

TELE NORTE CELULAR PARTICIPACOES SA  
Form 20-F  
July 05, 2007

As filed with the Securities and Exchange Commission on July 05, 2007.

---

**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, 2006**  
**Commission File Number 1-14479**

---

**TELE NORTE CELULAR PARTICIPAÇÕES S.A.**  
(Exact name of Registrant as specified in its charter)  
**TELE NORTE CELLULAR 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.

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
<b>Preferred Shares without par value</b>	<b>New York Stock Exchange*</b>
<b>Depository Shares, each representing 50,000 Preferred Shares</b>	<b>New York Stock Exchange</b>

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

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 the annual report:

**Common Shares, without par value: 124,623,841,906**

**Preferred Shares, without par value: 210,460,313,451**

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.

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

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 Filer

Non-accelerated Filer

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

---

## TABLE OF CONTENTS

	<u>Page</u>
<b>PART I</b>	
<b><u>ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS</u></b>	<b><u>1</u></b>
<b><u>ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	<b><u>1</u></b>
<b><u>ITEM 3. KEY INFORMATION</u></b>	<b><u>1</u></b>
<u>A. Selected Financial Data</u>	<u>1</u>
<u>B. Capitalization and Indebtedness</u>	<u>4</u>
<u>C. Reasons for Offer and Use of Proceeds</u>	<u>4</u>
<u>D. Risk Factors</u>	<u>4</u>
<b><u>ITEM 4. INFORMATION ON THE COMPANY</u></b>	<b><u>11</u></b>
<u>A. History and Development of the Company</u>	<u>11</u>
<u>B. Business Overview</u>	<u>13</u>
<u>C. Organizational Structure</u>	<u>26</u>
<u>D. Property, Plant and Equipment</u>	<u>27</u>
<b><u>ITEM 4A. UNRESOLVED STAFF COMMENTS</u></b>	<b><u>27</u></b>
<b><u>ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	<b><u>27</u></b>
<u>A. Operating Results</u>	<u>27</u>
<u>B. Liquidity and Capital Resources</u>	<u>39</u>
<u>C. Research and Development, Patents and Licenses, etc</u>	<u>43</u>
<u>D. Trend Information</u>	<u>43</u>
<u>E. Off-Balance Sheet Transactions</u>	<u>43</u>
<u>F. Aggregate Contractual Obligations</u>	<u>43</u>
<b><u>ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	<b><u>44</u></b>
<u>A. Directors and Senior Management</u>	<u>44</u>
<u>B. Compensation</u>	<u>47</u>
<u>C. Board Practices</u>	<u>47</u>
<u>D. Employees</u>	<u>49</u>
<u>E. Share Ownership</u>	<u>49</u>
<b><u>ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u></b>	<b><u>50</u></b>
<u>A. Major Shareholders</u>	<u>50</u>
<u>B. Related-Party Transactions</u>	<u>51</u>
<u>C. Interests of Experts and Counsel</u>	<u>52</u>
<b><u>ITEM 8. FINANCIAL INFORMATION</u></b>	<b><u>54</u></b>
<u>A. Consolidated Financial Statements and Other Financial Information</u>	<u>52</u>
<u>B. Significant Changes</u>	<u>60</u>
<b><u>ITEM 9. THE OFFER AND LISTING</u></b>	<b><u>60</u></b>
<u>A. Offer and Listing Details</u>	<u>60</u>
<u>B. Plan of Distribution</u>	<u>62</u>
<u>C. Markets</u>	<u>62</u>

<u>D. Selling Shareholders</u>	<u>65</u>
<u>E. Dilution</u>	<u>65</u>
<u>F. Expenses of the Issue</u>	<u>65</u>
<b><u>ITEM 10. ADDITIONAL INFORMATION</u></b>	<b><u>65</u></b>
<u>A. Share Capital</u>	<u>65</u>
<u>B. Memorandum and Articles of Association</u>	<u>65</u>
<u>C. Material Contracts</u>	<u>74</u>
<u>D. Exchange Controls</u>	<u>75</u>
<u>E. Taxation</u>	<u>76</u>
<u>F. Dividends and Paying Agents</u>	<u>82</u>

<u>G. Statement by Experts</u>	<u>82</u>
<u>H. Documents on Display</u>	<u>82</u>
<u>I. Subsidiary Information</u>	<u>82</u>
<b><u>ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	<b><u>82</u></b>
<b><u>ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>	<b><u>83</u></b>
<b>PART II</b>	
<b><u>ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>	<b><u>83</u></b>
<b><u>ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u></b>	<b><u>83</u></b>
<b><u>ITEM 15. DISCLOSURE CONTROLS AND PROCEDURES</u></b>	<b><u>84</u></b>
<b><u>ITEM 16</u></b>	<b><u>84</u></b>
<u>A. Audit Committee Financial Expert</u>	<u>84</u>
<u>B. Code of Ethics</u>	<u>85</u>
<u>C. Principal Accountants Fees and Services</u>	<u>85</u>
<u>D. Exemptions from the Listing Standards for Audit Committees</u>	<u>85</u>
<u>E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>85</u>
<b>PART III</b>	
<b><u>ITEM 17. FINANCIAL STATEMENTS</u></b>	<b><u>86</u></b>
<b><u>ITEM 18. FINANCIAL STATEMENTS</u></b>	<b><u>86</u></b>
<b><u>ITEM 19. EXHIBITS</u></b>	<b><u>87</u></b>
<b><u>GLOSSARY OF TELECOMMUNICATIONS TERMS</u></b>	<b><u>89</u></b>

## 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. 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 to 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 50,000 preferred shares, (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 authorization, including the states of Amazonas, Roraima, Amapá, Maranhão and Pará.

We are one of the companies formed as a result of the breakup 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 years ended December 31, 2004 and 2005 audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm and as at and for the year ended December 31, 2006 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, should, 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:

- 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 GSM technology and acquisitions or dispositions of assets or internal affiliates,
- 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, financial performance, financing plans and the effects of competition,
- new entrants into our area and the intensification 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. 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.



**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, 2005 and 2006 and for the years ended December 31, 2004, 2005 and 2006, and the related notes included in this annual report, as well as the information under the caption Item 5. Operating and Financial Review and Prospects.

**U.S. GAAP Selected Financial Information**

Year ended December 31,

	2002	2003	2004	2005	2006	2006 <sup>(1)</sup>
	(as restated)	(as restated)	(as restated)	(as restated)		
<b>Statement of operations data:</b>						
Net revenues (in thousands)	R\$462,519	R\$533,528	R\$512,356	R\$445,567	R\$440,692	US\$206,123
Operating profit (loss) (in thousands)	R\$38,340	R\$62,035	R\$15,889	R\$6,639	(R\$78,389)	(US\$36,665)
Net income (loss) (in thousands)	(R\$44,450)	R\$35,732	(R\$86,499)	(R\$20,049)	(R\$87,356)	(US\$40,859)
Basic and diluted earnings (loss) per thousand common shares <sup>(2)</sup>	(R\$0.36)	R\$0.11	(R\$0.69)	(R\$0.16)	(R\$0.70)	(US\$0.33)
Basic and diluted earnings (loss) per thousand preferred shares <sup>(2)</sup>	-	R\$0.11	-	-	-	-
Basic and diluted earnings (loss) per ADS	-	R\$5.50	-	-	-	-
Dividends per thousand shares paid <sup>(3)</sup>	-	-	R\$0.02	R\$0.02	-	-
Dividends per ADS <sup>(3)</sup>	-	-	R\$1.00	R\$1.00	-	-
Weighted average number of outstanding shares (in thousands):						
Preferred	210,460,313	210,460,313	210,460,313	210,460,313	210,460,313	210,460,313
Common	124,623,842	124,623,842	124,623,842	124,623,842	124,623,842	124,623,842
<b>Other financial data:</b>						
Capital expenditures <sup>(4)</sup> (in thousands)	R\$51,393	R\$29,087	R\$156,051	R\$72,451	R\$51,281	US\$23,986

As of December 31,

2002	2003	2004	2005	2006	2006 <sup>(1)</sup>
------	------	------	------	------	---------------------

(in thousands of

(in thousands of *reais*)

US\$)

**Balance sheet data:**

Cash and cash equivalents	R\$10,090	R\$6,501	R\$2,549	R\$15,234	R\$22,674	US\$10,605
Temporary cash investments	49,838	1,583	97,330	50,418	28,726	13,436
Working capital <sup>(5)</sup>	(121,926)	(88,004)	(90,994)	(59,084)	(149,990)	(70,154)
Total assets	782,739	653,415	766,926	708,033	689,205	322,360
Long-term debt (including current portion)	417,021	223,714	272,602	205,856	179,515	83,964
Shareholders equity	201,612	239,462	148,813	125,498	43,642	20,413
Capital stock	84,074	84,851	84,851	84,851	84,851	39,687

(1) Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2006 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, 2006 of R\$2,138 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, the Company changed its 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 preferred share were the same as dividends per common share, and they were calculated based upon the number of outstanding shares on the date the dividends were provided.

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

(5) Current assets less current liabilities.

### Exchange Rates

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 NMC, dated March 4, 2005, as amended by Resolutions No 3,311 and 3,356 of the NMC, dated August 31, 2005 and March 31, 2006, respectively, consolidated the foreign exchange markets into one 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 15, 2007, the U.S. dollar exchange rate was R\$1.91 per US\$1.00. For more information on these risks, see Item 3D. 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			
	Low	High	Average(1)	Year-End
2002	2.2709	3.9552	2.9983	3.5333
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 (through June 15)	1.9048	2.1548	2.0547	1.9089

Source: Central Bank/Bloomberg

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

<b>Month</b>	<b>R\$ per US\$1.00</b>	
	<b>Low</b>	<b>High</b>
December 2006	2.1372	2.1685
January 2007	2.1239	2.1548
February 2007	2.0758	2.1174
March 2007	2.0496	2.1380
April 2007	2.0223	2.0470
May 2007(through May 31)	1.9281	2.0301
June 2007 (through June 15)	1.9048	1.9630

*Source:* Central Bank/Bloomberg

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for 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**

*A dispute among our controlling shareholders may have an adverse effect in our businesses.*

On March 4, 2005, Highlake International Business Company Ltd., or Highlake, and Futuretel S.A., or Futuretel, the latter of which was at that time managed by individuals appointed by Opportunity, announced the launch of a competitive bidding process for the sale of more than 50% of our voting capital. However, shortly thereafter, the limited partner of Citigroup Venture Capital International Brazil, L.P. (formerly known as CVC/Opportunity Equity Partners L.P.), International Equity Investments, Inc, removed Opportunity Equity Partners, Ltd. (formerly known as CVC/Opportunity Equity Partners, Ltd.) as Limited Partner and secured an injunction to temporarily suspend the competitive bidding process.

