

Company Name: America Movil
Company Ticker: AMXL MM
Date: 2018-04-25
Event Description: Q1 2018 Earnings Call

Market Cap: 1.16TRI
Current PX: 17.5
YTD Change(\$): +.55
YTD Change(%): +3.245

Bloomberg Estimates - EPS
Current Quarter: 0.069
Current Year: 0.987
Bloomberg Estimates - Sales
Current Quarter: 259887.667
Current Year: 1037563.167

Q1 2018 Earnings Call

Company Participants

- Daniela Lecuona Torras
- Daniel Hajj Aboumrad
- Carlos José García Moreno Elizondo
- Óscar Von Hauske Solís
- Carlos Robles Miaja

Other Participants

- Fred Mendes
- Andre Baggio
- Alejandro Gallostra
- Leonardo Olmos
- Amir Rozwadowski
- Julio Arciniegas
- Walter Piecyk
- Carlos Antonio de Legarreta Diaz
- Cesar A. Medina
- Daniel Federle
- Diego Aragao
- Rodrigo Villanueva Bravo
- Richard Dineen

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the América Móvil First Quarter 2018 Conference Call and Webcast. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Daniela Lecuona, Head of Investor Relations. Please go ahead.

Daniela Lecuona Torras

Thank you. Good morning, everyone. Thank you for joining us on our first quarter conference call. We have today on the line Mr. Daniel Hajj, our CEO; Mr. Carlos García Moreno, CFO; Mr. Óscar Von Hauske, COO; and also from Telmex, Mr. Carlos Robles.

Daniel Hajj Aboumrad

Thank you, Daniela. Welcome to this first quarter 2018 financial and operating report. And Carlos is going to make us a summary.

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Carlos José García Moreno Elizondo

Okay. Thank you, Daniel. Good morning, everyone. Well, in the first quarter of 2018, with world economic growth improving steadily and most regions posting solid growth, volatility returned to U.S. financial markets as inflation fears resurfaced in the face of tight labor markets and what appeared to be an acceleration of wage increases.

U.S. long-term interest rates rose to levels not seen in over four years as the market focused again on inflation risks. In Latin America, exchange rates were not affected by the increase in U.S. interest rates, and in fact, the Mexican peso became one of the best performing currencies following its depreciation in the fourth quarter of 2017.

We added in the first quarter 1.4 million postpaid wireless subscribers, twice as many as a year before including 935,000 in Brazil and 181,000 in Mexico. We also gained 427,000 fixed-broadband clients to finish March with 28.6 million accesses, which is 152,000 coming from Brazil and 110,000 coming from Mexico. Our postpaid subscriber base was up 7.4% year-on-year and our fixed-broadband access base was up 4.8%, with PayTV accesses down 2.4%, mostly DTH clients in Brazil. We'll continue to disconnect mobile prepaid clients [indiscernible] (02:34) down 2.7%.

Our revenues totaled MXN 254 billion. In Mexican peso terms, they were down 3.7% from the year-earlier quarter on account of the appreciation of the peso versus other currencies. Correcting for this currency effect, revenues actually rose 2.8%, with service revenues increasing 2.1% at constant exchange rates. EBITDA totaled MXN 71.2 billion, it was nearly flat in peso terms, but up 5.9% at constant exchange rates.

As has been the case in prior quarters, postpaid revenues and prepaid-data revenues together with fixed-broadband revenues were the main drivers of revenue growth. The main drags came from fixed-line voice revenues, reflecting major reductions in long distance revenues in Brazil and Mexico.

Mexico was the top performer in the quarter, with service revenue growth accelerating from 3.3% in the fourth quarter to 6.3% in the first one, continuing with the recovery process become more than year ago. In this process, by the way, interconnection charges did not have the more meaningful impact, more than 80% of the increase in revenue that we had in the first quarter relative to the year before had to do with the normal operation, we've got more clients, more revenues from the existing clients.

Central America followed Mexico in terms of acceleration of revenue growth going from 1.8% to 3.5% in the period. Mobile ARPU's increased sharply in Mexico, 11.6% in Brazil – at 11.6% and in Brazil 10.7%, with Tracfone in the U.S. posting a 7.3% rise as our StraightTalk plan continued to gain traction. They declined, however, in Peru by 5.6% and in Colombia by 3.4%.

The [indiscernible] (04:43) Mexico was the fourth consecutive one accompanied by strong net additions in the postpaid segment. The same is true of Brazil as you can see in the chart. At 28%, our EBITDA margin was 0.8 points higher than a year before and was the highest consolidated EBITDA margin in 10 quarters, since the third quarter of 2015.

EBITDA margins were up more than 2 percentage points in Mexico, Brazil, Peru and Chile from the year-earlier quarter and more than 8 percentage points in smaller operations like Panama and Costa Rica. Margins are higher very much across the board, all throughout the operations with a couple of exceptions. Although still down compared to a year before, the EBITDA margin in Puerto Rico exhibited a strong recovery from the prior quarter, increasing from minus 3.5% to plus 9.5%, which reflects the gradual normalization of our operations in the island, partly linked to the resumption of electrical power in most of the territory.

