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- Q4 2002 Tele Nordeste Celular Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Sergio Bartoletti** *Tele Nordeste Celular - CEO*

## CONFERENCE CALL PARTICIPANTS

**Isabella Vierra** *Global Consulting Group - Analyst*

**Daniel Henriques** *Goldman Sachs - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Tele Nordeste Celular's Conference Call. At this time, all participants are on a listen-only mode. Later we will conduct a question and answer session and instructions will be given at that time.

If you should require assistance during the call, please press by \* followed by zero. As a reminder this conference is being recorded. I would now like to turn the conference over to Isabella Vierra of the Global Consulting Group. Miss Vierra, please go ahead.

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**Isabella Vierra** - *Global Consulting Group - Analyst*

Good afternoon ladies and gentleman. And welcome to Tele Nordeste Celular's conference call to discuss fourth quarter and full year 2002 results. If you do not have a copy of the relevant press release, please call us in New York and we will fax you a copy immediately during the conference call. Our number for this purpose is 212 807 5016.

There is a slide presentation accompanying today's call. The link to the slide presentation can be found at the company's website, [timnordeste.infoinvest.com.br](http://timnordeste.infoinvest.com.br). Again that is [timnordeste.infoinvest.com.br](http://timnordeste.infoinvest.com.br).

Before proceeding, let me mention that actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today are Sergio Bartoletti, CEO of Tele Nordeste Celular, Mr. Walmir Urbano Kesseli, Chief Financial Officer, Mr. Rodgedo Leda(ph), Chief Commercial Officer and Miss Fabiola Almedia, Investor Relations Manager. Mr. Bartoletti(ph) you may begin.

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**Sergio Bartoletti** - *Tele Nordeste Celular - CEO*

Thank you very much. Good afternoon, ladies and gentlemen. This is as already said, Sergio Bartoletti speaking, the Tele Nordeste CEO. Thank you for joining us today to review the Tele Nordeste results for the fourth quarter 2002.

After a brief overview of our results, we will be happy to answer any questions you may have. My comments will follow the presentation that is available on the internet.

During 2002, Tele Nordeste directed its efforts towards profitable growth, maintaining and re-enforcing its leadership in the region. Fundamentally looking on page 1, I will go through the following points.

The first point is the strategy of 2002, then the key performance indicators of last year. And then the financial overview regarding revenue, EBITDA, CAPEX and net profits.

First, primarily going to page 1, allow me to remember as I mentioned all over the year, some strategic issues that we planned and pointed out for 2002. The company's strategy in the year can be summarized as follows. The maintenance of its most valuable customers; new customer acquisition directed to high value segments; development of new services; re-enforcement of better control and CAPEX and OPEX optimization.

During 2002 the company consolidated its strong image, also launching new services; See page 2. Such as Call Group, that allows customers to select phone numbers and have facilitated service features; such as Minutes Balance, that allows customers to send text messages to obtain a real-time account balance in minutes and money.

Formula TIM Plan that is the equivalent to matching plan-rates to client's needs. Corporate E-Message, allows the exchange of messages free of charge among groups of customers. Zero Rate, allows zero free calls among corporate clients of the same company. Tim Shop, that was the first sale website in the region. And a special corporate application, such as location-based services; such as sales performance information retainers; such as [indecipherable] telemetry and so on. And finally, the expansion of the digital recharging network for prepaid services.

Going into 2002 results; I would like to review the company's PPI sales.

On page 4, it is shown the composition of the customer base. The 9.6% of 2002 growth was [indecipherable] as I said towards good customers. The total customer base of 1,099,126 customers in December 2002, having composed by 36% of post-paid pay customers and 64% of prepaid customers.

On the next page, page 5. It shows the [indecipherable] of 2002. The reduction of [indecipherable] 2002 compared to the one of 2001 was due fundamentally to the incoming traffic. This has had the effect of incoming traffic, the outgoing traffic grew up around 9%, while incoming dropped about 20%.

On the following page, page 6, you can see the fourth quarter trends of 2002. This remains stable due to the very good customer base Tele Nordeste has.