Since then, our controlling shareholders have been litigating the control of the Registrant and the control of Amazônia Celular. The dispute over our control contributes to an atmosphere of uncertainty among our employees. Currently, we are not able to assess when these disputes over our control will end. These disputes may have an adverse effect on our business and results of operations. In addition, on January 29, 2007, we were informed that Mem Celular Participações S.A., or Mem, one of our indirect controlling shareholders, has decided to engage a financial institution to analyze strategic alternatives to Mem's investment in us. We cannot assure you if and when any changes in our ownership structure may take place.

**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 drastic 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
- 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.

In addition, in October 2006, elections were held in all states of Brazil and at the federal level, to elect state governors and the president. It is impossible to foresee how new policies that may be adopted by the re-elected president or by the state governors would affect the Brazilian economy or our business.

Historically, the political scenario has influenced the performance of the Brazilian economy. In the past, political crises have affected the confidence of investors and the public in general, which adversely affected the development of the Brazilian economy.

These and other future developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and may adversely affect the trading price of the ADSs and our preferred shares.

***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 25.3% in 2002, 8.7% in 2003, 12.4% in 2004, 1.2% in 2005 and 3.8% in 2006. Inflation, and certain government actions taken to combat inflation, have in the past had 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 25.0%, 16.5%, 17.7%, 18.0% and 13.0% on December 31, 2002, 2003, 2004, 2005 and 2006, 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. For the last four years the *real* has appreciated against the U.S. dollar. The *real* appreciated 22.3%, 8.8%, 13.4% and 9.5% against the U.S. dollar in 2003, 2004, 2005 and 2006, respectively. The *real* appreciated by 10.6% against the U.S. dollar in the first five months of 2007. 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 15, the U.S. dollar/*real* exchange rate was R\$1.91 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. However, other than revenues derived from cross-currency interest rate swap agreements, 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, 2006, we had R\$241.1 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 distributions and dividends on the ADSs and the US dollar equivalent of the market price of our preferred shares, and as a result the ADSs.

***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 Relating to our Business and the Brazilian Telecommunications Industry**

***Extensive government regulation of the telecommunications industry and our operating license may limit our flexibility in responding to market conditions, competition or changes in our cost structure or affect our rates.***

Our business is subject to extensive government regulation. Anatel (*Agência Nacional de Telecomunicações*), which is the telecommunications industry regulator in Brazil, regulates or influences, among other things:

- regulations;
- licensing;
- fees;
- competition;
- telecommunications resource allocation;
- service standards;
- technical standards;

- quality standards;
- interconnection and settlement arrangements, and
- supervision of universal service obligations.

Brazil's telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of regulatory authorities are all marked by uncertainty. We operate under a license from the Brazilian government, and our ability to retain this

license is a precondition to our success. However, in light of the regulatory framework, we cannot assure you that Anatel will not modify the terms of our license adversely. Furthermore, according to the terms of our operating license, we are obligated to meet certain requirements and to maintain minimum quality, coverage and service standards. 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. In recent years, Anatel has also been reviewing and introducing changes in the applicable regulation, especially regarding the interconnection fees among telecommunications service providers in Brazil. Interconnection fees, which are fees charged by telecommunications service providers to each other to interconnect to each others networks, are an important part of our revenue base. To the extent that changes to the rules governing interconnection fees reduce the amount of interconnection fees we are able to collect, our business, financial condition, revenues, results of operations and prospects could be materially adversely affected.

Therefore, 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;
- the granting of operating licenses in our area; and
- delays in the granting of, or the failure to grant, approvals for rate increases.

***Our results of operations may be negatively affected by the application of the SMP rules.***

In February 2004, we signed a contract with Anatel to migrate from the Cellular Mobile Service Contract (*Serviço Móvel Celular*), or SMC regime, to the Personal Mobile Service Contract (*Serviço Móvel Pessoal*), or SMP regime. The SMP rules, including the ability of customers to select their long-distance carrier on a per call basis, stringent quality indicators and new rules for interconnection fees, are already enforced and their impact have been recorded in our financial statements.

The SMP regime also provides for the free negotiation of interconnection fees among certain telecommunications service providers. Under the SMC regime, interconnection fees, which comprise a significant portion of our revenues, were determined based on historical inflation and a variable productivity factor established by Anatel. In the free negotiation environment of the SMP regime, the interconnection fees we receive from other wireless, fixed-line and long-distance telecommunications service providers operating in our area will be determined through direct negotiations with them.

Accordingly, 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: Oi, TIM, VIVO and Telemar, based on an agreement among such operators and us. As a result, our interconnection fee increased from R\$0.38755 to R\$0.40498, net of taxes.

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 (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.

The adjustment of the interconnection fee (VU-M) for local and long-distance calls is also being questioned by some operators that are not party to the agreements for local and long-distance calls and is also being discussed judicially by us. See Item 8A Consolidated Financial Statements and Other Financial Information Legal Proceedings Readjustment of VU-M for further information.

The free negotiation process for interconnection charges will proceed until 2008 when a cost based reference interconnection value will be set by Anatel, according to the regulation on SMP Network Usage Fees, issued in July 2006. See Item 4B. Information on the Company Business Overview Regulation of the Brazilian Telecommunications Industry.

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.

In addition, Anatel initiated a public consultation process (Anatel's Public Consultation number 642 of 2005) regarding certain changes in the current SMP regulation. The public consultation period established in Anatel's proposal ended on January 16, 2006, but final regulation has not yet been promulgated. We are analyzing the impact that the changes in SMP regulation would have to our business and results of operations. The original text of the public consultation includes changes such as:

- refund for unused and remaining prepaid credits after the termination of the contract with end users;
- 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;
- end of grace period in postpaid plans;
- right of users to maintain their phone number whenever there is a change in technology or change in service plan from prepaid to postpaid or vice versa;
- 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;
- receipt of confirmation and/or failure message at no cost within 10 seconds after sending an short message service (SMS) message;
- 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;
- no charge for calls received in roaming when the registration area where the user is located is under the same service area which includes its registration area; and
- availability of retail stores in the cities within an operator's coverage areas.

We have submitted comments to Anatel against the proposals that may have adverse effects on our business. We cannot assure whether these changes will be approved and, if approved, whether these changes may have adverse effects on our revenues and results of operations.

Anatel also issued Regulation number 460/2007, regarding on Number Portability. According to Anatel's regulation, number portability will be provided by fixed and mobile operators, until March 2009, with most incurring costs being borne by the operators. We are analyzing the impact of number portability on our business and results of operations.

***Anatel's new regulation regarding interconnection and network usage fees could have an adverse effect on our results.***

Since the beginning of 2005, Anatel published the following new regulations on interconnection and network usage fees of SMP providers, some of which could have an adverse effect on our results: (1) new General Regulation of Interconnection (*Regulamento Geral de Interconexão* Resolution number 410/2005, or RGI) ; (2) the Regulation of Separation and Allocation of Costs (Resolution number 396/2005) and (3) the Regulation for Network Usage Fees of SMP providers (*Regulamento de Remuneração pelo Uso de Redes de Prestadoras do SMP* Resolution number 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 Tele Norte 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% or in excess of 55% (this regime is referred to as bill and keep ).

Such new regulations could have an adverse effect on our results of operations because (1) our interconnection charges could drop significantly, thereby reducing our revenues, (2) Anatel may allow more favorable prices for economic groups without significant market power and (3) the prices we charge in some regions in which we operate are higher than those in some other regions, and consolidation of those prices, competitive pressures and other factors would reduce our average prices and thereby reduce our revenues. In this regard, the creation of the full billing regime has resulted in an increase of our interconnection costs and revenues.

***It is difficult to predict how technological changes within the wireless telecommunications industry will affect our business.***

The global and the Brazilian wireless telecommunications industry is experiencing significant changes, particularly relating to technological development, ongoing improvements in the capacity, quality and data transmission speed of digital technology, shorter development cycles for new products, and changes in end-user needs and preferences. Alternative technologies may be developed to provide services to customers that are superior to those that we are able to provide. The introduction of these new technologies may result in an accelerated erosion of our market share or require us to incur significant capital expenditures in response to competitive pressures that are driven by technological advances. For example, the growing use in Brazil of GSM technology by other wireless service providers and the dwindling supply of TDMA handsets, were among the important factors that prompted us to migrate our network from TDMA to GSM technology. We cannot assure you that similar technology advances in the future will not force us to make additional changes or investments in our network that we are not currently contemplating.

***The Brazilian wireless telecommunications industry's landscape is highly competitive and is changing in a way that may adversely affect our market share and our margins.***



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, commenced using GSM technology on the D Band frequency range in certain parts of our area in June 2002 through its subsidiary TNL PCS S.A., under the brand name

Oi , and Telecom Italia Mobile, or TIM, the E Band operator primarily owned by Telecom Italia, began operations in October 2002 using GSM technology. This increased competition has reduced our market share to an estimated 22.2% at December 31, 2006, as compared to 25.7%, 34.2% and 43.3% at December 31, 2005, 2004 and 2003, respectively.

The ultimate impact that existing competition and new market entrants will have on our business is not yet clear. Our competitors may be able to offer lower prices than we do and to develop and deploy more rapidly new or improved wireless technologies, services and products. Our responses to the entry of these new competitors may require us to lower rates or extend higher subsidies to our customers for the acquisition of handsets, thereby adversely affecting our margins.

***We experience a high rate of customer turnover, which may impact our future operations.***

The turnover 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 reached 2.9% per month in 2004, 4.0% per month in 2005 and 4.6% per month in 2006. 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.

***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. As of December 31, 2006, we maintained provisions in the total amount of R\$152.2 million and court deposits in the total amount of R\$99.0 million. The majority of our 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, may result in material losses, which may adversely affect our business and results of operations. 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.

***Use of wireless phones may pose health risks.***

Media reports have suggested that radio frequency emissions from wireless handsets may be linked to various health problems, including cancer, and may interfere with electronic medical devices, including hearing aids and pacemakers. Although we do not know of any definitive studies showing that radio frequency raises health care concerns, concerns over radio frequency emissions may discourage the use of wireless handsets or expose us to potential litigation, which could have a material adverse effect on our business, financial condition, revenues, results of operations and prospects.

***Certain covenants contained in our financial agreements limit our ability to incur indebtedness.***

Our financing agreements, including the indenture related to the offering of US\$40 million unsecured senior notes due 2009 combined with the offering by Telemig Celular of US\$80 million unsecured senior notes due 2009, contain certain financial covenants, limiting 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. As a result, our ability to raise capital above the limits imposed by these agreements may be impaired, which may affect our ability to obtain the resources needed to expand the GSM network so as to cover all of the localities in our area. In addition, certain financing agreements of the Company have cross-acceleration clauses and if Telemig Celular defaults in any of its other financing agreements, our notes payment will be accelerated.

