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- Q1 2003 Tele Nordeste Celular Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Isabel Vierra** *Global Consulting Group - Host*

**Mario Sesa Rodrigo** *Tele Nordeste Celular - CEO*

**Rogiero Leda** *Tele Nordeste Celular - CCO*

**Walmir Kesseli** *Tele Nordeste Celular - CFO*

## CONFERENCE CALL PARTICIPANTS

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

**Roger Oey** *BBVA - Analyst*

**Carlos Sequeira** *UBS Warburg - Analyst*

**Andre Gadelha** *Banco Pactual - 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 in 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 'star' followed by zero. As a reminder this conference is being recorded. I would now like to turn the conference over to Isabel Vierra of the Global Consulting Group. Miss Vierra, please go ahead.

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### Isabel Vierra - Global Consulting Group - Host

Good afternoon ladies and gentleman. Welcome to Tele Nordeste Celular's conference call to discuss first quarter 2003 results. If you do not have a copy of the relevant press release, please call us in New York and we will fax you or email you a copy immediately during the conference call. Our number for this purpose is 212 807 5058.

There is also a slide presentation accompanying today's call. The link to the slide presentation can be found at the company's website, [timnordeste.foiinvest.com.br](http://timnordeste.foiinvest.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 Mario Sesa Rodrigo (ph), CEO of TIM Tele Nordeste Celular, Mr. Rogiero Leda (ph), Chief Commercial Officer, Mr. Walmir Kesseli, Chief Financial Officer, Miss Pollyanna Marcio (ph), Investor Relations Assistant, Mr. Leonardo Wandrole (ph) Investor Relations Assistant, and Uri Wandrole (ph), Marketing Manager. Mr. Rodrigo you may begin.

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### Mario Sesa Rodrigo - Tele Nordeste Celular - CEO

Good afternoon, ladies and gentlemen. This Mario Sesa Rodrigo Tele Nordeste CEO. I would now like to turn the call over to Rogiero Leda, the company's CCO, who is responsible to obtain this operation and the [indiscernible] company's results of the first quarter 2003.

**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Good afternoon, ladies and gentlemen, thank you for joining us today. After a brief overview of the results we will be happy to answer any questions you may have. My comments will follow the presentation that is available on the internet.

Starting on page two, the presentation will be in three parts. First 2003 strategy. Second, first quarter 2003 key performance indicators, such as customer base, subscriber acquisition costs and gross addition, Churn, MOU and the ARPU. And third, first quarter 2003 financial review, such as revenue, EBITDA, CAPEX and Net Profit.

Moving on to page three I would like to mention our main strategy for 2003. During 2003 Tele Nordeste will direct its efforts towards profitable growth, maintaining and reinforcing its leadership in the region. In particular, Tele Nordeste strategy in 2003 will be customer base retention and loyalty, a strong focus on ARPU, GSM launching, capitalizing on TIM's national footprint, development and launching of new services, and CAPEX and OPEX optimization.

Now, going into the results of the first quarter 2003, I would like to summarize some of the company's [indiscernible]. On page four we would like to show our customer base. As you can see we grew 9.3% in relation to the same period of last year, strengthening our position as market leader, which we estimated to be 59% of market share. A breakdown of our 1,977,000 total customer base is 65% prepaid and 35% postpaid.

Moving on to page five, we can see the subscriber acquisition costs and gross additions. Subscriber acquisition costs was in line with our strategy. That is focus on growth with profitability. But at the same time managing our market share. We would like to point out the composition of the gross additions. Despite the smaller total gross addition of 122,000 in the first quarter 2003, against 147,000 in the first quarter 2002. The quality of acquisition in the first quarter 2003—I mean the amount and composition of postpaid, was much better.

On the following page, page six, I would like to highlight the drop in churn year-over-year and quarter-over-quarter, as a result of a strong retention campaign and our customer loyalty program.

Moving now to page seven you can see the MOU trend. The MOU decrease is attributed to the reduction of the incoming traffic. But despite this effect, there was a growth in the outgoing traffic year-over-year, as a result of our focus towards profitability. That is, acquiring and developing customers with good service.

Moving to page eight, I would like to point out the continuous improvement of the short message volumes which grew by 244% year-over-year. A total of 117.9m messages were sent during the last quarter. Customers are charged for messages from one cellular to another. Or, they can send messages through our website at no charge.

