

TELE NORTE CELULAR PARTICIPACOES SA

Form 20-F

June 20, 2008

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As filed with the Securities and Exchange Commission on June 20, 2008.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

Commission File Number 1-14479

TELE NORTE CELULAR PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

TELE NORTE CELULAR HOLDING COMPANY
(Translation of Registrant's name into English)

The Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

Rua Levindo Lopes, 258 Funcionários

30.140-170, Belo Horizonte-MG, Brazil

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Preferred Shares without par value	New York Stock Exchange*
Depository Shares, each representing 1 Preferred Share	New York Stock Exchange

* **Not for trading, but only in connection with the registration of American Depositary Shares representing those Preferred Shares, on the New York Stock Exchange.**

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Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the Issuer's classes of capital or common stock as of the close of the period covered by this annual report:

Common Shares, without par value: 2,492,476

Preferred Shares, without par value: 4,209,206

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated File Non-accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards Other
as issued by the International Accounting
Standards Board

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
 Yes No

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INTRODUCTION

Tele Norte Celular Participações S.A., a corporation organized under the laws of the Federative Republic of Brazil, is referred to in this annual report as the Registrant or Tele Norte. Amazônia Celular S.A. (previously named Amazônia Celular S.A. Maranhão) is the Registrant's operating subsidiary and is referred to as Amazônia Celular or the Company. Amazônia Celular, together with the Registrant, is referred to as we, us or our, unless the context requires otherwise. On December 31, 2002, we merged the subsidiaries of Amazônia Celular S.A. Maranhão, namely Amazônia Celular S.A. Amapá, Amazônia Celular S.A. Amazonas, Amazônia Celular S.A. Pará and Amazônia Celular S.A. Roraima into Amazônia Celular S.A. Maranhão. On March 19, 2003, the shareholders of Amazônia Celular S.A. Maranhão approved the change of its name into Amazônia Celular S.A.

References in this annual report to (i) the *real*, *reais* and R\$ are references to Brazilian *reais* (plural) and the Brazilian *real* (singular), the currency of Brazil, (ii) U.S. dollars, dollars and US\$ are references to United States dollars, (iii) preferred shares and common shares are references to the Registrant's authorized and outstanding shares, (iv) ADSs are references to our American Depositary Shares, each representing one preferred share, (v) Commission are to the U.S. Securities and Exchange Commission, (vi) CVM are to the *Comissão de Valores Mobiliários*, the Brazilian securities commission, (vii) Central Bank are to the *Banco Central do Brasil*, the Brazilian Central Bank, (viii) General Telecommunications Law are to *Lei Geral de Telecomunicações*, as amended, which regulates the telecommunications industry in Brazil, (ix) Anatel are to *Agência Nacional de Telecomunicações*, the Brazilian independent telecommunication regulatory agency, and (x) our region means the area covered by our authorizations, including the states of Amazonas, Roraima, Amapá, Maranhão and Pará.

We are one of the companies formed as a result of the break-up of *Telecomunicações Brasileiras S.A. Telebrás*, or Telebrás, by the federal government of Brazil in May 1998. Amazônia Celular was formed in January 1998 to receive all of the share capital held by Telebrás in its operating subsidiaries that provided cellular telecommunication services in the states of Pará, Maranhão, Roraima, Amapá and Amazonas. References to Amazônia Celular operations prior to January 1998 are to the cellular operations of its predecessor. See Item 4A. Information on the Company History and Development of the Company Historical Background.

We have prepared our consolidated financial statements included in this annual report in conformity with generally accepted accounting principles in the United States, or U.S. GAAP, as at and for the year ended December 31, 2005 audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm and as at and for the years ended December 31, 2006 and 2007 audited by Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm.

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report was obtained from Anatel. The Glossary of Telecommunications Terms listed in the Table of Contents provides the definition of certain technical terms used in this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that may constitute forward-looking statements. These include statements regarding our current expectations, intentions and projections about future events and financial trends affecting our business. These statements include, but are not limited to:

trends affecting our business, financial condition, revenues, results of operations and prospects,

any statements preceded by, followed by or that include the words believes, expects, predicts, anticipates, intends, estimates, may or similar expressions, and

other statements contained in this annual report regarding matters that are not historical facts.

Because these statements are subject to uncertainty, actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from those contained in forward-looking statements include, but are not limited to:

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the pursuit of business strategies that cause our business, financial condition, revenues, results of operations or prospects to change, including the migration of our network to Global System for Mobile, or GSM, technology and acquisitions or dispositions of assets or internal affiliates,

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changes to our ownership structure, management or shareholder composition,

the negotiation of interconnection agreements,

new governmental regulation and tax matters,

inflation and changes in currency exchange rates,

our ability to sustain or improve our performance,

expectations and estimates of our management concerning future capital expenditures, other investments to attract and retain customers, our financial performance, financing plans and the effects of competition,

new competitors in the region where we concentrate our operations and the increase of competition in the Brazilian telecommunications industry,

our ability to use deferred tax assets,

adverse legal or regulatory disputes,

changes in regional, national and international business and economic conditions, including inflation and currency devaluations,

incidence of cloning and subscription fraud,

political, economic, regulatory and demographic developments in Brazil generally and in the region in Brazil where we conduct our business, and

the factors discussed under Item 3D. Key Information Risk Factors , which you are urged to carefully review.

You should not place undue reliance on these statements, which speak only as of the date that they were made. These cautions should be considered in connection with any written or oral forward-looking statements that we make.

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected financial information presented below should be read in conjunction with our consolidated financial statements as of December 31, 2006 and 2007 and for the years ended December 31, 2005, 2006 and 2007, and the related notes included in this annual report.

The consolidated financial statements have been audited by our independent registered public accounting firm, and their report on the consolidated financial statements are presented in this annual report F-pages. The selected financial information as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 has been derived from our consolidated financial statements prepared for those fiscal years that are not included in this annual report.

The consolidated financial statements have been prepared in accordance with U.S. GAAP. See the information under the caption Item 5. Operating and Financial Review and Prospects.

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U.S. GAAP Selected Financial Information

	2003	2004	Year ended December 31,		2007	2007 ⁽¹⁾
			2005	2006		
Statement of operations data:						
Net operating revenues (in thousands)	R\$ 533,528	R\$ 512,356	R\$ 445,567	R\$ 404,059	R\$ 511,443	US\$ 288,746
Operating profit (loss) (in thousands)	R\$ 62,035	R\$ 15,889	R\$ 6,639	R\$ (78,389)	R\$ 28,534	US\$ 16,109
Net profit (loss) (in thousands)	R\$ 35,732	R\$ (86,499)	R\$ (20,049)	R\$ (87,356)	R\$ 5,755	US\$ 3,249
Basic and diluted profit (loss) per common share ^{(2)*}	R\$ 5.33	R\$ (34.70)	R\$ (8.04)	R\$ (35.05)	R\$ 0.86	US\$ 0.49
Basic and diluted profit (loss) per preferred share ^{(2)*}	R\$ 5.33				R\$ 0.86	US\$ 0.49
Basic and diluted profit (loss) per ADS*	R\$ 5.33				R\$ 0.86	US\$ 0.49
Dividends per share paid ^(3*)		R\$ 1.04	R\$ 0.78		R\$ 0.76	US\$ 0.43
Dividends per ADS ^(3*)		R\$ 1.04	R\$ 0.78		R\$ 0.76	US\$ 0.43
Basic and diluted weighted average number of outstanding shares						
Preferred*	4,209,206	4,209,206	4,209,206	4,209,206	4,209,206	4,209,206
Common*	2,492,477	2,492,477	2,492,477	2,492,477	2,492,477	2,492,477
Other financial data:						
Capital expenditures ⁽⁴⁾ (in thousands)	R\$ 29,087	R\$ 156,051	R\$ 72,451	R\$ 51,281	R\$ 31,658	US\$ 15,795

	2003	2004	As of December 31,		2007	2007 ⁽¹⁾
			2005	2006		
			(in thousands of reais)			(in thousands of US\$)
Balance sheet data:						
Cash and cash equivalents	R\$ 6,501	R\$ 2,549	R\$ 15,234	R\$ 22,674	R\$ 9,884	US\$ 5,580
Temporary cash investments	1,583	97,330	50,418	28,726	34,953	19,733
Working capital ⁽⁵⁾	(88,004)	(90,994)	(59,084)	(149,990)	(85,150)	(48,072)
Total assets	653,415	766,926	708,033	689,205	599,913	338,685
Long-term debt (including current portion)	223,714	272,602	205,856	179,515	151,788	82,881
Shareholders' equity	239,462	148,813	125,498	43,642	47,441	26,783
Capital stock	84,851	84,851	84,851	84,851	84,851	47,903

(*) Per share information have been adjusted to reflect the 50,000:1 reverse stock split occurred in 2007. See note 15 (g) to our U.S. GAAP financial statements).

(1) Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2007 have been translated into U.S. dollars at the commercial selling rate at closing for purchase of U.S. dollars, as reported by the Central Bank, on December 31, 2007 of R\$1.7713 to US\$1.00. The U.S. dollar equivalent information should not be construed to imply that the *real* amount represent, or could have been or could be converted into, U.S. dollars at this rate or at any other rate.

(2) As mentioned in Note 16, we changed our accounting policy for calculating earnings per share in 2006, and retrospectively applied the new policy to prior periods.

(3) For the periods presented, dividends per share were calculated based upon the number of outstanding preferred shares on the date the dividends were provided, since common shares did not receive dividends.

(4) Cash disbursements for capital expenditures including accounts payable for property and equipment.

(5) Current assets less current liabilities.

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Prior to March 14, 2005, there were two principal legal foreign exchange markets in Brazil:

the commercial rate exchange market; and

the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. These transactions included the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies could only be purchased in the commercial exchange market through a Brazilian bank authorized to operate in these markets. In both markets, rates were freely negotiated.

Resolution No. 3,265 by the National Monetary Council, or the CMN, dated March 4, 2005, as amended by Resolutions No. 3,311 and 3,356 of the CMN, dated August 31, 2005 and March 31, 2006, respectively, consolidated the foreign exchange markets into a single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the Central Bank's electronic registration system. Pursuant to Resolution No. 3,356, the authorized institutions must present to the Central Bank a list of actions to prevent money laundering and other crimes under Law No. 9,613, dated March 3, 1998. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and during that period, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. On June 10, 2008, the U.S. dollar/*real* exchange rate was R\$1.6384 per US\$1.00. For more information on these risks, see Item 3D. Key Information Risk Factors Risks Relating to Brazil.

The following tables set forth the commercial rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated.

Year	R\$ per US\$1.00			Year-End
	Low	High	Average ⁽¹⁾	
2003	2.8219	3.6623	3.0600	2.8892
2004	2.6544	3.2051	2.9015	2.6544
2005	2.1625	2.7613	2.4331	2.3407
2006	2.0578	2.3703	2.1671	2.1380
2007	1.7317	2.1548	1.9468	1.7705
2008 (through June 10)	1.6207	1.8293	1.7065	1.6384

Source: Central Bank/Bloomberg

(1) Represents the average of the exchange rates on the last day of each month during the relevant period.

Month	R\$ per US\$1.00	
	Low	High
December 2007	1.7608	1.8225
January 2008	1.7406	1.8293
February 2008	1.6707	1.7673
March 2008	1.6692	1.7483
April 2008	1.6567	1.7526
May 2008	1.6286	1.6941

Source: Central Bank/Bloomberg

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B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition and results of operations could be materially and adversely affected by any of the risks below. The trading price of the ADSs could decline due to any one of these risks and you may lose all or part of your investment. The risks described below are those that we currently believe may materially affect us. Additional risks not presently known to us or that we currently deem immaterial may also impair our business.

Risks Related to the Registrant

Risks Relating to our Business and the Brazilian Telecommunications Industry

Our industry is highly regulated. Changes in laws and regulations may adversely impact our business.

Our industry is highly regulated by Anatel. Anatel regulates the granting of licensing, the terms of these licenses, rates, technical standards and competition, among other aspects of our mobile business. Changes in laws and regulations, grants of new licenses or the imposition of additional requirements in connection with and to retain our licenses or in connection with the minimum quality, coverage and service standards established by Anatel, among other factors, may adversely affect our operations and financial results.

Failure by us to comply with these requirements may result in the imposition of fines or other government actions, including the termination of our operating license. Any partial or total revocation of our operating license would have a material adverse effect on our business, financial condition, revenues, results of operations and prospects.

After the current federal government took office on January 1, 2003, some of its members advocated the revision of the regulatory model followed by regulatory agencies in Brazil, including Anatel, in order to subordinate them to their respective ministries. The loss of Anatel's independence could pose a material risk to our business, given the potential for undue political influence that could be exercised over Anatel under this new regulatory model.

We depend on our ability to enter into interconnection agreements with other telecommunications services providers. We may not be able to enter into favorable interconnection agreements with them in the future.

In order to receive or send calls from or to customers of other mobile Brazilian and international networks, we must interconnect with the networks of our competitors. The Brazilian General Telecommunications Law (Lei Geral das Telecomunicações) requires all telecommunications service providers to interconnect their networks with those of other providers on a non-discriminatory basis.