**Risks Related to the ADSs and the Preferred Shares**

*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 depository 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 51.3% of the aggregate market capitalization of the BOVESPA as of December 31, 2006. The top ten stocks in terms of trading volume accounted for approximately 48.0%, 44.7% and 45.5% of all shares traded on the BOVESPA in 2004, 2005 and 2006, 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 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 depository'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 depository, 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 depository does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights.

## **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 *Serviço Móvel Pessoal*, or SMP, regime from the *Serviço Móvel Celular*, or SMC, regime. At

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

December 31, 2006, we had 1,210,780 subscribers, representing an estimated market share of 22.2% in our region, as opposed to 1,223,041 subscribers, or an estimated 25.7% market share, at December 31, 2005.

The Registrant currently owns 74.96% of the share capital, including 89.79% of the voting shares, of Amazônia Celular. Substantially all of the Registrant's assets, other than cash and cash equivalents and temporary cash investments, consist of shares of Amazônia Celular. The Registrant relies exclusively on dividends from Amazônia Celular to meet its needs for cash, including cash to pay dividends to its shareholders.

The Registrant's legal and commercial name is Tele Norte Celular Participações S.A. and it is a corporation (*sociedade por ações*) organized under the laws of the Federative Republic of Brazil. Our headquarters are located at

Rua Levindo Lopes, 258, Funcionários, 30140-170, Belo Horizonte, MG, 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 wireline holding companies, one in each of three wireline regions, holding one or more operating companies providing local and intraregional long-distance services; and (iii) Embratel Participações S.A., a holding company of Telecomunicações Brasileiras S.A. Embratel, 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 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. See Item 4C. Organizational Structure.

## **Change in Management**

Upon taking over the management of Amazônia Celular, the current management engaged consultants to review the Company's operations. In the course of its review management of Amazônia Celular identified certain employment and consulting agreements the legality of which may arguably be questioned in a court of law. The amounts involved are not material in relation to the Company's consolidated assets or revenues. For further information on a labor claim brought by Amazônia Celular against members of its former management, see Item 8A. Consolidated Financial Statements and Other Financial Information Legal Proceedings Labor Legal Proceedings Labor Claim against Former Management.

While management's review has not been concluded, it is sufficiently advanced that management believes it unlikely, although not impossible, that any further findings would result in a material adverse effect on the Company's business, results of operations or net income.

## **Recent Political Developments**

In July 2005, Amazônia Celular was mentioned in connection with accusations against DNA Propaganda Ltda., or DNA, and SMP&B Comunicação Ltda., or SMP&B, involving political corruption. Both DNA and SMP&B are advertising agencies, whose services had been engaged by Amazônia Celular, from the year 2001 to the first quarter of 2005.

DNA and SMP&B were involved in the *mensalão*, or votes-for-cash scandal, that dominated the politics of Brazil in 2005. *Mensalão* is a neologism and variant of the word for monthly payment in Portuguese. The scandal began when, on June 6, 2005, a Brazilian Congressional Deputy, Roberto Jefferson, told a Brazilian newspaper that the Brazilian President's Workers Party (*Partido dos Trabalhadores*), or PT, had paid a number of Congressional deputies 30,000 *reais* every month in order to vote for legislation favored by the ruling party. According to Mr. Jefferson, the operator of the payment scheme was the businessman Marcos Valério de Souza, one of the owners of the advertising agencies SMP&B and DNA, which had large contracts with the government.

In view of the accusations, the Brazilian Congress, through a Congressional Committee of Investigation (*Comissão Parlamentar de Inquérito*), or CPI, and through the CVM, began investigations. Amazônia Celular provided to both bodies all the documents referring to the advertising services rendered by DNA and SMP&B to it. Amazônia Celular was able to demonstrate that all payments made to these two advertising agencies corresponded to services effectively rendered, and not to any vote-for-cash plan.

The final report prepared by the Congressional Committee of Investigation does not find any irregularity in the transactions between Amazônia Celular and DNA and SMP&B. The CVM has not mentioned any violations either.

### **Listing Standards**

On August 1, 2005, the 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' 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 18, 2007, the Company's market capitalization amounted to US\$115 million over a 30 trading-day period, above the required threshold.

However, in accordance, with the NYSE's Listed Company Manual, we will be 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.

## **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. Per capita income is relatively low. At December 31, 2006 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, 2006, approximately 30.7% of the people in our region owned a mobile phone, respectively. 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.

**Year Ended December 31,  
2003**



<b>State</b>	<b>% of Brazil's</b>	<b>Per capital</b>
	<b>GDP</b>	<b>income</b>
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 - IBGE*).

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 22.2% at December 31, 2006, as compared to an estimated 25.7% and 34.2% market share at December 31, 2005 and 2004, respectively. Currently, our digital service is based upon Time Division Multiple Access, or TDMA, technology; our analog service uses a technology standard called Advanced Mobile Phone Service, or AMPS; and we are in the process of overlaying GSM technology onto our network, which incorporates updated versions of Enhanced Data Rates for Global Evolution, or EDGE, technology for data transmission. We offer digital service to subscribers in all the cities in our area, covering 212 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. Our introduction of GSM/EDGE service for our subscribers is improving data transmission speed and establishing a base for the future offering of continuously evolving wireless products and services. In November 2004, we began offering GSM/EDGE technology services in certain parts of our

area.

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, commercially branded as *Plano Controle*, or Control Plan, caters to a market niche (which includes some of our postpaid and prepaid customers) that prefers to pay a set monthly fee for wireless services as long as that fee is set at a low and controlled rate. The *Plano Controle* mixes the best features of prepaid and contract plans. After the monthly amount of fixed minutes is used, no more outgoing calls are allowed. However,

the user is still able to receive calls. The user can, at his or her option, recharge his or her phone with extra calling minutes, just as in the prepaid plans. The minutes that are not used can be carried over to the following month. Due to the plan's popularity, in April 2004, we began to offer three new *Plano Controle* options with higher denominations of fixed minutes to our customers.

We also provide value-added services such as fax reception through mobile handsets, voicemail, call forwarding, call waiting and call conferencing, caller line identification and three-way calling. In addition, we provide special services, such as customized ring tones, real time play-by-play of soccer matches, information searches (including accessing bank statements, office or home information), and convenient services, all through the subscriber's mobile handset. We constantly evaluate the readiness of our network to respond to emerging market trends and customer demands for new services.

Through agreements with other mobile service providers, we offer automatic roaming services throughout Brazil to our subscribers that allow them to make and receive calls while out of our area. We offer international roaming on TDMA networks in countries such as Argentina, Uruguay and the United States. We have implemented 50 bilateral agreements in 50 countries for roaming on GSM networks.

In addition, we provide mobile telecommunications services to subscribers of other wireless 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 a period of approximately three to five years. We believe that our success to date has been due largely to the reliability and quality of our wireless service. We intend to carefully manage 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.
- *Retain the quality of our subscriber base by providing the best customer service and service plan options to high revenue users.* Further penetration of the Brazilian wireless market will generally involve 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 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.
- *Streamline our costs of operations by realizing synergies with our affiliate.* We aim to achieve synergies by combining certain aspects of our operations with those of our affiliate, Telemig Celular S.A. By continuing to centralize services related to billing systems and customer service call centers, we believe that we can eliminate unnecessary duplication of services, thereby increasing our operating efficiency, reducing costs and increasing our margins.



**Subscribers**

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

	<b>Year ended December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
Contract subscribers at period end	316,040	257,155	232,271
Prepaid customers at period end	940,233	965,886	978,509
<b>Total</b>	<b>1,256,273</b>	<b>1,223,041</b>	<b>1,210,780</b>
Net subscriber growth during period	22.2%	-2.6%	-1.0%
Estimated population of our region at period-end (in millions) <sup>(1)</sup>	16.7	17.3	17.6
Estimated covered population at period-end (in millions) <sup>(2)</sup>	11.3	11.9	12.2
Percentage of population covered at period-end <sup>(3)</sup>	67.6%	68.7%	69.1%
Penetration at period-end <sup>(4)</sup>	22.0%	28.5%	30.7%
Average monthly incoming minutes of use per subscriber:			
Contract subscribers	68	81	85
Prepaid customers	30	22	24
Average monthly outgoing minutes of use per subscriber:			
Contract subscribers	134	112	136
Prepaid customers	9	8	12
Average monthly revenues per subscriber: <sup>(5)</sup>			
Contract subscribers	R\$81	R\$72	R\$80
Prepaid customers	<u>R\$14</u>	<u>R\$10</u>	<u>R\$12</u>
Total blended average	R\$32	R\$24	R\$25
Cost of acquisition per subscriber <sup>(6)</sup>	R\$178	R\$158	R\$122
Average monthly churn <sup>(7)</sup>	2.9%	4.0%	4.6%
Estimated market share at period end:	34.2%	25.7%	22.2%

(1) Estimates based on data from the 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 number of cellular lines in service in our region divided by the population of our region.

(5) In nominal *reais*, net of value-added taxes PIS, COFINS and 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 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.

*Contract and Prepaid Market*

At December 31, 2006, we had 1,210,780 subscribers, a decrease of 1.0% over December 31, 2005, and an estimated market share of 22.2%, compared to estimated market shares of 25.7% and 34.2% at December 31, 2005 and 2004, respectively. Our client 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 (ii) prepaid customers, who purchase in advance cards containing a specified number of airtime credits that can 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 more to receive than to place calls.

Our contract subscribers used an average of 221 minutes of airtime per month in 2006, as compared to an average of 193 minutes per month registered in 2005. Our prepaid customers used an average of 36 minutes of airtime per month in 2006, as compared to an average of 30 minutes per month in 2005. Decreases in the average minutes of use per subscriber can be expected as further market penetration adds customers to our subscriber base that generally are prepaid customers using fewer minutes of airtime per month. Recently, our prepaid subscriber base has increased 1.3% to 978,509 at December 31, 2006 from 965,886 at December 31, 2005 and from 940,233 at December 31, 2004. During that time, our contract subscriber base decreased from 316,040 at December 31, 2004 to 257,155 at December 31, 2005 and to 232,271 at December 31, 2006. The decrease in our contract subscriber base is a consequence of

strong competition in our area. As of December 31, 2006, 80.8% of our subscribers were prepaid customers and 19.2% were contract customers, as compared to 79.0% and 21.0%, respectively at December 31, 2005 and 74.8% and 25.2%, respectively, at December 31, 2004. The average cost of acquiring our customers decreased to R\$122 at December 31, 2006 from R\$158 in 2005, as compared to R\$178 in 2004.

