

# Index of Telecommunications Sector Production - ITEL -

SECOND QUARTER 2004 (PRELIMINARY FIGURES)

## I. GENERAL ANALYSIS

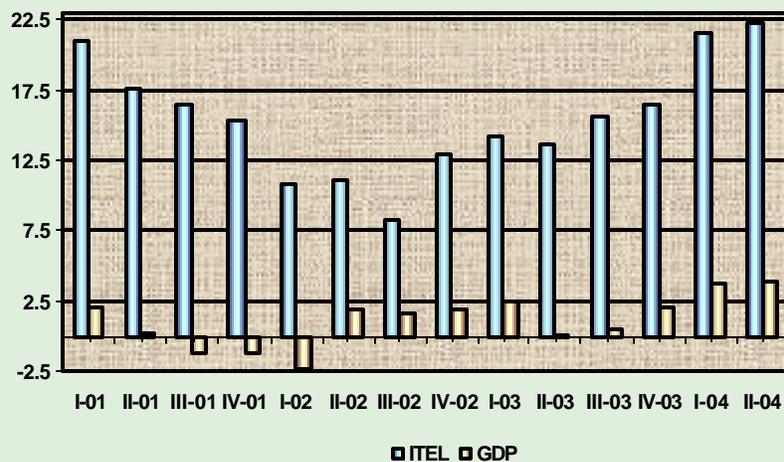
During the second quarter of 2004, the Mexican telecommunications sector continued on the positive course set at the end of 2002. ITEL grew 22.3 per cent year-on-year.

This is the highest growth in ITEL since the fourth quarter of 2000, when the telecommunications sector grew 25.4 per cent.

Transportation, Storage and communications sector grew 8.2 per cent, according to the figures provided by Mexico's National Institute of Statistics (INEGI), outperforming the national economy from the same period, which grew 3.9 per cent.

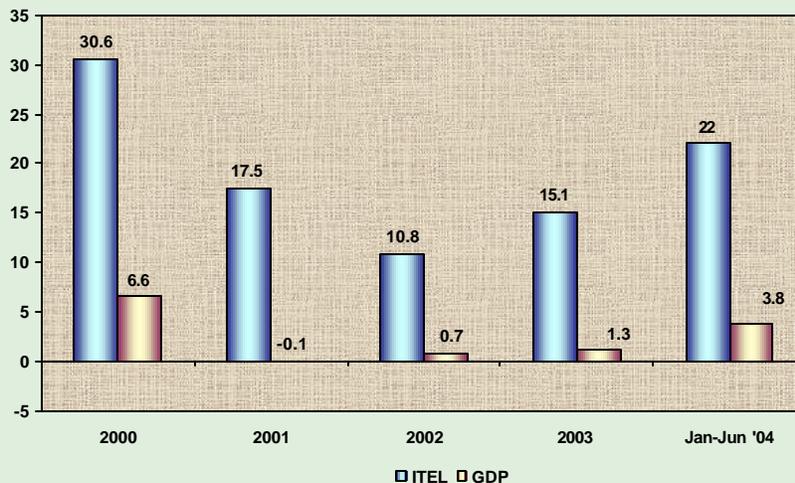
The positive trend in telecommunications sector and the increase in the number of users is a result of the recovery that Mexican economy has experienced through year 2004.

ITEL VS GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

ITEL VS GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel and INEGI

## II. ANALYSIS BY SERVICE SEGMENT

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



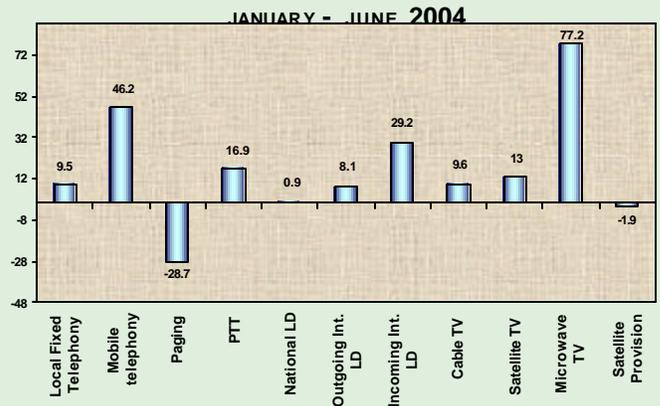
Source: Cofotel

Several factors explain the positive performance of telecommunications sector: the permanence of attractive tariff plans and promotions for users, the successful conclusion of the financial reorganization process in some operators, and also some regulatory decisions that have been taken, such as the new International Telecommunications Rules, issued recently by Cofotel, which give more certainty to this sector.

