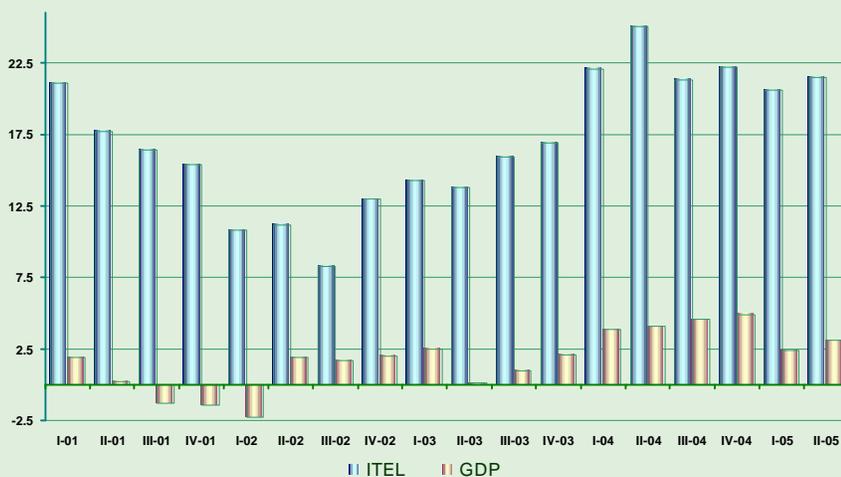


# Index of Telecommunications Sector Production - ITEL -

2005 SECOND QUARTER (PRELIMINARY FIGURES)

## I. GENERAL ANALYSIS

ITEL vs GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel whit information provided by the operators

ITEL vs GDP: ANNUAL PERCENTAGE VARIATION



Source: Cofetel whit information provided by the operators

During the second quarter of the year 2005, telecommunications sector<sup>1</sup> grew 21.5 per cent year on year, outperforming national economic growth for the same period, which was 3.1 per cent.

On the first quarter of the current year, telecommunications sector had a 21.1 per cent accumulated growth. Transportation, Storage and Communications sector experienced a 7.1 per cent year-on-year growth, according to the figures provided by Mexico's National Institute of Statistics (INEGI).

The positive behavior in telecommunications sector was driven by the sharp increase in Services Sector –especially Financial Services– which had a 4.1 per cent year-on-year increase. It also can also be explained by:

- The permanence of attractive tariff plans and promotions for mobile, long distance and broadband users.
- The associations among different operators, in order to provide voice, data and Internet services, which increased the number of subscribers and promoted the use of infrastructure.

<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

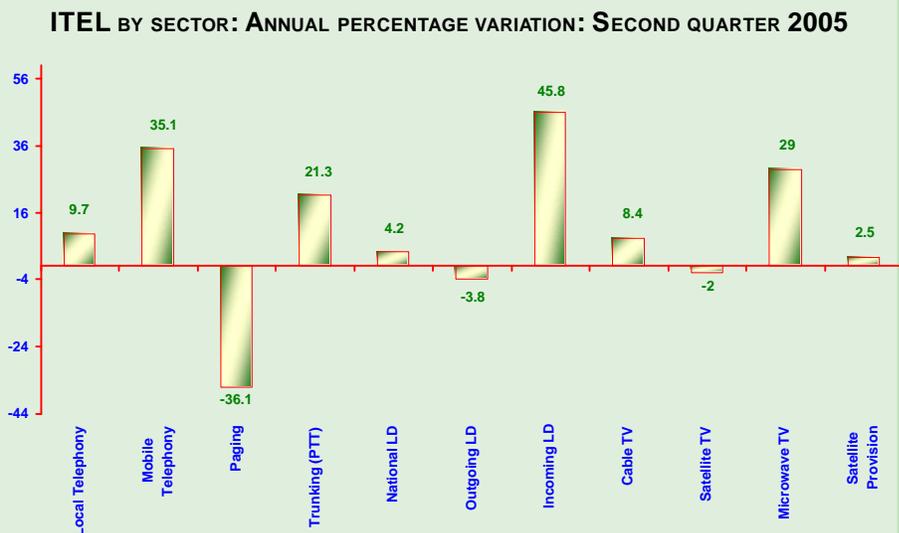
Among the most significant changes for the second quarter of 2005 were:

- A 45.8 per cent year-on-year increase in incoming international long distance, growth that can be explained due to the positive performance of US economy and the low tariffs in United States-Mexico route.