Since July 2004, a specific regulation has established that mobile interconnection rates are freely negotiable. Brazilian telecommunications laws and regulations also provide that if interconnection rates for mobile operators are not agreed among telecommunications service providers, Anatel is empowered to arbitrate, at its discretion, the interconnection rates that mobile telecommunications companies may charge.

As of July 2005, we implemented a 4.5% interim adjustment in the interconnection fee for the use of the SMP network (VU-M) exclusively for local calls VC1 between ourselves and the following operators: TNL PCS S.A., or Oi, Telecom Itália Mobile, or TIM, Vivo Participações S.A., or Vivo, and Telemar Norte Leste S.A., or Telemar, based on an agreement among such operators and us. As a result, our interconnection fee increased from

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R\$0.38755 to R\$0.40498, net of taxes. Further, in July 2007, Fixed-Line Telecommunications Services (Serviço Telefônico Fixo Comutado), or STFC, and SMP providers, with the exception of Embratel Participações S.A., or Embratel, Intelig Comunicações Ltda., or Intelig, GVT (Holding) S.A., or GVT, and TIM Long-distance calls (TIM Longa-distância), or and TIM-LD, entered into an agreement amending the interim agreement of 2005. The new terms of the agreement readjusted the interconnection fee (VU-M) by 1.97%, effective on May 31, 2007. The readjustment of the interconnection fee by 68.5% of the adjustment index for 2008 was also negotiated at the occasion. This adjustment, once ratified by Anatel, will be applied to local calls VC1 between fixed and mobile lines of local operators' basic plans.

At the end of 2005, we entered in an interim agreement to readjust prices of the interconnection fee (VU-M) on long-distance calls VC2 and VC3 by 4.5%. Telemar, Brasil Telecom S.A., or Brasil Telecom (cellular and fixed lines), Telefônica S.A., or Telefônica, CTBC (cellular and fixed lines), Sercomtel S.A. Telecomunicações, or Sercomtel (cellular and fixed lines), Oi, Vivo, TIM, Claro Telecom Participações S.A., or Claro, Amazônia Celular, and Telemig Celular S.A., or Telemig Celular, were involved in this agreement. Pursuant to the agreement, implementation of the interim readjustment became effective immediately after Anatel's ratification of new rates for calls to users of fixed-line services, which took place in March 2006.

In September 2007, we also entered into an agreement with Embratel that became effective in January 2008, under which we agreed to readjust prices of the interconnection fee (VU-M) on long-distance calls VC2 and VC3 between Amazônia Celular and Embratel by 6.56% in order to bring those VU-M rates to prices currently practiced in the market.

The adjustment of the interconnection fee (VU-M) is being questioned by some operators (GVT, Intelig, TIM for long distance calls and Nextel) that are not party to the agreements for local and long-distance calls.

We cannot assure you that the interconnection rates we negotiated will be upheld or that future negotiations will be as favorable as those that were previously set by Anatel. If the readjustments that we negotiated are cancelled or if freely negotiated interconnection fees in the future are less favorable to us, our business, financial condition, revenues, results of operations and prospects will be adversely affected.

Our mobile services face strong competition from other mobile service providers, which may adversely affect our revenues.

The market for mobile services in Brazil is extremely competitive. Upon acquiring our A Band concessions in the beginning of 1998, we were the only cellular operator in our area. In October 1999, Norte Brasil Telecom S.A., or NBT (which was subsequently acquired by Vivo, a joint venture of Portugal Telecom and Telefônica Móviles), the B Band operator in our area, began operations using TDMA technology. Telemar, the principal fixed line operator in our area and our controlling shareholder as from April 3, 2008, commenced using GSM technology on the D Band frequency range in certain parts of our area in June 2002 through its subsidiary Oi, and TIM, the E Band operator primarily owned by Telecom Itália, began operations in October 2002 using GSM technology.

We have experienced increased pressure to reduce our rates in response to pricing competition. This pricing competition often takes the form of special promotional packages. Our inability to compete effectively with our competitor's special packages, prices, traffic usage promotions, and handset subsidy strategies, could affect our revenues and profitability and cause us to continue losing our market share. We estimate that our market share reduced to 20.3% at December 31, 2007, as compared to 22.2% and 25.7% at December 31, 2006 and 2005, respectively. Additionally, increased competition may cause an increase in marketing expenses and our client-acquisition costs, which would adversely affect our results of operations. See Item 4B. Information on the Company Business Overview Competition.

Our controlling shareholder, Telemar, has control over us and our controlled companies, and it has the power to decide a number of matters without the approval of our minority shareholders.

As from April 3, 2008, we are controlled by Telemar, which holds 51.9% of our common stock. Only common shares are entitled to full voting rights. Holders of our preferred shares and ADSs do not have voting rights, except in certain specific and limited situations. For additional information, see Item 7. Major Shareholders and Related Party Transactions.

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Our controlling shareholder is entitled to appoint the majority number of members of our board of directors and it has the power to determine the decisions to be taken by our shareholders meetings on matters of our management that require the prior authorization of our shareholders, including in respect of related party transactions, corporate restructurings and the date of payment of dividends and other capital distributions. According to Brazilian corporate laws, the protections granted to minority shareholders, as well as fiduciary duties of our directors are in certain aspects less protective than in other jurisdictions, including the United States.

We experience a high rate of customer turnover, which may negatively affect the revenues and profitability of our mobile services business.

Customer turnover, or churn, may be voluntary or involuntary, depending on whether the customer freely decides to terminate our services or we terminate the services due to lack of payment. Our average churn rate during the last three years was 4.0% per month in 2005, 4.6% per month in 2006 and 3.4% per month in 2007. To the extent that our competition continues to increase or the Brazilian economy stagnates or falters, our churn rate could increase, negatively affecting our business, financial condition, revenues, results of operations and prospects. We cannot assure you that our churn rates will not increase in future periods, which may materially adversely affect our results of operations.

The telecommunications industry is subject to frequent changes in technology. Our ability to remain competitive depends on our ability to implement new technology, and it is difficult to predict how new technology will affect our business.

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually hard to anticipate. Technological changes may render our equipment, services and technology obsolete or inefficient, requiring us to increase our capital expenditures, which may adversely affect our competitiveness. Even if we adopt such new technologies in a timely fashion, we may not be able to remain competitive and the cost of such technology may exceed the benefit to us.

The mobile telecommunications industry has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Alternative technologies may be developed that are more advanced than those we provide today. Even if we adopt new technologies in a timely manner as they are developed, we cannot assure you that we will be able to maintain our level of competitiveness.

Adverse decisions in one or more of our lawsuits could adversely affect our business and results of operations.

In the ordinary course of business, we are involved in various legal proceedings of a civil, tax, regulatory and labor-related nature. Based on the opinion of our external legal counsel, we classify our risk of loss from legal and administrative proceedings as probable, possible and remote. We make provisions for probable claims but do not make provisions for possible and remote claims.

As of December 31, 2007, we maintained provisions in the total amount of R\$153.5 million and court deposits in the total amount of R\$125.7 million. The majority of our material legal proceedings are related to tax matters. The total amount of the contingencies, based on the value attributed to the lawsuit by the plaintiff, may not correspond to the economic value of the lawsuits, which may be substantially higher than the total amount of contingencies. If the cost of these lawsuits is higher than the amount attributed to them by the plaintiffs, or in the event the total amount of our provisions does not suffice to pay the contingencies due, we could incur greater costs than originally foreseen and could have to make adjustments to our provisions. In addition, adverse decisions in one or more of our lawsuits or disputes in amounts in excess of those deposited in court or provisioned, may result in material losses, which may adversely affect our business and results of operations.

At December 31, 2007, we had claims against us of approximately R\$38.7 million in tax proceedings, R\$5.0 million in labor and civil proceedings with a risk of loss classified as possible or remote, and for which we had made no provisions. Unfavorable decisions in these proceedings may materially adversely affect our results of operations. See Note 14(a) to our consolidated financial statements.

For more information on the legal proceedings in which we are involved, see Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings.

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We have a substantial amount of existing debt, which could restrict our financing and operating flexibility and have other adverse consequences. Certain covenants contained in our financial agreements limit our ability to incur indebtedness.

At December 31, 2007, we had a total consolidated debt of R\$151.7 million and a ratio of debt to equity of 3.2. We are subject to certain financial covenants that limit our ability to incur indebtedness above a certain level. Failure to comply with those covenants could result in the acceleration of the debt under those financing agreements.

Our inability to raise capital above the limits imposed by these agreements may affect our ability to obtain the resources needed to invest in our business and make necessary or advisable capital expenditures, which could reduce future sales and adversely affect our profitability. In addition, cash required to serve our existing indebtedness reduces the amount available to us to pay dividends or make capital expenditures.

If our growth in revenues slows or declines in a significant manner, for any reason, we may not be able to continue servicing our debt. If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. In addition, our Senior Unsecured Notes due 2009 (as defined below) have cross-acceleration clauses establishing that a default by Telemig Celular of any of its obligations under other financing agreements would cause a default and acceleration under our Senior Unsecured Notes program.

We may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding our loan agreements and our indebtedness at December 31, 2007, see Item 5B. Operating and Financial Review and Prospects Liquidity and Capital Resources.

We are subject to delinquencies of our accounts receivables.

In 2007, we recorded provisions for doubtful accounts in the amount of R\$42.8 million, primarily due to subscribers' delinquencies. Anatel regulations prevent us from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber's credit record. If we are unable to implement policies to limit subscriber delinquencies or otherwise select our customers based on their credit records, persistent subscriber delinquencies and bad debt will continue to adversely affect our financial results.

We are subject to administrative or legal proceedings deriving from the outsourcing of services that, if decided adversely, may have an adverse effect on our business.

We are subject to proceedings deriving from the outsourcing of services. It is difficult to quantify any administrative or legal proceedings that may occur. If many proceedings derive from the outsourcing of services, with unfavorable decisions to us, we may face a liability for which we will not have made any provision and that may adversely affect our business. For more information on our legal proceedings, see Item 8A. Financial Information Consolidated Financial Statement and Other Financial Information Legal Proceedings.

If key members of our senior management resign, or if we are unable to attract and retain skilled management, our business could be materially adversely affected.

Our ability to continue to be competitive in our markets and achieve our growth strategy depends on our senior management team. We may not be able to continue to successfully attract and retain skilled management. If key members of our senior management team were to resign or if we are unable to continue to attract and retain skilled management, our business, financial condition and results of operations could be adversely affected.

Our operations depend on our ability to maintain, upgrade and efficiently operate accounting, billing, customer service, information technology and management information systems.

Sophisticated information and processing systems are vital to our growth and our ability to monitor costs, render monthly invoices for services, process customer orders, provide customer service and achieve operating efficiencies. There can be no assurance that we will be able to successfully operate and upgrade our accounting, information and processing systems or that they will continue to perform as expected. Any failure in our accounting, information and processing systems could impair our ability to collect payments from customers and respond satisfactorily to customer needs, which could adversely affect our business, financial condition and results of operations.

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Unauthorized and fraudulent use of our network can adversely affect our costs and results of operations.

We incur costs associated with the unauthorized and fraudulent use of our networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of our network can also increase our selling expenses if we need to increase our provision for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Any unexpected increase in the improper use of our network in the future could materially adversely affect our costs and results of operations.

An increase in taxes levied on the telecommunications sector could affect the financial results of our operations.

Mobile telecommunication services are subject to certain taxes which are levied exclusively on these services. Mobile telecommunication providers must pay (i) the Fund for Universal Telecommunications Services (Fundo de Universalização dos Serviços de Telecomunicações), or Fust, and (ii) the Fund for Technological Development of Brazilian Telecommunications (Fundo para o Desenvolvimento Tecnológico das Telecomunicações Brasileiras), or Funttel. The contributions to Fust and Funttel, which began in 2000, are charged at the rate of 1.0% and 0.5% of the concessionaires' gross revenues, respectively, and may not be passed on to customers of telecommunications services as part of the tariffs charged. If additional taxes for telecommunications services are created, or if existing Fust or Funttel taxes are increased, our profit margin could be materially adversely affected in light of the high level of overall taxation to which we are currently subject.

The mobile telecommunications industry, including us, may be harmed by reports suggesting that radio frequency emissions cause health problems and interfere with medical devices.

Media and other entities frequently suggest that the electromagnetic emissions from mobile handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using mobile handsets. These concerns could have an adverse effect on the mobile telecommunications industry and, possibly, expose mobile service providers to litigation. We cannot assure you that further medical research and studies will refute a link between the electromagnetic emissions of mobile handsets and base stations and these health concerns. Government authorities could increase regulation on electromagnetic emissions of mobile handsets and base stations, which could have an adverse effect on our business, financial condition and results of operations. The expansion of our network may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. On July 2, 2002, Anatel published Resolution No. 303 that limits emission and exposure for fields with frequencies between 9 kHz and 300 GHz. Although this Resolution did not have any material impact on our business, new laws regarding electromagnetic emissions and exposure may be passed and could have an adverse effect on our business.