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 subscriber 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 subscriber 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 subscriber as compared to a contract subscriber due to, among other things, substantially lower subsidies for prepaid subscriber's 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 subscriber 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 wireless 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 wireless 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 when 240 days have elapsed since the customer purchased and activated, or added credit to, his or her last prepaid card. 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 within 180 days after activation of the previous card. 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 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 2004, 2005 and 2006 was 2.9%, 4.0% and 4.6%, 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* (or You ), 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**

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 still earn monthly revenues from providing co-billing services and from the use of our prepaid plan when our customers choose to use 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 wireless services during specified times of the day or on weekends. During 2006, we generated approximately 22.7% of our net service revenues from monthly fees in connection with contract service plans, as compared to approximately 20.8% in 2005. Monthly contract service fees and airtime charges for outgoing calls generated 63.1% of our service revenues during 2006, as compared to 59.7% in 2005.

We also offer our subscribers an internet-related service called *i.amazônia celular*. The *i.amazônia celular* services include communication, news and entertainment services and internet and remote access to personal computers. The most popular of the *i.amazônia celular* options is the text-messaging option, which is currently used by approximately 79% of our subscribers. The *i.amazônia celular* service can also be used to participate in chat rooms, customize ring tones and play games and for internet connection. Our data-related services do not comprise a significant portion of our overall net revenues, but have increased from 4.2% of net service revenues in 2005 to 7.4% of net service revenues in 2006.

#### *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. 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 wireless traffic were due only if the traffic balance between any two companies operating in the same area was either less than 45% or in excess of 55% ( 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.

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. See Item 8A Consolidated Financial Statements and Other Financial Information Legal Proceedings Readjustment of VU-M and Item 3D. Risk Factors Risks Relating to our Business and the Brazilian Telecommunications Industry Anatel's new regulation regarding interconnection and network usage fees could have an adverse effect on our results for further information.

## **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, 2006, we had 560 independent distributors' points-of-sales, located primarily in metropolitan centers, compared to 545 at December 31, 2005 and 489 at December 31, 2004, 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, 2006, we had 22 company-owned stores as compared to 11 at December 31, 2005 and 18 at December 31, 2004.

### *Distributors and Marketing*

At December 31, 2006 and December 31, 2005, we sold prepaid cards at approximately 16,000 and 9,500 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 their 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 8,200 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 2006, our customer service department answered, on average 549,603 calls per month and responded to an average of 641 letters and e-mails per month, as compared to an average of 558,440 calls per month and 2,104 letters and e-mails per month in 2005. The customer satisfaction rate among our subscribers was 80.2% in 2005 and 82.0% in 2006. In 2006, 87.8% of all complaints threatening termination of subscription were satisfactorily resolved with the customer deciding to retain his or her subscription, as compared to 85.0% in 2005.

## **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 is enhancing their data transmission speed and establishing a base for the future offering of continuously evolving wireless products and services. During 2005 and 2006, we made capital expenditures of R\$58 million and R\$50 million, respectively, in our network, being primarily associated with the GSM network expansion.

At December 31, 2005 and 2006, our TDMA network covered approximately 68%, of the population in our area. By year-end 2005 and 2006, our TDMA network consisted of 10 cellular switches and 399 and 354 cell sites, respectively, as compared to covering approximately 69% of our area's population and consisting of 11 cellular switches and 401 cell sites at December 31, 2004. Currently, our TDMA switches and cell sites have the capacity to provide services to approximately 1.3 million 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, 2006, it already covered approximately 57% of the population in our area and consisted of four cellular switches, four media gateways, seven base station controllers and 336 cell sites. Our GSM network is interconnected with other networks through our TDMA network. By December 31, 2006, our GSM switch and cell sites had the capacity to provide services to approximately 1.0 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 1.1% in 2005 and 1.2% in 2006, well 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 wireless service providers in Brazil and worldwide indicate that the future of wireless service lies with technologies such as GSM and its updated version, UMTS, and CDMA ONE and its updated version, CDMA 2000. Currently, a large portion of our customers are still using our TDMA network, which was the dominant wireless technology in Brazil between 1998 and 2002. However, the availability of TDMA-compatible handsets has diminished significantly in recent years and we expect that customers replacing TDMA handsets will generally migrate to our GSM network. Currently, GSM is the established standard wireless technology in Brazil. By the end of 2005, approximately 44 million wireless subscribers

in Brazil were using GSM technology, compared to approximately 17 million using TDMA and approximately 24 million using CDMA. At December 31, 2006, approximately 63.5 million wireless subscribers in Brazil were using GSM technology, compared to approximately 11 million using TDMA and approximately 25 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 wireless 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.

Provisions for doubtful accounts were 4.5%, 3.3% and 4.6% of net service revenues in 2004, 2005 and 2006, respectively. The increase in 2006 is primarily related to higher allowances recorded in 2006 regarding accounts receivables from dealers and to interconnection charges. The decrease in 2005 when compared to 2004 is related to the establishment by us of more strict rules concerning the client acquisition process. We have integrated certain aspects of our billing and collection system with that of our affiliate, Telemig Celular S.A. This integration is designed to reduce administrative costs by eliminating unnecessary duplication of services.

## **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. We expect that our migration to GSM technology will reduce our incidence of cloning fraud because GSM technology employs more sophisticated encryption techniques than TDMA technology.

We have also recently 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 wireless operators with the incumbent's own installations. We have entered into interconnection agreements with VIVO, our B Band competitor, Oi, our D Band competitor, TIM, our E Band competitor, Telemar, Embratel, Brasil Telecom, Telefonica, GVT, CTBC and Intelig, the long distance carriers operating in our area, and with Telemar, Embratel 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 with T-Mobile USA, Cingular Wireless USA, Verizon USA, Sprint-Nextel USA, CTI Móvil Argentina, Rogers Wireless Canada and other operators. These interconnections allow the customers of Amazonia Celular and of all the mentioned operators above to exchange short text messages between their mobile stations in Brazil and other countries.

A multi-media message, or MMS, network was established and successfully integrated in July 2005 between all the Brazilian operators mentioned above, with the exception of Nextel. 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.

See Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies and 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 wireless 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. Amazonia Celular also offers to its customers GPRS roaming with Telemig Celular, 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 wireless 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 entered into international roaming agreements with foreign carriers with TDMA network that permit our subscribers to use roaming services in Argentina, Uruguay and the United States, and that have also enable subscribers of those carriers to use roaming services in our area, which we expect will be terminated by the end of 2006. We have also implemented 50 bilateral agreements in 50 countries for roaming on the GSM network, which represents the attendance of 97% of the interest traffic of the Amazônia Celular. We have GSM roaming agreements in countries like: USA, France, Spain, Germany, Argentina, 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 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 Norte Brasil Telecom, or NBT (which was subsequently acquired by Vivo, a joint venture of Portugal Telecom and Telefonica Móviles), which commenced operations 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. Telecom Italia Mobile, or TIM, won the bid for the E Band frequency range for our area and commenced operations in October 2002. All wireless 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, wireless telecommunications services in our area.

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 25.3% and Vivo, Oi and TIM had estimated market shares of 37.1%, 14.5% and 23.1%, respectively. At December 31, 2004, we had an estimated market share of 33.6%, and Vivo, Oi and TIM had estimated market shares of 32.7%, 13.6% and 20.1%, respectively.

*Other Competition*

We also compete with fixed-line telephone service providers, the most important of which in Amapá, Amazonas, Maranhão, Pará e Roraima is Telemar. We do not believe that fixed-line service providers present a significant threat or new competition in the telecommunications service market. We also compete with other wireless 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 telecommunications services and do not offer comparable coverage inside buildings. As a result, they do not represent an attractive alternative for most wireless customers.

### **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 comment, which may include public hearings.

The years 2005 and 2006 were marked by regulatory turbulence which may have direct and significant effects on cellular phone operators if recommendations from SMP providers in Anatel's public consultation process are not taken into consideration and the new regulation of SMP remains unchanged.

One of the most important public consultations was number 642, which deals with proposals for changes in the regulation of SMP. The consultation should have been completed in November 2005. Although it was extended by Anatel until January 2006, final regulation has not yet been promulgated. We are analyzing the impact that the changes in SMP regulation would have to our business and results of operations. Its original text includes changes such as:

- refund for unused and remaining prepaid credits after the termination of the contract with end users;
- 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;
- end of grace period in postpaid plans;
- right of users to maintain their phone number whenever there is a change in technology or change in service plan from prepaid to postpaid or vice versa;
- 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;
- receipt of confirmation and/or failure message at no cost within 10 seconds after sending an SMS message;

- 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;
- no charge for calls received in roaming when the registration area where the user is located is under the same service area which includes its registration area;
- availability of retail stores in the cities within an operator's coverage areas.

Another Anatel public consultation (CP number 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 number 451/2006, and may be challenged by the Association of Mobile Operators in Brazil (*Associação Nacional dos Prestadores de Serviço Móvel Celular*), ACEL.

Anatel also issued Regulation number 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. We are analyzing the impact of number portability on our business and results of operations.

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 number 410/2005, or RGI); (2) the Regulation on Costs Separation and Allocation (Resolution number 396/2005); and (3) the Regulation on SMP Networks Usage Fees (*Regulamento de Remuneração pelo Uso de Redes de Prestadoras do SMP* Resolution number 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% or in excess of 55% (this regime is referred to as bill and keep ).

On December 11, 2006 Anatel issued Resolution number 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 Universal Mobile Telecommunications System, or 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 has not yet been concluded due to an ongoing 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 spite of these facts, we believe the auctions for new spectrum are likely to be held during 2007.

See Item 3D. Risk Factors Risks Relating to our Business and the Brazilian Telecommunications Industry Anatel's new regulation regarding interconnection and network usage fees could have an adverse effect on our results.

#### *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.

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 began debating the responsibility of remuneration of networks when fraudulent calls are placed. 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 Cellular Mobile Service), wireless 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, wireless telecommunication service providers used to undertake losses and pass due amounts through STFC (Commutated Fixed Services) providers, which were the carriers of these long-distance calls. Under the current model (SMP Personal Mobile Service), 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 2007. 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 2006, coupled with the substantial decrease in the amount of frauds relating to cloning of mobile phones, in the period, 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. In 2006, we surpassed the average of 80% 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-*Serviço Móvel Celular* regime to the SMP-*Serviço Móvel Pessoal* 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



September 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.