- Mobile telephony grew 35.1 per cent year-on-year and registered more than 42 million subscribers.

- The number of microwave TV users grew 29 per cent year-on-year.

- A 21.3 per cent year-on-year increase in trunking (Push-to-Talk) service.



Source: Cofetel whit information provided by the operators

- Fixed lines reached 18,869,135 users, which represents a 9.7 year-on-year increase.

- Cable TV grew 8.4 per cent year-on-year and reached 3 million users.

- National long distance traffic increased 4.2 per cent year-on-year, a lower figure than the one registered on the last quarter.

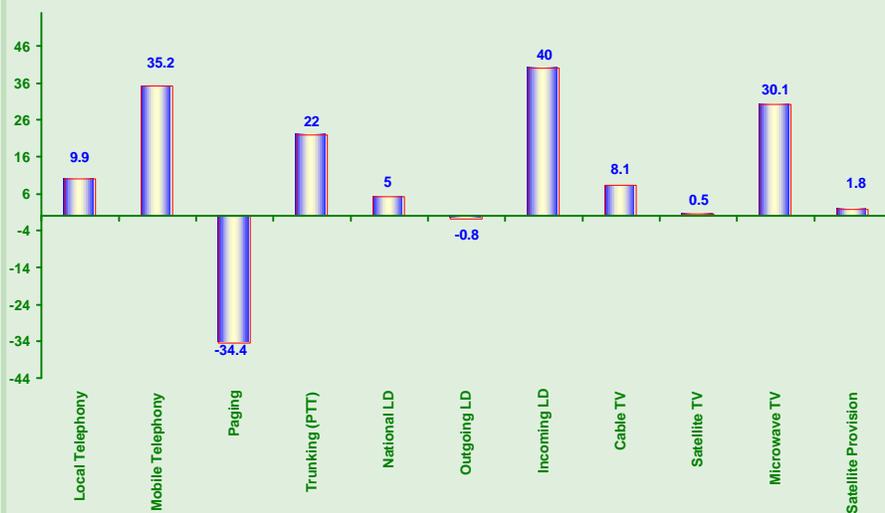
- Satellite provision left the negative trend experienced on the last quarter and registered a 2.5 per cent year-on-year increase, the highest growth since 2003.

- The number of paging users fell 36.1 per cent year-on-year.

- Outgoing international long distance traffic declined 3.8 per cent year-on-year, the first negative rate since 2003.

- The number of Satellite TV users fell 2 per cent year-on-year.