Operating profits totaled almost MXN 30 billion in the first quarter and were up 7.5% at constant exchange rates. We posted a comprehensive financing margin income of MXN 913 million as foreign exchange gains of MXN 22.9 billion, driven mostly by the appreciation of Mexican peso versus the dollar, more than offset our net interest and other financial expenses. Our net profit totaled MXN 18 billion and equivalent to MXN 0.27 per share of \$0.29 per ADR.

At the end of March, our net debt stood at MXN 614 billion, to a nearly flat relative to December, but it would have been MXN 13.6 billion lower in March had we not had to consider the payment of hybrid bonds in the amount of €600 million by Telekom Austria as incurring new debt.

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The Telekom Austria [ph] having (06:42) bonds had been considered equity given they were perpetual bonds. Notwithstanding that they would be called – that they could be called [ph] in certain dates (06:50). Paying down those bonds, therefore led to [indiscernible] (06:53) decrease in equity and a corresponding increase in net debt on the balance sheet.

From the perspective of rating agencies, [indiscernible] (07:00) bonds will be considered to be 50% equity and 50% debt. Our capital expenditures in the quarter came in at MXN 24 billion, and I think this is all that I have for the summary. I will pass the floor back to Daniel, so that we can get started with the Q&A session.

Daniel Hajj Aboumrada

All right. Thank you, Carlos. I think we can start with the Q&A. Hello?

Q&A

Operator

Sorry. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Fred Mendes from Bradesco. Please go ahead.

<Q - **Fred Mendes**>: Good morning, everyone, and thanks for the call. We are seeing – I have two questions actually. We are seeing a stronger mobile performance in Brazil and in Mexico, but also both of the countries they are showing a weak fixed business line also impacted by long distance calls in the corporate segment. My question is when you should see a reversal of this negative trend and what do you think could be the drivers for the recovery? And then, I can follow up with the second question. Thank you.

<A - **Daniel Hajj Aboumrada**>: Well, good morning. Talking a little bit about Mexico, wireless in Mexico, I think we have a very good quarter. ARPU is growing, revenue is growing, EBITDA is growing. And I think what we have been doing in the last year I think is very important. I think in Mexico all the customers have preference for our network, the quality, the speed, we just launched 4.5G network. So, the perception of our coverage, quality and speed is very good. Also, we are working very hard on – and other projects and to give a better service to all of our customers.

So, we are changing our customer care centers. We're changing and transforming all to digital. So, we're moving on that direction. And I think we're gaining the preference of the customers in Mexico. I think that's mainly what is happening. Other things – I don't hear you very well, but the other things that you said that are not doing very good is, let's say, long distance in – yes, in Brazil, while long distance is not doing good, I think long distance at the end of the day is going to disappear. So, national long distance, so – or we know that all these minutes, long distance minutes are going to disappear, but I don't know if Óscar wants to – or Carlos wants to tell us...

<A - **Carlos José García Moreno Elizondo**>: Only one point here. And before I also comment on this, but as long distance revenues, as Daniel says, they are basically condemned to disappear [indiscernible] (10:36) Mexico that a lot of that category disappeared because we've had the elimination of national long distance revenues some time ago with the telephone. So, what remains of long distance revenues in Mexico is now today only 3% of fixed-line revenues and it's very small and it's all international.

And in the case of Brazil, national and international long distance again is coming down rapidly, but the total today is only 15% of fixed-line revenues. So, I think that certainly in Mexico, we should have this drive – eliminate it probably in the next couple of quarters. In Brazil, it's probably going to be maybe a little bit longer, three or four quarters, but it's not going to be that important. Óscar?

<A - **Óscar Von Hauske Solís**>: Well, I will add to that, if you look at the minutes, the long distance is still steady. What is happening in the market is a big [indiscernible] (11:43) market and we are moving on to unlimited calls [indiscernible] (11:49) another impact in long distance and it's a trend. I mean the long distance is coming down. So,

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we need to – we started to compensate that decline with other services, as we are doing. We are trying to bring new services toward to our connectivity and then to try to restate the revenues with the impact of long distance.

<Q - Fred Mendes>: No. Thank you for your color and I think it's very clear. Just a follow-up on the same question. Especially, on the mobile segment in Brazil that you're growing like 8%, the other competitors is growing at 3.5% and expect the other one to go something like 6%. And of course, I mean, you should most likely – we would probably have the highest growth in this quarter. What is the main driver for this? I mean, are you getting clients from competition that's basically – of course, our ARPU is increasing, but also you clean up your base? I mean just trying to understand this strong improvement in your mobile growth and the drivers for that. Thank you.

<A - Daniel Hajj Aboumrاد>: In Brazil, now, you are talking in Brazil?

<Q - Fred Mendes>: In Brazil, yes. Perfect.

<A - Daniel Hajj Aboumrاد>: Look, we have been working a lot in our coverage, again in our capacity, in our quality. We have been investing a lot of the last two years. And I think we have a very competitive network today. The – we are the only ones who have 4.5G sort of speeds that we're giving in Brazil are good, are important.

So, in that sense, we're working good. And I think we are moving in the right direction. Brazil is 100% penetration, so if you're going to get – or more than 100% penetration, so if you're going to get that customer, is this going to be a customer from other companies or if it's in postpaid coming from prepaid.