Risks Relating to the Acquisition of our Control by Telemar

We currently manage certain aspects of our operations and systems infrastructure together with Telemig Celular. Following our recent acquisition by TMar, we will share our operations and systems infrastructure with TMar, and as a result, we are working to separate our operations and systems infrastructure from those of Telemig Celular. We may face difficulties or be unable to separate our operations and systems infrastructure from that of Telemig Celular without incurring significant costs, which could materially adversely impact our results of operations.

Prior to April 3, 2008, we and Telemig Celular were under common shareholding control and, as a consequence, we shared certain systems infrastructure with Telemig Celular, including pursuant to the terms of the Shared Services Agreement.

Following the acquisition of our control by Telemar on April 3, 2008, we, Telemar, Vivo (our former controlling shareholder), Telemig Celular Participações S.A., or Telemig Celular Participações, and Telemig Celular entered into a memorandum of understanding, or the MoU, on April 7, 2008 to determine a procedure to segregate our activities from the activities of Telemig Celular, which agreement requires Telemig Celular and Amazônia Celular to: (i) enter into a services agreement, pursuant to which Telemig Celular will render certain services to

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Amazônia Celular, including accounting, information technology, network maintenance, systems control, engineering, development of marketing programs, products and services, among others; (ii) define together certain key performance indicators and service level agreements; (iii) determine a timeframe for segregation of these processes; (iv) determine which assets to segregate; (v) keep confidential any information obtained from the other party during this transitional period; and (vi) independently contract auditors to assist in the segregation process and for transparency purposes. This MoU is valid for nine months renewable for an additional three-month term.

We cannot assure you that each of the parties will fully comply with the terms of the MoU, or that the costs of implementing the segregation of operations and systems infrastructure described in the MoU and of developing and implementing a separate systems infrastructure for Amazônia Celular will not be significantly higher than we expect, or that there will be no unforeseen events that may result in this separation taking longer than anticipated or adversely affecting the quality of the services we provide, all of which may have a material adverse effect on our business and on our anticipated benefits with the acquisition of our control.

An active and liquid market for our common and preferred shares and for our ADSs may cease to exist as a result of the consummation of tender offers that our controlling shareholder intends to conduct.

On May 5, 2008, our controlling shareholder filed with the CVM a request for registration of a tender offer for the acquisition of all of the outstanding common shares not held directly or indirectly by our controlling shareholder. In addition, our controlling shareholder intends to file with the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), or BOVESPA, the documentation relating to a tender offer for the acquisition of all of our outstanding preferred shares not held directly or indirectly by our controlling shareholder.

The purchase by our controlling shareholder of a significant number of our common and preferred shares (including preferred shares represented by ADSs) in these tender offers may substantially reduce the number of common and preferred shares and related ADSs that are publicly traded and also reduce the number of holders of common and preferred shares and ADSs. These reductions in publicly traded common and preferred shares and ADSs and in the number of holders thereof would adversely affect the liquidity and marketability, as well as the market value of the common and preferred shares and the ADSs.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions have a direct impact on the business, financial condition, revenues, results of operations and the market price of the ADSs and our preferred shares.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policies and regulations. The Brazilian government's actions to control inflation and affect other policies have involved increases in interest rates, wage and price controls, currency devaluations, capital controls, and limits on imports, among other actions. Our business, financial condition, revenues, results of operations, prospects, and the market price of our preferred shares and ADSs may be adversely affected by changes in government policies, as well as general economic factors including:

currency fluctuations;

exchange controls and restrictions on remittances abroad, such as those which were briefly imposed on such remittances (including dividends) in 1989 and in the beginning of 1990;

inflation;

price instability;

interest rate increases;

liquidity of domestic capital and lending markets;

changes in tax policy; and

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other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers.

Inflation and government efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of the ADSs and our preferred shares.

Brazil has in the past experienced extremely high rates of inflation. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or the IGP-M, a general price inflation index, the inflation rates in Brazil were 8.7% in 2003, 12.4% in 2004, 1.2% in 2005, 3.8% in 2006 and 7.8% in 2007. Inflation and certain government actions taken to combat inflation have had in the past significant negative effects on the Brazilian economy. Actions taken to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. The Brazilian base interest rate, which is determined by the Brazilian Monetary Policy Committee (*Comitê de Política Monetária*), or COPOM, was 16.5%, 17.7%, 18.0%, 13.0% and 11.3% on December 31, 2003, 2004, 2005, 2006 and 2007, respectively. Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences high inflation in the future, we may not be able to adjust the rates we charge our customers to offset the effects of inflation on our cost structure. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market value of our preferred shares and, as a result, the ADSs.

Fluctuations in the value of the real against the value of the U.S. dollar and other foreign currencies may adversely affect our ability to service obligations payable in or pegged to the U.S. dollar or other foreign currencies and could lower the market value of the ADSs and our preferred shares.

As a result of inflationary pressures, among other factors, the Brazilian currency has devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 8.5% in 2000 and by 15.7% in 2001. In 2002, the *real* depreciated 34.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. The *real* appreciated 22.3%, 8.8%, 13.4%, 9.5% and 20.7% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively. The *real* appreciated by 7.46% against the U.S. dollar in the first six months of 2008. Despite the appreciation of the Brazilian currency against the U.S. dollar in recent years, no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. On June 10, 2008, the U.S. dollar/*real* exchange rate was R\$1.6384 per US\$1.00. See Item 3A. Key Information Selected Financial Data Exchange Rates.

Significant costs relating to our network infrastructure and handsets are linked to payment in U.S. dollars. All of our revenues are generated in *reais*. If the value of the *real* decreases relative to the U.S. dollar, our debt becomes more expensive to service. Such decreases also make it more costly for us to pay for the U.S. dollar-denominated technology and goods that are necessary to operate our business, and we may be unable to pass the increased costs to our customers. As of December 31, 2007, we had R\$151.8 million in total debt, all of which was denominated in U.S. dollars.

Historically, depreciations of the *real* relative to the U.S. dollar have also created additional inflationary pressures in Brazil, and future depreciations could negatively affect us. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations also reduce the U.S. dollar value of capital distributions and payment of dividends to holders of ADSs and the U.S. dollar equivalent of the market price of our preferred shares, and as a result of our ADSs.

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Deterioration in economic and market conditions in other countries, especially emerging market countries, may adversely affect the Brazilian economy and our business.

The market for securities backed by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, the reaction of investors to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Developments or conditions in other emerging market countries have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil. Crises in other emerging market countries may hamper investor enthusiasm for securities of Brazilian issuers, including ours. This could adversely affect the trading price of the ADSs and our preferred shares and could also make it difficult for us to access the capital markets and finance our operations in the future on acceptable terms, or at all.

Risks Related to the ADSs and the Preferred Shares

Holders of our preferred shares have limited voting rights.

Of our two classes of shares outstanding, only our common shares have full voting rights. Our preferred shares will be entitled to unlimited voting rights only in certain limited circumstances, such as in the event that we fail to pay minimum statutory dividends for a period of three consecutive years. As a result, holders of our preferred shares generally will not be able to influence corporate decisions requiring a shareholder vote, including the declaration of dividends.

Holders of ADSs are not entitled to attend shareholders meetings and may only vote through the depositary.

Under Brazilian law, only shareholders registered as such in our corporate books may attend shareholders meetings. All preferred shares underlying the ADSs are registered in the name of The Bank of New York, as depositary of our ADS program. A holder of ADSs is entitled to instruct the depositary as to how to vote, if the preferred shares represented by ADSs are entitled to vote for a particular matter, in accordance with procedures provided for in the deposit agreement governing our ADS program, but a holder of ADSs will not be able to vote directly at a shareholders meeting or to appoint a proxy to do so. Additionally, if the depositary does not provide to the holders of ADSs the voting materials that the depositary receives from us and that are prepared to instruct the shareholders about the voting agenda of the shareholders meeting, or, if there is any miscommunication between the depositary and such shareholders, shareholders may not be fully informed to instruct the depositary on how to vote in our shareholders meeting, or may not be aware that there will be a shareholders meeting.

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire.

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 50.7% of the aggregate market capitalization of the BOVESPA, as of December 31, 2007. The top ten stocks in terms of trading volume accounted for approximately 44.7%, 45.5% and 50.4% of all shares traded on the BOVESPA in 2005, 2006 and 2007, respectively.

If you surrender your ADSs and withdraw preferred shares, you risk losing the ability to remit foreign currency abroad and certain potential Brazilian tax advantages.

As an ADS holder, you will benefit from the electronic certificate of foreign capital registration to be obtained by the custodian for our preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit

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the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will potentially be subject to less favorable tax treatment.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

Holders of ADSs may be unable to exercise preemptive rights with respect to our preferred shares.

We may not be able to offer our preferred shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our preferred shares in connection with any future issuance of our preferred shares unless a registration statement under the United States Securities Act of 1933, or the Securities Act, is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our preferred shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, The Bank of New York, as depositary, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depositary does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to the disposition of the ADSs and preferred shares.

According to Law No. 10,833, enacted on December 29, 2003, if a nonresident of Brazil disposes of assets located in Brazil, the transaction will be subject to taxation in Brazil, even if such disposition occurs outside Brazil or if such disposition is made to another nonresident. Dispositions of ADSs between nonresidents, however, are currently not subject to taxation in Brazil. Nevertheless, in the event that the concept of disposition of assets is interpreted to include the disposition between nonresidents of assets located outside Brazil, this tax law could result in the imposition of withholding taxes in the event of a disposition of the ADSs made between nonresidents of Brazil. Due to the fact that Law No. 10,833/2003 has been recently enacted and no judicial guidance as to its application yet exists, we are unable to predict whether an interpretation applying such tax laws to dispositions of the ADSs between nonresidents could ultimately prevail in Brazilian courts. See Item 10E. Additional information Taxation Brazilian tax considerations.

Holders of ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are organized under the laws of Brazil, and all of the members of our board of directors and all of our executive officers and our independent public accountants reside or are based in Brazil. The vast majority of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for you to effect service of process upon us or our managers, within the United States or other jurisdictions outside Brazil or to enforce in Brazil against us or our managers judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, you may face greater difficulties in protecting your interests in the case of actions by us or our board of directors or executive officers than would shareholders of a U.S. corporation.

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ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

General

We provide cellular telecommunications services in a region covering the states of Pará, Amazonas, Maranhão, Amapá, and Roraima in the north and northeast of Brazil. On February 19, 2004, we signed a contract with Anatel to migrate to the SMP regime from the SMC regime. At December 31, 2007, we had 1,416,620 subscribers, representing an estimated market share of 20.3% in our region, as opposed to 1,210,780 subscribers, or an estimated 22.2% market share, at December 31, 2006.

The Registrant currently owns 75.0% of the share capital, including 89.8% of the voting shares, of Amazônia Celular, and these shares constitute substantially all of the Registrant's assets, other than cash and cash equivalents and temporary cash investments. The Registrant relies exclusively on dividends from Amazônia Celular to meet its cash needs, including cash to pay dividends to its shareholders.

The Registrant's legal and commercial name is Tele Norte Celular Participações S.A. The Registrant was formed on August 19, 1998 as a corporation (*sociedade por ações*) organized under the laws of the Federative Republic of Brazil with unlimited duration. Our headquarters are located at Rua Levindo Lopes, 258, Funcionários, 30140-170, in the city of Belo Horizonte, State of Minas Gerais, Brazil, and our telephone number is 55-31-9933-3535. Our agent for service of process in the United States is Puglisi & Associates, located at 850 Library Avenue, Suite 204, P.O. Box 885, Newark, Delaware 19715.

Historical Background

Before the incorporation of Telebrás in 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás and its operating subsidiaries, collectively the Telebrás System, acquired almost all of the other telephone companies in Brazil and monopolized the provision of public telecommunications services in almost all areas of the country. Beginning in 1995, the federal government initiated a comprehensive reform of Brazil's telecommunications regulatory system. In July 1997, Brazil's National Congress adopted the General Telecommunications Law, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of the Telebrás System.

In January 1998, in preparation for the restructuring and privatization of the Telebrás System, the cellular telecommunications operations of the Telebrás System were spun off into separate companies. In May 1998, the Telebrás System was restructured to form, in addition to Telebrás, twelve new holding companies. Virtually all assets and liabilities of Telebrás, including the shares held by Telebrás in the Telebrás System, were allocated to the new holding companies. The resulting holding companies, together with their respective subsidiaries, consisted of (i) eight cellular holding companies, one in each of eight cellular regions, holding one or more operating companies providing cellular services; (ii) three wire line holding companies, one in each of three wire line regions, holding one or more operating companies providing local and intraregional long-distance services; and (iii) Embratel, a holding company of Telecomunicações Brasileiras S.A., which provides domestic and international long-distance telephone services throughout Brazil.

The Registrant is one of the eight cellular holding companies formed in connection with the Telebrás System's restructuring. In connection with the breakup of Telebrás, the Registrant was allocated all the share capital held by Telebrás in the operating subsidiaries that provided cellular telecommunications services in the states of Pará, Maranhão, Roraima, Amapá and Amazonas. In July 1998, the federal government sold substantially all of its shares of the new holding companies, including the Registrant's, to private-sector buyers. The majority of the Registrant's voting shares were purchased by Telpart Participações S.A., or Telepart. See Item 4C. Information on the Company Organizational Structure.

