Market bets in broadband

Be it for leisure or to support professional activities, telecom services are increasingly exploring high-speed infoways. It is the broadband which, in corporate and home environments, helps to change for good the way people and companies communicate and do businesses.

Net revenues of Brazilian telecom industry – calculated on basis of 169 companies participating in different segments evaluated by *Anuário Telecom 2007* – was US$ 51 billion or 10.9% more as compared to US$ 45.9 billion in 2005.

In a behavior confirming the trend of last two years, revenues generated by services (US$ 44 billion) have more than six times outpaced product sales: US$ 7 billion. The difference is explained by the virtual depletion of product sales, the revenue of which has shrunk 19.4% as compared to 2005. And this is primarily thanks to the need to update some networks. After meeting the universalization provisions imposed by Anatel (National Telecommunications Agency), and with their homework done, carriers without major projects have, in a way, sponsored the market retraction wave with regard to equipment and component sales.

But the distance between services and products in the composition of telecom industry revenues, should be primarily attributed to the ability of the industry to create options which, for the benefit of leisure or of businesses, contemplate the expectations of different target-audience segments. And broadband technology is conspiring in behalf of it in such a way that 2006 could well pass to history as the year in which Brazilian telecom market has made its conclusive option for high speed infoway.

This was the case with the corporate environment where communication travels through intranets, connecting companies, customers, suppliers and partners, in an environment of broad cooperation to improve productivity. In their case, the thermometer is the revenue of the industry specialized in building voice and data networks, which has grown 17.45% to a level beyond US$ 500 million.

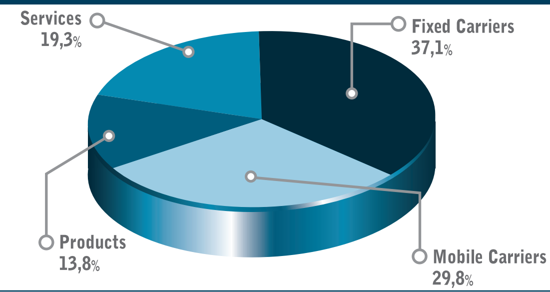
But this was also the case of public networks piloted by carriers which, to capture, maintain and have loyal customers, are waving with packages holding telephone, Internet access and cable TV services – the so-called triple play. Thanks to broadband technology, the shared web world has finally changed for good the way people and companies relate, in Google, Orkut and YouTube generations. Currently it is not an overstatement to say that if the subject is communication, at home or at work, for leisure or professional ends, rigorously everything goes through the virtual broadband road.

However this move is not exclusively Brazilian. Worldwide, telecom industry production has been conceived almost 100% based on this paradigm – virtual communications at the highest possible speed. And it promises to remain like that throughout 2007.

If it is really true that the telecom industry is gradually becoming a synonym to services, one cannot deny that services are directly linked to the way broadband network culture is spread. And their revenues are more generous as more extensive and creative is the family of latest generation services offered by broadband networks. The impact is promising to be even higher when finally in 2007 the knot tying the application of Wi-MAX technology is loosened. An improved release of the

The market in 2006

US$ 51 billion (net incomme)



popular Wi-Fi, which using the same electromagnetic waves of radio Internet promises to give communications a broader reach at low cost, able to reach even open field areas at the speed of 70 Mbps. This is broadband taken to its farthest consequences.

But if virtual high-speed communication determines the Brazilian telecom market way with strong stress in services, it is also true that it sponsors the spreading of the outsourcing culture. In the corporate environment, the sophistication of business support systems is increasingly demanding the intervention of companies specialized in the art of sizing, assembling and managing networks. Companies specialized in corporate services also do not complain: their revenues were US$ 3.4 billion or 27.4% higher than 2005. Not for chance, network infrastructure service providers have reported in 2006 revenues 29% higher as compared to previous year. However, the winners in the Brazilian telecom market were companies offering webhosting and applications in datacenters environment. In their case, the growth has been 82.2% - by far the best performance of all telecom service segments. IDC (International Data Corporation) estimates that Brazilian companies of different sizes are spending approximately US$ 1 billion outsourcing services involving the telecommunications plant.