So, those are the two places where you can get customers, coming from prepaid to postpaid or from other carrier. So, well, that's where we are. And in Brazil, people – they are aiming for very good quality. And I think we're giving good quality at this moment. So, we are preparing, we want to give the best possible quality. Our mobile data is growing a lot, so we're moving a lot subscribers from 2G to 3G to 4G to 4.5G. So, all these subscribers are going to use more and more data. And also, that's something that is helping us to increase the revenues.

<Q - Fred Mendes>: Perfect. Thank you very much.

<A - Daniel Hajj Aboumrاد>: Thank you.

Operator

And our next question comes from Andre Baggio of JPMorgan. Please go ahead.

<Q - Andre Baggio>: Hi. Good morning, everyone. So, I want to know a little bit more about the best improvements in the revenues in Mexico. You can comment a little bit more on the pricing strategy and the other levers that you have been using that may continue in the future.

<A - Daniel Hajj Aboumrاد>: I don't hear you very well, can you repeat the question?

<Q - Andre Baggio>: Oh, I'm sorry. Talk about the improvement in the ARPU and the growth in the Mexican mobile, and then what's the leverage for that?

<A - Daniel Hajj Aboumrاد>: I think ARPUs are growing. But remember that two years ago when we started with unlimited plan, ARPU gets down, people will get unlimited minutes, so people start to use a lot of minutes, start to spend less money. The prices were very competitive. And today what is happening is prices are still very competitive. There are people who's using more and more data. So, more and more data, more and more minutes and that is what is making our ARPU grow. In Mexico, megabytes of use are growing around 100%. So, those growths – because we have a good base today, so the 100% growth in megabytes of usage is very good growth.

<A - Carlos José García Moreno Elizondo>: And actually – I think one thing that is important is, it's growing data, but it's also growing voice. If you look at voice, minutes of use in Mexico are all very nearly [indiscernible] (16:32) content, okay. The highest here in the – in the continent or in the U.S. And as Daniel said, the data expansion has been tremendous, it's 100% increase year-on-year, which is much more than we see practically all these years.

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<Q - Andre Baggio>: And can you talk a little bit about the structure of the Brazilian cable that because it used to be growing very well in net services and now it's together with fixed-line and voice but – and with the long distance. But can you talk a little bit about the performance of cable in Brazil, how is it going, and what – how we should expect about the cable in Brazil?

<A - Carlos José García Moreno Elizondo>: Well, clearly yes, we've been building a lot of home passes in Brazil. I think we have a great correlation with a great technology in Brazil. And you see that we've been working in triple-play environment, have been working through a year. Right now, we are focused as well in broadband with a very good speed. And I think that we have a very compelling offering in the market. Well, as you know, voice, voice is coming down. When you look at the breakdown of the revenues in net, SafeLink is growing – voice is decreasing like 12%. When you look at broadband, it's growing 10% revenues. And PayTV, that was decreasing a little bit. What we saw in the last quarter that in cable, it's improving PayTV as well. So, we expect that the – with the recovery of the economy, we will see different figures in net.

In addition to that, we need to complement that offering. We are focused as well in a small business through cable companies. And as well, we are adding new services of cloud in the offering in order to improve the ARPU's on the cable side.

<A - Daniel Hajj Aboumrads>: Yes. Yeah. Next question?

Operator

And the next question comes from Alejandro Gallostra from BBVA. Please go ahead.

<Q - Alejandro Gallostra>: Hi, good morning. Thank you very much for taking my question. I'd like to know what your thoughts are on the wireless broadband service that some of your competitors are using. Do you think that the technology is ready to be competitive in the mass market or – and then, if this is something that you plan to do in the future or if you would wait until you deploy 5G? What are your thoughts on the wireless broadband service overall?

<A - Daniel Hajj Aboumrads>: Well, I think what they are giving is, I think the wireless – the broadband wireless service is competitive when you don't have big service. If you have fiber, I don't think it's going to be same as with the broadband service, but there is still a lot of places where we don't have fiber or competition who doesn't have fiber or there's no fiber in some places. So, I think in those places, that will be interesting to give wireless broadband services.

<Q - Alejandro Gallostra>: Do you think that maybe once you deploy 5G, then the wireless broadband service could be more competitive and you would make it available to the mass market?

<A - Daniel Hajj Aboumrads>: Yes, 5G, but also with 4.5G. With 4.5G, we can give a very good speed. So, we have 4.5G, I think we can give a good – a very good service, wireless broadband service in the house. In Austria – in Austria, we're giving – we have a lot of customers with broadband service. They are using around 30...

<A - Carlos José García Moreno Elizondo>: 30 megs.

<A - Daniel Hajj Aboumrads>: ...30 megs of capacity. I think it's good. It's easy to move. People can take to from one address to the other one. Just move it from an apartment to another one. So, it's good. It's good. I think it's going to be a good service in the future as well.

<Q - Alejandro Gallostra>: Good, thank you. And my second question is a follow-up on the Telmex expectations beyond the long distance revenue discussion. Are you ready to give us more color on the impact that you think that the functional and legal separation would happen on this business in the long term?