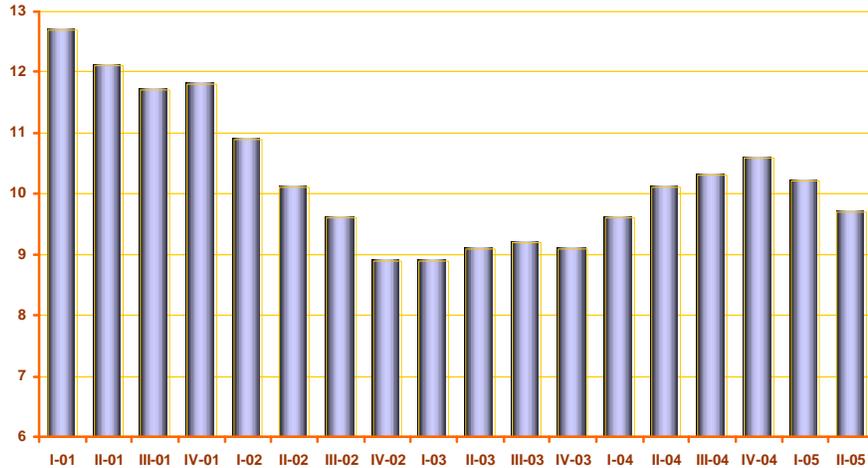
### ITEL BY SECTOR: ANNUAL PERCENTAGE VARIATION: JANUARY-JUNE 2005



Source: Cofetel whit information provided by the operators

# LOCAL FIXED TELEPHONY

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

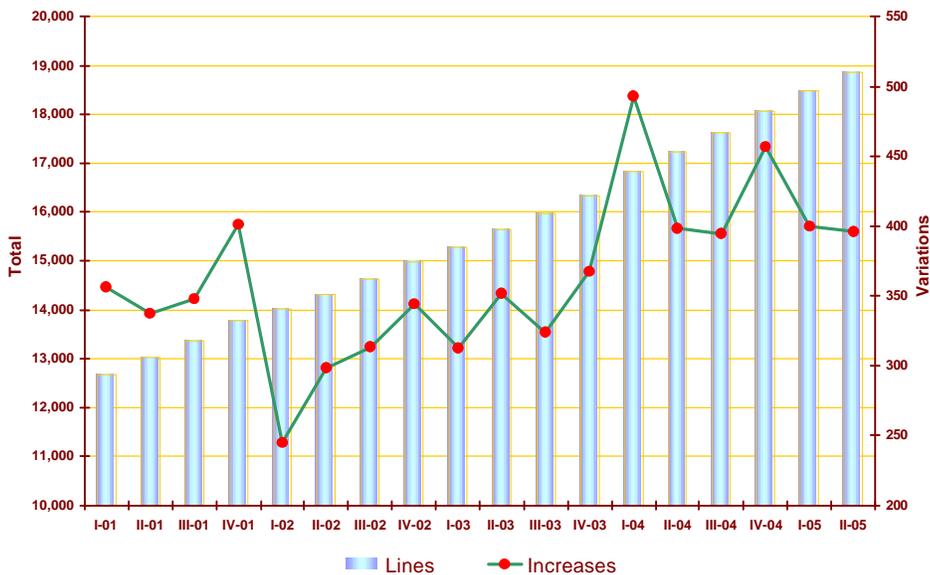


Source: Cofetel whit information provided by the operators

During the second quarter 396,402 new fixed lines were installed; 20.2 per cent of them belong to Telmex competitors. Mexico has 18,869,135 lines, which means a 9.7 per cent year-on-year increase and a 9.9 per cent growth in comparison to the fi-

gures registered on the first quarter. A 42.6 per cent of the new lines belong to the prepaid system offered by Telmex, that is growing among the low income users. Mexico has a 17.7 per cent teledensity.

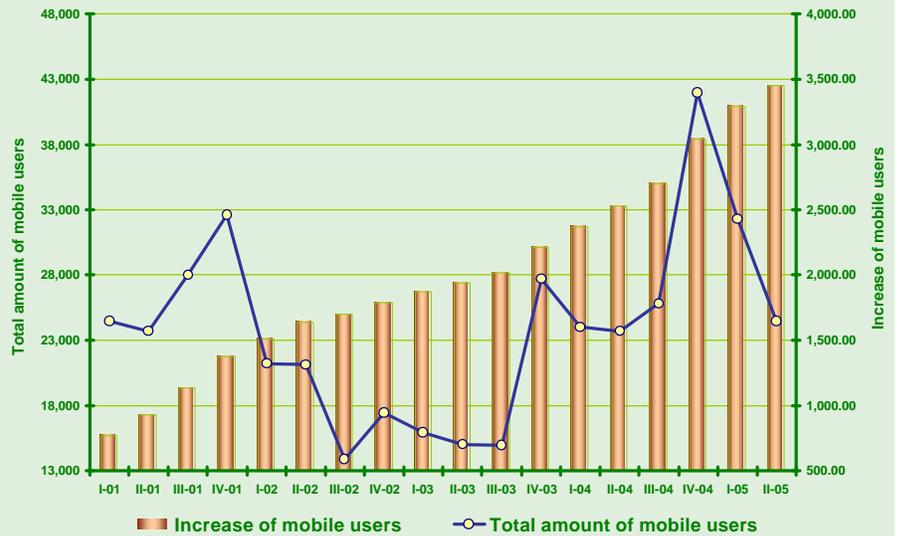
LOCAL FIXED TELEPHONY: LINES AND INCREASES