Passing now to page 7; This shows the churn trend. Tele Nordeste had an increase of the churn in 2002 compared with the one of 2001. It was caused by the customer base training that Tele Nordeste made at the end of 2002 and partially by the entrance in the market of one more competitor at the end of June 2002. Nevertheless this should increase [indecipherable] to a very low value customer that didn't effect Tele Nordeste's performance.

Let's move to page 8. Page 8 shows the ARPU. The fourth quarter net ARPU in 2002 was higher than the one of the same period of 2001. You can see it was R\$42.1 rise against R\$41.2 rise. Also, the trend in 2002 shows the increase of the ARPU. Again, I want to point out that this effect is due to the varied and consistent customer base of Tele Nordeste.

On page 9; Let's have a look at SAC. The relationship between the Subscriber acquisition cost of 2002. It was a rise of R\$110. And the gross addition compared with the one of 2001 shows the company has been successful on attracting new customers with lower SAC. I want to underline that it was without any handset subsidies.

Moving on to the next page, page 10; I would like additionally to point out the continuous improvement of the Short Message Service. Which grew in the fourth quarter of 2002, by 276% over the fourth quarter of 2001. A total of 86.5 million messages were sent during the last quarter of 2002. This volume year-over-year is an increase of about 470%. Passing from 51m to 270m.

We pass now to the financial items. On page 11, we can see the growth of the net revenue of 2002 over 2001. Firstly on the left side, look at the increase of the fourth quarter 2002 compared with the fourth quarter of 2001, that was about 13.5%. R\$251m, against R\$221m of the previous year. On the right side, look at the performance on an annual base, the increase of the net revenue was 11.5%. R\$921m against R\$826m of 2001. In terms of net service revenue only, the growth was about 8.5%.

Moving to the next page, page 12; Let us see the EBITDA of the four months. On the left side, it is shown the performance of the fourth quarter 2002 against 2001 in [indecipherable] or Reais, while in the right side this is in percentage. Always comparing the last quarter 2002 and 2001 and the year 2002 to 2001.

In the fourth quarter 2002, Tele Nordeste reported a consolidated EBITDA of R\$121.8m, representing 48.5% of a margin against R\$92.6m for the fourth quarter of 2001, where we had a 41.8% margin.

Year-over-year the result was of R\$427.7m against R\$377.7m. This represents an increase year-over-year of about 26.7%. In terms of EBITDA margins, it was 46.4% against 40.9% from 2002. I would like to just say that this is a 5.5% performance.

On the next page, page 13; Let us have a comparison on the net revenue service only. Considering the effect only the net service revenue, as you can see the EBITDA margin is even better. In the fourth quarter, we achieved a margin of 51.1% compared with the one of 43.2% of 2001. Year-over-year the result was 49.1% against almost 42% 2001.

On the next page, that is page 14; Let us have a look at the CAPEX figures. The CAPEX in 2002 was about R\$74m, R\$75m against R\$132m of 2001. This amount of investment has been mainly directed to the optimization of the company's processes to the CRM and new product development. Strengthening more and more Tele Nordeste's relationship with its customers.

And the end, moving to the last page, that's page 15; This is the bottom line result. The net profit increased from R\$28.2m in the fourth quarter of 2001 to R\$46m for the fourth quarter 2002. Year-over-year the net profit passed from R\$65.5m of 2001 to R\$118.6m of 2002 with an increase of 81.1%. This, we consider this quite interesting.

Well, I have finished ladies and gentlemen. Thank you for participating with us on this conference. We are now ready to answer any questions you may have. Thank you very much indeed.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. Ladies and gentlemen we will now begin the question and answer session. If you have a question or comment, please press the \* key, followed by the 1 key on your touchtone now. Questions will be taken in the order in which they are received. If at any time you would like to remove yourself from the questioning queue, please press \*, 2. Once again, if you would like to ask a question, please \*, 1 and also please restrict your questions to 2 at a time.