<A - Daniel Hajj Aboumrads>: Yes. Let Carlos – Carlos can talk a little bit about that.

<A - Carlos Robles Mijanguez>: Yes. Actually, what we have at this moment, it's the – in March, we received – the IFT issued the resolution and the terms and conditions for the supervision of Telmex. In this resolution, it establishes that

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Telmex and Telnor will have two years to implement the separation order. The resolution establishes a calendar and obligations to deliver information and to make – and to take some steps regarding the separation. We don't agree with the separation. Therefore, we will be – it will be challenged in accordance with the applicable laws.

And – but given that its compliance is mandatory and therefore, Telmex and Telnor will start to take the separation process pursuant to the terms and conditions powered by the IFT. That's what we have at this moment.

<A - **Daniel Hajj Aboumrad**>: Thank you, Carlos.

<Q - **Alejandro Gallostra**>: Okay. Thank you.

<A - **Daniel Hajj Aboumrad**>: Okay.

<Q - **Alejandro Gallostra**>: Thank you so much.

Operator

And the next question comes from Leonardo Omos from Santander. Please go ahead.

<Q - **Leonardo Olmos**>: Good morning, guys. My first question is regarding CapEx. What will be the main CapEx uses in the future in the coming years in terms of geography or in terms of infrastructure that you're seeing?

<A - **Daniel Hajj Aboumrad**>: In terms of geography, I think it's difficult to say. I think we're putting CapEx where we needed. The big countries are the ones that are using more CapEx than the other ones, let's say, Brazil, Mexico, Colombia is another one. But, we're putting CapEx all around in Latin America. Even in Central America, we're putting CapEx and it's working very good. We are growing very good with our fixed-line business over there. So, we are doing – we're putting our budget. Today, our budget is MXN 8 billion. I think we are going to accomplish that budget. And I think with all this investment, I think we are going to be ahead of our competition and we can be very competitive in all the countries.

<Q - **Leonardo Olmos**>: Great. Thank you. And my next question is regarding content, what type of content acquisition would make sense for América Móvil, in a very general way I'm asking? And eventually should we see more movements on content for the company like we saw in Olympics or something like that?

<A - **Daniel Hajj Aboumrad**>: We don't have right now any company that we are reviewing on content that makes sense. What we're doing is, you know that we have Claro Musica, we got Claro Video. We have some channels in Colombia, some things in internet here. So, we're developing some content. So, I think we are developing some content more than buying content. Other content that we could buy is that – and we're buying for all the cable companies...

<A - **Carlos José García Moreno Elizondo**>: PayTV.

<A - **Daniel Hajj Aboumrad**>: There's a PayTV, HBOs, Fox, Turner, all of that. So, I think we are in that idea, not into buy any company.

<Q - **Leonardo Olmos**>: Okay. Thank you very much.

<A - **Daniel Hajj Aboumrad**>: Thank you.

Operator

And the next question comes from Amir Rozwadowski from Barclays. Please go ahead.

<Q - **Amir Rozwadowski**>: Thank you very much and good morning, folks. I wondered if we could touch base on the Mexico wireless market once again. It seems like the benefit that you guys are seeing from an ARPU perspective is increased data usage versus any sort of change in pricing concessions that are taking place in the market. Is that a reasonable assumption?

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And then, the question I have following is if we think that that's the case and given where data usage is going, how do you see the propensity for ARPU to continue to improve off of current levels? Do you see some opportunity for it to continue to do so even if the competitive landscape remains the same? That would be helpful?

<A - Daniel Hajj Aboumrads>: Well, it's a big question, a long question. So, what I can tell you in Mexico is that, as I said, we have – two years ago, we entered in a very dynamic market. We've reduced prices a lot between reduction [ph] on limited (26:20). So, our ARPU is decreased. I don't remember but maybe our ARPU has decreased two years ago around 25%. So, what we're seeing right now we've started these ARPUs that gets reduced two years ago are coming to the levels that we used to have on that time. And they are coming because people is using more data and they are – let's say, in postpaid, prices are very competitive. We have prices with a lot of data, but people is using more data on that. So, they are jumping to new plans. They are jumping to better plans with more data.

In prepaid, we have our cards with some amount of data. So, they are using that and they are renewing a new card faster because they are using data. So, as people move from 2G to 3G and from 3G to 4G and 4.5G, I think all of them are going to use a lot more data and then we are going to have a better – there is more applications. There's a lot more things to do with the data. So, people is using that. So, that's – and it's not only in Mexico, you see that in postpaid in Brazil, we're growing also all around Latin America, megabytes of use is growing a lot.

The market is still very competitive. I don't – I'm not seeing any increase of prices for the last year. So, it's been very competitive in the wireless market. I don't know if there's going to be an increase or a decrease, but what I can tell you is that the market is competitive. We have very, very competitive – as I told you, we have lower prices in postpaid and in the U.S. let's say, so much better prices than in the U.S. So, I don't think we are to reduce more the prices. I don't know. I don't know how the market is going to behave in the next months. But we feel that very important that the customers are – the perception of Telcel in the market is a very good perception. So, we have very good coverage. We have very good quality. We have very good speed. We have the best network in the market and that counts a lot.