Source: Cofetel whit information provided by the operators

## MOBILE TELEPHONY (THOUSAND OF MINUTES)

### MOBILE TELEPHONY NUMBER OF USERS AND INCREASES



Source: Cofetel whit information provided by the operators

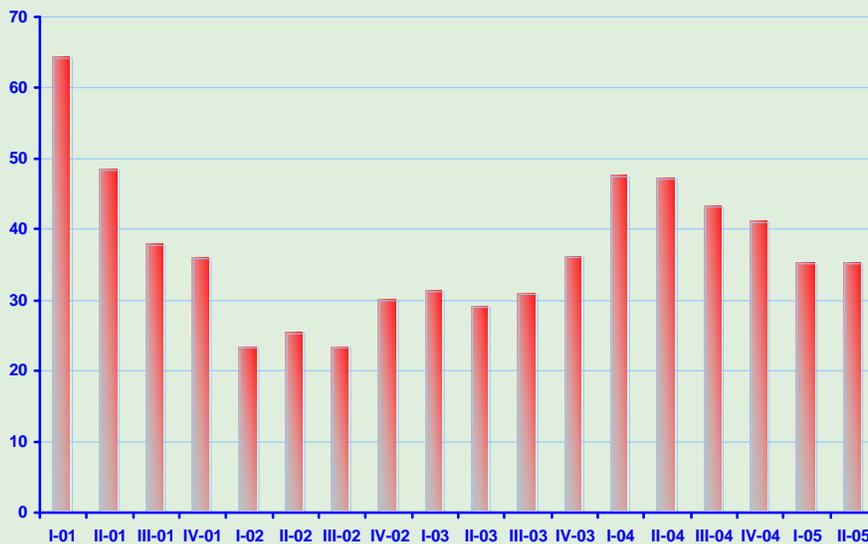
This is one of the most dynamic segments of Mexican telecommunications sector, due to the number of users and the minutes of traffic. Mobile operators face strong competition, offering special tariffs and promotions which aim to increase

their market share. This competition has caused a tariff reduction: 29 per cent in post-paid service and 14 per cent in pre-paid service.

The number of minutes registered by mobile operator's networks grew 35.1 per cent year-on-year.

Mobile telephony reached 42,053,000 million users by the end of June, which means a 27.8 per cent year-on-year increase. During the second quarter, this segment registered 1.65 million of new subscribers.

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



Source: Cofetel whit information provided by the operators

## PAGING (NUMBER OF USERS)

PAGING (NUMBER OF USERS): ANNUAL PERCENTAGE VARIATION



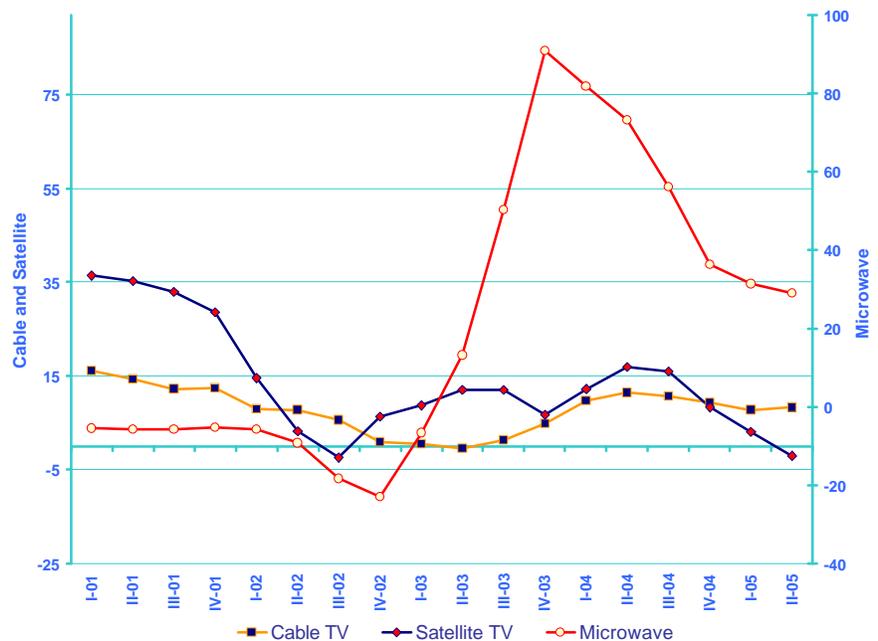
This segment keeps experiencing a slowdown as a result of consumers being attracted away by the mobile “calling party pays” program and the availability of Short Message Service provided by mobile and Trunking (Push-To-Talk) operators. For this quarter, paging users in Mexico declined 36.1 per cent, the highest reduction since 2003. By June 2005, there were 92,173 paging users.

Source: Cofetel whit information provided by the operators

## SUBSCRIPTION TV

Subscription TV users grew 8.6 per cent year-on-year. Microwave TV users increased 29 per cent year-on-year and reached 763,000 subscribers by the end of this quarter. This growth can be explained by the marketing strategies implemented towards low-income users and the introduction of wireless Internet service. Cable TV experienced a 8.4 per cent year-on-year growth and now has 3.05 million users. Satellite TV (DTH) had a 2 per cent year-on-year fall and has 1.066 million subscribers. Direct TV company closed down recently, and this situation contributed to the positive behavior on Cable TV.