We are currently holding for questions. Once again, if you have a question please press \*, 1. Again we are still holding for questions. If you have a question or comment, please press \*, 1. Our first question comes from Daniel Henriques with Goldman Sachs.

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### Daniel Henriques - Goldman Sachs - Analyst

Hi. I have two questions. First, on CAPEX, if you could give us some CAPEX guidance for GSM over the next couple of years? And how many GSM subscribers you expect to have, if you have some projections of how many GSM subscribers you are going to have by the end of this year and maybe by the end of next year.

If you could give us some guidance in terms of subscriber growth for 2003? Thank you.

**Sergio Bartoletti** - *Tele Nordeste Celular - CEO*

Well. The CAPEX, I mean we have already a very, very clear idea about the CAPEX for 2003 and 2004. Fundamentally what I want to underline is the strategy that the company pointed out. And the strategy is to have all over Brazil GSM coverage.

Of course you know very well that in Brazil we have a team, a group. We will be the first operator having the national GSM coverage. So I think it's very important also for Tele Nordeste where already we have about 2 million customers that need to move to this new technology, to have a Brazil coverage. That is very important for us.

In terms of investment, I would like to point out another issue that the company performance, of the company in the [indecipherable] is very, very good. So we don't need a tool and extend [indecipherable] to make our investment on GSM networks. That is the other issue that is important to keep in mind and to better understand the details of Tele Nordeste.

Going to another question that you made regarding the number of customers that we pointed out that we plan to have by the end of this year and the end of next year.

This is a forecast, so we think that almost 20%, 25% will be the total base, the global base by the end of 2003 in terms of GSM. And we think that by the end of 2004, this figure will be around 55%, 60%. Of course it is a plan and of course we have to compare with the answers that the markets will give.

But we assume this figure because you know also here in Brazil every two years, for the customer, the most important thing that they want to do is to change the handset. Of course we are not basing these figures only on the handset side. We are basing the figures regarding strategies that we will follow, giving the customer some additional features, like for example the one that will maintain its number. So fundamentally that's my answer. I don't know if you have any other details?

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**Daniel Henriques** - *Goldman Sachs - Analyst*

Just one follow-up question. 60%, let's say 55% to 60% by the end of 2004 seems kind of aggressive. I know this is a plan, in your plan are you considering subsidies to stimulate people to migrate so fast to GSM?

If you do that, I mean assuming that you reach your plan to get 60% of GSM clients by the end of 2004, what kind of EBITDA margins do you think we will be talking about in 2003 and 2004 to pay for the migration? That's the final question thank you.

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**Sergio Bartoletti** - *Tele Nordeste Celular - CEO*

Okay. Well I mean as I said this figure to be quite aggressive, or seems to be quite aggressive. But fundamentally we think that we can achieve this migration of customers.

In terms of stimulating customers, well I mean I can assure everybody that it's not in our strategy to subsidize the migration. Because we don't think that we have to subsidize migration and considering also this reason, I mean our targets for 2003 is to maintain the same level of performance of Tele Nordeste, as it was this year.

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**Daniel Henriques** - *Goldman Sachs - Analyst*

Okay. Thank you.

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**Operator**

Once again if you have a question or a comment, please press the \* key followed by the 1 key now. We are currently holding for more questions. Once again if you have a question, please press \*, 1 and we are still holding for questions.

Once again if you have a question, please press \*, 1 and we are still holding for questions. Once again if you have a question, please press \*, 1. We are still holding for questions. If you have a question, please press \*, 1. There are no questions at this time. You may proceed with any closing statements.

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**Sergio Bartoletti** - *Tele Nordeste Celular - CEO*

Okay. Thank you very much everybody and I do hope to see you very soon in the next quarter. Thank you.

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**Operator**

Ladies and gentlemen your host is making today's conference available for replay starting one hour from now and lasting through February 10th. 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 40498 followed by the passcode 28956.

International participants may access the replay as well by dialing 334 323 7226 and entering the same access code and passcode.

The replay will be available approximately one hour from now. That does conclude our Tele Nordeste Celular Conference Call for today. Thank you very much for your participation. You may now disconnect.

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