Let's move now to page nine, where we can see the ARPU. The slight decrease in the ARPU year-over-year is due to the growth of the prepaid customer base, and the reduction of the incoming traffic, as I mentioned before. In addition it is important to consider the seasonality growth on the second half of the year, as well as the slowing down of the economy in the first quarter 2003.

This is the end of the second part of our presentation. Now I will pass you on to Mr. Walmir Kesseli, Tele Nordeste CFO, who will review the company's financial performance.

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**Walmir Kesseli** - *Tele Nordeste Celular - CFO*

Hi everyone, let's review Tele Nordeste Celular financial performance. On page 10 we can see a growth of 11% of the net revenues year-over-year, R\$211.2m against R\$234.5m. That was a growth of 119% of the handsets revenues, and (inaudible) for service revenue which shows a continued increase.

Moving to the next page, 11, let's look at the EBITDA figures. On the left side it shows the performance of the first quarters of the year 2003 against first quarter of year 2002 in medium of Reals, while on the right side in percentage is comparing the first quarter of year 2002 to the first quarter of year 2003.

In the first quarter of year 2003 Tele Nordeste reported a consolidated EBITDA of R\$101.6m, representing 43.3 margin against R\$94.4m of first quarter of year 2003, which represents 44% margin.

Despite the small decrease in terms of the percentage in margin, there was an increase in terms of the total amount. In this sense we would like to point out that we keep pursuing growth with profitability.

On page 12, let's have a comparison on EBITDA within the Net Services revenues only. In fact, considering only the Net Services revenue, as you can see the EBITDA margin is even better. In the first quarter year 2003 we registered a margin of 47.1% compared with 45.4% of year 2002. Despite the strengthening of the competition we have been successful in keeping growth of our services margin.

On the next page 13, let's have a look at the CAPEX figures. In the first quarter of the year it was R\$5.9m against R\$8.7m in the year 2002. This amount of investment was mainly directed to the optimization of the company process, CRN (ph.) and new products, strengthening more and more the relationship with its customers. As a strategy of the company we are concentrating the investments on the second and third quarters of the year.

On the next page, 14, we have the bottom line results. The net profit increased from R\$23.2m on the first quarter of 2002, to R\$33m for the first quarter of 2003, which represents a wonderful performance in terms of growth of 42.2%.

That concludes the company financial performance. I will now turn it back to Mr. Leda.

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**Rogiero Leda** - Tele Nordeste Celular - CCO

Thanks Walmir. Finally, on the last page, page 15, I would like to conclude by saying that our focus to 2003 will be customer base retention and loyalty + stimulate use, increase of revenue per user + customer base qualitative growth = growth with profitability. We believe that this equation is the core of our strategy.

Well, ladies and gentlemen. Thanks for participating with us on this conference, and we are ready now to answer any question you might have. Thank you very much again.

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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 star key, followed by the 1 key on your touchtone now. If at any time you would like to remove yourself from the questioning queue, please press star, 2. Please restrict your questions to two at a time. Our first question comes from Andre Gadelha with Banco Pactual.

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**Andre Gadelha** - Banco Pactual - Analyst

Hi everyone, good results. Congratulations. I'd like to know what the decrease is on your prepaid ARPUs quarter-over-quarter and year-over-year, please, just the decrease? And the second question is regarding the competitive environment. Could you please elaborate a little bit more on the current competitive environment? Could you compare the competitive environment of today and what was happening one year ago at the same time? Thank you.

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Andre, it's Rogiero speaking. What was the first part of your question? Your question of the...

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**Andre Gadelha** - *Banco Pactual - Analyst*

I'd like to know the decrease of the prepaid ARPU, what was it 5%, 10% on your prepaid ARPU quarter-over-quarter or year-over-year, please? Only on your prepaid ARPU.

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Yes, our prepaid ARPU maintained almost stable.

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**Andre Gadelha** - *Banco Pactual - Analyst*

Quarter-over-quarter?

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Yes. Quarter-over-quarter, because what we are doing with prepaid is just to stimulate the recharge (ph.). Then year-over-year, we have ARPU almost stable.

The second part is the competition environment that year-over-year. Of course now that there was strength in the competitive environment. But I would say that Tele Nordeste Celular was prepared to receive the competition.

Now what we are doing is just drive strategy to the niche of the market where the best value is. Just because the tradition of the Tele Nordeste Celular we can acquire the best customers in the market, as you saw in our presentation.