SUBSCRIPTION TV (NUMBER OF SUSCRIBERS): ANNUAL PERCENTAGE VARIATION

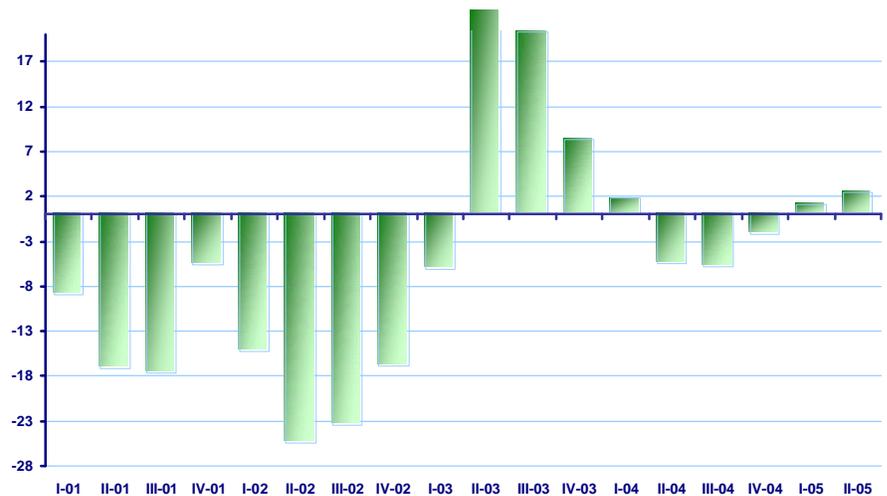


Source: Cofetel whit information provided by the operators

## SATELLITE PROVISION (MEGAHERTZ)

Satellite Provision segment (megahertz) keeps a positive trend and grew 2.5 per cent year-on-year. That rate is the highest since the end of the year 2003.

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



Source: Cofetel whit information provided by the operators

## NATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

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

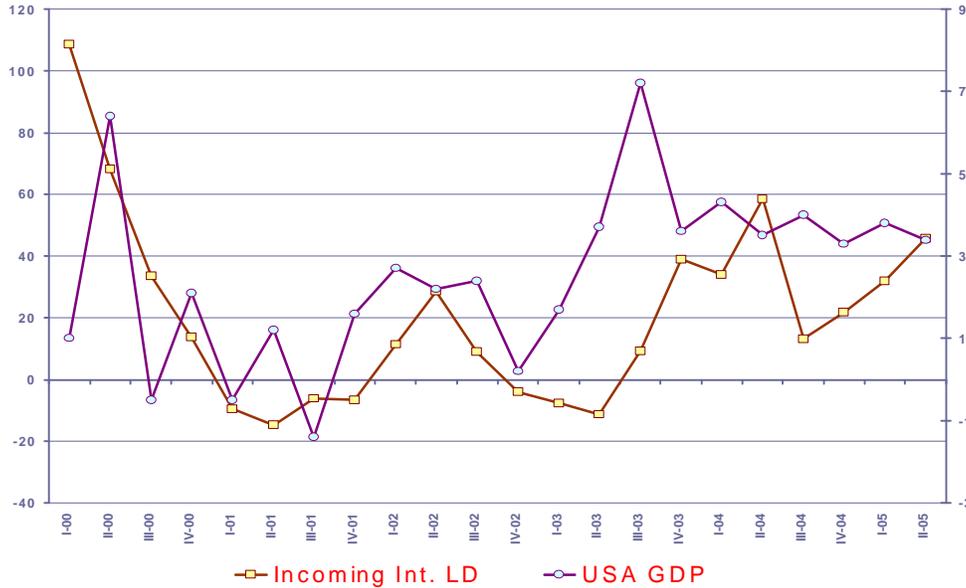


Source: Cofetel whit information provided by the operators

National long distance traffic –measured in minutes– increased 4.2 per cent during this quarter. This rate is smaller than the one registered on the first quarter (5.8 per cent), due to the moderate growth rates that Mexican economy registered on the last months.