Listing Standards

On August 1, 2005, the New York Stock Exchange, or NYSE, notified us that we were below criteria, as our total market capitalization was less than US\$75 million over a 30 trading-day period and our shareholders

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equity was less than US\$75 million (in US GAAP). In the beginning of 2006, the NYSE accepted an 18-month business plan we submitted to comply with the NYSE continued listing standards and during such period we were subject to periodical reviews by the NYSE for compliance with the goals and initiatives as outlined in our plan.

On May 11, 2007, the NYSE informed us that we were removed from the Watch List and are currently considered in good standing with respect to the NYSE's quantitative continued listing standards, as a result of our compliance with the NYSE's listing standards and the completed filing of our Annual Report on Form 20-F for the year ended December 31, 2005. As of June 10, 2008, our market capitalization amounted to US\$197.0 million over a 30 trading-day period, above the required threshold.

However, in accordance with the NYSE's Listed Company Manual, we were subject to a 12-month follow-up period to ensure compliance with the NYSE's continued listing standards. If during such period we fall below any of the NYSE's continued listing standards, the NYSE may take appropriate action, which, depending on the circumstances, may include truncating the compliance procedures described in the NYSE Listed Company Manual or suspending trading of our securities. We remain subject to the NYSE's normal continued listing monitoring.

Developments since January 1, 2008

Stock Purchase Agreement

On August 2, 2007 Telpart, the Registrant's former controlling shareholder, entered into a stock purchase agreement with Vivo, with the purpose of selling its equity interest in the Registrant's capital stock and in the capital stock of Telemig Celular Participações.

The transfer of Telemig Celular Participações' control was approved by the Director Council of Anatel on October 23, 2007. The stock purchase agreement provided for the joint acquisition of the shares of the Registrant and Telemig Celular Participações by Vivo.

On December 20, 2007 Vivo entered into a stock purchase agreement with Telemar, pursuant to which Vivo agreed sell to Telemar the shares it held in the Registrant's capital stock, and that it had acquired pursuant to the terms of the stock purchase agreement entered into with Telpart on August 2, 2007. The transfer of the Registrant's control from Vivo to Telemar was approved by the Director Council of Anatel on March 4, 2008.

On April 3, 2008, the transfer of our control to Telemar became effective.

The purchase price paid by Telemar to Vivo was R\$128.6 million. This amount corresponds to an acquisition price of R\$99.38 per common share of the Registrant, which is equivalent to a price of R\$152.01 per common share of Amazônia Celular. Additionally, Telemar acquired from Vivo certain subscription rights of new shares to be issued by the Registrant for the price of R\$22.6 million.

The Registrant's extraordinary shareholders' meeting held on April 3, 2008 elected the new members to the board of directors of the Registrant and of Amazônia Celular as nominees of Telemar, as the new controlling shareholder. On the same date, the board of directors of each of the Registrant and of Amazônia Celular replaced the former executive officers by new executive officers nominated by Telemar. On May 5, 2008, the Registrant shareholders elected new members to the Registrant's fiscal council as nominees of Telemar.

The sale of our control will also be submitted to the Administrative Council of Economic Law (*Conselho Administrativo de Defesa Econômica*), or CADE, under the provisions of the applicable legislation.

Mandatory and Voluntary Tender Offers

On May 5, 2008, Telemar submitted to the CVM requests for the registration of public tender offers for the acquisition of any and all common shares of the Registrant and Amazônia Celular, or the Mandatory Tender Offers, held by their respective non-controlling shareholders, in compliance with article 254-A of Law No. 6,404/76 and CVM Ruling No. 361/02.

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The Mandatory Tender Offer for Tele Norte's common shares will be at the price of R\$79.51 per common share, and the Mandatory Tender Offer for Amazônia Celular's common shares will be at the price of R\$121.61 per common share. The prices to be offered for these shares in the Tender Offers equal to 80.0% of the amount paid by Telemar to Vivo under the terms of the stock purchase agreement for the common shares of Tele Norte and Amazônia Celular, in compliance with the provisions of article 254-A of Law No. 6,404/76.

Telemar also intends to submit to the BOVESPA drafts of notices of voluntary tender offers for the outstanding preferred shares issued by Tele Norte and Amazônia Celular, or the Voluntary Tender Offers. The Voluntary Tender Offers will be made for the acquisition of any and all preferred shares of the Registrant and Amazônia Celular and will be made at the price of R\$33.00 per preferred share of the Registrant and R\$25.55 per preferred share of any class of preferred share of Amazônia Celular. The commencement of the Voluntary Tender Offers is subject to the non-occurrence of any material adverse event that might affect Telemar's decision to commence the Voluntary Tender Offers and to the approval of the notices of the Voluntary Tender Offers by the BOVESPA.

The Voluntary Tender Offers are not intended to cancel the registration of the Registrant or Amazônia Celular as publicly traded companies with the CVM.

Capital Expenditures

For a description of our capital expenditures, see Item 5. Operating and Financial Review and Prospects.

**B. Business Overview
Our Region**

Our authorization area covers more than 3,500,000 square kilometers in the north and northeast of Brazil, spanning approximately 41.4% of Brazil's area, with a population of approximately 17.6 million people, representing approximately 9.4% of Brazil's population. During 2003, our region generated approximately 4.9% of Brazil's gross domestic product, or GDP. Per capita income is relatively low. At December 31, 2007 our region had 19 metropolitan areas with populations in excess of 100,000 people, including the cities of Belém, Manaus, São Luís, Boa Vista and Macapá. At December 31, 2007, approximately 38.7% of the people in our region owned a mobile phone. Our business, financial condition and results of operations depend largely on the performance of the Brazilian economy and the economy of our region, in particular. See Item 5A. Operating and Financial Review and Prospects Operating Results Overview Brazilian Political and Economic Environment for a description of the Brazilian economic conditions.

The following table presents gross domestic product and per capita income information for each state in our region at and for the year ended December 31, 2003, which is the latest period for which such information is available.

State	Year Ended December 31, 2003	
	% of Brazil's GDP ⁽¹⁾	Per capital income
Maranhão	0.9	R\$ 2,354
Pará	1.9	R\$ 4,367
Amazonas	1.8	R\$ 9,100
Amapá	0.2	R\$ 5,584
Roraima	0.1	R\$ 4,569
Region	4.9	R\$ 4,537

Source: Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*) or IBGE.

(1) Gross Domestic Product, or GDP.

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The following map shows the location of our region within Brazil.

Services

We are one of the providers of cellular telecommunications services in our region and had an estimated market share of 20.3% at December 31, 2007, as compared to an estimated 22.2% and 25.7% market share at December 31, 2006 and 2005, respectively. Our mobile services use the 2G technology, which combines economy of scale, quality of service for voice and high-speed data, global roaming capabilities and future-proof migration path to advanced data capabilities, which is the GSM/EDGE technology. We have been involved in the process of overlaying GSM technology onto our TDMA/Advanced Mobile Phone System, or AMPS, network since the last quarter of 2004, which incorporates updated versions of Enhanced Data Rates for Global Evolution, or EDGE, technology for data transmission. We offer GSM service to subscribers in 159 localities. In order to improve our new multimedia services, we have been using TDMA spectrum to implement the UMTS/HSPA network, aggregating a new Code Division Multiple Access, or CDMA, technology. By taking such measure, we are up to date with the most advanced technology, with a potential to becoming the dominant market for broadband technology, the UMTS/HSPA technology. We offer digital service (TDMA and/or GSM) to subscribers in all the cities in our area, covering 213 locations.

We recognize that adapting our services in response to technology advances is a key factor in maintaining our competitiveness in the States of Amapá, Amazonas, Maranhão, Pará and Roraima, and we are committed to keeping our network and services modern and reliable. In early 2004, we decided to begin the process of transforming our network from a TDMA-based network to a GSM-based network. This process involves overlaying GSM technology onto our existing network over a three to five year period. Currently, most of our client base already operates on GSM network, and the other clients will undergo migration naturally. Our introduction of GSM/EDGE service for our subscribers is improving data transmission speed and establishing a base for the sale of continuously evolving mobile products and services. In November 2004, we began offering GSM/EDGE technology services in certain parts of our area.

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We offer a series of services to prepaid and contract subscribers, as well as business solutions to corporate users. One of our innovative rate plans launched in 2007 was *Poupo*, a new product developed with the purpose to launch our operations to the residential market. *Poupo* obtained a significant result since its launching, due to its mobility and reduced price.

We also improved and reformulated our portfolio of products and services to encourage consumption and offer more facilities to our customers. We launched subscription plans to the individual and corporate segments, we introduced a new portfolio of recharges and distribution channel and the sale of recharge through the subscriber's mobile handset.

During 2007, we encouraged sales of chips and prepaid credit, and made a selective offering of mobile phones at more accessible prices and with special advantages.

One of the innovations in the prepaid segment in 2007 was the credit transfer service. This service allows clients to transfer credit in the amounts of R\$3.0, R\$5.0, R\$10.0 or R\$50.0 among them, through their mobile handsets, via Short Message Service, or SMS. The credits received may be used for voice, data and messages services, and are valid for seven days.

We were pioneers in the launching of a mobile media application in Latin America named *Se Liga*, which broadcasts products, services and promotions in the cellular screen when the equipment is idle, through silent and non intrusive messages.

We are constantly evaluating emerging market trends and customer demand in order to develop new services. In 2007, we launched new value added services such as full track downloads, missed call notice, video downloads and mobile payment services.

Through agreements with other mobile service providers, we offer automatic voice and data roaming services throughout Brazil to our subscribers that allow them to make and receive calls while out of our area. We have implemented 104 bilateral international roaming agreements in 129 countries for roaming on GSM networks.

In addition, we provide mobile telecommunications services to subscribers of other mobile service providers while they are in our area. These other service providers are charged by us under roaming agreements for the service provided to their subscribers.

Strategy

Our strategy is to increase our profitability by maintaining our market share of high revenue subscribers, reducing and containing our costs and expanding operations to markets with good prospects. The key elements in implementing this business strategy are to:

Effectively manage the migration of our network to GSM technology. In November 2004, we introduced GSM service to certain parts of our area. This event marked an important stage of the migration of our network from TDMA to GSM technology. The transition from TDMA to GSM technology will encompass approximately a three to five year period. We are carefully managing the GSM migration process by paying particular attention to maintaining the quality and reliability of service, preventing service disruptions and containing costs relating to the migration. Currently, most of our client base already operates with GSM network, and the other clients will undergo migration naturally.

Retain the quality of our subscriber base by providing the best customer service and service plan options to high revenue users. An increase in our market share of the Brazilian mobile market will generally require the addition of subscribers who will purchase prepaid plans to use a relatively small amount of airtime per month. While we expect to continue to increase our subscriber base and to grow in this segment of the market, we also plan to focus heavily on retaining and building our high revenue

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subscriber base. We also intend to accomplish this goal by continuing to provide our customers with the best quality of service we can make available to them, including preventing service disruptions and striving to further refine and customize our services to better suit the individual preferences and spending profiles of our customers.

Maximize synergies between the Registrant and Telemar. With the transfer of our control to Telemar on April 3, 2008, we expect to take advantage of the synergy existing between both companies, especially the reduction of costs related to the larger scale in the purchase of handsets and equipment and the stronger activity in the Brazilian market.

Subscribers

The following table sets forth information regarding our operating data and subscriber base for the periods indicated.

	Year ended December 31,		
	2005	2006	2007
Contract subscribers at period end	257,155	232,271	212,552
Prepaid customers at period end	965,886	978,509	1,204,067
Total	1,223,041	1,210,780	1,416,619
Net subscriber growth during year	-2.6%	-1.0%	17%
Estimated population of our region at period-end (in millions) ⁽¹⁾	17.3	17.6	17.9
Estimated covered population at period-end (in millions) ⁽²⁾	11.9	12.2	12.4
Percentage of population covered at period-end ⁽³⁾	68.7%	69.1%	69.2%
Penetration at period-end ⁽⁴⁾	28.5%	30.7%	38.7%
Average monthly incoming minutes of use per subscriber:			
Contract subscribers	81	85	83
Prepaid customers	22	24	27
Average monthly outgoing minutes of use per subscriber			
Contract subscribers	112	136	161
Prepaid customers	8	12	18
Average monthly revenues per subscriber ⁽⁵⁾			
Contract subscribers	R\$ 72	R\$ 80	R\$ 89
Prepaid customers	R\$ 10	R\$ 12	R\$ 17
Total blended average	R\$ 24	R\$ 25	R\$ 29
Cost of acquisition per subscriber ⁽⁶⁾	R\$ 158	R\$ 122	R\$ 138
Average monthly churn ⁽⁷⁾	4.0%	4.6%	3.4%
Estimated market share at period end:	25.7%	22.2%	20.3%

(1) Estimates based on data from Target 2005 (*Brasil em Foco*).

(2) Estimates by our management of the number of people within our region who can access our cellular telephone signal.

(3) Estimates by our management of the percentage of the population of our region who can access our cellular telephone signal.

(4) Estimates by our management of the percentage of cellular lines in service in our region divided by the population of our region.