*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. These 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 and 2006 we were best ranked by Anatel on customers' satisfaction (least complains per subscriber) among SMP operators with more than 1.0 million customers. Nevertheless, this better than average performance does not mean that fines cannot be imposed, related to the period of time while we were adapting our systems and procedures in order 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. Consolidated Financial Statements and Other Financial Information Legal Proceedings Administrative Proceedings before Anatel 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 wireless 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. See Item 8A Consolidated Financial Statements and Other Financial Information Legal Proceedings Readjustment of VU-M for more information. 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.

## **C. Organizational Structure**

The Registrant is a company that was incorporated on February 28, 1998 under the laws of the Federative Republic of Brazil. The Registrant currently owns 74.96% of the share capital and 89.79% of the voting stock of Amazônia

Celular, a cellular service operator in the states of Maranhão, Pará, Amazonas, Amapá and Roraima.

The Registrant is part of a group of companies currently controlled by Telpart Participações S.A., a consortium comprised of: (i) Newtel Participações S.A., which owns 51.07% of Telpart, and is controlled indirectly by investment and mutual funds, and several Brazilian pension funds; (ii) TPSA do Brasil Ltda. ( TPSA do Brasil ), which owns 48.90% of Telpart, and is controlled indirectly by investment and mutual funds; and (iii) others, who own 0.03% of Telpart. See Item 7. Major Shareholders and Related Party Transactions for a fuller description of this consortium. Telpart Participações S.A. also controls Telemig Celular Participações S.A., which is the parent holding company of Telemig Celular S.A., a Brazilian cellular telecommunications services provider in the state of Minas Gerais.

## 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 59,000 square meters of space in our area.

At December 31, 2006, we had 10 TDMA cellular switches, 354 TDMA cell sites, 4 GSM cellular switches, 4 media gateways, 7 GSM base stations controllers and 336 GSM cell sites. Our switches and cell sites had a total capacity of approximately 1.3 million TDMA subscribers and 1.0 million GSM subscribers as of December 31, 2006. 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 US 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 *reais*. For certain purposes, such as providing reports to our Brazilian shareholders, filing financial statements with the CVM, the Brazilian securities commission, 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.

#### *Brazilian Political and Economic Environment*

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.

Presidential elections were held in Brazil in 2002. The country went through a period of market turmoil in the second half of the year as investors feared that, if elected, the Labor Party led by Luiz Inácio Lula da Silva would

change the economic policies of the previous administration. The *real* fluctuated significantly as a result, depreciating by 34.3% during the year and closing at R\$3.533 to US\$1.00 on December 31, 2002. Inflation for the year, as measured by the IGP-M index, was 25.3% and 12.5% as measured by the IPCA. Real GDP grew by 1.9% .

In 2003, the government administration largely continued the macroeconomic policies of the previous administration, focusing on fiscal responsibility. Investor confidence rebounded as a result and the *real* appreciated by 22.3% against the U.S. dollar to R\$2.889 per US\$1.00 at December 31, 2003. The benchmark BOVESPA index rose 91.7% in 2003. Inflation for the year, as measured by the IGP-M index, decreased to 8.7% and 9.3% as measured by the IPCA. However, Brazil's real GDP decreased by 0.2% during 2003, largely because the very high interest rates that prevailed at the beginning of 2003 to combat inflationary pressures acted to also constrain economic growth. The Central Bank reduced interest rates seven times during 2003, ending at a rate of 16.5% as of December 31, 2003.

During 2004, Brazil's GDP increased 4.9% to US\$604.8 billion and the country achieved a trade surplus of US\$33.7 billion. Inflation in 2004, as measured by the IGP-M, was 12.4% and 7.6% as measured by the IPCA. Interest rates continued to be high, with the CDI rate averaging 17.8% in 2004. The *real* appreciated by 8.8% against the U.S. dollar in 2004 to R\$2.654 per US\$1.00 on December 21, 2004.

In 2005, Brazil experienced a serious political crisis involving corruption accusations, generating uncertainties and leading to a decrease on the growth pace of the Brazilian economy, with Brazilian GDP growing only 2.3% to US\$871.9 billion, less than the average growth of 6.4% for the emerging market economies. The country achieved a trade surplus of US\$44.5 billion, a milestone for the country's international trade. Inflation for the year, as measured by the IGP-M, was 1.2% and 5.7% as measured by the IPCA. Interest rates remain at high levels, with the CDI rate averaging 18.0% in 2005. Despite the political crisis, 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.

In October 2006, Luiz Inácio Lula da Silva was reelected. It is possible that his administration may implement different macroeconomic policies, including changes in policies involving exchange controls or increased spending, regulation and taxation that could adversely affect our business and financial condition. Brazil's GDP increased 2.9% to US\$ 905 billion 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. Interest rates continued to be high, with the CDI rate averaging 15.05% in 2006. The *real* appreciated by 9.5% against the U.S. dollar in 2006 to R\$ 2.138 per US\$1.00 on December 31.

On June 15, 2007, the U.S. dollar/*real* exchange rate was R\$1.91 per US\$1.00. The following table shows data for GDP, inflation, interest rates, and the U.S. dollar exchange rate for and as at the periods indicated.

	<b>December 31,</b>				
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
GDP growth	1.9%	0.5%	4.9%	2.3%	2.9%
Inflation (IGP-M) <sup>(1)</sup>	25.3%	8.7%	12.4%	1.2%	3.8%
Inflation (IPCA) <sup>(2)</sup>	12.5%	9.3%	7.6%	5.7%	3.1%
CDI <sup>(3)</sup>	22.9%	16.8%	17.5%	18.2%	13.1%
TJLP <sup>(4)</sup>	10.0%	11.0%	9.8%	9.8%	7.9%
Appreciation (devaluation) of the <i>real</i> vs. the U.S. dollar	(34.3%)	22.3%	8.8%	13.4%	9.5%
Exchange rate at year end					

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

US\$1.00		R\$3.533	R\$2.889	R\$2.654	R\$2.341	R\$2.138
Average exchange rate	US\$1.00 <sup>(5)</sup>	R\$2.998	R\$3.060	R\$2.902	R\$2.433	R\$2.167

---

Sources: Fundação Getúlio Vargas, IpeaData, BACEN and Bloomberg.

- (1) Inflation (IGP-M) is the general market price index published by Fundação Getúlio Vargas.
- (2) Inflation (IPCA) is the broad consumer price index as published by Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE.
- (3) The CDI rate is the average of the fixed rates of interbank deposits for one business day as registered with and settled by the CETIP system.
- (4) The TJLP is the long-term interest rate published every quarter by the Central Bank. The figures correspond to the average of the period indicated.
- (5) Represents the average of the exchange rates on the last day of each month during the period.

*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 wireless 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, 2002 through 2006:

	<b>Inflation Rate (%) as Measured by IGP-M (1)</b>	<b>Inflation Rate (%) as Measured by IPCA (2)</b>
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
December 31, 2002	25.3	12.5

(1) *Source:* IGP-M, as published by the IBGE.

(2) *Source:* IPCA, which is a consumer price index, as published by Fundação Getúlio Vargas.

**Taxes on Telecommunications Services**

The cost of telecommunications services to customers includes a variety of taxes. The average rate of all such taxes, as a percentage of our gross operating revenues, was approximately 23.0% in 2004, 21.3% in 2005 and 20.2% in 2006. The principal taxes are a state value-added tax, the *Imposto sobre Circulação de Mercadorias e Serviços*, commonly known as the ICMS. 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%, except for the state of Pará, which is 30%.

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 *Programa de Integração Social*, referred to as PIS, and the *Contribuição para Financiamento da Seguridade Social*, known as 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 9,998 of August 17, 2000, to provide resources to cover costs 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% 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 10,052 of November 28, 2000, 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 itemized to customers.

We must also pay the Contribution for the Telecommunication Inspection Fund, or FISTEL. The Telecommunication Inspection Fund is a fund 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% 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.

## **Composition of Operating Revenues and Expenses**

### *Operating Revenues*

We generate operating revenues from:

- 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;
- interconnection fees, which are the amounts charged by us to other cellular (except for the calls under the bill and keep rule until July 13, 2006 or the full billing rule beginning July 14, 2006), fixed-line and long-distance telephone service providers for use of our network by customers of these service providers;
- sales of handsets and accessories; and
- other services and charges.

Unbilled revenues for the few days in between the billing date and month-end are estimated and recognized as revenue during the month in which the service is provided. Revenue from the sales of prepaid cards is recognized on a basis of actual use, on a minute-by-minute basis. In Brazil, cellular telecommunications service providers may not

charge customers for incoming calls, unless the customer is roaming. Revenues from sales of handsets are recognized when the equipment is sold and delivered.

In February 2004, we signed a contract with Anatel to migrate from the Cellular Mobile Service Contract (*Serviço Móvel Celular*), or SMC regime, to the Personal Mobile Service Contract (*Serviço Móvel Pessoal*), or SMP regime. The migration has resulted in a number of changes to our operations and our revenue base. One of the consequences of the migration is that our customers are now entitled to select their own long-distance carrier for outbound long-distance traffic, and they pay directly, or through co-billing agreements, the long-distance service provider of their choice. We receive interconnection fees from that long-distance service provider. See Item 3D. Risk Factors Risks Relating to our Business and the Brazilian Telecommunications Industry Our results of operations may be negatively affected by the application of the SMP rules for more information.

The SMP regime also provides for the free negotiation of interconnection fees (VU-M) among certain telecommunications service providers. Under the SMC regime, interconnection fees, which comprise a significant portion of our revenues, were determined based on historical inflation and a variable productivity factor established by Anatel. In the free negotiation environment of the SMP regime, the interconnection fees we receive from other wireless, fixed-line and long-distance telecommunications service providers operating in our area will be determined through direct negotiations with them. See Item 4B. Information on the Company Business Overview Sources of Revenues Interconnection Fees and Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings Readjustment of VU-M for further information on these negotiations.

Until July 13, 2006, interconnection fees for local wireless traffic were due only if the traffic balance between any two companies operating in the same area was either less than 45% or in excess of 55% ( bill & keep regime ). Beginning July 14, 2006, new regulation on SMP network usage fees issued by Anatel established that interconnection payments between SMP operators for traffic in the same registration area should occur for the full amount of traffic between operators ( full billing regime).

The consequences of the adoption of the full billing regime for us have been primarily an increase of interconnection costs and revenues.

The following taxes are deducted from revenues in arriving at net operating revenues: ICMS, PIS and COFINS.