<Q - Amir Rozwadowski>: That's very helpful. And a quick follow-up, if I may. If we go back to your Analyst Day last year, there was a lot of discussions around the potential opportunity for cost savings across the portfolio of geographies that you're seeing. Can you give us an update as to where you stand relative to your initiatives and what type of opportunities there might be for further cost savings across the board?

<A - Daniel Hajj Aboumrads>: Yeah, we have big projects all around Latin America, that's why you are seeing that revenues are growing. But EBITDA is growing more than our revenues in mostly all of our countries is because we have – there is a lot of different projects in terms of cost. We have efficiencies, cost control, better technologies, digitalization. So, there's a lot of projects that we have all around Latin America and they are being successful. So, we can tell you that we're gaining and having the benefit of all these projects at this moment.

<A - Carlos José García Moreno Elizondo>: [indiscernible] (30:11) in Mexico, I mean there's – there is a number of initiatives, short-term initiatives that we're working on. But we are also developing more of a medium-term plan to bring down structural costs more rapidly. So, you'll be seeing the impact of the short-term initiatives happen this year. But we expect to have some other reductions the following years that are more of structural nature. And we'll be seeing the results, of which we'll be seeing in the medium term.

<Q - Amir Rozwadowski>: Thank you very much for the incremental color.

<A - Daniel Hajj Aboumrads>: Thank you, Amir.

Operator

And the next question comes from Julio Arciniegas from RBC. Please go ahead.

<Q - Julio Arciniegas>: Yes, good morning. Thank you for taking my question. My first question is regarding Brazil. We see that for example in Brazil, Telefónica, TIM Brasil Oy, all of them they are announcing for their [ph] STPH (31:11) deployments. Does AMX plans to upgrade their cable network in those areas where they are going to be

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competed against fiber-to-the-home? And my second question is regarding Colombia, I see that for example mobile service revenue in Colombia, they have deteriorated in Q1 2018, can you give us some color of the competitive landscape in mobile in Colombia? Thank you.

<A - Daniel Hajj Aboumrads>: The first one, mobile in Colombia, I think it's very competitive. This first quarter was a very competitive market there. And I think in prepaid and postpaid, in wireless, in fixed, we're doing very well. But I think things are getting stable. And I hope we can see a better market. What we need there is to – that people use more and more data, that we have more revenues because voice is going down in price and also in consumption. So, what we need is that data will move faster and people will try to continue on that. In Brazil about the fiber, Óscar, I don't know if you can...

<A - Óscar Von Hauske Solís>: Well, our cable network is fully digitalized. So, what we've been doing is in the A segment, in the ultra band – ultrabroadband, we already deployed DOCSIS 3.1 that we believe that is a very competitive technology. And this year, maybe we will go to another series . And in that series, maybe we will use fiber in Brazil. But as you know, we have already turning 7 million home passes with cable that's fully digitized. So, we feel that we have a good technology there. And the expansions, we were analyzing if we use fiber or we use – still using copper.

<Q - Julio Arciniegas>: Can you give us some color on the scope, for example, of how many households would the company expects to – I don't know, to upgrade to fiber-to-the-home? I mean, is this fiber-to-the-home or is fiber-to-the-cabinet network the company is thinking about doing in Brazil?

<A - Daniel Hajj Aboumrads>: Yeah. We expect to build 1 million home passes in the next 12 months. And it depends – depending how closer is the cable network, we will choose if we go all the way to fiber-to-the-home or we will go fiber-to-the-cabinet. But as you know, in cable companies, the DOCSIS 3.1, that fiber is pretty close to the households. So, moving that fiber from the node with household in the network is what – is going to be pretty easily for us because we already upgrade all the network in Brazil.

<Q - Julio Arciniegas>: Okay. Thank you. Thank you for your answer.

Operator

And the next question comes from Walter Piecyk Walter from BTIG. Please go ahead.

<Q - Walter Piecyk>: Thanks a lot. Just a question on the supreme court ruling from last year that started to get you guys paid on those termination fees. How does that work in Mexico? Because there has been a report on Bloomberg that as part of NAFTA negotiations that AT&T was pushing the government to see if they can somehow circumvent that supreme court ruling, is that even possible in Mexico?

<A - Carlos José García Moreno Elizondo>: I mean, well, that's been a demand on the part of our competitors. I think it might be the case, because that's something that is – of course, when supreme court ruling [indiscernible] (35:12) I think it's something different. I think we have a standalone legal framework which for this particular case has ruled [indiscernible] (35:24) something, you're entitled to get something back for it for the delivery.

So, I think, we don't expect to see any changes in this process going through all the motions, caught all the way to its – the Supreme Court, as you know. And we've had this ruling which is, by the way, completely consistent with what you see in all other countries. What we had in Mexico, I think [indiscernible] (35:50) before this ruling was literally [indiscernible] (35:53).

<A - Daniel Hajj Aboumrads>: It doesn't make any sense that your competitors doesn't pay for your net – network. But talking a little bit about the Bloomberg report, just to let you know that in Mexico, the growth in revenues that we have this quarter is mainly by other reasons, it's not because MTR. MTR is only 15% or 10% of the 12% growth that we have. So, the growth is because that people is using more data, we have more customers. They are using more minutes, share of market. I don't know what – there's no – there's the MTR is not the majority of the growth of Telcel

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this quarter.