(5) In nominal *reais*, net of value-added taxes the Social Integration Program (*Programa de Integração Social*), or PIS, and the Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social*), or COFINS and the Circulation of Merchandise and Services Tax (*Imposto sobre Circulação de Mercadorias e Serviços*), or ICMS.

(6) Calculated based on the (sum of salaries paid to our marketing and selling personnel, consulting fees regarding sales and marketing services, commissions, subsidies for the sale of handsets, advertising and promotion costs, and the Contribution for the Telecommunication Inspection Fund (Fundo de Fiscalização das Telecomunicações), or FISTEL tax (activation tax)), less the activation fee for the period, divided by the number of gross activations in the period.

(7) Calculated based on the year-to-date deactivations divided by the sum of average monthly opening number of subscribers since beginning of the year multiplied by 12, divided by the number of months in the period.

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Contract and Prepaid Market

At December 31, 2007, we had 1,416,619 subscribers, an increase of 17.0% over December 31, 2006, and an estimated market share of 20.3%, compared to estimated market shares of 22.2% and 25.7% at December 31, 2006 and 2005, respectively. Our customers base consists of (i) contract subscribers, who pay a monthly fee to enroll in one of our rate plans and who are invoiced monthly after services have been provided to them; and

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(ii) prepaid customers who purchase in advance cards that contain a specified number of airtime credits that can normally be used within the 180 day period after the prepaid card is activated. Our contract subscribers consist primarily of higher income individuals who use their handsets for both personal and business purposes. Our prepaid customers are generally younger, have lower income than contract subscribers, and use their handsets to receive more than to place calls.

Our contract subscribers used an average of 243 minutes of airtime per month in 2007, as compared to an average of 221 minutes per month registered in 2006. Our prepaid customers used an average of 44 minutes of airtime per month in 2007, as compared to an average of 36 minutes of airtime per month in 2006. Our prepaid subscriber base increased by 23% in 2007 to 1,204,067 from 978,509 at December 31, 2006 and 965,886 at December 31, 2005. During that time, our contract subscriber base decreased from 257,155 at December 31, 2005 to 232,271 at December 31, 2006 and 212,553 at December 31, 2007. The decrease in our contract subscriber base is a consequence of strong competition in our area. As of December 31, 2007, 85.0% of our subscribers were prepaid customers and 15.0% were contract customers, as compared to 80.8% and 19.2%, respectively, at December 31, 2006 and 79.0% and 21.0%, respectively, at December 31, 2005. The average cost of acquiring our customers increased to R\$138 at December 31, 2007 from R\$122 in 2006, as compared to R\$158 in 2005.

The growth of prepaid services is due to a number of factors, including (i) previous market penetration efforts having already reached substantially all those who fit the profile of contract subscribers; (ii) a calling party pays environment whereby a prepaid customer does not incur charges in responding to an incoming call while inside our area; (iii) the ability of subscribers to make collect outgoing calls without incurring charges; and (iv) ease of access to prepaid services because no credit checks are conducted in connection with the provision of prepaid services. We believe that prepaid plans are attractive to a wide range of cellular customers. In addition to helping customers control costs, a prepaid program has no monthly invoice and allows customers to prepay for cellular services in cash. The prepaid market is comprised of customers who generally earn a variable income and prefer not to make a fixed financial commitment, who do not have the credit profile required to purchase a contract plan or who seek cellular services for emergencies or limited use only.

Benefits of an increased prepaid customer base include: (i) no billing and collection expenses and no delinquent accounts; (ii) advance receipt of cash from subscribers in exchange for services that may or may not have to be provided, depending upon whether or not the prepaid card is used; and (iii) a lower cost of acquisition for each prepaid customer as compared to a contract subscriber due to, among other things, substantially lower subsidies for prepaid customers' handsets. However, offsetting these benefits is the fact that prepaid customers generally spend less than one-fifth as much as contract customers on cellular services, tend to roam less, and rarely use other value-added services. Most of the revenue generated from the growth of our prepaid customers' base comes in the form of interconnection fees that we charge when subscribers of other telecommunications operators use our network to make an incoming call to one of our prepaid customers.

The growth of the subscriber base of all Brazilian mobile telecommunications service providers, including A Band operators, will likely be predominantly in the prepaid market in the future as most of those who have the profiles of contract subscribers have usually already contracted with a mobile service provider. Further market penetration will largely involve those whose customer profile is better suited to the use of prepaid services.

A prepaid customer is no longer considered a customer after 60 days from the expiration date of the last prepaid card. The validity of the credit varies according to its value: R\$3.0 (3 days), R\$5.0 (5 days), R\$10.0 (30 days), R\$15.0 (60 days), R\$20.0 (90 days), R\$35.0 (120 days) and R\$50.0 (180 days).

The customer's number is then deactivated, and he or she is considered to have turned over. Usually, prepaid card balances are automatically cancelled if the customer has not activated a new card before the last day of the expiration date of the current credit. Currently, if a contract subscriber's payment is more than 90 days past due, the subscriber is considered to have turned over, except for the *Plano Controle* subscribers, who are churned if payment is more than 78 days past due.

Churn

We determine annualized churn rates for a given period by dividing the sum of all subscribers disconnected since the beginning of the year by the average number of subscribers at the beginning of each month since the

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beginning of the year, dividing the product by the number of months in the period to be measured, and multiplying by 12. Churn rates, which measure subscriber turnover, are then expressed as a percentage. Contract subscribers who migrate to prepaid service voluntarily within 30 days of becoming a subscriber are not counted as being churned.

Our average monthly churn rate in 2005, 2006 and 2007 was 4.0%, 4.6% and 3.4%, respectively. The high churn rates over the mentioned periods have been due primarily to the increase in competition in our area, which prompted some to change mobile service providers, and to contract terminations linked to high unemployment and a decrease in salaries in real terms of people living in our area.

We were better able to contain churn rates among our high value customers through our customer segmentation strategy and retention programs, such as the loyalty plan, branded *Plano Você*, which was launched in the second quarter of 2003 and rewards our clients according to their network usage and length of time as a customer. The *Plano Você* loyalty plan contributed to controlled churn rates in an increasingly competitive environment.

Sources of Revenues

Our total net revenues reached R\$445.6 million, R\$404.1 million and R\$511.4 million in 2005, 2006 and 2007, respectively.

We generate revenue from (i) usage charges, which include measured service charges for outgoing calls, incoming collect calls, roaming and other similar charges; (ii) monthly subscription charges; (iii) interconnection fees, which are amounts charged by us to other telecommunications service providers, including other cellular, fixed-line and long-distance service providers, for incoming calls requiring the use of our network and long-distance calls made or received by means of our network; (iv) sales of handsets and accessories; and (v) other charges, such as charges for internet access, text messaging, call forwarding, call waiting and call blocking. The rates that we charge for our service plans and interconnection are influenced by or subject to regulation by Anatel. We also earn monthly revenues from providing co-billing services and from the use of our prepaid platform when our customers choose a telecommunications service provider to make long-distance calls, both domestically and internationally.

With the introduction of carrier selection by customers as a result of the transition from the SMC regime to the SMP regime, on a call-per-call basis our interconnection agreements with long-distance service providers were substantially changed. Although the long-distance carriers own the revenues, they must rely on co-billing agreements with us to collect the fees. In the introduction of these new procedures, fraud levels increased substantially and demanded joint efforts of all operators to be refrained. Cooperative efforts among operators persist to keep this problem under control.

Subscriber Rates

Mobile telecommunications services in Brazil are offered on a calling party pays basis, under which the subscriber pays only for calls that he or she places, except that roaming charges are applied to calls received while outside the subscriber's home registration area. In addition, cellular subscribers wishing to place calls may avoid incurring airtime charges by making collect calls because there are no charges for collect calls. Subscriber charges are computed based on factors such as the subscriber's service plan, the location of the party called, the place from which the call originated and the duration of the call. Subscribers pay for at least 30 seconds of airtime even if their call lasts less than 30 seconds, but they are not required to make any payment if their call lasts less than three seconds. After the first 30 seconds of a call have elapsed, we charge subscribers for every six seconds of airtime used.

We provide contract services through a variety of rate plans, mostly under the *Ideal* brand name, ranging from plans offering a fixed number of free minutes each month to plans offering rate discounts to subscribers using mobile services during specified times of the day or on weekends.

In April, 2007, we launched new postpaid service plans under the name of *Conta*, turning the postpaid services segment more attractive and competitive with market profile by offering a flat rate that includes SMS, Multimedia Message, or MMS, and long-distance advantages, in addition to reduced rates in the new portfolio in all bands. As of December 31, 2007, we recorded a penetration rate of 27.5% in the new plans base.

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We also launched promotional plans to postpaid subscribers in May 2007. *Plano Fim de Semana* offers its subscribers unlimited Telemig Celular to Telemig Celular calls during the weekends. The *Plano Sempre Amigos*, in turn, offers up to a 90.0% discount in calls between its subscriber and his selection of our two Amazônia Celular numbers. The price of each plan is R\$9.90 per month. These plans contributed to increases in revenues and encouraged customer loyalty.

In 2007, we started to offer one more feature to our *Plano Controle* subscribers. Through this feature, additional contracted credits are made available to the plan's subscriber at the end of the franchise period and payment is only charged in the subscriber's next bill. The *Plano Controle Extra* reduced cards activation costs and led customers that traditionally did not activate credits to do it regularly. This new feature contributed to increases in revenues and enhanced *Plano Controle*'s subscribers' loyalty.

Roaming Fees

We also receive revenue from roaming agreements with other cellular service providers. When a call is made from within our area by a subscriber of another cellular service provider, that service provider pays us for the call. Conversely, when one of our subscribers makes a cellular call outside our area, we must pay charges associated with that call to the mobile telecommunications service provider in whose area the call originates. In 2007, roaming fees accounted for 1.1% of our net service revenues. During 2006, roaming fees accounted for 3.1% of our net service revenues, as compared to 8.4% of our net service revenues in 2005.

Interconnection Fees

Until July 13, 2006, interconnection fees for local mobile traffic were due only if the traffic balances between any two companies operating in the same area was either less than 45.0% or in excess of 55.0% (bill & keep regime). Beginning July 14, 2006, new regulation on SMP network usage fees issued by Anatel established that interconnection payments should occur for the full amount of traffic between operators (full billing regime).

As of July 17, 2005, we implemented a 4.5% adjustment in the interconnection fee for the use of network of the SMP (VU-M) exclusively for local calls VC1 between ourselves and the following operators: Oi, TIM, Vivo-NBT and Telemar, based on an agreement among such operators and us. As a result, our interconnection fee increased from R\$0.38755 per minute to R\$0.40498, net of taxes.

At the end of 2005, we participated in an agreement to temporarily readjust prices by 4.5% of the interconnection fee (VU-M) on long-distance calls VC2 and VC3. Telemar, Brasil Telecom (cellular and fixed lines), Telefônica, CTBC (cellular and fixed lines), Sercomtel (cellular and fixed lines), Oi, Vivo, TIM, Claro, Amazônia Celular, and Telemig Celular were involved in this agreement. Pursuant to the agreement, implementation of the interim readjustment became effective immediately after Anatel's ratification of new rates for calls to users of fixed-line services, which took place in March 2006.

In September 2007, we also entered into an agreement with Embratel that became effective in January 2008, under which we agreed to readjust prices of the interconnection fee (VU-M) on long-distance calls VC2 and VC3 between Amazônia Celular and Embratel by 6.56% in order to bring those VU-M rates to prices currently practiced in the market.

In July 2007, STFC and SMP providers, with the exception of Embratel, Intelig, GVT and TIM-LD, entered into an agreement amending the interim agreement of 2005, which readjusted the interconnection fee (VU-M) by 1.97%, effective on May 31, 2007. The readjustment of the interconnection fee by 68.5% of the adjustment index for 2008 was also negotiated on this occasion. This adjustment, once ratified by Anatel, will be applied to local calls VC1 between fixed and mobile lines of local operators' basic plans.

The adjustment of the interconnection fee (VU-M) is being questioned by some operators that are not party to the agreements for local and long-distance calls and is also discussed judicially by us.

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Sales, Marketing and Customer Service

We sell handsets, handset accessories and calling cards and provide activation services through four primary distribution channels: (i) an extensive network of independent local distributors; (ii) a network of company-owned stores; (iii) a direct sales force targeting corporate accounts, government accounts and high volume consumers; and (iv) for prepaid cards, a wide variety of points of sale including supermarkets, lottery ticket stands, newsstands and other retail outlets.

Independent Distributors

Independent distributors sell handsets, handset accessories and calling cards and provide activation services and sales coverage across our area with minimal capital investment being made or operating expenses being incurred by us. Independent distributors provide customers with the convenience of being accessible from a greater number of locations. Independent distributors are paid a variable commission for each (i) new contract customer they sign up for service, provided that the customer retains and pays for service for at least two months and provided, further, that there is no fraud and proper documentation is recorded, and (ii) new prepaid customer, provided the customer subsequently purchases a certain minimum amount in prepaid calling cards. Independent distributors also receive a mark-up margin on sales of handsets and prepaid card kits. In addition, independent distributors are eligible for bonuses for meeting or exceeding sales targets.

