

The turning point

Anamércia Vainsencher

The market has recovered in 2004. *Anuário Telecom* shows that telecommunications have grown higher than the economy and the whole electro-electronics industry, with net revenues of US\$ 34.6 billion. Mobility and broadband communications were decisive for this good performance.

The year 2004 was considered a landmark, and was celebrated as such, because for a long time the country was unable to grow. Actually, after almost zero, Gross Domestic Product (GDP) has increased 4.9%. Nothing could be better after the recession which has cooled the economy in previous year. Telecommunications, however, have gone over and above.

Much farther according to figures determined by *Anuário Telecom 2005* after analyzing results of 184 companies of 26 different areas, among them 21 mobile carriers (personal and multimedia communications – PMS and CMS) and 14 fixed commuted carriers (FCTS).

Anuário's market net revenues have reached US\$ 34.6 billion, or 27% more than in 2003, the best result of *Anuário's* historic series since 1999; a level of business duly irrigated by investments and revenues of major industry players. Both investments and revenues, now related to mobile telephones, now to broadband communications, were the major leaders of telecommunications current dynamism.

Telecommunications carriers alone have invested R\$

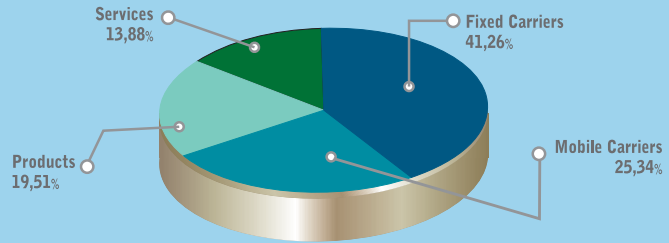
14 billion, according to the specialized site Teleco. From these, mobile carriers responded for 69%, or R\$ 9.7 billion, more than twice the amount invested in 2000, and 77% more than in 2003.

Although the participation of the products industry (hardware and software) has not reached 20% of total revenues in previous year, US\$ 6.7 billion results of this block represented 45% expansion as compared to 2003, a dynamism not felt for a long time by suppliers. This percentage does not reflect the leaps of some specific industries, as expected, most related to mobile businesses, such as accessories and supplies (more than three times growth from one year to the other), or mobile infrastructure equipment (+ 75%). And notwithstanding that in 2004, the capex of FCTS companies has remained the same as previous year, carriers procurements have shaken the fixed commuted market, which was for a long time in an inertial state. Net revenues of the industry have grown 76% in the last fiscal year.

Net US\$ 28 billion results of service companies (including carriers) represented more than 80% of the



The market in 2004 US\$ 34,6 billion (net income)



market. As always, the lion's share belonged to fixed and mobile carriers: US\$ 23 billion, or 67% of total *Anuário's* market.

As to major indicators analyzed by *Anuário's* team with the support of GV Consult financial analysis expert Japir de Mello Jr., in 2004 as in previous year most of the 100 largest companies (more than 60%) had profits. Similarly, more than half of them were profitable on sales. Approximately 42% of the largest companies had return on investments of up to 20%, and more than half of the ranked companies had net revenues of more than 30%.

Analyzing last year's performance of the productive sector (physical production 8.3% higher and 6% more productivity), the Institute of Studies for Industrial Development (Iedi) has observed that the growth of the industry was led by technology-intensive segments, among them telecommunications, with durable consumption goods such as cell phones.

Durable consumption goods industry growth (17%) was higher than that of the industry as a whole. Recovery had everything to do with income recovery – in fact, a critical element for the geometric expansion of cell access base – with new credit facilities and especially with exports.

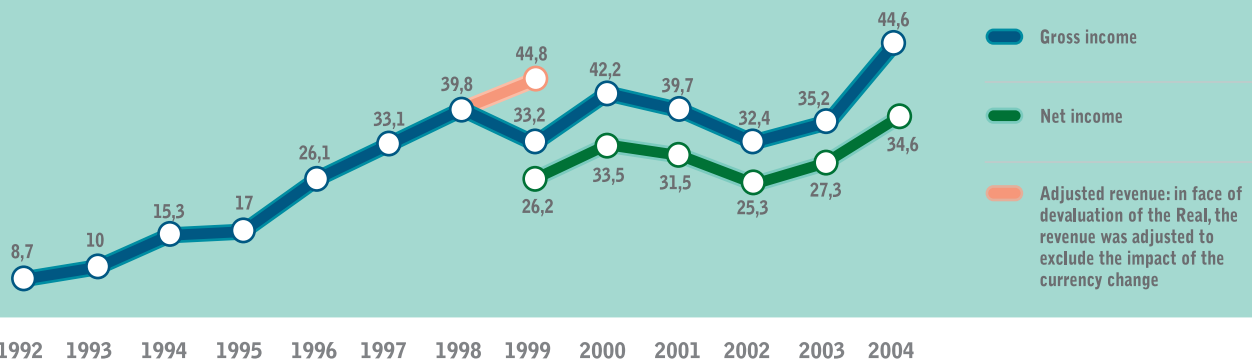
According to Iedi, external sales have provided the income needed to activate other demand components, opening space for growth recovery, in spite of high interest rates and the level of banking spreads. The challenge, observes Iedi's study, is to promote industrial