<Q - Walter Piecyk>: Got it. Thank you. And then, just my second question is on capital investment I know, Daniel, in the last call you talked about investing MXN 8 billion for the year. If we look at the first quarter, it was down compared to last year. I assume that means you're going to – you're going to continue to ramp over the course of the year. But specifically, in Mexico as far as new cell site builds or when you look at the results of [ph] tele sites (37:12), it looks like it was a little lighter, do you expect to ramp the new site builds in Mexico and is there an opportunity perhaps to do a similar transaction with [ph] tele sites (37:24) or someone else in any of your other market to monetize some of the tower assets that you have in maybe Colombia or somewhere else?

<A - Daniel Hajj Aboumrads>: We don't have any plan at this moment to do other ones. So, I'm not saying no, but we don't have any plan to do anything at the moment. We're not growing – we're growing towers, but we're not growing too many towers because with that, we do – remember that we bought a lot of spectrum last year under we're using that spectrum. So, if you have a spectrum, then you don't need to launch towers. We have 18,000 towers in Mexico. So, it's a lot of towers, that's what we have. So, what we're doing is putting new technologies. We're launching our 4.5G network. So, it's new technologies in the same tower that we have. Of course, we're still growing in coverage and we're going to put maybe 300 or 400 sites in new rural areas or extensions in the main cities. So, those are the places where we are growing, but we have a pretty good coverage in Mexico with what we have right now.

<Q - Walter Piecyk>: Thank you, Daniel.

<A - Daniel Hajj Aboumrads>: Thank you.

Operator

And the next question comes from Carlos Legarreta from GBM. Please go ahead.

<Q - Carlos Antonio de Legarreta Diaz>: Hi. Thank you. I know you already addressed the functional separation. But I don't think we've talked about the access to PayTV market. As I understand the March resolution from IFT, basically had a nice possibility. But I would like to understand what are the actual growths that you have at this point in time to gain access to this market in Mexico. Thank you.

<A - Daniel Hajj Aboumrads>: With the actual separation that they – it's out – what's out that [indiscernible] (39:28) send us, there is no PayTV license included in the actual separation. So, we're still discussing with them and we're still interested in having TV. It's the only place in the world that we're not allowed to have TV, so I hope they understand and that they can give all the TV license, we'll be fighting for that. Yes?

Operator

The next question comes from Cesar Medina from Morgan Stanley. Please go ahead.

<Q - Cesar A. Medina>: Hi. Thanks for the call. I have two questions. One related to a competition in the U.S. There has been a significant decline in margins. So, wanted to see what the forecasts would be. And then the second, if you could comment on the Red Compartida and what type of developments are you seeing now that the project is operational for, I guess, 30% of the market? Thank you.

<A - Daniel Hajj Aboumrads>: Well, on Red Compartida, what I understand is that they are launching in some places and that they are going to do these wireless – fixed wireless broadband. And if – I don't have anything more than that. I think everybody's going to compete on that segment. We are going to compete on that segment. So, we are preparing our offers and we're competing in there. In the – the other question was...

<Q - Cesar A. Medina>: U.S. market.

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<A - **Daniel Hajj Aboumrad**>: U.S. U.S. is – it's a good question, I think I'm happy with the way platform is evolving this quarter. I think last quarter, if you can see, the EBITDA was very high, the first quarter of last year was very high because the growth that we have been having stopped a little bit. I think if you can really check the growth of platform this quarter, you could see that in the life line the plans that were subsidized by the government, SafeLink are the ones that are going down and the StraightTalk that it's our main plans are going up. So, you could see that the plans where we're putting advertising that are good ARPUs are starting to grow. And I feel that this quarter, we have a better response than what we have in our budget.

So, we're starting to grow again, we have better plans. Last year, we need to renegotiate to make new plans in the market. So, I think we are ready this year to start growing. Yes, of course, growth means not the same EBITDA that we used to have last year, but still I think EBITDA was good, we're going to be careful with the EBITDA. We want to have a profit in the company. But also, it's very important to have growth. And the growth, we see it in the first quarter and we're going to see the growth in – all around the year. So, I'm feeling very comfortable on what – on how platform is developing.

<A - **Carlos José García Moreno Elizondo**>: Yeah, just to add to what Daniel said, platform revenue had been – the rate of work had been declining for some time, as Daniel said, very much led by the reconnection of our SafeLink clients, and this has had to do with changes in the way this program is run by the government. So, we have to recertify clients more frequently and that is what not something that we were prepared for initially. But what you can see is that there has been a turnaround in this revenue decline, so now we are growing sequentially compared to the prior quarter. And I think this is – it's hitting a new direction for the company in terms of revenue growth. We're doing really well, as Daniel said, we'd be – the Straight Talk program, that's selling very well to have a new plan. It used to have no plans. We don't need a quota on limited data. Now, what they do have, one, [indiscernible] (44:14) which sells for about \$50, if I remember correctly and which area has gained a lot of traction.

<Q - **Cesar A. Medina**>: Got it. Thank you.