At December 31, 2007, we had 530 independent distributors points-of-sales, located primarily in metropolitan centers, compared to 560 at December 31, 2006 and 545 at December 31, 2005, respectively. Our independent retail network includes well known retail chains, drugstores and supermarkets with well traveled points of sale and active sales promotions.

Company Stores

We sell telecommunications services, handsets and accessories through company-owned stores and kiosks located throughout our area. At December 31, 2007, we had 29 company-owned stores as compared to 22 at December 31, 2006 and 11 at December 31, 2005.

Distributors and Marketing

At December 31, 2007 and December 31, 2006, we sold prepaid cards at approximately 25,596 and 16,000 points-of-sale located throughout our area, respectively, distributing them through national and regional retail franchise chains, supermarkets, lottery ticket stands, newsstands, banking branches and drugstores. We have also implemented a customer rewards program based upon the number of minutes of airtime used and length of time as a customer.

Customer Service

One of our principal goals is to provide our customers with excellent customer care. During the first year of service we contact our clients five times through SMS, and nine times through our call center to ask about their degree of customer satisfaction, if they have had any service-related problems or questions, and to ensure they are receiving the plans and services that are best suited to their level of usage and preferences. We provide our clients with 24-hour customer service to answer questions and resolve service problems through a call center infrastructure that can accommodate up to 16,000 calls per hour during peak hours. Through our customer service attendants, we are able to provide immediate accessibility to customers for requests relating to matters such as reactivation, addition of value-added services and number changes. During 2007, our customer service department answered, on average 532,002 calls per month and responded to an average of 415 letters and e-mails per month, as compared to an average of 549,603 calls per month and 641 letters and e-mails per month in 2006. The customer satisfaction rate among our subscribers was 82.0% in 2006 and 80.2% in 2007. In 2007, 89.8% of all complaints threatening termination of subscription were satisfactorily resolved with the customer deciding to retain his or her subscription, as compared to 89.6% in 2006. We adopted the Customer Operations Performance Center methodology, which aims at quality, services, productivity improvement, and cost reduction combined with increase in profits.

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Network

In early 2004, we decided to begin transforming our network from a TDMA-based network to a GSM-based network. This process involves overlaying GSM technology onto our existing network over a period of approximately three to five years. Our introduction of GSM/EDGE service for our customers enhanced their data transmission speed and established a base for the sale of continuously evolving mobile products and services. During 2005, 2006 and 2007, we made capital expenditures of R\$58 million, R\$38 million and R\$23 million, respectively, in our network, being primarily associated with the GSM network expansion.

At December 31, 2006 and December 31, 2007 our TDMA network covered approximately 68% and 69%, of the population in our area, respectively. By year-end 2006 and 2007, our TDMA network consisted of ten cellular switches, and 354 and 353 cell sites, respectively. Currently, our TDMA switches and cell sites have the capacity to provide services to approximately 837,000 subscribers. Ericsson is the main supplier of our TDMA network equipment.

On November, 2004, we started to expand our mobile telecommunications network through a network overlay based on GSM technology and, by December 31, 2007, it already covered approximately 63% of the population in our area and consisted of four cellular switches, four media gateways, seven base station controllers and 353 cell sites. Our GSM network is interconnected with other networks through our TDMA network. By December 31, 2007, our GSM switch and cell sites had the capacity to provide services to approximately 1.1 million subscribers.

In addition to network expansion, we have increased the capacity and improved the quality of our network by improving the existing base stations and by adding more channels. As a result of these measures to improve service quality, our rate of interrupted calls was only 1.2% in 2006 and 1.5% in 2007, below the 2.0% target defined by Anatel. We are currently in compliance with regulatory obligations relating to quality of service. See Regulation of the Brazilian Telecommunications Industry for a description of these obligations.

Technology

Trends in the choice of technologies implemented or being implemented by other mobile service providers in Brazil and worldwide indicate that the future of mobile service lies with technologies such as UMTS and its updated version with Long Term Evolution, or LTE, as another access technology, and WiMAX. Currently, a large portion of our customers is still using our GSM network, which is the dominant mobile technology in Brazil and abroad. As our TDMA-compatible customer base has diminished significantly in recent years, we expected to use TDMA spectrum to implement UMTS/HSPA access network markets where revenues are expected to increase. Currently, GSM is the established standard mobile technology in Brazil. At December 31, 2006, approximately 63.5 million mobile subscribers in Brazil were using GSM technology, compared to approximately 11 million using TDMA and approximately 25 million using CDMA. At December 31, 2007, approximately 94.9 million mobile subscribers in Brazil were using GSM technology, compared to approximately 5.1 million using TDMA and approximately 20.9 million using CDMA. In early 2004, we decided to begin the process of transforming our network from a TDMA-based network to a GSM-based network. This process involves overlaying GSM technology onto our existing network over a three to five year period. Our introduction of GSM/EDGE service for our subscribers is enhancing their data transmission speed and establishing a base for the future offering of continuously evolving mobile products and services. By the end of 2005, the GSM/EDGE technology services covered all our served area. During 2006 we implemented the *split* architecture in our switch network, introducing core network elements from our equipment provider, Ericsson. This core switch technology will bring savings in operating expenses through lower power consumption and transmission facilities optimizations.

Billing and Collection

We bill our contract customers through monthly invoices providing details about minutes of calling time and the use of additional services. Six staggered billing cycles are used each month to smooth the billing and collection process. Our billing policy stipulates that if a subscriber's payment is past due and a customer has not responded after receiving a payment request, service is suspended until full payment for all outstanding charges is received. Currently, if a contract subscriber's payment is more than 90 days past due, the subscriber is churned, except for the *Plano Controle* subscribers, who are churned if payment is more than 78 days past due.

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Provisions for doubtful accounts were 3.3%, 4.6% and 2.7% of net service revenues in 2005, 2006 and 2007, respectively. The decrease in 2007 resulted from more strict credit policies applied and improvements in the collection system.

Fraud Detection and Prevention

Cloning fraud consists of duplicating the cellular signal of a subscriber and it enables the perpetrator of the fraud to make telephone calls using the subscriber's signal. We have implemented a fraud management system designed to monitor calling patterns, making it possible to detect the presence of cloning activities within one or two days after it begins. If part of a fraudulent local call is carried by the network of another service provider, we are obligated to pay that service provider the applicable interconnection fee, regardless of whether or not we write-off the receivable associated with the call.

Subscription fraud occurs when a person, typically using a fictitious identification and address, obtains mobile telecommunications services with no intention of paying for them and then incurs substantial charges before the service provider is able to identify the fraud and terminate service. When we discover that a receivable has been generated by subscription fraud, we write-off the receivable. The allowance for doubtful accounts does not contemplate this loss profile until it is proven.

We have implemented fraud detection and prevention measures to reduce fraud-related losses. Fraud-detection measures consist of computerized reviews of call records to detect abnormal calling patterns. When abnormal patterns are found, the subscriber is contacted by our fraud control staff and, if cloning has occurred, the subscriber's number or handset is changed. Fraud-prevention measures include restrictions on international calls from a given number and restrictions on three-way calling by customers with international direct-dial access. We have also implemented a fraud management system to detect cloning in respect of international calls. Our migration to GSM technology has reduced our incidence of cloning fraud because GSM technology employs more sophisticated encryption techniques than TDMA technology.

We have also implemented measures to prevent and reduce subscription fraud. These measures include the performance of the customer's credit check, by analyzing his/her identification documents and requiring the submission of documents to prove the receipt of salary and also proof of residence. We have also been training our sales force as to how to detect a potential fraud and measures to be taken in such event. In addition, we have included in new agreements with contract customers a provision allowing us to terminate the agreement at any time in the event of improper use of the cellular phone, which includes improper or fraudulent use of stolen or lost documents by a third party.

Operating Agreements

Interconnection Agreements

Incumbent fixed-line providers are obliged to provide interconnection services to mobile operators with the incumbent's own installations. We have entered into interconnection agreements with Vivo, our B Band competitor, Oi, which was our D Band competitor prior to April 3, 2008, TIM, our E Band competitor, Telemar, Embratel, Brasil Telecom, Telefonica, GVT, CTBC, TIM and Intelig, the long distance carriers operating in our area, and with Telemar, Embratel, TIM and Intelig, the local carriers operating in our area. The terms of these interconnection agreements include provisions for the number of connection points, the method by which signals must be received and transmitted, and the costs and fees of interconnection. Network usage fees are also assessed based on the terms of these agreements. We have also entered into an agreement with Brasil Telecom under which our subscribers pay a lower rate to use long distance services offered by Brasil Telecom.

Amazônia Celular has agreements with Telemig Celular, Claro, Oi, TIM, CTBC, Nextel, BrT Celular and Vivo's network regarding short message interworking. The international agreements were established in 26 countries with operators such as: T-Mobile USA, Cingular Wireless USA, Verizon USA, Sprint-Nextel USA, CTI Móvil Argentina, Rogers Wireless Canada among others. These interconnections allow the customers of Amazônia Celular and of all the mentioned operators above to exchange short text messages between their mobile stations in Brazil and other countries.

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An MMS network was established and successfully integrated in July 2005 between all the Brazilian operators mentioned above. These interconnections allow the customers of Amazônia Celular and of all such operators to exchange MMS between their mobile stations, also in the whole country of Brazil.

See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies and Regulation of the Brazilian Telecommunications Industry Interconnection. For recent changes to the collection and setting of interconnection fees, see Sources of Revenues.

Roaming Agreements

Roaming services must be made available to other mobile operators upon the request of that operator. We have entered into agreements for automatic roaming with all other A and B Band service providers outside our area for the TDMA technology and with Telemig Celular, Claro, TIM, BrT GSM and CTBC Celular for the GSM technology, for postpaid and prepaid customers. Amazônia Celular also offers to its customers GPRS roaming with Telemig Celular, Vivo, TIM and Claro. These roaming agreements permit our customers to access the networks of other cellular service providers while traveling or roaming outside our area. Conversely, we are required to provide roaming services to clients of those mobile operators from outside our area when they are within our area. The agreements require the parties to provide service to roaming subscribers on the same basis as they provide service to their own subscribers and to carry out a monthly reconciliation of roaming subscriber usage charges. The agreements regarding GSM network have a one-year term, which is automatically renewable for further one-year terms. The agreements regarding the TDMA network have an indefinite term. We have also implemented 129 bilateral agreements in 109 countries for roaming on the GSM network, which represents the attendance of 99% of the interest traffic of the Amazônia Celular. We have GSM roaming agreements in countries like: USA, France, Spain, Germany, Argentina, China, Belgium, the Netherlands, Italy, Mexico, Paraguay, Portugal, the United Kingdom, Turkey and Uruguay, among others, and Amazônia Celular also offers to its customers international GPRS roaming in Argentina, Mexico, Spain, Japan, Canada, Germany and USA, that also enable subscribers of those carriers to use roaming services in our area.

Competition

Currently, we face direct competition in our area from B, D and E Band frequency range operators. The license to provide mobile telecommunications services in our area on the B Band frequency range was granted to NBT (which was subsequently acquired by Vivo, a joint venture of Portugal Telecom and Telefonica Móviles), which commenced operations in October 1999. Oi, a subsidiary of Telemar, our controlling shareholder since April 3, 2008, won the bid for the D Band frequency range in our area and began operations in June 2002, using the brand name Oi. TIM won the bid for the E Band frequency range for our area and commenced operations in October 2002. All mobile operators may have their frequencies renewed for an additional 15-year period. The licenses of Oi and TIM will both expire in 2017. Currently, there are no more licenses to be sold in our area. However, it is possible that Anatel may decide in the future to auction authorizations to acquire frequencies to operate so-called third-generation, or 3G, mobile telecommunications services in our area.

At December 31, 2007, we had an estimated market share of 20.3% and Vivo, Oi and TIM had estimated market shares of 30.0%, 16.5% and 33.2%, respectively. At December 31, 2006, we had an estimated market share of 22.2% and Vivo, Oi and TIM had estimated market shares of 31.4%, 17.2% and 29.1%, respectively. At December 31, 2005, we had an estimated market share of 25.7%, and Vivo, Oi and TIM had estimated market shares of 37.1%, 14.5% and 23.1%, respectively.

Other Competition

We also compete with other mobile telecommunications services, such as mobile radio, paging and beeper services, which are used in our area as a substitute for cellular telecommunications services because they are generally less expensive. The most significant provider of these services is Nextel. Satellite services, which provide nationwide coverage, are also available in Brazil. Although satellite services have the benefit of covering a much greater area than cellular telecommunications services, they are considerably more expensive than cellular

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telecommunications services and do not offer comparable coverage inside buildings. As a result, they do not represent an attractive alternative for most mobile customers. We used to compete with fixed-line telephone service providers, the most important of which in Amapá, Amazonas, Maranhão, Pará e Roraima is Telemar, which became our controlling shareholder on April 3, 2008.

Regulation of the Brazilian Telecommunications Industry

Our business, including the nature of the services we provide and the rates we charge, is subject to comprehensive regulation under the General Telecommunications Law, which was enacted in July 1997. Anatel is the regulatory agency that oversees our activities and enforces the General Telecommunications Law. Anatel is administratively independent and financially autonomous. Anatel has the authority to propose and issue regulations pursuant to the General Telecommunications Law that are legally binding on telecommunications service providers. Before becoming effective, proposed regulations must undergo a period of public consultation and comments, which may include public hearings.