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

- A 73.1 per cent year-on-year increase in Microwave TV
- Mobile telephony, which keeps showing a strong dynamism, grew 45.8 per cent year-on-year
- Incoming International Long Distance Traffic grew 25.8 per cent year-on-year

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



Source: Cofotel

- Outgoing International Long Distance Traffic grew 13.8 per cent year-on-year
- A 16.3 per cent year-on-year increase in Satellite TV
- A 16 per cent year-on-year increase in trunking (Push-To-Talk) users
- Local telephony experienced a 9.7 per cent year-on-year increase with a total amount of 17,018,489 lines
- Cable TV subscribers increased 10.9 per cent year-on-year

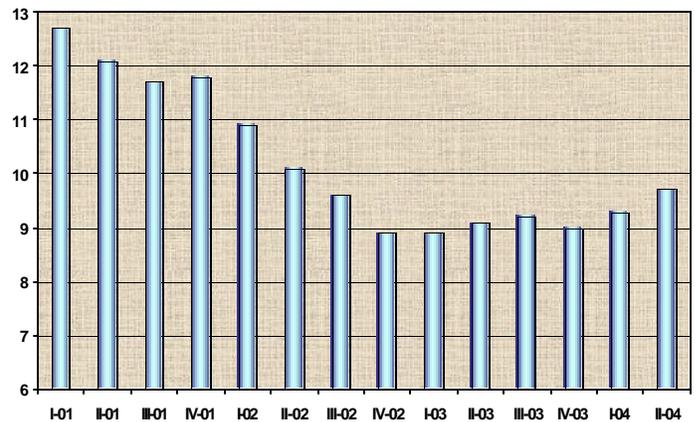
- Some segments had an unfavorable performance:
- National Long Distance Traffic: grew 1.1 per cent year-on-year
  - Satellite Provision had a 5.5 per cent year-on-year decrease
  - Number of Paging users experienced a 24.9 per cent year-on-year decrease.

### LOCAL FIXED TELEPHONY

During the second quarter of this year, 424,000 new lines were installed and reached a total amount of 17,018,489 lines, which means a 9.7 per cent year-on-year increase.

During 2004, 813,000 lines have been installed. In tele-density terms, Mexico has 16.4 lines per each 100 inhabitants. Operators keep expanding their networks within the country and the new providers have increased their presence in more cities. In the case of Teléfonos de México, 26.9 per cent of the installed lines were on the prepay mode.

**LOCAL FIXED TELEPHONY (NUMBER OF LINES): ANNUAL PERCENTAGE VARIATION**



Source: Cofotel

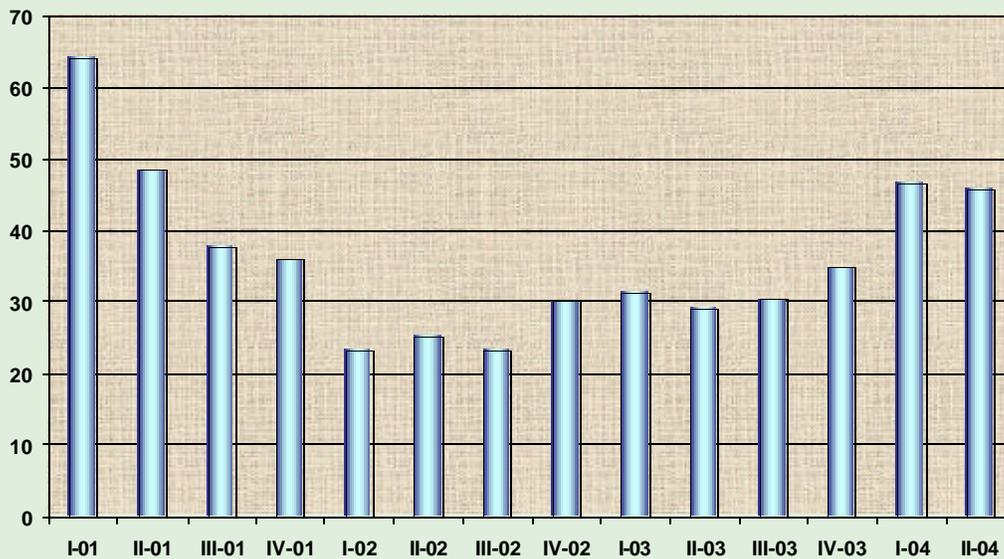
## MOBILE TELEPHONY / PCS (THOUSAND OF MINUTES)

This segment sustained high growth thanks to strong competition between mobile operators, the expansion of new services and technologies such as Short Message Services and other GSM services.