<A - **Daniel Hajj Aboumrad**>: Thank you.

Operator

And the next question comes from [indiscernible] (44:30) from JPMorgan. Please go ahead.

<Q>: Hey, everyone. Thanks for taking the question. So, I just wanted to ask around the euro-sterling hybrid issues you had outstanding at the parent level. First off, can you just kind of talk about how you see your average generally within the cap structure here, is that something you may want to increase over time in light of the ratings credit you get?

And then, just as a more specific follow-up, have €900 million up for call in September. It will be great, if you could give us any early thoughts about how you might look to address that.

<A - **Carlos José García Moreno Elizondo**>: Well, the coverage bonds, as you know, they all were issued with different call dates. And as you point, there's one that is coming up I think in September for €1.1 billion. I think at the time that we issued the coverage, we wanted to get some temporary support on capital. We were expecting to bid for some company, if it's really KPN and Telekom Austria. And at that time, we needed some support. I don't believe that we need support anymore since we have been delevering and we'll continue to delever. So, no, we don't have any plans to go to the market in the – this year, not for anything including not for refinancing our capital bonds. In terms of paydown EBIT, all the debt we can pay this year.

<Q>: Excellent. Thank you.

<A - **Carlos José García Moreno Elizondo**>: Thank you.

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And the next question comes from Daniel Federle from Credit Suisse.

<A - Daniel Hajj Aboumrاد>: [indiscernible] (46:18).

<Q - Daniel Federle>: Good morning, everyone. Thank you very much for taking my questions. The first one is regarding the Mexican market. We saw the IFT announcing new quality measures for mobile services that should be effective beginning of next year. So, my question is, are you expecting any significant change in competition or market conditions with these new quality measures as of January 2019?

And my second question is regarding handset subsidies in Mexico, if there is a space to reduce further subsidies in the region? Thank you very much.

<A - Daniel Hajj Aboumrاد>: On the quality measures in Mexico, I don't think we have any [indiscernible] (47:03) have been carrying quality measures, and I think we want to – I think we got something that we're looking for not to give the best quality to our customers. So, that's what we are aiming for and I don't think there is going to be big changes there – our hopes there will not be changes there. And the other question?

Added subsidies, well, what we're – I think what we want is to reduce subsidies all around, so – but subsidies means competition and that's something that we need to see country by country, but América Móvil will be very happy to reduce. And we are reducing a lot our subsidies all around Latin America. And if something that doesn't make sense, I think it's better to give a better price and better service to your customers and to subsidize the handset. So, we – in the other sites, there are coming new 4.5G phones – 4.5G phones with better technologies, expensive phones. So, well, that's the story for the last 10 years. So, that's what we're looking and what we've been careful for.

<Q - Daniel Federle>: Okay. Perfect. Thank you very much.

<A - Daniel Hajj Aboumrاد>: Thank you.

Operator

And the next question comes from Diego Aragao from Goldman Sachs. Please go ahead.

<Q - Diego Aragao>: Hi, Daniel and Carlos. Good morning.

<A - Daniel Hajj Aboumrاد>: Good morning.

<Q - Diego Aragao>: I have two follow-up questions. Sorry if I missed something from your open remarks, but my first question is regarding the functional separation. What can you share with us at this point regarding this new legal entity in terms of the size? I mean, just want to have some sensitivity around the size of the business.

And the second question is regarding CapEx. You mentioned the 4.5G launch in new markets like Mexico and Brazil. But I noted that your CapEx is pretty much stable on a last 12-month basis. Can you help us to understand and eventually help us to quantify if there is any CapEx efficiency opportunity here? Thank you very much.

<A - Daniel Hajj Aboumrاد>: Well, CapEx is very important. I think to maintain the company in good shape you need to – there's a lot of technologies coming more households to pass. There is a lot of things, so we include Austria, we include Dominican Republic, Central America and Mexico, Brazil, Ecuador also.

CapEx is important and we're going to invest as we needed. Of course, we are in the process of renegotiating all the contracts and we're going to try to find better technologies, better prices. And that's the work that we do every day. So, in terms of CapEx, nothing where we want to invest MXN 8 billion. I hope we can have some efficiencies. But always we have MXN 8 billion, plus or less 5%. So, we are not so sure how we are going to end, but it could be plus 5%, less 5%. So, I don't know exactly it.

In the functional separation, Carlos can explain again what he explained at the beginning of the conference.

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<A - **Carlos José García Moreno Elizondo**>: Yes. As I've mentioned, we have two periods. The IFT established a two-year period to make the functional separation, some of the IFT established terms and conditions for the separation. Therefore, at this moment, we are working on the assets and the other elements that will have to be transferred to the – with new entity. And we will, in the next two years, as we follow up, we will be giving the information as we have it. So, we don't have at this moment any information that we can share.

<Q - **Diego Aragao**>: Sure. Okay.

<A - **Daniel Hajj Aboumrads**>: Nothing much to share on that.

<Q - **Diego Aragao**>: Okay. Thank you, Daniel and Carlos.

<A - **Daniel Hajj Aboumrads**>: Thank you.

<A - **Carlos José García Moreno Elizondo**>: Thank you.