#### *Operating Expenses and Costs*

Operating expenses consist of cost of services, selling, general and administrative expenses, allowance for doubtful accounts expense and depreciation and amortization. Cost of services consists primarily of fixed costs such as leased line charges, site rental and network maintenance, including overhead, as well as variable costs such as certain interconnection charges and Telecommunication Inspection Fund fees. Cost of goods consists primarily of handsets. Selling, general and administrative expenses consist primarily of salaries, wages and related benefits for administrative personnel, advertising and promotional expenses, distributors commissions and other overhead expenses. For the purposes of allowance for doubtful accounts expense, we maintain an allowance for doubtful accounts, including accounts receivable to be billed, to become due and also past-due accounts in an amount equal to our estimate of probable future losses on these accounts, based on historical losses and the current level of overdue accounts receivable. We also immediately write-off any accounts receivable arising from fraud.

As a result of the application of the bill and keep rules relating to interconnection revenues and expenses that applied to us until July 13, 2006, the amount of interconnection fees we paid to wireless carriers operating in our area along with revenues, varied based on the traffic volume between the operators. However, beginning on July 14, 2006, the interconnection payments between SMP operators for traffic in the same registration area occur independently of the traffic balance between the operators (this regime is referred to as full billing ).

The interconnection fees (VU-M) that we pay to other wireless providers and to fixed line operators are currently being freely negotiated. See Item 4B. Information on the Company Business Overview Sources of Revenues Interconnection Fees and Item 8A. Financial Information Consolidated Financial Statements and Other Financial Information Legal Proceedings Readjustment of VU-M for further information on these negotiations.

The following taxes are included in operating costs and expenses: FISTEL, FUST and FUNTTEL. CPMF and IOF are classified as financial expenses.

#### **The Effects of the Increase of our Prepaid Customer Base on Our Results of Operations**

Since the inception of our prepaid plans in June 1999, the number of prepaid customers has grown to represent approximately 74.8%, 79.0% and 80.8% of our total customer base at December 31, 2004, 2005 and 2006, respectively. Prepaid customers, on average, have substantially lower minutes of use than contract customers and do not pay monthly fees and, as a result, generate substantially lower average monthly revenues per customer. Prepaid customers use their cellular phones predominantly for incoming calls, so prepaid customer revenues consist primarily of interconnection fees that we receive from other telecommunications companies when one of their customers uses

our network to call one of our prepaid customers. We expect that the growth of our customer base will continue to be predominately in the prepaid customer segment.

### **Consolidation of Operations with Our Affiliate**

In order to create operating efficiencies and reduce costs, we are a party to a shared services arrangement with our affiliate, Telemig Celular Participações S.A., and its operating subsidiary, Telemig Celular S.A., which are under the common control of our shareholder group. Pursuant to this arrangement, various segments of the financial, marketing, call center and human resources departments, as well as portions of the engineering departments, of each company are now managed by a single team. During the years ended December 31, 2006, 2005, 2004 Telemig Celular Participações S.A. and its subsidiary charged the Company R\$12,268, R\$14,864 and R\$15,079, respectively. Costs and expenses are allocated to each Company based on indicators such as number of employees, customer base, total traffic and others.

### **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;
- 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, 2006, we had an estimated market share of 22.2%, as compared to an estimated market share of 25.7% and 34.2% as of December 31, 2005 and 2004, 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.

## Discussion of Critical Accounting Policies

### *General*

The preparation of the consolidated financial statements included in this annual report necessarily involves certain assumptions, which are derived from historical experience and various other factors that we deemed reasonable and relevant. The portrayal of our financial condition and results of operations often requires our management to make judgments regarding the effects on our financial condition and results of operations of matters that are inherently uncertain. Actual results may differ from those estimated under different variables, assumptions or conditions. Note 3 to our consolidated financial statements included in Item 18. Financial Statements includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements.

### *Revenue Recognition*

Revenues from services and sales of handsets and accessories are recognized when the service is provided or when the equipment is sold and delivered in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, Revenue Recognition, and Emerging Issues Task Force, or EITF, Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenues from cellular telephone services consist of subscription charges, usage charges, network usage charges, long distance charges and charges for maintenance and other customer services. Unbilled revenues from the billing date to the month-end are measured and recognized as revenue during the month in which the service was provided. Revenues from equipment sales refer to sales of handsets and accessories.

The service agreements signed by customers in connection with sales of subsidized handsets are considered to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement (i.e., service and handset contracts) based on relative fair values. The Company does not charge activation fee in connection with such service agreements.

Revenues from sales of prepaid cards are recognized according to the services provided for each card, considering customers usage or when the customer credit expires. Our Plano Controle rate plans also include a feature whereby unused credits do not expire each month but rather are available for future use. We defer revenue based on unused credits in prepaid cards and in the Plano Controle rate plan. Unused credits are controlled and measured by systems.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by factors such as the complex information technology required, high volume of transactions, fraud, accounting regulations, management's determination of collectibility and uncertainties regarding our right to receive certain revenues (mainly revenues for use of our network). Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures.

### *Deferred Taxes*

The Company's deferred tax asset is comprised primarily of net operating loss carry-forwards from income tax and social contributions losses available for offset, tax benefit arising from the legal reorganization and the tax effect of timing differences. In view of the cumulative losses in recent years and taking into account the weight of positive and negative evidence for the foreseeable future, pursuant to the guidance provided by SFAS No. 109, although the components of the deferred tax asset do not expire and despite expectations of more favorable pretax results once the TDMA equipment is fully depreciated and replaced by service provided through the GSM network systems, management has determined that a valuation allowance be recorded at December 31, 2004 to provide for the full amount of the asset net of deferred tax liability timing differences. Accordingly R\$95.2 million, R\$12.0 million and R\$36.4 million were charged to income tax expense in the years ended December 31, 2004, 2005 and 2006,



respectively, related to the valuation allowance that was established.

*Long-lived Assets*

We consider the effects of obsolescence, competition, changes in technology and other economic factors when assigning useful lives to our operating assets. For example, the results for the years ended 2001 and 2002 were affected by the acceleration of the depreciation of our billing system, which was replaced in August 2003.

Despite the migration from TDMA to GSM technology on November 28, 2004, we have not accelerated the depreciation of our TDMA network and related equipment because we expect that we will continue to offer TDMA services in certain portions of our area for the duration of the expected useful life of such equipment.

We assess the carrying amount and potential impairment of these long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors we consider in determining whether an impairment review is necessary include a significant underperformance of the assets relative to projected future operating results and significant negative industry or economic trends. We determine when an impairment review is necessary through a comparison between the expected undiscounted future cash flows and the carrying amount of the asset. If the carrying amount of the asset is the larger of the two amounts, an impairment loss is recognized by the amount that the carrying amount of the asset exceeds the fair value of the asset. The fair value is determined by quoted market prices, appraisals or the use of valuation techniques such as expected discounted future cash flows. We must make assumptions regarding these estimated future cash flows and other factors to determine the fair value of the respective assets. In determining estimated future cash flows, we consider historical experience as well as future expectations and estimated future cash flows are based on expected future rates and expected future consumer demand. A significant reduction in actual cash flows and estimated cash flows may have a material adverse impact on our operating results and financial condition. No impairment were noted by the Company in 2006 and 2005.

Changes in the lives of operating assets that have a significant impact on our consolidated financial statements are disclosed whenever they occur.

#### *Contingencies*

We account for contingencies in accordance with SFAS No. 5 "Accounting for Contingencies." Such accruals are estimated based on historical experience, the nature of the claims, as well as the current status of each claim. Accounting for contingencies requires significant judgment by management concerning the estimated probabilities and ranges of exposure to potential liability. Management's assessment of our exposure to contingencies could change as new developments occur or more information becomes available. The outcome of the contingencies could vary significantly and could materially impact our consolidated results of operations, cash flows and financial position. Management has applied its best judgment in applying SFAS No. 5 to these matters.

We do not believe that we are a party to any legal proceedings for which we have not made provisions for probable losses and that will have a material adverse effect on our financial position. As discussed in Note 14 to our financial statements included in Item 18. Financial Statements, in December 1998, we were granted an injunction related to the application of ICMS to monthly subscriptions, cellular activation and additional services. We do not believe such services should be subject to ICMS, as they do not constitute telecommunications services. However, each Brazilian state has approved an agreement, effective beginning July 1, 1998, to apply ICMS to certain services in respect of which ICMS was not previously applied. Some courts in Brazil have upheld the validity of the agreement. We have been discussing the application of the ICMS in court. We have deposited amounts equal to uncollected ICMS amounts with the applicable courts and provisions have been made in our consolidated financial statements in respect of these amounts. See Item 8A. Financial Information—Consolidated Financial Statements and Other Financial Information Legal Proceedings Tax Legal Proceedings Litigation Related to the Application of ICMS for further information.

We recognize the costs of legal defense in the periods incurred. Accordingly, the costs of defending claims are not included in the provisions and are not believed to have a material effect on our financial position.

#### **Recently Issued Accounting Pronouncements**

The Financial Accounting Standard Board, or FASB, recently issued a number of standards and interpretations. The following standards and interpretations will be in effect in the near future. Management is evaluating the possible impact of these standards and interpretations.

- In June 2006, the Emerging Issues Task Force - EITF confirmed the consensus on EITF 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement . EITF 06-03 provides that taxes imposed by a governmental authority on a revenue-producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the seller s accounting policy, which should be disclosed pursuant to Accounting Principles Board Opinion , or APBO, No. 22, Disclosure of Accounting Policies. Amounts that are

allowed to be charged to customers as an offset to taxes owed by a company are not considered taxes collected and remitted. If such taxes are significant and are presented on a gross basis, the amounts of those taxes should be disclosed. EITF 06-03 will be effective for interim and annual reporting periods beginning after December 15, 2006. The Company decided to maintain the presentation of these taxes on its a net basis, with related impacts recorded on Gross operating revenue and Sales deductions, taxes and returns on consolidated statements of operations.

- In July 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" which clarifies the accounting for and disclosure of uncertain tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to tax positions with uncertainty. FIN 48 requires that a tax position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company will adopt the provisions of FIN 48 effective January 1, 2007. Based on management's current assessment, the adoption of these standards will not have a material impact on the Company's consolidated financial statements. Management's assessment of FIN 48 is subject to revision as it completes its analysis.
- In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements and the Company does not expect the application of this standard to change its current practice. SFAS No. 157 requires prospective application for fiscal years ending after November 15, 2007. The Company will apply the requirements of SFAS No. 157 as transactions occur.
- In September 2006, FASB issued SFAS No. 158, Employers' Accounting for Defined-benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, No. 88, No. 106 and No. 132 (R). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to: (1) recognize the funded status of a benefit plan in its statement of financial position; (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers' Accounting for Pensions, or No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions; (3) measure defined-benefit plan assets and obligations as of the date of the employers' fiscal year-end statement of financial position; and (4) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition net asset or obligation. The Company adopted SFAS No. 158 requirements and related disclosure provisions as of December 31, 2006. For further information, see Notes 3(m) and 19 to our financial statements included in Item 18 of this annual report.
- In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, a standard that provides companies with an option to report selected financial assets and liabilities at fair value. This Standard requires companies to provide additional information that shows the effect of the Company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including

requirements for disclosures about fair value measurements included in FASB Statements No. 157, Fair Value Measurements, and No. 107, Disclosures about Fair Value of Financial Instruments. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company will assess the impact SFAS No. 159 will have on its consolidated financial statements during 2007.