Mobile traffic experienced a 45.8 per cent year-on-year increase, outperforming the 3.0 per cent increase in local service traffic.

By the end of this period there were 33,267,560 mobile users, which means a 21.3 per cent year on year increase. Mobile teledensity was 32 lines per 100 inhabitants.

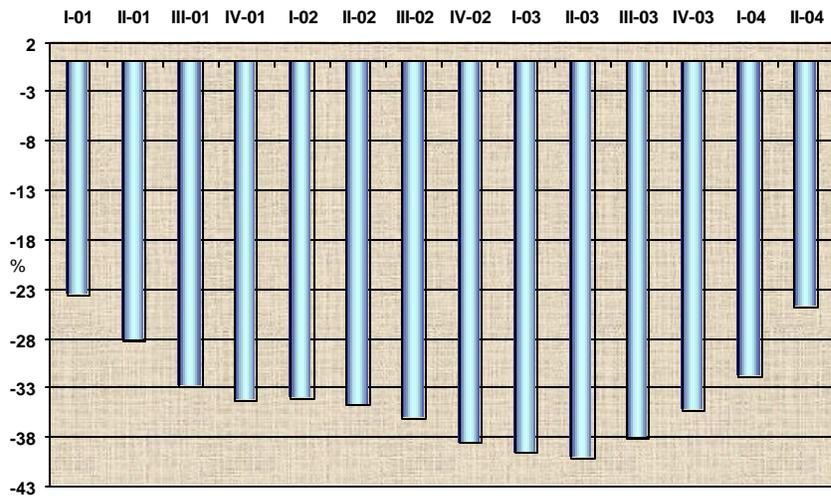
**MOBILE TELEPHONY (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION**



Source: Cofetel

## PAGING (NUMBER OF USERS)

**PAGING (NUMBER OF USERS): ANNUAL PERCENTAGE VARIATION**



Since the third period of 2003, this segment has suffered a slowdown as a result of consumers being attracted away by the mobile "calling party pays" program and the availability of pre-paid mobile and SMS. During last quarter there was a 24.9 per cent year-on-year fall in the number of subscribers, down to 157,236.

Source: Cofetel

## SUBSCRIPTION TV (NUMBER OF USERS)

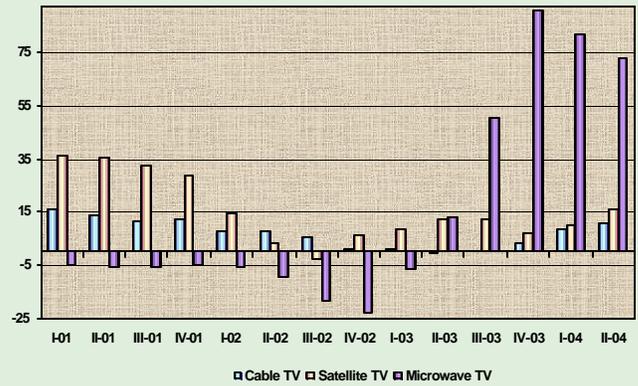
The second quarter of 2004 saw a 17.8 per cent year-on-year increase in paid TV subscribers, thanks to an upturn in Cable and Satellite TV subscriptions, resulting from aggressive tariff reductions.

As a result of the reorientation on the microwave TV market, this segment experienced a 73.1 per cent year-on-year increase.

Cable TV registered a 10.9 per cent year-on-year increase due, in part to the fact that new concession titles were issued to 197 Cable TV operators from 2002. Now, there are 256 villages that can have that service.

Satellite TV (DTH) experienced a 16.3 per cent year-on-year increase during this quarter, the highest figure since the last quarter of 2001.

