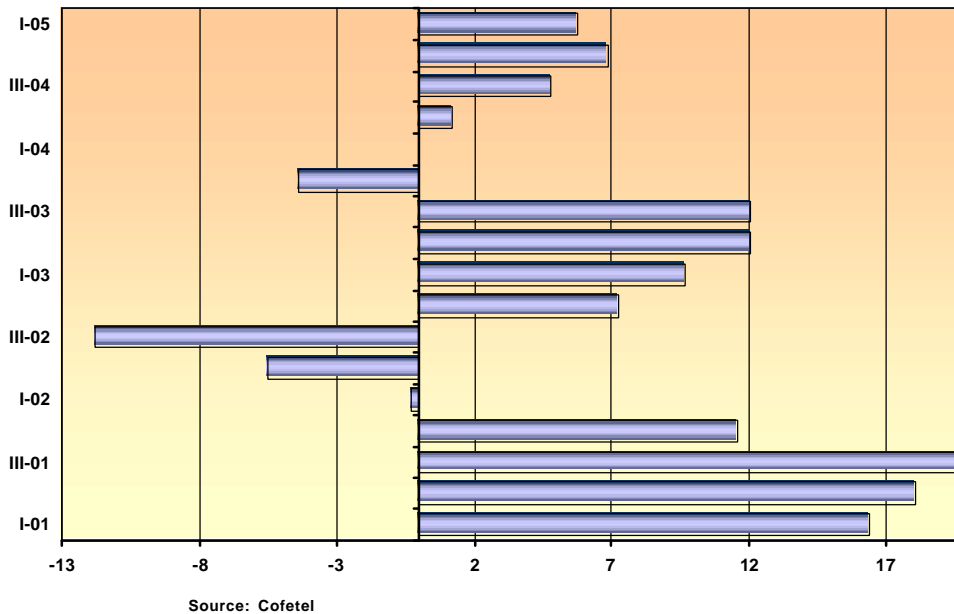
**SATELLITE PROVISION (MEGAHERTZ)**  
**ANNUAL PERCENTAGE VARIATION**



Satellite Provision segment was able to overcome the negative trend experienced during 2004 and grew 1.1 per cent year-on-year.

## NATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

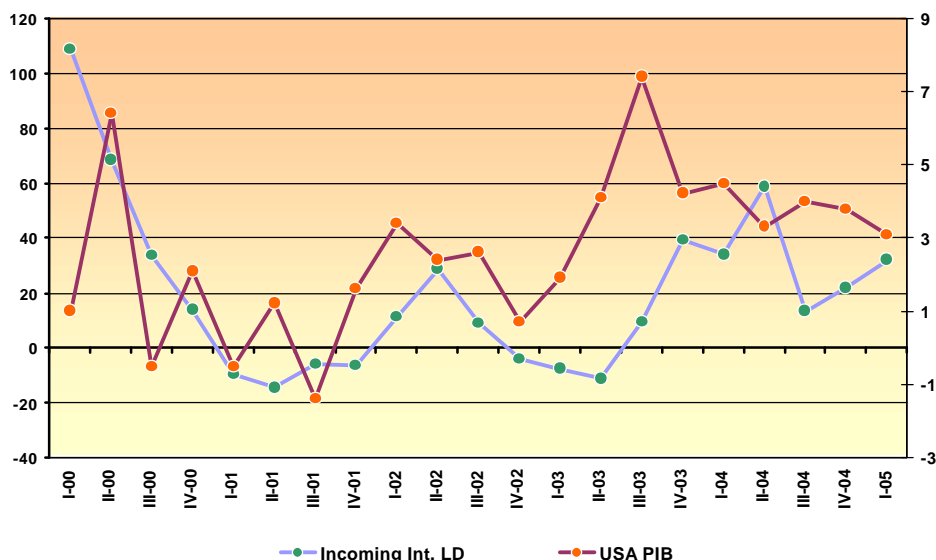
**NATIONAL LD (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION**



National Long Distance Traffic, measured in minutes, experienced a 5.8 per cent growth during the first quarter, figure which is smaller than the 6.9 per cent registered last year, due to a lower growth rate of economic activity.