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**Andre Gadelha** - *Banco Pactual - Analyst*

I see, but do you believe that the competition environment is fiercer now than it was last year in the beginning of the year with the entrance of (inaudible) at that time?

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Of course we are facing stronger competition. But as we mentioned in our presentation, this competition affected the gross addition, but what Tele Nordeste Celular did was just to move and to directly its (inaudible) to the best (inaudible) of the market.

If you compare the first quarter of 2002 against the first quarter of 2003, you saw in the first quarter of 2002 a higher number of gross additions, but with less participation of postpaid. That's why the ARPU is better.

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**Andre Gadelha** - *Banco Pactual - Analyst*

Okay. And just one more question. The decrease in the incoming traffic, do you attribute this to the elasticity (ph.) of traffic? I mean do you think the decrease was related to the increasing interconnection rates, or do you have another reason?

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

No, I think that is a mix, it's a blend. The most important cause of the reduction on incoming traffic was just the fixed line that blocked calls to the cellular (inaudible). This was a big problem for us.

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**Andre Gadelha** - *Banco Pactual - Analyst*

Okay. Thank you very much.

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**Operator**

Thank you for your question, sir. Our next question comes from Andrew Campbell with Credit Suisse First Boston. Sir, please go ahead.

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

I was wondering if you could give us an update on the GSM overlay? When will you first be launching that, in what cities, and what the timeline is for the rollout? And also, what the latest figures in terms of what you expect to spend? Thank you.

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Hi, Andrew, it's Rogiero speaking. Our strategy to launch off GSM is during the second half of the year. The strategy for coverage and our footprint is just to launch it to the main metropolitan areas of our region. We have six states here in Tele Nordeste Celular. And the investment that we are doing throughout the year will be around R\$300m.

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

Okay, do you plan to market aggressively the new GSM handsets to your customers, or is it really more of a limited launch? How exactly do you plan to promote that?

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Andrew, as you know we have now a TDMA (ph.) base, but when we launch the GSM handsets we will be the only operator that will be poised for the market. TDMA and GSM depends on the needs of the customer. Then our strategy is not to be aggressive and to subsidize heavily the GSM handsets.

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

Okay, thanks Rogiero.

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**Operator**

Thank you for your question Mr. Campbell. Our next question comes from Roger Oey with BBVA. Sir, please go ahead.

**Roger Oey** - BBVA - Analyst

Thank you. Good afternoon. On the balance sheet I saw a very strong increase in your other short term assets from R\$3.m to R\$42m in the first quarter. Also in the long term assets you had also an increase from R\$12m to R\$35m. I'd like an explanation for that. What's happening, why other assets are increasing that much?

And was it the reason for net cash to remain flat in the first quarter? Do you have a guidance on your cash flow generation for this year? Do you think it's going to be flat considering next year because of the GSM investment? Thank you.

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**Walmir Kesseli** - Tele Nordeste Celular - CFO

Walmir speaking. In terms of our cash flow for by the end of this year, we are still working in order to make the same trend that you had last year. Of course during the first quarter of the year considering that we didn't spend a lot of money in terms of CAPEX, we face some growth debts that considering that our net financial position by the end of the year, the first quarter was increasing 91% in, comparison with the same (inaudible) last year.

I didn't catch your first question in terms of some detail that you saw in our balance sheet. Could you repeat please?

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**Roger Oey** - BBVA - Analyst

Yes, the other assets, you have other short term assets, they were R\$3.0m at the end of last year, and then they are now at R\$42m, it's an increase of almost R\$40m in the short term. And the long term assets you had R\$12m and now it's R\$35m, so you had an increase of let's say R\$20m.

So altogether you have almost R\$60m increase in other assets that are not explained in the balance sheet. At the same time your net cash position remains flat, so I was wondering where TND is allocating its cash generation this first quarter?

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**Walmir Kesseli** - Tele Nordeste Celular - CFO

I don't have more details to give you, but we can open this details and are going to send you -- But I can confirm that we don't have any position other than to send money to the [indiscernible] -- give it a moment because I can do it here right now, okay.

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**Roger Oey** - BBVA - Analyst

Okay.

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**Operator**

Ladies and gentlemen, as a reminder, if you would like to pose a question please press the key followed by the 1 key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press , 2.

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**Walmir Kesseli** - Tele Nordeste Celular - CFO

Roger, Walmir speaking again. I'm going to send you more details than I can offer at this [indiscernible] for all the market, okay?

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**Roger Oey** - BBVA - Analyst

Okay, thank you.