One of the most important recent public consultations was No. 642, which deals with proposals for changes in the regulation of SMP. The public consultation period set forth by Anatel's proposal ended on January 16, 2006. The new SMP regulation enacted through Resolution No. 477 dated August 14, 2007, became effective on February 13, 2008 and confirmed some of the changes that had already been contemplated in the public consultation, such as:

revalidation of expired credits upon the insertion of new credits;

return in double of amounts paid in excess to the SMP operators due to incorrect billing;

limitation of grace period in postpaid plans to 12 months;

upgrading SMP service centers to improve access by people with hearing disabilities;

suspension of services for a period no longer than 180 days at no cost when requested by the client;

preparation of detailed billing report at no cost when requested by prepaid clients; and

increase in the time for blocking partial or total access in cases of defaulting customers, going from 15-30 days after the due date, to 30-60 days.

In addition, the new regulation established the following changes to SMP regulation that had not been previously contemplated by the public consultation.

delivery of protocol number in all interactions with the client, with call traceability and recording;

tools for comparing the advantages and disadvantages of each plan offered by us; and

free unlocking of mobile stations, allowing clients who purchased cell phones from us to use it in other cellular phone providers networks.

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In order to minimize the impacts resulting from these regulatory changes, we had already prepared ourselves during the last quarter of 2007 to meet and comply with the terms set forth by the new regulation, mainly those related to customer service which affect procedures and require significant changes to our systems.

Another Anatel public consultation (CP No. 653/2005) completed in January 2006 established rules about charging administrative fees for the management of numbering plans. The regulation was issued in December 2006, through Resolution No. 451/2006, and may be challenged by the Association of Mobile Operators in Brazil (*Associação Nacional dos Prestadores de Serviço Móvel Celular*), or ACEL.

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Anatel also issued Regulation No. 460/2007, regarding number portability, which will allow users to change their operating company, without changing their original phone number. Number portability will be provided by fixed and mobile operators, until March 2009, with most incurring costs being borne by the operators. The creation and establishment of a Portability Implementation Group, or GIP, led by Anatel with the participation of all telephone operators, collectively decided on the implementation of a number portability model and elected the Brazilian Association of Telecom Resources (Associação Brasileira de Telecomunicações), or ABRT, as managing entity of the portability data base, taking a major step towards implementing the new model, within the forecasted term. Amazônia Celular has already adopted network and IT solutions, as well as revised all operating processes necessary for the implementation of the new model in November 2008.

In addition, Anatel published the following new regulations on interconnection and network usage fees of SMP providers: (1) new General Regulation on Interconnection (*Regulamento Geral de Interconexão* Resolution No. 410/2005, or RGI); (2) the Regulation on Costs Separation and Allocation (Resolution No. 396/2005); and (3) the Regulation on SMP Networks Usage Fees of SMP providers (*Regulamento de Remuneração pelo Uso de Redes de Prestadoras do SMP* Resolution No. 438/2006). We highlight, among others, the following changes in the regulation that may adversely affect our results:

two SMP providers controlled by the same economic group can receive only one instead of two interconnection charges (VU-M) for calls originated and terminated in their networks;

new negotiation rules for VU-M prices by which Anatel will have a role in determining reference prices rather than the current free-market negotiation of prices. The reference prices will apply to SMP providers that have significant market power, which may be the case of Amazônia Celular (until further decision by Anatel, all operators are considered to have significant market power). Reference prices will be cost based commencing in 2008. The costs will be calculated according to the regulation on Costs Separation and Allocation (Resolution No. 396/2005);

VU-M prices must follow the discounts granted to fixed telephony customers for out-of-business-hours calls;

when receiving calls from public telephones, VU-M will adopt the same tariff rules that apply to public telephones;

creation of VU-M price unification among SMP providers of the same economic group having significant market power; and

the interconnection payments between SMP operators for traffic in the same registration area may occur independently of the traffic balance between the operators (this regime is referred to as full billing). Before the adoption of the above-mentioned regulation, payments between SMP operators for traffic in the same area only occurred when the traffic balance between any two companies was either less than 45.0% or in excess of 55.0% (this regime is referred to as bill and keep).

On December 11, 2006, Anatel issued Resolution No. 454/2006, setting forth new rules regarding the usage of spectrum at 800, 900, 1800, 1900 and 2100 MHz bands. The regulation provides for spectrum for one new GSM license in the 1800 MHz band, and up to five UMTS licenses in the 1900/2100 MHz bands. Anatel also identified also a spectrum slice (5+5 MHz) that could be used either for a CDMA license, using the American PSC frequency allocation, or for UMTS service. The regulatory process was subject to a public consultation on the General Authorization Plan that establishes the number of licenses that should be allowed for SMP service. The consultation process was concluded in April 2007. In July 2007, a public bidding notice for the remaining radio frequencies beyond the spectrum slice L (5+5MHz) was announced. The public bidding took place in September 2007.

Co-billing and Fraud

At the end of 2004, market participants began discussing procedures for co-billing by SMP providers. The National Billing Group, created in 2002 with the participation of only fixed-line operators, began to include SMP operators as well.

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During the course of 2005, the National Billing Group assumed the responsibility of preparing and disclosing practices and controls to be implemented in co-billing, to ensure that operational failures on the part of both fixed-line and SMP operators, which had been causing losses to fixed-line operators, be avoided. Anatel participated in the discussions, which extended into 2006, given the complexity of co-billing. The working group defined the best practices to be followed for the contracting and installing of co-billing services. Amazônia Celular implemented all of the security controls for the group relating to co-billing services.

As a result of fraud in VC2 (long-distance within an area code) and VC3 (long-distance outside an area code) calls, discussions arose regarding co-billing. Market participants started discussing who would undertake the responsibility for paying the use of networks in case of calls involved in frauds. Under the previous model (SMC), mobile telecommunication service providers received the revenues and, consequently, were responsible for VC2 and VC3 calls. At that time, in case of frauds in VC2 and VC3 calls, mobile telecommunication service providers used to undertake losses and pass due amounts through STFC providers, which were the carriers of these long-distance calls. Under the current model (SMP), STFC providers receive the revenues and, consequently, are responsible for VC2 and VC3 calls. In case of frauds in these calls, STFC providers understand that these calls are not chargeable to users, and consequently, SMP providers are not supposed to be paid for the usage of their networks; causing a complex deadlock.

Also during 2005, several negotiations took place between mobile and fixed line operators regarding co-billing and fraud occurrences within the networks, the negotiations had structures for working groups to discuss the various themes addressed. The National Anti-Fraud Group was created with the participation of mobile and fixed line operators and also representatives of Anatel. The purpose of this group is to integrate fixed line operators into the National Center for Anti-Fraud in order to provide the necessary information database to combat fraud and the misuse of long-distance calls. As a consequence of the creation of this group, a pilot test occurred involving Telemar, the results of which indicated a high-level of performance in the process of centralization. This, in turn, favored the establishment of a national anti-fraud network with the participation of both mobile and fixed line operators. This process is expected to be concluded during 2008. There are also some disputes between SMP and fixed line operators regarding their respective responsibilities in the process of co-billing.

The operational stability we reached during 2007, coupled with the substantial decrease in the amount of frauds relating to cloning of mobile phones in 2006, resulted in a substantial increase in our revenues from calls originated from post-paid customers forwarded for co-billing, as compared to the year ended December 31, 2006. In 2007, we surpassed the average of 90% of revenues from calls originated from post-paid customers forwarded for co-billing, which, according to STFC providers, is the minimum percentage for profitability of their businesses.

Licenses

On February 19, 2004, we signed a contract with Anatel to migrate from the SMC regime to the SMP regime, which involves the former SMC concessionaire becoming a party to an authorization term. An authorization is a license granted by the public administration under Brazil's private regime, to offer telecommunications services, subject to complying with prescribed network scope and service performance standards. Under the SMP regime, authorizations are granted for an indeterminate period of time, but we will still be required to periodically apply to Anatel for extensions of our right to use our radio frequencies. Our current radio frequency permit that expires in 2009 has already been extended for an additional 15-year term. We obtained from Anatel the additional spectrum on the 1,800 MHz and 900 MHz frequency ranges required to complete our migration to GSM technology.

In June 2005, Anatel granted us a license to provide Multimedia Communication Services (*Serviço de Comunicação Multimídia*), allowing us to provide this high speed data service throughout Brazil and increase our product portfolio.

Radio Frequency

Between March and August 2009, our radio frequency licenses will have been in place for their full terms of 15 years. Regulations require us to request an extension 30 months prior to the expiration of the license. Therefore, in August 2006, we applied to extend our licenses for the use of radio frequencies for an additional 15 year term. According to the regulations, the extension is automatically granted and related fee payments will begin in 2011.

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Obligations of Telecommunications Companies

As a telecommunications service provider, we are subject to requirements concerning quality of service and network expansion, as established in applicable regulations and in our authorization terms. If we fail to meet these obligations we may be fined, subject to a maximum penalty amount, until we are in full compliance with our obligations. While it is possible for an authorization to be revoked for non-compliance with the obligations imposed by its terms, there are no precedents for such a revocation.

Our authorizations impose obligations on us to meet quality of service standards relating to our network's ability to make and receive calls, call failure rates, capacity to handle peak periods, failed interconnection of calls and customer complaints. This quality of service standards are defined by Anatel and information in respect of these standards must be reported by us to Anatel.

Quality Standards

Since 2004, when we migrated to SMP, we have been providing Anatel with our operational indicators. In addition, we are certified by the *Bureau Veritas Quality International (BVQI)*, which vouches for the reliability of all indicators.

We were able to improve our systems and operating procedures during 2005, and we currently meet all required quality standards.

In addition, during 2005, 2006 and 2007 we were best ranked by Anatel on customers' satisfaction (least complains per subscriber) among SMP operators with more than 1.0 million customers. However, this better than average performance does not imply that fines cannot be imposed related to the period of time while we were adapting our systems and procedures to meet the stringent SMP quality standards. Accordingly, in January 2007, Amazônia Celular received a notification from Anatel related to this matter. Amazônia Celular submitted a waiver application in response, which is currently under Anatel's analysis. See Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings Administrative Proceedings commenced by Anatel Regarding Quality Standards for further information.

Interconnection

Under the General Telecommunications Law, all mobile telecommunications service providers must provide interconnection upon the request of any other mobile or fixed-line telecommunications service provider. Under the SMP regime, the terms and conditions of the interconnection (VU-M) are freely negotiated between mobile and fixed-line operators, subject to compliance with regulations established by Anatel relating to traffic capacity and interconnection infrastructure that must be made available to requesting parties. Service providers must offer the same rate to other requesting parties on a nondiscriminatory basis. As not all operators reached an agreement on the terms of interconnection, including with respect to the interconnection rates, Anatel has been requested to act as the final arbiter. In addition, we are judicially discussing the amount of the adjustment of the interconnection fee (VU-M) for local and long-distance calls. For recent changes to the collection and setting of interconnection fees, see Sources of Revenues Interconnection Fees.

Rate Regulation

Currently, our ability to adjust rates relating to existing customer service plans is restricted. Most service plans' rates may be adjusted on an annual basis to keep in line with inflation. We may introduce new service plans after receiving Anatel's approval. Once these plans become effective, they are thereafter subject to the annual price-cap mechanism. While subscribers cannot be forced to migrate to new plans, existing plans can be terminated after six months' advance notice has been given to all subscribers under the plan being terminated.

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Dependence on Patents, Licenses or Contracts

Our business is highly dependent on the licenses that Anatel has granted us. For a description of these licenses, see Regulation of the Brazilian Telecommunications Industry.

We have either registered or filed intellectual property applications for our most important mobile phone brand names with the Brazilian National Institute of Intellectual Property (Instituto Nacional de Propriedade Intelectual), or INPI. We believe the brand names and trademarks that identify us and our businesses are important for us, and we have accordingly taken the appropriate steps to protect them.

C. Organizational Structure

The Registrant was incorporated on February 28, 1998 under the laws of the Federative Republic of Brazil. As from April 3, 2008, Telemar owns 19.34% of the share capital of the Registrant and 51.86% of the voting stock of the Registrant. The Registrant, in turn, currently owns 74.96% of the share capital and 89.78% of the voting stock of Amazônia Celular, a cellular service operator in the states of Maranhão, Pará, Amazonas, Amapá and Roraima.

See Item 4A. Information on the Company History and Development of the Company Developments Since January 1, 2008.

D. Property, Plant and Equipment

Our principal physical properties consist of transmission equipment, switching equipment and base stations. The Registrant's operating subsidiary's headquarters are located in the city of Belém in the State of Pará. We lease approximately 30,000 square meters of space in our area of operations.