## INTERNATIONAL LONG DISTANCE (THOUSAND OF MINUTES)

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



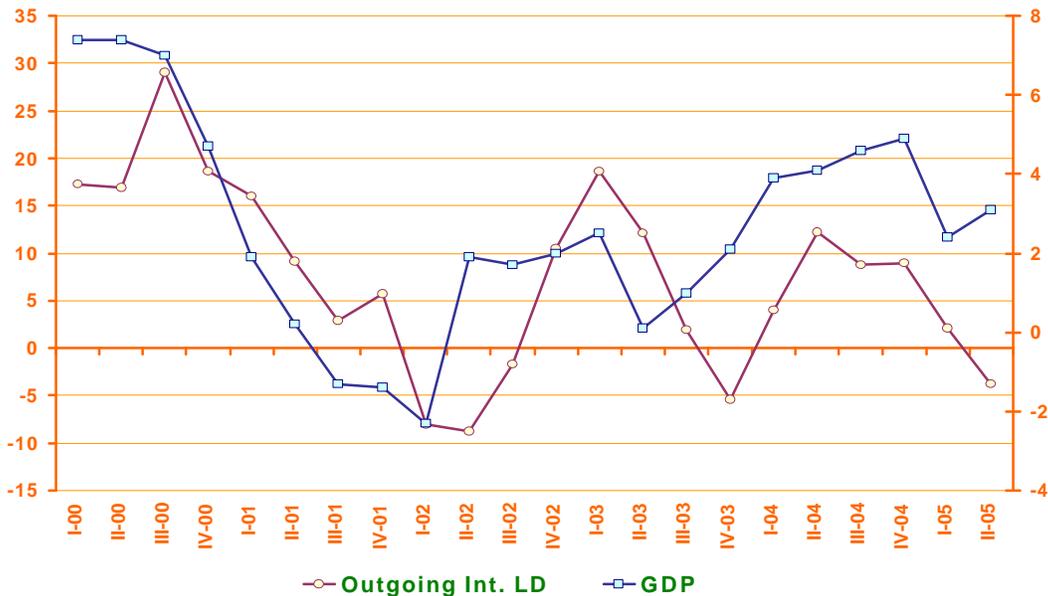
Source: Cofetel whit information provided by the operators and US Bureau of Economic Analysis

This segment had different results. Incoming International long distance traffic grew 45.8 per cent year-on-year, which is the highest growth in the last 12 months, This increase was possible thanks to the effect of the International 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 traffic declined 3.8 per cent year-on-year, which is the first negative rate since 2003.

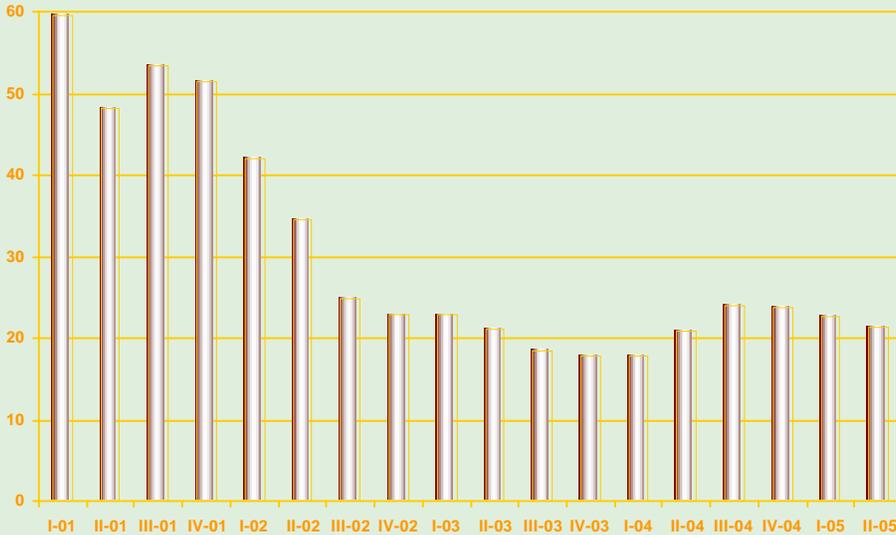
**OUTGOING INT. LD (THOUSAND OF MINUTES) vs. GDP: ANNUAL PERCENTAGE VARIATION**



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

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

TRUNKING (# OF USERS): ANNUAL PERCENTAGE VARIATION



Source: Cofetel whit information provided by the operators

PTT users grew 21.3 per cent year-on-year, due to the introduction of new services and the attractive tariff packages. By the end of June, there were more than a million users.

