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- Q1 2003 Tele Celular Sul Participacoes S.A. (Timsul) Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Rick Keeber** *Global Consulting Group*

**Alvaro Moraes** *TSU - Chief Executive Officer*

**Mauricio Roorda** *TSU - Chief Marketing Officer*

## CONFERENCE CALL PARTICIPANTS

**Andre Gadalla** *Banco Praxtel*

**Andrew Campbell** *Credit Suisse First Boston*

**Rafael Bittman** *Unibanco*

**Laura Milo** *Centender*

**Carlos Sequoia** *UBS Warburg*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome TSU's conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session with instructions given at that time. If you should require assistance during the call please press star zero. As a reminder, today's conference is being recorded. I will turn the conference to Mr. Rick Keeber (ph) from Global Consulting Group. Please go ahead, sir.

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### Rick Keeber - Global Consulting Group

Yes, good afternoon, ladies and gentlemen, and welcome to Tele Celular first quarter 2003 conference call. If you do not have a copy of the relevant press release, you can call us here in New York at 212-807-5064 and we'll send you a copy right away. Today's conference call is being accompanied by an online presentation. This presentation can be accessed at [TSU.fooinvest.com.br](http://TSU.fooinvest.com.br). Again the slide presentation that's accompanying today's call can be accessed at [tsu.fooinvest.com.br](http://tsu.fooinvest.com.br). There's no WWW before that. Again, if you have a problem accessing that presentation or would like a copy sent to you directly please call us in New York at 212-807-5064.

Before proceeding, let me mention that any forward-looking comments made during today's call are subject to macroeconomic conditions, market risks and other factors and actual performance could differ from current expectations.

Joining us today from Rio de Janeiro are Alvaro Pereira de Moraes Filho, the Chief Executive Officer and Mr. Mauricio Roorda the Chief Financial -- the Chief Marketing Officer. In Correchia (ph) we have Mr. Pablo Cozza, Chief Financial Officer of TSU, and Joana Serafim Investor Relations Manager. Without further ado it's my pleasure to turn the call over to the CEO Mr. Alvaro Moraes. Mr. Moraes you may begin.

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### Alvaro Moraes - TSU - Chief Executive Officer

OK. Thank you. Good afternoon. I would like to thank you for your interest in the company and your participation in the discussion of the company's performance in the first quarter of 2003. The company closes the first quarter with solid results in terms of growth and profitability maintaining its leadership in a highly competitive market. Throughout the period, our marketing efforts were geared to increasing the average revenue per customer both pre paid and post paid. And to focus on new acquisition to anticipate the coming of new competitors.

Our priority remains attracting and maintaining the high value customers. And for that we strengthened our corporate division resulting in the leverage of the sales in that segment. Which in turn exceeded the goals for the period. Also the corporate service plans launched in late 2002 and became top sellers in the region.

Our customer relations and customer loyalty efforts resulted in the stabilization of the post paid customer base. And we will continue the strong efforts to increase the customer satisfaction. Moreover, we count on a strong selling channel and have several activities under way to further strengthen our ties with our partners. For instance, we held this year two conventions and more than 1,500 have been regularly trained to offer the best customer service. I invite you to explore (ph) with me during this first quarter. And my comments will follow the slide presentation that's all ready been mentioned that's available on our Web site.

The slide one the factors leading in new acquisition. As you can see even in a competitive market gross additions (ph) showed 57 percent year-over-year growth. We posted 124,000 gross additions in the first quarter. We estimate -, gross sales share of 53 percent in our market despite -, pricing of our competition. We believe we have reached another great balance between growth and un-profitability. The launching of new products and services, the quality of the service provide and the creation of a customer relations center focus in offering solutions tailored to specific needs effective the helping us to maintain our -, position. And at the same time allowing us to pursue new possibilities.

The slide number two with the title maintain -, base. We close the quarter with 1,753,000 subscribers. And that increase of 139,000 new customers year-over-year. We maintain the four percent -, of best (ph) customers across all segments. And on a fixed control of debt. It's worth pointing out that the post paid customer base has begun to stabilize and also increase in the past two months.