## SUBSCRIPTION TV: ANNUAL PERCENTAGE VARIATION

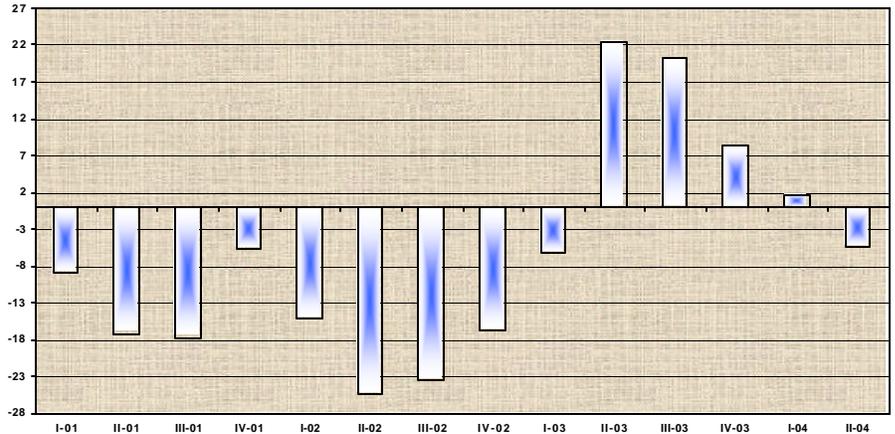


Source: Cofetel

## SATELLITE PROVISION (MEGAHERTZ)

This segment registered a 5.5 per cent year-on-year decrease.

## SATELLITE PROVISION (MEGAHERTZ): ANNUAL PERCENTAGE VARIATION

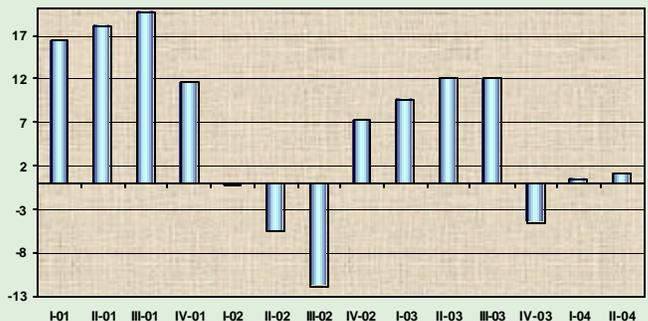


Source: Cofetel

## NATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

This segment experienced a 1.1 per cent year-on-year increase during this quarter. It was a minimum increase although the growth in Mexican economy activity during 2004 and the special offers from some operators.

## NATIONAL LONG DISTANCE (THOUSAND OF MINUTES): ANNUAL PERCENTAGE VARIATION



Source: Cofetel

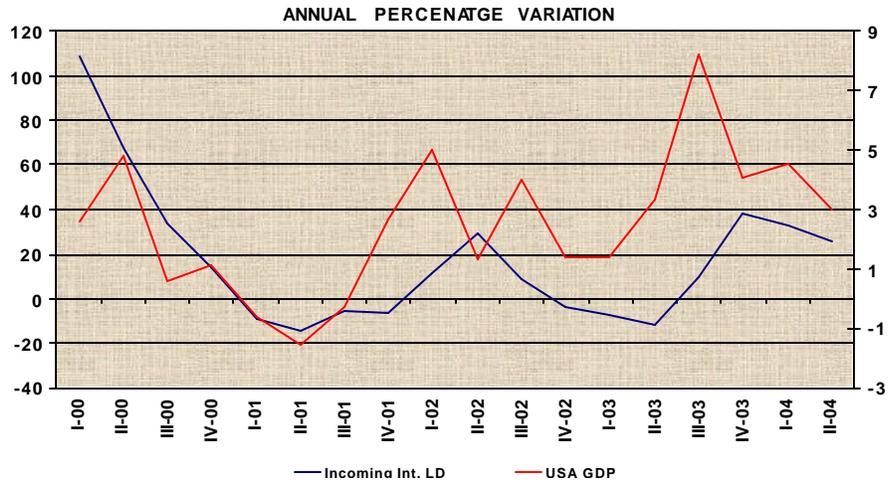
## INTERNATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

For the second quarter of 2004, this segment registered a 2.8 per cent year-on-year growth, largely as a result of the growth in United States economy and because some long distance operators have adapted their strategies to recoup bypass traffic.

Incoming International Long Distance grew 25.8 percent year-on-year and Outgoing International Long Distance experienced a 13.8 per cent year-on-year increase, the most important growth since the first quarter of year 2003.