## III. TARIFFS EVOLUTION

Telecommunications sector 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. The Index of prices for telecommunication basic services<sup>3</sup> fell 4.48 per cent year-on-year and 1.06 per cent by the end of the year 2004.

In the case of mobile telephony, post-paid tariffs fell 29 per cent and pre-paid fees declined 14 per cent.

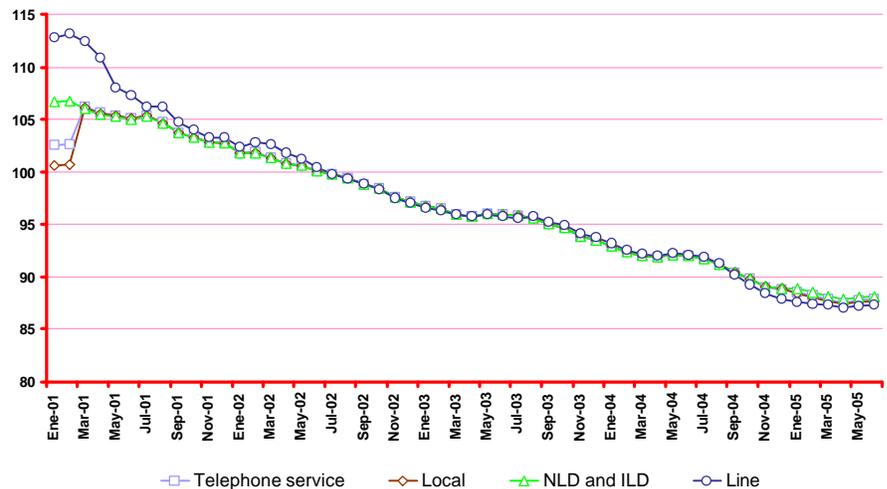
National long distance tariffs fell 6.9 per cent and international long distance fees declined 15 per cent year-on-year.

Local telephony tariffs have experienced a 1.3 per cent year-on-year fall.

<sup>2</sup> Year-on-year variations: 1.-Mobile; the whole industry preliminary figures. Post-paid: minutes included; pre-paid: outgoing minutes. 2.- Long distance: the whole industry but Avantel and Marcotel. 3.- Local: Telmex basic services.

<sup>3</sup> Which includes local services, national and internacional long distance and telephone line. Information provided by El Banco de México.

INDEX OF PRICES FOR TELECOMMUNICATIONS BASIC SERVICES (CONSTANT PRICES, JUNE 2002)



Source: Cofetel whit information provided by El Banco de México

## IV. FINAL CONSIDERATIONS

Telecommunications sector remains as one of the most dynamic segments of the Mexican economy, due to the positive macroeconomic environment, which has led to an increase in the number of subscribers and more traffic and signals volume.

This positive behavior can also be explained by the permanence of attractive tariffs plans, alliances among operators and the introduction of new services.

The outlook for telecommunications sector during the second semester is still positive. The forecast for Mexican economy<sup>4</sup> is that it will have a 3.54 per cent increase. United State's economy is expected to grow 3.6 per cent, which will certainly help to increase the traffic and number of subscribers.

An improvement is also expected in Mexican operator's financial position, resulting from the increase of subscribers, the restructuring of their liabilities and the stability of the interest rates.

By the end of the year 2005, operators will make the initial investments related to the use of 800 and 1900 MHz bands for offering PTT and PCS services. In addition, the operators that will apply the Social Coverage Fund for Telecommunications will begin to build the infrastructure for providing local telephony in 3,930 communities.

On the regulatory side, after a consulting process with the industry and with the approval of Cofemer –

Mexican Regulatory Improvement Commission– Cofetel is about to release the new Rules for Long Distance Service, in order to establish the "Calling Party Pays" program throughout Mexico.

This decision will drive an increase in both, Mobile and long distance traffic and will expand the coverage of telecommunications services to small communities within Mexico.

The past August the 12<sup>th</sup>, Cofetel released the Rules for Resellers; this regulation will allow Mexican consumers to have lower tariffs for National and International long distance.

Cofetel also established regulatory resolutions for using the 900MHz, 2.4 GHz and 5GHz bands; this decisions will allow economic agents to use this bands in a more efficient way and will help to promote broadband services for more Mexican users. Other countries which have approved similar resolutions are able now to make a better use of their spectrum, offering telecommunications services and using scientific and medical equipment in benefit of their population.

All these regulatory resolutions will help to expand telecommunications services and introduce new technologies in benefit of Mexican users.

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