Extension -- well the next slide please. Number three expansion of value added service. The mobile originate short message service, SMS, has shown substantial growth during the first quarter of this year. We registered 34 million bit (ph) message compared to 14 million in the first quarter of the last year. This is only mobile originated. We will maintain our efforts increased usage of MOSMS and usage of T-Net (ph) services such as information services Ringtons (ph), SMS, Shot (ph) service name blah (ph) and others. SMS also has a strong growth potential in the corporate segment. And therefore, we have created a specific organization to explore such opportunities and increase VAS in the corporate market. We expect to keep increase our share of VAS in total revenues as the market matures.

The next slide, please, number four, -, increase in RPU. The RPU for the quarter was 43 reais, 10 percent above the first quarter of last year. All state customers show that year-over-year growth of 23 percent -, as a result of efforts such as customer loyalty programs, segmented retention policies, the launch of the new portfolio service plans, improvement of solutions for team (ph) business and others. The pre paid RPU also grew by five percent despite the growth of -- in the customer base.

The next slide please. Slide number five, revenue growth. The net -, revenue in first quarter of this year was 17 percent higher than the proceeding year thanks to the extension of subscriber base in the period. Followed by the total revenue, total profit increase, and the rates, the service increased as well. -, revenue grew by 40 percent due to the growth in the new acquisitions.

OK. The next slide please, slide number six. Decrease in bad debt expenses were 5.5 million of -, or 1.7 percent of the total gross revenues. And last -- in the first quarter of last year we had 3.6 percent of total gross revenues. As a result -- this is a result of the improved factors in collecting over due dues and the implementation of the new collection procedures during the period. Churn has been approximately 1.8 percent per month remaining stable at the level that we have the last year.

OK. Next slide please, EBITDA. As you can see in this slide we achieve an EBITDA of 98.8 million of reais, six percent above the first quarter of 2002. And that means an EBITDA margin of 44.2 percent over the net service revenue, consistent with the strategy of combining growth and profitability.

Next slide, strong cash flow generation. As you can follow in the slide, the company closed the quarter with 488 million of reais in cash. This strong cash generation puts the company in a comfortable positions with regard to the implementation of the -, that are necessary to maintain its competitiveness and qualify -- and qualify in the market.

OK. The next slide, net cash reserves. As you can see in the slide, at the end of the first quarter of 2003, it was 322 million of reals. And total cash was 488 million of reals resulting in a new position of 166 million of reals an improvement of 263 million over one year ago. TSU has one of the lowest levels of debts in the Brazilian mobile telephone industry.

Next slide please. Bottom line improvements. The net income for the quarter was 29 million of reals with -, a 57 percent over the proceeding year, mainly due to the revenue increase. I would like also to mention that before closing our presentation, I would like to mention that something I think could have an important impact on the coming quarters. As the markets may be know in December 2002, we entered in a new agreement with Matel (ph) which resulted in the integration from the mobile cellular services -, to the personal mobile service. No -, fees.

So we'll cease operations on the public system concession and start operating the private system authorization. In general, the major charge resulted from the migration are concerned with the new quality indicators and the selection of the long-distance carrier by the customer. In this case, TSU will be granted a long-distance license for division. The new partner in our service must be available to the market by June of this year.

The company has focused -, to antiquated systems and procedures to the new requirements, in order to provide an efficient transition to customers. The -, TSU to acquire an extra frequency in the 1,800 -, in order to develop this GSM network. So by the end of this semester TSU will be offering GSM service (ph) in this region.

The implementation of the GSM network overlay will be entirely founded through current available cash, plus the cash generation expected over the next two years.

Regarding the competitive environment, TSU prepared to face the entrance of new competitors in the market because we believe that a more competitive market highlights those companies that are staffed by the best teams with the best -, software and the best practice and services. That concludes our presentation. Thanks again for your interest in our company. And we are now ready to answer any questions you might have.