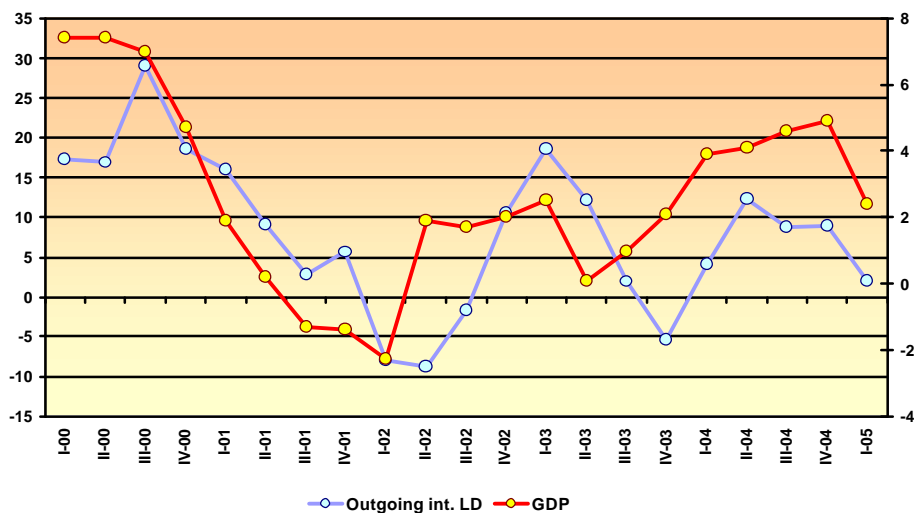
## INTERNATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

**INCOMING INT. LD (THOUSAND OF MINUTES) vs USA GDP**  
**ANNUAL PERCENTAGE VARIATION**



Source: Cofetel with information provided by operators and US Bureau of Economic Analysis

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



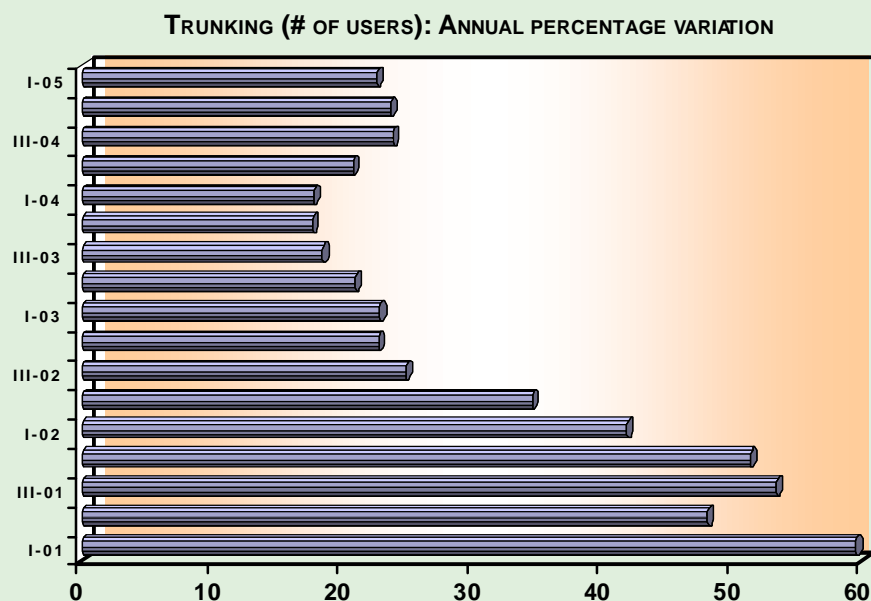
Source: Cofetel with information provided by operators and US Bureau of Economic Analysis

Incoming International Long Distance grew 31.8 per cent year-on-year, the highest rate in the last nine months. This increase was possible thanks to the effect of the Inter-

national Telecommunications Rules which have reduced the so called by pass, and also, to the positive trend of economic activity in the United States. On the other hand,

Outgoing International Long Distance segment grew 2.1 per cent during this quarter, a lower rate to the one registered on the last quarter of the year 2004 (9 per cent).