Integrators, who plead with the ability of building the best solution, customized in a user-by-user basis in a short period of time and at competitive prices, are also not complaining. Their revenues have jumped from US$ 337.6 million in 2005, to US$ 498 million – a 32.3% growth.

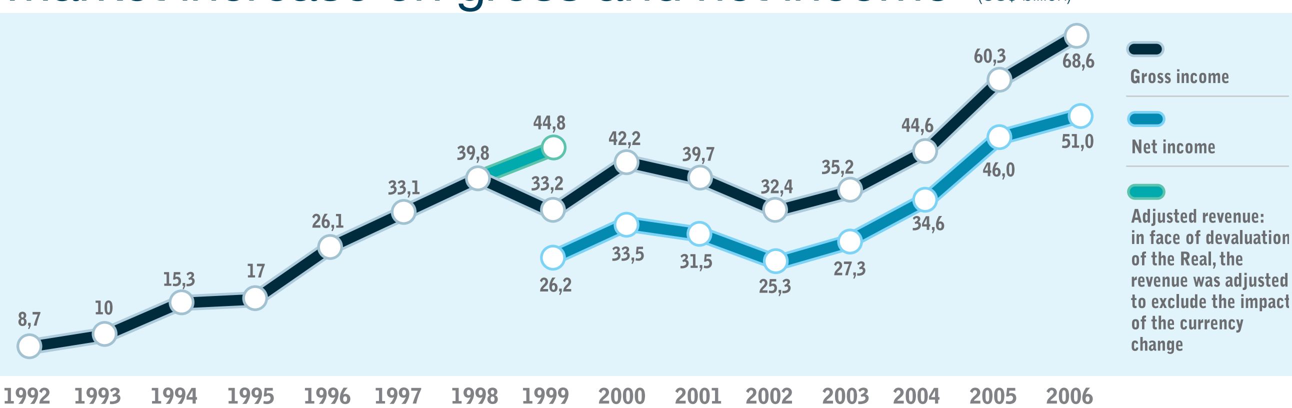
A tradition in the service industry, fixed telephone companies had their highest net income: US$ 18.9 billion – only 6.07% higher as compared to 2005. Mobile service operators have grown 27.5% with US$ 15.1 billion revenues.

In the products segment – with a mediocre behavior – from 13 segments evaluated by Anuário, ten had negative growth. The worst performance went to paging and trunking systems, radiolocation and pay TV which, in terms of revenue, have confirmed losses of the last three years, shrinking 71.8%.

Among segments able to avoid sales retraction one should stress wire and cable industry with a 41.16% growth – for sure, the only one with enough reasons to celebrate.

In terms of net income, the big winner was the terminals industry which, again, thanks to the spread of mobile telephones, has earned US$ 3.6 billion – however 20.3% less than in 2005 – US$ 4.6 billion. It is clear that the consumption boom for cell phones is starting to fade.

Market increase on gross and net income (US$ billion)



Telecom business.

Revenues and market share

HARDWARE AND SOFTWARE

	Net Revenue (US$ million)	Share (%)
Handsets and Terminals	3.688.994,06	52,24
Mobile Systems	1.397.150,95	19,79
Network Equipments	482.230,76	6,83
Cables	468.277,10	6,63
Private Networks	423.089,80	5,99
Software	160.048,03	2,27
Infrastructure	157.001,74	2,23
Public Switching	152.665,48	2,16
Components	111.610,64	1,58
Instrumentation	7.406,87	0,10
Supplies and Acessories	5.763,70	0,08
Other Products	4.127,40	0,06
Trunking and Pay TV Systems	3.010,59	0,04
Total	7.061.377,11	100,00

SERVICES

	Net Revenue (US$ million)	Share (%)
PTTs	18.921.502,89	43,01
Cellular	15.191.819,05	34,54
Data Communications	3.497.418,04	7,95
Value added	1.878.997,98	4,27
Pay TV	952.476,19	2,17
Internet/Access	926.789,24	2,11
Network Management	765.063,37	1,74
Integration	498.010,70	1,14
Internet/Services	457.671,74	1,04
Networking	302.148,12	0,69
Application Development	216.123,90	0,49
Consultancy, Project and Training	133.728,95	0,30
Trunking	129.607,44	0,29
VoIP	85.679,82	0,19
Other services	31.817,61	0,07
Total	43.988.855,04	100,00