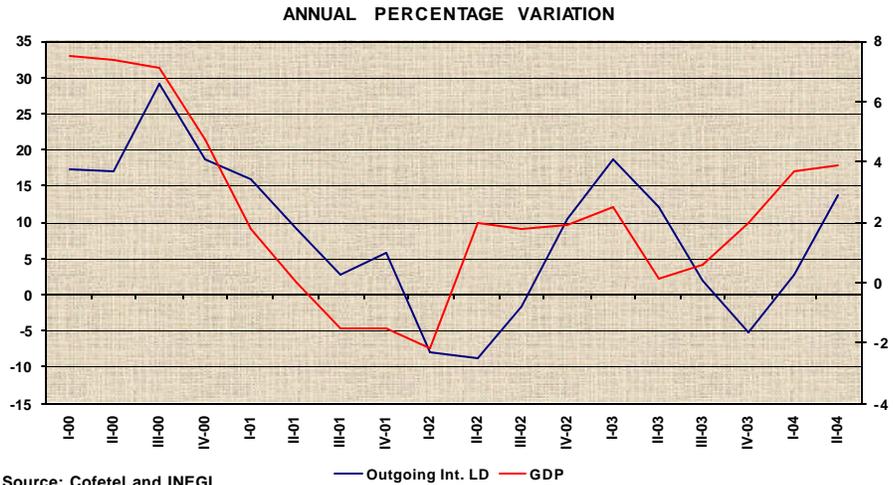
The application of International Telecommunications Rules will help to reduce the illegal traffic because this new regulation release the completion call tariffs and eliminate the so called proportional return.

**INCOMING INT. LD (THOUSAND OF MINUTES) vs. USA GDP:**



Source: Cofetel and Bureau of Economic Analysis

**OUTGOING INT. LD (THOUSAND OF MINUTES) vs. GDP**

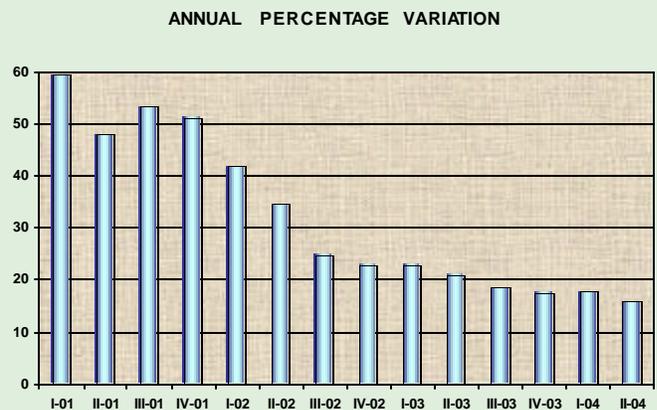


Source: Cofetel and INEGI

## TRUNKINGOR PUSH-TO-TALK (PTT) (THOUSAND OF USERS)

The number of Push-To-Talk users grew 16 per cent year-on-year. At the end of the quarter there were 792,008 PTT users.

**TRUNKING PTT (NUMBER OF USERS):**



Source: Cofetel

## FINAL CONSIDERATIONS

The positive performance of the telecommunications sector in the second quarter of 2004 and throughout 2003 generally, reflects the moderate growth of both, the US and the Mexican economies and the tariff reductions across several telecommunication services.

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>1</sup>

- Mobile telephony tariffs fell 19.6 per cent for post-pay and 31.7 per cent in pre pay.
- Tariffs fell 5.5 per cent for National Long Distance and 3.4 per cent for International Long Distance (United States and Canada not included).
- Local telephony tariffs fell 3.1 per cent.

The positive performance that United States economy has experienced since the second half of 2003, the dynamism shown by American industry, the strengthen of internal consume and the moderate increase in private

investments in Mexican markets, allow to expect a better perspective for national economic activity.

The performance of Mexican telecommunications industry suggest recovery and growth in most of the sector services, resulting from new investments –which this year will reach 3,845 million dollars<sup>2</sup>– and from the introduction of new services.

An improvement is also expected in operator's financial position, resulting from the restructuring of their liabilities and enabling investment by operators like Telcel, Telmex and Telfónica Móviles de México. In general, operators 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 new International Telecommunications Rules, the spectrum biddings in PTT, Mobile and Satellite Services and the Social Coverage Fund are expected to contribute to service expansion and the introduction of new technologies in benefit of Mexican users.

<sup>1</sup> 1. Mobile: the whole industry, preliminary figures. Post pay: minutes included; prepay: outgoing minutes. 2. LD: the whole industry but Avantel and Marcatel. 3. Local Telephony: Telmex, basket of basic services.

<sup>2</sup> Dirección General de Tarifas e Integración Estadística, Cofetel, with information from the operators.