

Index of Telecommunications Sector Production

– ITEL –

2004 first quarter (preliminary figures)

I. GENERAL ANALYSIS

During the first quarter of 2004, the Mexican telecommunications sector continued on the positive course set at the end of 2002. ITEL grew 21.6 per cent year-on-year, outperforming the national economy for the same period, which grew 3.7 per cent.

This is the highest growth in ITEL since the fourth quarter of 2000, when the telecommunications sector grew 25.5 per cent.

At the macroeconomic level, the health of the telecommunications sector reflects the recovery in the national economy, which also experienced the highest growth during the quarter since the last quarter of 2000. The growth in the Mexican economy gave rise to annual growth of 9.5 per cent in the transportation, storage and communications sector, according to the figures provided by Mexico's National Institute of Statistics (INEGI).

II. ANALYSIS BY SERVICE SEGMENT

Growth in the telecommunications sector was driven by a sharp increase in microwave TV, which grew 81.8 per cent year-on-year. Incoming international long-distance traffic grew 33.2 per cent, and mobile telephony traffic increased 46.7 year-on-year.

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

- a 17.8 per cent year-on-year increase in trunking (push-to-talk, PTT) subscriptions
- the number of local telephony lines finished the quarter 9.3 per cent up year-on-year
- outgoing international long distance traffic grew 2.8 per cent year-on-year
- national long-distance traffic grew 0.6 per cent year-on-year

- the number of satellite TV subscribers grew 9.7 per cent year-on-year
- bulk satellite service provision (measured in megahertz) grew 1.8 per cent year-on-year

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 390,000 new local fixed telephony lines registered in the quarter, bringing the total to 16,594,602 lines (16.3 per cent teledensity). This equates to 9.3 per cent year-on-year growth for the quarter.

MOBILE TELEPHONY

This segment sustained high growth, thanks to strong competition between mobile operators, the expansion of new services and the continued popularity of new technologies such as Short Message Service (SMS)¹ and other GSM services.

Traffic increases over recent quarters are also a result of the coverage expansions made by Telefónica and Telcel. Telefónica recently finalized its adoption of frequencies formerly owned by Pegaso Telecomunicaciones, while Telcel now covers 434 cities and 110 highways.

Mobile traffic grew 46.7 per cent year-on-year. At the end of the first quarter of 2004 there were 31,692,045 mobile subscribers – an 18.6 per cent increase year-on-year.

PAGING (NUMBER OF USERS)

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. There was a 31.9 per cent year-on-year fall in the number of subscribers for the first quarter – down to 162,632.

¹ SMS traffic has grown fivefold since all mobile operators concluded the interconnection of their networks. On 8th October of 2003, Cofetel resolved an interconnection dispute between Iusacell and Telcel, which enabled SMS message to be sent between the two operators’ networks.

SUBSCRIPTION TV (NUMBER OF USERS)

The first quarter of 2004 saw a 15 per cent increase in paid TV subscribers, thanks to an upturn in microwave and cable subscriptions (resulting from aggressive tariff reductions) and a reorientation of the microwave TV market.

For this quarter, subscription TV grew 8.4 per cent year-on-year. Domestic satellite subscriptions grew 9.7 per cent year-on-year and microwave experienced an 81.8 per cent year-on-year increase.

SATELLITE PROVISION (MEGAHERTZ)

This segment registered a 1.8 per cent year-on-year growth for the first quarter of 2004.

NATIONAL LONG-DISTANCE (MINUTES OF USE)

This segment registered a 0.6 per cent year-on-year increase for the first quarter of 2004, reflecting the growth in Mexican economic activity.

INCOMING INTERNATIONAL LONG-DISTANCE (MINUTES OF USE)

For the first quarter of 2004 this segment grew 33.2 per cent year-on-year, largely as a result of the 4.2 per cent growth in the United States economy and because some long distance operators have adapted their strategies to recoup bypass traffic.

OUTGOING INTERNATIONAL LONG-DISTANCE

Outgoing international long-distance traffic has been affected by the sluggish recovery of the Mexican economy. Nevertheless, for the first quarter of 2004, outgoing international traffic grew 2.8 per cent year-on-year, in contrast to the 5.3 per cent fall registered for the last quarter.

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

The number of push-to-talk (PTT) users grew 17.8 per cent year-on-year for the first quarter of 2004. At the end of the quarter there were 776,705 PTT users.

III. FINAL CONSIDERATIONS

The positive performance of the telecommunications sector in the first quarter of 2004 and throughout 2003 generally, reflects the moderate growth of both the US and Mexican economies and the tariff reductions across several telecommunications 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: ²

- Mobile telephony tariffs fell 13.7 per cent for post-paid and 31.4 per cent for pre-paid services.
- Tariffs fell 5.5 per cent for national long-distance calls, while international long distance tariffs (except for the USA and Canada) fell 3.4 per cent.
- Local telephony tariffs fell 1.5 per cent year-on-year 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.

An improvement is also expected in operators' financial position, resulting from the restructuring of their liabilities, and enabling investment by local telephony operators and other service providers, like cable TV companies. In general, operators aim to increase their presence in a greater number of Mexican cities and focus on new data 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 service expansion and the introduction of new technologies.

² Variations: 1. Mobile: Telcel preliminary figures. Post pay – number of minutes included; prepay – outgoing minutes. 2. Long Distance: all operators except Avantel and Marcotel. 3. Local: Telmex, basket of basic services.