## TRUNKING —PUSH TO TALK— (THOUSAND OF USERS)



Source: Cofetel with information provided by the operators

During this quarter, the number of trunking users increased 22.5 per cent year-on-year due to the introduction of new services and the attractive tariff packages. By the end of march, there were 968,540 trunking users; 38.5 thousand new subscribers adopted this service during this period.

## III. INVESTMENTS IN TELECOMMUNICATIONS SECTOR DURING THE YEAR 2004

Telecommunications sector received last year 3,612 million dollars, overcoming the drops registered on previous years. The investments increased 39.8 per cent year-on-year. The positive economic environment experienced during the year 2004, and the important growth in telecommunications sector, (which registered a 22.6 per cent year-on-year increase) boosted an increase in traffic and number of users. This positive behavior can also be explained by the improvement in some operator's financial position, resulting from the restructuring of their liabilities and the liberalization of some international financial markets.

- Fixed Telephony and Long Distance operators investments grew 56.1 per cent, figure which represents the 49.5 per cent of the total amount of investments in telecommunications sector.

- Mobile operators increased their investments in 46.8 per cent, which represent 39.9 per cent of the overall capital spending.

- Pay TV operators increased their investments in 28.1, figure which represents 6.0 per cent of the overall investment.

# INVESTMENT IN TELECOMMUNICATIONS INDUSTRY (MILLIONS OF DOLLARS)

	2000	2001	2002	2003/p	2004/p
<b>Total</b>	<b>5,228.6</b>	<b>5,749.3</b>	<b>3,128.2</b>	<b>2,584.4</b>	<b>3,612.7</b>
<b>1. Local and long distance telephone service 1/</b>	2,772.0	3,162.9	1,584.9	1,131.0	1,766.0
<b>2. Mobile telephony 2/</b>	1,845.1	1,660.9	1,042.5	957.2	1,404.9
<b>3. Pay TV 3/</b>	277.5	450.3	191.4	216.9	277.8
<b>4. Paging y trunking</b>	231.7	297.6	115.7	181.0	114.2
<b>5. Public telephony (new operators)</b>	29.1	23.0	17.8	22.4	18.5
<b>6. Satellite services 4/</b>	14.6	100.9	121.9	38.0	2.7
<b>7. Added value services 5/</b>	58.6	53.8	54.0	37.9	28.6

1/ Includes wire and wireless operators, as well as Long Distance providers. These operators do not specify their investments in other services, such as paging and added value services.

2/ Includes Telcel, Telefónica, Iusacell and Unefon. These operators do not specify their investments in other services.

3/ Include Cable, MMDS and DTH TV operators.

4/ Includes the following operator's investments: Satmex, Globalstar, Orbcomm de México, Corporación de Radiodeterminación, Sistemas Satelitales de México y Enlace Integra.

5/ Includes Internet and Added value services providers.

p/ Preliminary figures

Figures revised since the year 2002

Source: Cofetel with information provided by the operators.