**Results of Operations**

The following table shows the components of our net income for the years ended December 31, 2006, 2005 and 2004.

	<b>Year ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(in thousand of <i>reais</i> )		
Net operating revenues			
Services provided to third parties	352,821	403,550	453,867
Sale of handsets and accessories	51,238	42,017	58,489
	404,059	445,567	512,356
Cost of services <sup>(1)</sup>	(152,336)	(118,390)	(161,878)
Cost of handsets and accessories	(59,515)	(56,085)	(86,421)
Selling, general and administrative expenses (including cost sharing agreement) <sup>(1)</sup>	(139,814)	(140,387)	(130,975)
Allowance for doubtful accounts	(16,325)	(13,313)	(20,517)
Other net operating income (expense)	(793)	(842)	(841)
Depreciation and amortization	(113,665)	(109,911)	(95,835)
Operating profit (loss)	(78,389)	6,639	15,889
Financial income	11,965	17,826	22,113
Financial expense	(74,643)	(83,413)	(60,182)
Foreign exchange gain, net	21,341	36,908	17,847
Loss before taxes and minority interest	(119,726)	(22,040)	(4,333)
Taxes on income	3,637	(4,165)	(94,749)
Minority interest	28,733	6,156	12,583
Net Loss	(87,356)	(20,049)	(86,499)

(1) Exclusive of depreciation classified separately.

**Results of Operations for the Year Ended December 31, 2006 Compared to Year Ended December 31, 2005***Net Operating Revenues*

Our service revenues are comprised mainly of monthly fees, service charges from outgoing traffic and interconnection revenues from incoming traffic.

Net revenues decreased 9.3% to R\$404.1 million in 2006 from R\$445.6 million in 2005. Net service revenues decreased 12.6% to R\$352.8 million in 2006, from R\$403.6 million in 2005. This decrease is mainly due to (1) a reduction in outgoing traffic revenue in the amount of R\$23.4 million, as a result of higher volume of retention

promotional discounts addressed to high-value clients; (2) a reduction in roaming revenues in the amount of R\$23.2 million; and (c) the negative impact of legal provisions related to value added tax (ICMS) on monthly fees; in the amount of R\$46.3 million.

This decrease was partially offset by an increase in interconnection revenues in the amount of R\$35.8 million attributable to the adoption of the full billing rules and the increase in value added services revenues in the amount of R\$9.0 million.

Revenues from the sale of handsets increased 21.9% to R\$51.2 million in 2006 from R\$42.0 million in 2005 due to a 7.0% increase in the number of handsets sold and the decrease in subsidies due to the rationalization of the acquisition campaigns in 2006.

*Cost of Services*

Cost of services increased 28.7% to R\$152.3 million in 2006 from R\$118.4 million in 2005 as a result of an increase in interconnection costs in the amount of R\$44.1 million; primarily attributable to the adoption of the full billing rules mentioned above. This increase was partially offset by a decrease in rent and maintenance costs in the amount of R\$3.2 million.

*Cost of Handsets and Accessories*

Our cost of handsets increased 6.1% to R\$59.5 million in 2006 from R\$56.1 million in 2005, as a result of the increase in the number of handsets sold, as mentioned above. This increase was partially offset by the decrease in subsidies due to the rationalization of the acquisition campaigns in 2006 mentioned above.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses decreased 0.4% to R\$139.8 million in 2006 from R\$140.3 million in 2005. As a percentage of net services revenue, selling, general and administrative expenses increased from 34.8% in 2005 to 39.6% in 2006.

Selling expenses increased 2.6% to R\$102.8 million in 2006 from R\$100.2 million in 2005. This increase is due to higher advertising expenses and commissions paid to dealers. This increase was partially offset by the decrease in expenses with personnel. As a percentage of net services revenue, selling expenses increased to 26.4% in 2006 from 24.9% in 2005.

General and administrative expenses decreased 8.0% to R\$36.9 million in 2006 from R\$40.1 million in 2005, primarily due to the decrease in the amounts charged by Telemig Celular Participações and its operating subsidiary, in connection with the cost sharing agreement (see note 18 to the consolidated financial statements).

*Allowance for Doubtful Accounts*

The allowance for doubtful accounts increased 22.6% to R\$16.3 million in 2006, as compared to R\$13.3 million in 2005. As a percentage of net service revenue, our allowance was 4.6% in 2006, as compared to 3.3% in 2005. The increase is primarily a result of higher allowances recorded in 2006 related to accounts receivables from dealers and interconnection charges.

*Depreciation and Amortization*

Depreciation and amortization expense increased 3.4% to R\$113.7 million in 2006 from R\$109.9 million in 2005. The increase is related to the expansion of our GSM network.

*Operating Profit (loss)*

In 2006 we recorded an operating loss in the amount of R\$78.4 million, as compared to an operating profit in the amount of R\$6.6 million in 2005, as a result of the factors described above.

*Financial Income*

Financial income decreased 32.9% to R\$12.0 million, as compared to R\$17.8 million in 2005. The decrease is attributable to a 38.1% decrease in the average balance of our invested cash in 2006.

*Financial Expense*

Financial expense decreased 10.5% to R\$74.6 million in 2006 from R\$83.4 million in 2005. The decrease was a result of (1) lower negative results of our cross-currency interest rate swap agreements during 2006, that decreased to R\$44.0 million from R\$55.1 million in 2005 and (2) the recognition of PIS and COFINS recoverable taxes amounting to R\$10.4 million, following a favorable decision of the courts in relation to a legal action in which we were



questioning the constitutionality of the increase in the calculation base of PIS and COFINS taxes.

The decrease was partially offset by the recognition of interest and monetary restatement expenses related to the provisions of value-added tax (ICMS) mentioned above, in the amount of R\$15.6 million.

*Foreign Exchange Gain (Loss), Net*

As a result of the 9.5% appreciation of the *real* against the U.S. dollar during 2006, we recorded a foreign exchange gain of R\$21.3 million, as compared to a foreign exchange gain of R\$36.9 million during 2005, when the *real* appreciated against the U.S. dollar by 13.4% . Additionally, our average outstanding foreign indexed indebtedness decreased approximately 13% in 2006.

*Taxes on Income*

In 2006, we recorded an income tax benefit in the amount of R\$3.6 million, as compared to an income tax expense in the amount of R\$4.2 million recorded in 2005.

*Net Loss*

As a result of the above factors, we presented a loss of R\$87,3 million in 2006, as compared to a loss of R\$20.0 million in 2005.

**Results of Operations for the Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***Net Operating Revenues*

Our service revenues are comprised mainly of monthly fees, service charges from outgoing traffic and interconnection revenues from incoming traffic.

Net revenues decreased 13.0% to R\$445.6 million in 2005 from R\$512.4 million in 2004. Net service revenues decreased 11.1% to R\$403.6 million in 2005, from R\$453.9 million in 2004. This decrease is mainly related to a 24.5% reduction in interconnection and roaming out revenues amounting to R\$42.7 million, primarily as a result of the application of the bill and keep rules under the SMP regime during the entire year of 2005. During 2004, the bill and keep rules were applicable during five months beginning in August, 2004. Additionally, there was a 9.3% decrease in outgoing traffic revenue as a result of a 15.4% decrease in the volume of outgoing traffic mainly due to an 18.6% decrease in our postpaid customer base, from 316,040 to 257,155 customers and a 16.1% decrease in outgoing minutes of use per user. The decrease was partially offset by a 17.1% increase in value added services revenues.

Revenues from the sale of handsets decreased 28.2% to R\$42.0 million in 2005 from R\$58.5 million in 2004 due to a 13.6% decrease in the number of handsets sold and a rationalization of acquisition campaigns.

*Cost of Services*

Cost of services decreased 26.9% to R\$118.4 million in 2005 from R\$161.9 million in 2004. This decrease is mainly attributable to a 71.2% decrease in interconnection costs due to the impact of the bill and keep rules under the SMP regime mentioned above. This decrease was partially offset by a 59.2% increase in leased line costs in 2005 due to the expansion of our GSM network in the end of 2004.

*Cost of Handsets and Accessories*

Our cost of handsets decreased 35.1% to R\$56.1 million in 2005 from R\$86.4 million in 2004, due to the lower number of handsets and lower subsidies mentioned above.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased 7.1% to R\$140.3 million in 2005 from R\$131.0 million in 2004. As a percentage of net services revenue, selling, general and administrative expenses increased from 28.9% in 2004 to 34.8% in 2005.

Selling expenses decreased 10.6% to R\$100.2 million in 2005 from R\$112.1 million in 2004. This decrease is due to less aggressive acquisition campaigns that resulted in lower retention efforts and lower advertising and promotional

expenses. This decrease is partially offset by a 7.1% increase in expenses with personnel, mainly related to our call-centers. As a percentage of net services revenue, selling expenses remained fairly stable at 24.9% in 2005 and 24.7% in 2004.

General and administrative expenses increased 112.2% to R\$40.1 million in 2005 from R\$18.9 million in 2004. This increase is primarily due to the non-recurring reversals of R\$14.0 million contingency for ICMS in 2004 and to higher legal and consulting expenses in 2005.

### *Allowance for Doubtful Accounts*

The allowance for doubtful accounts decreased 35.1% to R\$13.3 million in 2005, as compared to R\$20.5 million in 2004. As a percentage of net service revenue, our allowance was 3.3% in 2005, as compared to 4.5% in 2004. The decrease is due to the strengthening of our credit analysis and an increase in our prepaid customer base as a percentage of our total customer base.

### *Depreciation and Amortization*

Depreciation and amortization expense increased 14.7% to R\$109.9 million, as compared to R\$95.8 million in 2004. The increase is related to the expansion of our GSM network by the end of 2004.

### *Operating Profit*

Operating profit decreased 58.4% to R\$6.6 million in 2005 from R\$15.9 million in 2004 as a result of the factors described above.

### *Financial Income*

Financial income decreased 19.4% to R\$17.8 million in 2005 from R\$22.1 million in 2004. The decrease is attributable to a 20.4% decrease in the average balance of our cash, cash equivalents and temporary cash investments in 2005.