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**Operator**

Our next question comes from Carlos Sequeira with UBS Warburg. Please go ahead.

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**Carlos Sequeira - UBS Warburg - Analyst**

My question is in fact, what has caused the increase in the subscriber acquisition costs this quarter? And what can we expect in the second quarter in terms of subscriber acquisition costs, given that we have Mother's Day and Valentine's Day in the second quarter? Thanks.

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**Rogiero Leda - Tele Nordeste Celular - CCO**

Rogiero speaking. The cause of the increase in the subscriber acquisition costs in the first quarter against the last quarter of 2002 is because we were managing the competition, as I said before. Okay? Just to manage our acquisition costs depends on if the competition is more aggressive or not.

But as we know in the second quarter of the year, just because of Mother's day, that's the second season of sales in the year, you have just now in May. You have maybe a slight increase in the acquisition costs, because we need to be more aggressive than before.

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**Carlos Sequeira - UBS Warburg - Analyst**

Okay, thank you.

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**Operator**

Thank you for your question Mr. Sequeira. Again if you would like to ask a question, please press the key followed by the 1 key on your touchtone phone now. To remove yourself from the question queue, press , 2. Again that's , 1 on your touchtone phone. We have another question from Carlos Sequeira with UBS Warburg. Sir, please go ahead.

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**Carlos Sequeira - UBS Warburg - Analyst**

Okay, thanks. One more question. Can you give us an idea on the average costs of your TDMA handsets in dollars or in Reals, whatever is easier?

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**Rogiero Leda - Tele Nordeste Celular - CCO**

We have two answers for you. One answer is that the average cost of the handsets, and the other is the average sales price. The average sales price is the average sales price of the market, because we are just in line with the market. And it depends on the tier that you would like to attack. If it's the low end, the medium end and the high end. But in the medium end the average sales price in the market is around 400 (inaudible).

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**Carlos Sequeira - UBS Warburg - Analyst**

And the cost?



**Rogiero Leda** - *Tele Nordeste Celular - CCO*

And the cost is the cost of the market. The suppliers have average costs, but this is (inaudible) information because buying -- just because the amount of handsets that we buy from the suppliers, we have a good cost.

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**Carlos Sequeira** - *UBS Warburg - Analyst*

Okay, thanks.

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**Operator**

Thank you for your question Mr. Sequeira. Our next question comes from Andre Gadelha with Banco Pactual. Sir, please go ahead.

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**Andre Gadelha** - *Banco Pactual - Analyst*

Hi, just one more question. Have you guys noted any change in terms of the [indiscernible] operator behavior in terms of the new marketing campaigns, something like that given that it has just changed its controlling shareholder?

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**Mario Sesa Rodrigo** - *Tele Nordeste Celular - CEO*

We have a lot of information from the market about, okay, there will be new shareholder, okay. This motivated a lot of say, the GSM, but we are still waiting a reaction.

And I would say that at the moment the behavior of (inaudible) is the same (inaudible) the position of (inaudible) is on price and promotion. Still now so far we don't have any change in the behavior, but we are prepared to be strong with the competition.

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**Andre Gadelha** - *Banco Pactual - Analyst*

Okay, thank you.

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**Operator**

Thank you for your question, sir. Our next question comes from Roger Oey with BBVA. Sir, please go ahead.

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**Roger Oey** - *BBVA - Analyst*

Just one more question about the number of clients. Do we have a guidance for number of clients for the year end, and could you possibly tell us how many clients you are targeting for GSM?

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**Rogiero Leda** - *Tele Nordeste Celular - CCO*

Roger it's Rogiero speaking. Our target for the year end is around 2,080,00. And to make a breakdown in TDMA and GSM, around 90,000 to 100,000 of GSM.

**Roger Oey** - BBVA - Analyst

Thank you.

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**Operator**

Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star key followed by the 1 key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue press star, 2. Again that's star, 1 on your touchtone phone.

Mr. Rodrigo there are no more question at this time, you may proceed with your closing statement.

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**Mario Sesa Rodrigo** - Tele Nordeste Celular - CEO

Okay. Thank you very much. Okay everybody, once more thanks for participating in this conference. Thank you very much again.

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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 May 8. You may access the replay by dialing 1800 858 5309. At the voice prompt enter the access code, 40498, followed by the pass code 28956. 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 Nordeste Celular conference for today. Thank you very much for your participation, you may now disconnect.

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