expansion continuity, especially of more technology-intensive segments, however without forgetting less technology-intensive sectors, which are major manpower employers, thus essential for a robust domestic market. Although showing some loss of breath as compared to last year's rhythm, according to the Brazilian Institute of Geography and Statistics (IBGE), in June 2005 the industry has grown 1.6% as compared to May, and 4.6% between February and June of current year. Here, once more, among branches determining the positive global behavior, the second largest contribution was made by electronic materials and communications equipment (+ 7.1%). In one year (June 05 / June 04), manufacturing has grown 6.3% and, again, electronic materials and telecommunications equipment industry were the second most important contributors (37.3%). Still, as compared to June 2004, cell phones production has increased above 79%.

Recent data of the Brazilian Association of the Electric and Electronic Industry (Abinee) reinforce the fact. Sales continued growing in June, however in July and August in a slower pace as compared to the first quarter of this year. Even so, the first quarter 2005 presented favorable results and shall have grow approximately 5% as compared to the same period 2004.

As observed by Iedi, Abinee confirms that significant exports are contributing for the positive performance of the sector. From January to May, external sales have reached US\$ 3 billion, with 58% increment as compared

Market increase on gross and net income





Telecom business' revenues and market share

to the same period last year. Until May, cell phone exports have grown 310%, with revenues of US\$ 903 million, more than what was achieved throughout 2004 (US\$ 736 million) and close to 2003 results (US\$ 1 billion).

According to the agency, cell phones performance in the domestic market was fostered by replacements of hand held devices and also by new mobile access services which, according to the National Telecommunications Agency (Anatel) have reached 75.5 million in June, or 9.9 million above the 65.6 million in December 2004. According to Abinee, fixed telephone orders have continued due to broadband investments needed for the deployment of new technologies such as Voice over IP (VoIP) and related services.

Major businessmen concern in the first semester was the increase in interest rates, analyzes the Association, adding that the possibility of monetary policy loosening may encourage new investments in the next months, bringing positive perspectives for the sector. Another factor inhibiting an even better business performance is US dollar devaluation against the Real, discouraging exports and favoring imported products competition. In this case, Chinese products imports are to be stressed. Abinee's mid-year probing says: "The political crisis being faced by the country is not affecting, right now, the businesses of the sector, however there is concern for what may happen in the next months".

The expectation for the year is 15% growth in nominal revenues of the electro-electronic industry, which may reach R\$ 93.7 billion. Adjusted for inflation, actual projected growth is approximately 6%.

HARDWARE AND SOFTWARE

	Net Revenue (US\$ million)	Share (%)
Handsets and Terminals	3,649,186.64	54.03
Mobile Systems	1,432,427.61	21.21
Access Networks	335,686.33	4.97
Private Networks	327,897.91	4.86
Public Switching	242,698.74	3.59
Cables	199,268.41	2.95
Other Products	166,314.43	2.46
Transport Networks	135,663.39	2.01
Infrastructure	90,999.24	1.35
Application Software	63,274.58	0.94
Support Software	59,301.10	0.88
Components	16,051.36	0.24
Instrumentation	15,605.09	0.23
Supplies and Accessories	10,308.10	0.15
Trunking and Pay TV Systems	8,916.51	0.13
Total	6.753.599,44	

SERVICES

	Net Revenue (US\$ million)	Share (%)
PTTs	14,281,746.76	51.27
Cellular	8,771,044.83	31.48
Data Communications	1,909,586.32	6.85
Consultancy and Professional Services	1,027,080.15	3.69
Value added	708,306.97	2.54
Pay TV	554,919.03	1.99
Internet/Access	213,424.03	0.77
Networking	196,092.45	0.70
Application Development	112,572.68	0.40
Internet/Services	70,264.09	0.25
Other services	9,101.19	0.03
Trunking	4,189.71	0.02
Total	27.858.328,21	