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## QUESTIONS AND ANSWERS

### Operator

At this time, if you would like to ask a question, please press the star key followed by the one key on your touch-tone phone. If any time you would like to remove yourself from the questioning queue please press star two. Please restrict your questions to two at a time. And once again, if you would like to ask a question, please press star one.

The first question comes from Andre Gadalla (ph), with Banco Practel (ph).

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### Andre Gadalla - Banco Practell

Hi, everyone. Congratulations for the results. My question is on your RPU. You just said that your prepaid RPU increased by five percent. I'd like to know if it's a year-over-year basis or it was quarter-to-quarter? And also on your postpaid RPU you said that your -- the TSU postpaid traffic increased by 22 percent. I would like to know also, what was the increase in the postpaid RPU quarter-over-quarter or year-over-year, whatever you want.

And the last question is regarding also the subscriber acquisition cost. You can say that it has increased from the fourth quarter figures, what can we expect from the following quarters, I mean second quarter, third quarter with your subscriber acquisition cost. Thank you very much.

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**Alvaro Moraes** - TSU - Chief Executive Officer

OK. Thank you. Well I will answer your questions starting from the last one we had an increasing in SAC as you can see in this first quarter. Actually, our strategy is to increase growth position in the beginning as recently as two or maybe the three quarters of the year as a prevention from the coming of the competition in the market as a normal movement. And that means that we are striving our efforts in the selling activities.

I believe that this next quarter, we still have an increase -- we may have an increase in SAC for the quarter because this quarter we have some very important peer (ph) sales with Mother's Day and Valentine's Day and that versus for the SAC. I believe that for the remaining quarters of the year, we'll have a decrease. And that means that for the remaining of the year, we may have levels that we have in the first quarter of the year.

Considering the positive RPU and the numbers that you asked that refers to Mauricio Roorda, that's the marketing director to see if he has all of the points that you ask. Just a minute.

Excuse me your questions were -- could you repeat your questions about RPU so we can ...

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**Andre Gadalla** - Banco Praxtel

OK. Yes, first of all you said that the prepaid RPU increased by five percent. I'd like to know if it was on a year-over-year basis or quarter-over-quarter.

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**Alvaro Moraes** - TSU - Chief Executive Officer

OK.

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**Andre Gadalla** - Banco Praxtel

And my second question was regarding the post paid RPU and was increased on the post paid RPU.

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**Mauricio Roorda** - TSU - Chief Marketing Officer

Yes, OK. Yes, that's the information about RPU is on a year-over-year basis for prepaid. And in the case of postpaid, the gross is around 25 percent.

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**Andre Gadalla** - Banco Praxtel

OK. Thank you very much.

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**Alvaro Moraes** - TSU - Chief Executive Officer

OK. Thank you.

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**Operator**

Thank you. Our next question comes from Andrew Campbell (ph) with Credit Suisse First Boston.

**Andrew Campbell** - *Credit Suisse First Boston*

Yes, I just wanted to clarify a point from your comments. You mentioned that the GSM loss was going to be ready, if I understood properly by the end of the first semester, is that right?

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

Yes, that's right.

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**Andrew Campbell** - *Credit Suisse First Boston*

OK. Because it seems that it looked like in the first quarter that you didn't spend any cap ex on that. What kind of a launch is the pitcher (ph) planning? Is it a very limited launch? And what's your plan for the roll out of the GSM?

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

OK. Well actually we spent some amount of money in preparing the network for the launch of GSM. Actually as we have TME (ph) and that's what spread all over our region. We are preparing the sides to receive GSM equipment. We don't need probably at the beginning much more sites than what we have now. At the beginning, of course, we will start by the capitals of the states where we are operating. And after we have some good coverage and good -, the capital states of -, and -, we will start spreading the GSM coverage following the idea of covering the most profitable regions.

By the end of this semester we will start operating in the capitals.

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**Andrew Campbell** - *Credit Suisse First Boston*

OK. Great. And would you be able to give us an idea of how much your cap ex will be for this year?