## IV. TARIFFS EVOLUTION

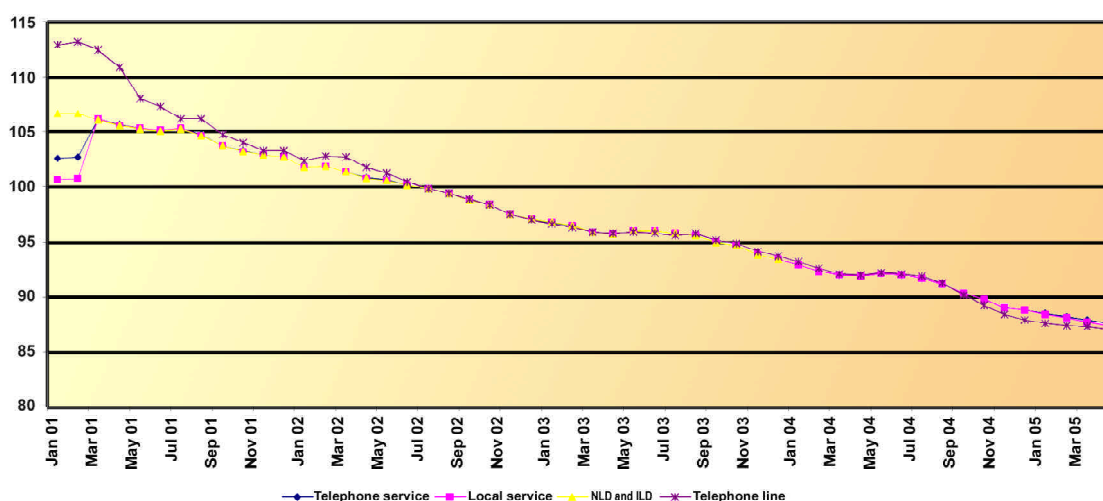
Tariffs have been decreasing in real and nominal<sup>2</sup> terms since the liberalization of telecommunications sector; this has helped to expand services and to promote the introduction of new technologies. In the case of telecommunications basic services<sup>3</sup>, it decreased 4.4 and 1.05 per cent year-on-year in real terms. In mobile telephony tariffs have reduced 33.5 per cent for the postpaid service and 14 per cent for the prepaid mode. It is important to mention that as of January 1<sup>st</sup> 2005, Calling Party Pays tariffs for mobile telephony felt 10 per cent. National Long

Distance tariffs felt 4.1 per cent and International Long Distance Tariffs 8.8 per cent. By the end of march, tariffs of Local Telephony have been experiencing a general fall of 4.6 and 1.3 percent.

<sup>2</sup> Year-on-year variations 1.Mobile: the whole industry, preliminary figures. Postpaid: minutes included; prepaid: outgoing minutes. 2. LD: the whole industry but Avantel and Marcatel 3. Local: Telmex basic services.

<sup>3</sup> Which includes local services, installation costs, National and International LD.

## TELEPHONE SERVICES (CONSTANT PRICES AS OF JUNE 2002)



Source: Cofetel with information from Banxico



Although the slight slow down in the telecommunications sector growth, it still keeps showing important gains in some segments; these increases can be explained by the favorable macroeconomic environment which has helped to:

- Increase the number of users as well as the traffic.
- Reduce tariffs.
- Introduction of new services.
- Establishment of new regulatory frames like the International Telecommunication Rules.

The outlook for telecommunications sector in the year 2005 is still positive. The forecast for Mexican economy<sup>4</sup> is that it will have a 3.84 per cent increase. United State's economy is expected to grow 3.65 per cent, which will certainly help to increase the traffic and number of subscribers, but with lower rates to the ones registered last year.

An improvement is also expected in operator's financial position, resulting from the restructuring of their liabilities and enabling new investment by some operators. For this year, several factors will help to increase

the capital spending in Mexican telecommunications market:

- The end of the bidding process for the 800 and 1900 MHz for trunking and PCS services. The operators will make an initial investment by paying the auction and acquiring infrastructure to provide their services.
- New fixed telephony operators are interested in expand their services within Mexico.
- The operators that will apply the Social Coverage Fund for Telecommunications will begin to build the infrastructure for providing local telephony to 3,930 communities.
- Some operators have established alliances between Pay TV and Local Telephony operators. Most of the operators are focusing their business towards data transmission and broadband services provision.

On the regulatory side, the reduction in Mobile telephony tariffs when calling from a local telephone from 2.50 to 2.25 pesos, with further reductions in the years 2006 and 2007, will allow an important growth in traffic from fixed lines to mobile telephones.

<sup>4</sup> Source: Banco de México; survey among private sector specialists about their economic predictions. April 2005.