At December 31, 2007, we had 10 TDMA cellular switches, 353 TDMA cell sites, four GSM cellular switches, four media gateways, seven GSM base stations controllers and 353 GSM cell sites. Our switches and cell sites had a total capacity of approximately 837,000 TDMA subscribers and 1.1 million GSM subscribers as of December 31, 2007. Ericsson is the main supplier of our network equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion should be read in conjunction with our consolidated financial statements and accompanying notes and other information appearing elsewhere in this annual report, and in conjunction with the financial information included under Item 3A. Key Information Selected Financial Data U.S. GAAP Selected Financial Information. Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with U.S. GAAP and is presented in *reals*. For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the CVM and determining dividend payments and other distributions and tax liabilities in Brazil, we have prepared and will continue to be required to prepare financial statements (not presented herewith) in accordance with applicable Brazilian accounting practices and Brazilian Corporation Law.

Overview

Our results of operations are significantly affected by the following key factors, among others.

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As a company with all of its operations currently in Brazil, we are affected by general economic conditions in the country. In particular, we have been affected by overall growth or declines in Brazil's per capita income, the volatility of the *real*, inflation and measures taken by the Brazilian government to combat inflation, principally through the setting of interest rates. Our business is directly affected by the macroeconomic trends of the global economy in general and the Brazilian economy in particular. If the Brazilian economy enters a period of rising interest rates and continued recession, demand for telecommunications services is likely to be negatively affected. Declines in the value of the *real* would reduce the purchasing power of Brazilian consumers, negatively affecting demand for mobile telecommunications services. *Real* devaluations would also affect our margins by increasing the carrying costs of our U.S. dollar and other foreign currency denominated debt and increasing those of our costs and expenses that are linked to the U.S. dollar and other foreign currencies.

Our cash flows and results of operations are affected by currency fluctuations. All of our revenues are denominated in *reais*, but a significant part of our capital expenses and cost of product sales are affected by the U.S. dollar, such as those relating to our network infrastructure and handsets. Inflation has also had, and may continue to have, effects on our financial condition and results of operations. Almost all of our operating expenses are denominated in *reais* and the suppliers and service providers of these expense items generally attempt to increase their prices to reflect Brazilian inflation. However, we may also increase rates charged to customers to reflect Brazilian inflation.

Since our privatization, the economic environment has been volatile with respect to inflation as well as exchange rate variations, and characterized by low growth rates.

Since 2004, the macroeconomic indicators in Brazil have consistently improved.

During 2005, Brazil's GDP increased 2.3% and the country achieved a trade surplus of US\$44.5 billion. Inflation in 2005, as measured by the IGP-M, was 1.2% and 5.7% as measured by the Extended National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA. Interest rates continued to be high, with the Interbank Deposit Certificate (*Certificado de Depósito Interbancário*), or CDI rate at the end of 2005 equaling an annualized rate of 18.0%. In 2005, the *real* appreciated by 13.4% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2005, the U.S. dollar/*real* exchange rate was R\$2.341 per US\$1.00.

During 2006, Brazil's GDP increased 2.9% and the country achieved a trade surplus of US\$46 billion. Inflation in 2006, as measured by the IGP-M, was 3.8% and 3.1% as measured by the IPCA. The Central Bank's year-end inflation target for each of 2007 and 2008 is 4.5%, based on the IPCA index, within a band of 2 percentage points. Interest rates continued to be high, with the CDI rate at the end of 2006 equaling an annualized rate of 13.2%. In 2006, the *real* appreciated by 9.5% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2006, the U.S. dollar/*real* exchange rate was R\$2.138 per US\$1.00. In November 2006, Luiz Inácio Lula da Silva was reelected as president of Brazil for a second term of four years.

In 2007 the economy continued to expand with credit available at lower interest rates than in previous years. The GDP growth was 5.4%, the second best result in the past 12 years. The SELIC rate has been reduced consistently since May 2005. However, in September 2007 this trend was interrupted, when the SELIC rate stabilized at 11.25% and remained at this level until the end of the year. The *real* appreciated 17.2% against the U.S. dollar in 2007, closing at R\$1.771. The trade surplus was US\$40.0 billion, which was lower than in 2005 and 2006. Brazil's sovereign risk, measured by EMBI, was 221 as of the year ended 2007. In 2007, inflation measured by the Long-Term Interest Rate (*Taxa de Juros de Longo-Prazo*), or TJLP, was 6.2% and 4.4% measured by IPCA, in line with the 4.5% target established by COPOM. The unemployment rate was 7.4% at the end of the year.

On April 30, 2008, Brazil received an investment grade rating from the Standard & Poor credit rating agency, joining the group of countries considered to have a low chance of default. This improvement in the risk classification reinforces the Brazilian economy's favorable medium-term scenario, reflecting the maturity of the financial institutions and the country's political structure, as well as the advance of tax policies and external debt controls.

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On June 10, 2008, the U.S. dollar/real exchange rate was R\$1.6384 per US\$1.00. The table below sets forth GDP growth, inflation, interest rates and U.S. dollar exchange rate for the periods indicated.

	2003	2004	December 31, 2005	2006	2007
GDP growth	0.5%	4.9%	2.3%	2.9%	5.4%
Inflation (IGP-M) ⁽¹⁾	8.7%	12.4%	1.2%	3.8%	7.7%
Inflation (IPCA) ⁽²⁾	9.3%	7.6%	5.7%	3.1%	4.4%
INPC ⁽³⁾	10.4%	6.1%	5.0%	2.8%	n.a.
CDI ⁽⁴⁾	16.8%	17.5%	18.2%	13.1%	11.1%
TJLP ⁽⁵⁾	11.0%	9.8%	9.8%	7.9%	6.2%
Appreciation of the <i>real</i> against the U.S. dollar	22.3%	8.8%	13.4%	9.5%	17.2%
Exchange rate at year end US\$1.00	R\$ 2.889	R\$ 2.654	R\$ 2.341	R\$ 2.138	R\$ 1.771
Average exchange rate US\$1.00	R\$ 3.060	R\$ 2.902	R\$ 2.433	R\$ 2.167	R\$ 1.948

Sources: Fundação Getúlio Vargas, IpeaData, Central Bank and Bloomberg.

- (1) IGP-M as published by Getúlio Vargas Foundation (*Fundação Getulio Vargas*), or FGV, a private foundation.
- (2) IPCA as published by the IBGE.
- (3) National Consumer Price Index (*Índice Nacional de Preço ao Consumidor*), or INPC.
- (4) The CDI rate is the average of interbank overnight rates in Brazil registered and settled in the Clearinghouse for Custody and Settlement (*Câmara de Custódia e Liquidação*), or CETIP, system.
- (5) The TJLP is published quarterly by the Central Bank. The amounts shown are the average for the period indicated.
- (6) Average of the exchange rates for the period indicated.

Effects of Inflation on Our Results of Operations

After the introduction of the *real* as the Brazilian currency in July 1994, inflation remained under control until January 1999, when it increased due to the devaluation of the *real*. During periods of high inflation, wages in Brazilian currency tend to fall because salaries typically do not increase as quickly as inflation. The effect is a progressive decline in purchasing power of wage earners. The reduction and stabilization of inflation following the implementation of the *real* plan resulted in increased spending on services and goods (including mobile telecommunication services), higher real income growth, increased consumer confidence and the increased availability of credit. It also resulted in relatively higher labor costs. However, if Brazil experiences significant inflation, we may be unable to increase the service rates we charge to our customers in amounts that are sufficient to cover our operating costs, and our business may be adversely affected as a consequence.

The table below shows the Brazilian general price inflation (according to the IGP-M and the IPCA indices) for the years ended December 31, 2003 through 2007:

	Inflation Rate (%) as Measured by IGP-M ⁽¹⁾	Inflation Rate (%) as Measured by IPCA ⁽²⁾
December 31, 2007	7.7	4.4
December 31, 2006	3.8	3.1
December 31, 2005	1.2	5.7
December 31, 2004	12.4	7.6
December 31, 2003	8.7	9.3

- (1) Source: IGP-M, as published by the IBGE.
- (2) Source: IPCA, as published by FGV.

Taxes on Telecommunications Services

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The cost of telecommunications services to customers includes a variety of taxes. The average rate of all such taxes (excluding income taxes), as a percentage of our gross operating revenues, was approximately 23.0% in 2004, 21.3% in 2005, 20.2% in 2006 and 18.7% in 2007. The principal taxes are a state value-added tax, the ICMS.

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The ICMS is a tax that the Brazilian states impose at varying rates on revenues from the sale of goods and services, including telecommunications services. The ICMS rate for domestic telecommunications services in the States of Amazonas, Maranhão, Amapá and Roraima is 25.0%, except for the State of Pará, which is 30.0%.

In June 1998, the governments of the individual Brazilian states approved an agreement to interpret existing Brazilian tax law to apply the ICMS, effective July 1, 1998, to some services to which the ICMS had not previously been applied, including cellular activation and monthly subscription. The agreement also provides that the ICMS may be applied retroactively to activation services rendered during the five years preceding June 30, 1998. See Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings Tax Legal Proceedings for a fuller description of these developments.

Other taxes on gross operating revenues include two federal social contribution taxes, the PIS and the COFINS, which are generally imposed on gross revenues, derived from telecommunications services (less discounts and returns) at a combined rate of 3.65%.

In addition, the following contributions are imposed on certain telecommunications services revenues after deduction of the value-added taxes mentioned above (ICMS, PIS and COFINS) and discounts:

Contribution for the Fund for Universal Access to Telecommunications Services, or FUST. FUST was established by Law No. 9,998 of August 17, 2000, to provide resources to cover the cost exclusively attributed to fulfilling obligations of universal access to telecommunications services that cannot be recovered with efficient service exploration or that is not the responsibility of the service provider. Contribution to FUST by all telecommunication services companies started on January 2, 2001 at the rate of 1.0% of net operating telecommunication services revenue (excluding interconnection revenues), and it may not be passed on to customers.

Contribution for the Fund of Telecommunications Technological Development, or FUNTTEL. FUNTTEL was established by Law No. 10,052 of November 28, 2000, in order to stimulate technological innovation, enhance human resources capacity, create employment opportunities and promote access by small- and medium-sized companies to capital resources so as to increase the competitiveness of the Brazilian telecommunications industry. Contribution to FUNTTEL by all telecommunication services companies started on March 28, 2001 at the rate of 0.5% of net operating telecommunication services revenue (excluding interconnection revenues), and it may not be passed on to customers.

We must also pay the Contribution for the Telecommunication Inspection Fund, or FISTEL. The Telecommunication Inspection Fund is supported by a tax applicable to telecommunications operators, the FISTEL, which was established in 1966 to provide financial resources to the Brazilian government for the regulation and inspection of the telecommunications sector. The FISTEL consists of two types of fees: (i) an installation inspection fee assessed on telecommunications stations (such as a base, a repeater or a mobile station) upon the issuance of their authorization certificates; and (ii) an annual operations inspection fee that is based on the number of authorized stations in operation at the end of the previous calendar year. The amount of the installation inspection fee is a fixed value (based on the Brazilian minimum wage), depending upon the kind of equipment installed in the authorized telecommunications station. The operations inspection fee equals 50.0% of the total amount of the installation inspection fee that would have been paid with respect to existing equipment.

For further information on our tax legal proceedings, see Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings Tax Legal Proceedings.

Regulatory and Competitive Factors

Our business, including the services we provide and the rates we charge, is subject to comprehensive regulation under the General Telecommunications Law. As a result, our business, results of operations, revenue and financial condition could be negatively affected by the actions of the Brazilian authorities, including, in particular, the following:

the introduction of new or stricter operational and/or service requirements;

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the granting of operating licenses in our area; and

delays in the granting of, or the failure to grant, approvals for rate increases.

We began to face competition in our area in the fourth quarter of 1998 and competition has contributed to declining prices for cellular telecommunications services and increased pressure on operating margins. Our market share, business, financial condition, revenues and results of operations depend significantly on a variety of factors, including:

our ability to attract new customers;

our ability to succeed in the technological migration of our network to GSM;

the response of our customer base to the implementation of the new GSM technology;

the rate of growth of our customer base;

the usage and revenue generated from our customers;

the level of airtime usage;

equipment prices;

the rate of churn; and

our ability to control costs.

Currently, we face direct competition in our area from B, D and E Band frequency range operators. Norte Brasil Telecom, or NBT (which was subsequently acquired by Vivo), commenced operations using the B Band frequency range in October 1999; a subsidiary of Telemar won the bid for the D Band frequency range in our area and began operations in June, 2002 using the brand name Oi; and Telecom Italia Mobile, or TIM, the E Band operator commenced operations in October, 2002. At December 31, 2007, we had an estimated market share of 20.3%, as compared to an estimated market share of 22.2% and 25.7% as of December 31, 2006 and 2005, respectively. The extent that increased and ongoing competition will have on our market share, business, financial condition, revenues and results of operations will depend on a variety of factors that we cannot yet precisely assess, and many of which may be beyond our control.

Composition of Operating Revenues and Expenses

Operating Revenues

We generate operating revenues from:

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usage charges, which include measured service charges of outgoing calls and roaming and other similar charges, all of which depend upon which service plan has been selected by the customer;

monthly subscription payments, which depend upon which service plan has been selected by the contract customer;

network usage fees, which are the amounts charged by us to other cellular, fixed-line and long-distance telephone service providers for use of our network by customers of these service providers;