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

Well we were supposed to start a little -- we were planning for the first year of the plan GSM something around 250, 270 million REIs for year cap ex. As we delayed the start of at the beginning of this year, I would say that we would spend a number around 250 million REIs in the first, in the next 12 months.

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**Andrew Campbell** - *Credit Suisse First Boston*

OK. That's great. Thank you very much.

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

All right.

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**Operator**

Once again, if you would like to ask a question, please press the star key followed by the one key. The next question comes from Rafael Bittman (ph) with Unibanco (ph).

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**Rafael Bitteman** - *Unibanco*

Hi, congratulations for the good results. I would like to know you're building up a very strong cash position. And I wonder if you intend investing on this amount in terms of overlay -, increase your pay out in the future?

And I would like to understand if there is any impact for the tariff increase 2Q in the second quarter of this year.

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

OK. Just a minute please. OK. Well as you can see the slide that we showed the indebtedness. We have a net cash of 166 million reais by the end of this quarter. We'll have to pay a big portion of this -- that 200 to 220 million reais this year. So we are planning to use the remaining cash to fund the -- all of the investments of this year, and also the remaining cash generation. We will continue the pay off of dividends in the way we have been doing until now. That's our provision for the near future.

And you asked about the impact of the new taxes on the revenue. I think that we have the revenues for the quarter all ready incorporate the effects of this tax increase. So we don't see further any effects in the future -- near future.

OK.

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**Rafael Bitteman** - *Unibanco*

Thank you very much.

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**Operator**

Thank you. As a reminder, if you would like to ask a question, please press the star key followed by the one key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, please press start two. Once again, if you would like to ask a question, please press star one. Our next question comes from Laura Milo (ph) with Centender (ph).

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**Laura Milo** - *Centender*

Hi, my question is if you guys can anticipate what kind of increase in sales expenses for the launch of the new GSM services. And what we can -- what can we expect in terms of margins going forward?

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

OK.

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**Mauricio Roorda** - *TSU - Chief Marketing Officer*

OK. With respect to the launch of GSM what we anticipate is that our operation will go on with a similar margins as we have today. So we don't expect a growth in sales expenses with the launch of GSM. In terms of margin, what we expect is that we will operate this year, as all ready mentioned by Mr. Moraes. We'll have a strong period of Mother's Day and Valentine's Day campaign's right now. But we expect to operate with EBITDA margins around 40 percent for the next quarters.

**Laura Milo** - *Centender*

OK. Thank you.

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**Operator**

Thank you. As a reminder, if you would like to ask a question, please press star one. And we are holding for more questions. The next question comes from Carlos Sequoia (ph) from UBS Warburg.

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**Carlos Sequoia** - *UBS Warburg*

Yes, hi. Just one forecast really, how much subscribers do you plan to have by year end? You said that you were pushing harder at the beginning of the year to grab more subscribers. And so I was wondering, how much more subs do you expect to gain with this more aggressive marketing campaigns? Thanks.

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**Mauricio Roorda** - *TSU - Chief Marketing Officer*

So we are expecting to grow over 1.85, maybe near 1.9 by the end million subscribers.

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**Carlos Sequoia** - *UBS Warburg*

OK. Thanks.

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**Operator**

OK. Sir, there are no more questions at this time. You may proceed with any closing statements.

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**Alvaro Moraes** - *TSU - Chief Executive Officer*

OK. Thank you for participating in this conference call with us. And we are confidence that we will keep on with good results for next quarter. And thank you very much.

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**Operator**

Ladies and gentlemen, your host is making today's conference for replay starting one hour from now and lasting through May eighth. You may access the replay by dialing 800-858-5309. That number again is 800-858-5309. At the voice prompt enter the access code 40479 followed by the pass code 54680. International participants may access the replay as well by dialing 334-323-7226 and entering the same access code and pass code. The replay will be available approximately one hour from now. That does conclude our Tele Celular conference for today. Thank you very much for your participation. You may disconnect.

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