Operator

And the next question comes from Rodrigo Villanueva. Please go ahead.

<Q - **Rodrigo Villanueva Bravo**>: Thank you. Good morning, Daniel, Carlos. My question is related to the spectrum auctions in Mexico. Apparently, news reports are suggesting that AMX didn't participate in the 2.5 gigahertz spectrum auction. And I was wondering if this is because you already acquired spectrum last year from MBS or because you were blocked by the government. And I was also wondering, if you know who were the two companies that participated in these auctions. Thank you.

<A - **Daniel Hajj Aboumrads**>: I don't know who are the two companies that are going to participate, what I read in the news is that Altan is going to be out, it's not out. So, we are not there, so maybe it's going to be Telefonica [indiscernible] (52:57) the ones that are participating, but I don't know. Why we don't participate? Well, first, because we have enough spectrum at this moment. So, we just bought a 30-plus – 30 one year ago. But, in the other side, they did not – they don't block us, but they don't give us the same equal conditions. So, if – we don't have equal conditions and we are not so enthusiastic for the spectrum, then we decide not to participate. So, that's the easy clear decision that we have.

<Q - **Rodrigo Villanueva Bravo**>: Understood. Very clear, Daniel. And my second question is related to the arbitration claim against the Republic of Colombia. I was wondering if there is any update on this respect. And also, it seems to me that the \$1 billion that you paid could be tax deductible. Is this the case? Thank you.

<A - **Daniel Hajj Aboumrads**>: Yes, I think it is going to be tax deductible. Carlos can talk a little bit more on that. And so please, Carlos.

<A - **Carlos José García Moreno Elizondo**>: Certainly, so it is – it's tantamount to an impairment, it's basically [indiscernible] (53:49) let's say, about [indiscernible] (53:52) to take on a new [indiscernible] (53:54) in exchange for nothing, and that's basically accounting-wise, it's – it expensed – it's an expense, and expense should be tax deductible. We have the rulings or the [indiscernible] (54:10) of statements from various independent account – major accounting firms that confirmed this independently. So, I think that we are going to take it [indiscernible] (54:20).

<Q - **Rodrigo Villanueva Bravo**>: Understood. Thank you very much.

<A - **Daniel Hajj Aboumrads**>: [indiscernible] (24:24) that we have for the government, no news. I think it's going to take some time. It's in process and nothing new that we can discuss at this moment.

<Q - **Rodrigo Villanueva Bravo**>: Got it. So, in the meantime, you would be just taking advantage of the deductibility of this payment?

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<A - **Daniel Hajj Aboumrad**>: And we already pay, so we paid last year. So, yes, of course, we're going to take advantage of that with the deductible and depending on what happens and let's see what is going to happen with the ruling.

<Q - **Rodrigo Villanueva Bravo**>: Okay. Thank you very much, Daniel.

<A - **Daniel Hajj Aboumrad**>: Thank you.

Operator

And the next question comes from Richard Dineen from UBS. Please go ahead.

<Q - **Richard Dineen**>: Oh, thank you very much for taking my question. Good morning, everyone. Just maybe a clarification to an answer on an earlier question on Mexico MTRs. Daniel, I think you said 15% of the 13% Mexico mobile service revenue growth was from the change in MTR. So, around about 2 percentage points of that 13% growth was from the change in MTRs. And if that's correct, I guess we should expect that kind of a benefit to recur for the remaining quarters this year if I heard you correctly.

<A - **Daniel Hajj Aboumrad**>: Yes. Yes. And if Carlos wants to get into detail.

<A - **Carlos José García Moreno Elizondo**>: No. Nothing more to add. I think that you're right.

<Q - **Richard Dineen**>: Fantastic. Thank you for that. And then, maybe just a quick follow-up perhaps for Carlos Robles just on the ULL situation in Mexico. I remember the unbundling rate was set by IFT. I think it was MXN 68 per port, which seemed very low. Just wondering what the status is of that. Have you challenged that? Is there a scope to challenge it? Because I guess that rate could have a bearing on how many competitors take advantage if ULL and how aggressive they can be on price. So, any update on the status of the ULL offer would be really interesting. Thank you very much.

<A - **Carlos Robles Miaja**>: Regarding the unbundling, what I can tell you is that it started in 2016. We have been offering these services to all the competitors that have asked for it. And yes, the tariffs that the IFT established would think that our – out of the international comparison, they are well below the international comparison and we are taking the legal means regarding this. So therefore, in the future, we may have some notes to go back. Yeah.

<Q - **Richard Dineen**>: Okay, fantastic. Thanks. Thanks for all of the comments today, very helpful. Thank you. Thank you, everyone.

<A - **Carlos Robles Miaja**>: Thank you.

<A - **Daniel Hajj Aboumrad**>: Thank you.

<A - **Carlos José García Moreno Elizondo**>: Thank you.

Operator

And this concludes our question-and-answer session. I would now like to turn the conference over back to Daniel Hajj for any closing remarks.

Daniel Hajj Aboumrad

Just to thank everybody for being in the call and see you next quarter. Thank you.

Carlos José García Moreno Elizondo

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Thank you, all.

Carlos Robles Miaja

Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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