### *Financial Expense*

Financial expense increased 38.6% to R\$83.4 million in 2005 from R\$60.2 million in 2004. The increase was directly related to higher negative results of our cross-currency interest rate swap agreements during 2005, that increased to R\$55.1 million in 2005 from R\$29.8 million in 2004, as a result of the decrease in the market prices of our swap contracts and the appreciation of the *real*.

### *Foreign Exchange Gain (Loss), Net*

As a result of the 13.4% appreciation of the *real* against the U.S. dollar during 2005, we recorded a foreign exchange gain of R\$36.9 million, as compared to a foreign exchange gain of R\$17.8 million during 2004 when the *real* appreciated against the U.S. dollar by 8.8% .

### *Taxes on Income*

Income tax expense decreased to R\$4.2 million in 2005 from R\$94.7 million in 2004. The higher expense in 2004 is due to the valuation allowance recorded in 2005 in the amount of R\$95.2 million

### *Net Loss*

As a result of the above factors, we presented a loss of R\$20.0 million in 2005, as compared to a loss of R\$86.5 million in 2004.

## **B. Liquidity and Capital Resources**

### **General**

Our primary sources of liquidity have historically been borrowings and cash flows from operating activities. We have funded our operations and capital expenditures principally from operating cash flows and financings obtained from financial institutions and capital markets. Our principal cash requirements include:

- capital expenditures, including those related to the GSM network expansion,
- the servicing of our indebtedness, and,
- handset subsidies.

**Cash Provided by (Used in) Operating Activities**

Cash provided by operating activities was R\$12.2 million in 2006, R\$34.4 million in 2005 and R\$31.2 million in 2004. Cash flow from operating activities in 2006 decreased by R\$14.7 million when compared to 2005 mainly due to lower operating results and lower liquidation of temporary cash investments in 2006, partially offset by a decrease in payments to suppliers as compared to 2005. Cash flow from operating activities in 2005 increased 10.3% when compared to 2004 mainly as a result of the increase in liquidation of temporary cash investments in 2005, that was partially offset by our lower operating results and higher accounts payable to long-distance telephone carriers.

**Cash Used in Investing Activities**

Acquisitions of property and equipment continue to be one of our primary uses of cash flow. Our cash flow used in investing activities was R\$15.3 million, R\$19.9 million and R\$76.9 million in 2006, 2005 and 2004, respectively. In 2006 and 2005 we invested mainly in expanding and improving our GSM/EDGE network capacity, while in 2004 we invested in the migration of our network from TDMA to GSM technology.

**Cash Provided by (Used in) Financing Activities**

Cash generated from financing activities in 2006 was R\$10.6 million, while cash used in financing activities in 2005 was R\$1.8 million. Cash generated from financing activities in 2004 was R\$41.7 million. In 2004 we issued US\$40 million of 8.75% unsecured senior notes units due 2009. We paid R\$3.2 million, R\$0.3 million and R\$6.6 million in dividends in 2006, 2005 and 2004, respectively.

**Increase (Decrease) in Cash and Cash Equivalents**

At December 31, 2006, we had R\$22.7 million in cash and cash equivalents, as compared to R\$15.2 million and R\$2.5 million at December 31, 2005 and 2004, respectively, as a result of the factors mentioned above.

**Capital Expenditures**

We invested R\$51.3 million, R\$72.4 million and R\$156.1 million in 2006, 2005 and 2004, respectively. Capital expenditures priorities in 2006 included expanding our GSM/EDGE network capacity and improving the overall quality of that network, to meet the 15.7% increase in our outgoing traffic. In 2006, we introduced a new Switching Center in Belém, in the state of Pará.

We currently anticipate that our capital expenditures for 2007 will be around R\$30.0 million, primarily related to increasing the coverage area, maintaining and increase the capacity of our GSM network.

As of December 31, 2006, we met our capital expenditure requirements through our cash flows from operations. As we extended the term of our short-term loans, it was not necessary to obtain any credit facilities from export credit agencies and Brazilian and international financial institutions to finance the investments made in 2006. We expect to continue meeting our remaining capital expenditure requirements through our cash flows from operations because we plan to keep extending the term of our short-term loans.

**Indebtedness**

At December 31, 2006, our total debt was R\$241.1 million, as compared to R\$248.4 million and R\$285.9 million at December 31, 2005 and 2004, respectively. At December 31, 2006, our total debt was denominated in U.S. dollars, with the following interest rates: (1) R\$85.5 million with an annual rate of 8.75%, (2) R\$50.8 million with interest

computed at six-month LIBOR plus an annual rate of 5.25%, (3) R\$37.2 million with a swapped interest rate of 110.5% of CDI, (4) R\$41.9 million with a swapped interest rate equal to the higher of the U.S. dollar variation or 85% of CDI, (5) R\$19.7 million with swapped interest rate of 110% CDI, and (6) R\$6.0 million with a swapped interest rate of 116% of CDI.

At December 31, 2006 we had cross-currency interest rate swap agreements in effect for 62.1% of our foreign currency-indexed debt to mitigate exchange rate fluctuations, as compared to 78.4% at December 31, 2005 and 35.6% at December 31, 2004, respectively. At December 31, 2006, our cross-currency interest rate swap agreements

exchange fixed rates over the U.S. dollar variation (0% *per annum*), for percentages ranging from 74.80% to 75.25% of the internal floating rate (the interbank deposit rate).

Our credit facilities and debt instruments include the following:

- *Notes Units* - On January 20, 2004, Amazônia Celular issued US\$40 million of 8.75% unsecured senior notes units due 2009. The Amazônia Celular note issuance was combined with an issuance by Telemig Celular S.A. of US\$80 million of 8.75% notes due 2009. The Amazônia Celular notes and the Telemig Celular notes may only be transferred together as part of notes units and will not trade separately. The notes units were offered and sold in offshore transactions in accordance with Regulation S under the Securities Act and to qualified institutional buyers (QIBs) in the United States under Rule 144A of the Securities Act. Interest payments on the Amazônia Celular notes will be made semi-annually. At December 31, 2006, there was R\$85.5 million aggregate principal amount of notes outstanding.
- *Unibanco* - On October 29, 2005 we entered into a six-year US\$20 million credit agreement with Unibanco to finance the purchase and installation of goods and services from Ericsson Telecommunications. This facility has an interest rate of 5.25% per year above six month LIBOR. Principal and interest are payable semi-annually, with a final maturity on October 15, 2010. Repayment began on April 15, 2006 after an 18-month grace period. At December 31, 2006, there was R\$34.2 million outstanding under this facility.
- *Votorantim* - On April 13, 2005 we entered into a twenty-one month US\$17.4 million credit agreement with Banco Votorantim S.A. for working capital. This facility has an interest rate of 7.46% per year. Interest is payable semi-annually, with a final maturity on January 22, 2007. Principal was to be paid in a single installment on January 22, 2007. Repayment began on July 22, 2005. At December 31, 2006, there was R\$37.1 million outstanding under this facility. On the maturity date, only part of the principal was paid (US\$1.7 million). The unpaid balance was replaced by two additional credit agreements: one in the amount of US\$9.9 million with an interest rate of 5.70% per year, with swapped interest rate equal to the higher of US dollar variation or 90% of CDI; and the other credit agreement for working capital in the amount of R\$12.5 million (US\$5.9 million) with an interest rate of 111% of CDI. Although both credit agreements were due on April 30, 2007, Amazônia Celular prepaid both on March 30, 2007.
- *Unibanco* - On March 23, 2005 we entered into a five-year US\$10 million credit agreement with Unibanco to finance the purchase and installation of goods and services from Ericsson Telecommunications. This facility has an interest rate of 5.25% per year above six month LIBOR. Principal and interest are payable semi-annually, with a final maturity on April 15, 2010. Repayment began on April 15, 2006 after a 12-month grace period. At December 31, 2006, there was R\$16.6 million outstanding under this facility.
- *Itaú BBA* - On October 11, 2005 we entered into a seven-month US\$10.5 million credit agreement with Banco Itaú BBA S.A. for working capital. This facility has a fixed interest rate of 5.48% per year. At December 31, 2006, there was R\$20.3 million outstanding under this facility. Maturity under this credit agreement has been extended on a monthly basis, with interest rate recalculated in each renovation, and a partial amortization of US\$1 million on December, 2006. This credit agreement was fully paid at maturity, in March, 2007.
- *Unibanco* - On April 18, 2006 we entered into a three-year US\$2.8 million credit agreement with Unibanco to finance working capital. This facility has an interest rate of 1.00% per year. Principal is payable bullet and interest is payable semi-annually, with a final maturity on April 7, 2008. Repayment began on October 16, 2006 after a 6-month grace period. At December 31, 2006, there was R\$6 million outstanding under this facility.



- *Votorantim* (second credit agreement) On July 3, 2006 we entered into a R\$40 million credit agreement with Banco Votorantim S.A., as a result of the expiration on that date of three formerly executed swap agreements. This facility had an interest rate of 110% of CDI. Principal and interest were to be paid in one single installment on September 1, 2006. On the maturity date, however, the credit agreement was replaced by an additional credit agreement in the amount of US\$19 million,

maturing in 30 days and bearing interest at 6% per year, with swapped interest rate equal to the higher of US dollar variation or 90% of CDI. This transaction was renewed on a monthly basis, with a partial amortization of US\$9 million on December 1, 2006. At December 31, 2006, there was R\$21.6 million outstanding under this facility. Although this credit agreement matured on April 30, 2007, principal and interest were prepaid on March 30, 2007.

- *Safra* - On December 1, 2006 we entered into a US\$ 9.2 million credit agreement with Banco Safra to finance working capital. This facility has an interest rate of 6.5% per year. The maturity date was January 8, 2007. Principal and interest were paid on this date. At December 31, 2006, there was R\$19.7 million outstanding under this facility.
- *Votorantim* (third credit agreement) On January 22, 2007 we entered into a R\$17 million credit agreement with Banco Votorantim S.A., as a result of the expiration on that date of a formerly executed swap agreement. This facility has an interest rate of 111% of CDI. Although this credit agreement matured on April 30, 2007, principal and interest were prepaid on March 30, 2007.
- *ABN AMRO Real Bank* On March 30, 2007 we entered into a R\$48.7 million credit agreement with ABN AMRO Bank. The facility has a fixed interest rate of 7.13% per year, with swapped interest rate equal to the higher amount between the U.S. dollar variation or 100% of CDI plus 1.85%. Principal and interest are due on September 26, 2007. The facility can be renewed for an additional 180 days, with final maturity on March 24, 2008.

Our financial instruments restrict our ability, among other things, to pay certain dividends and distributions, create liens on our assets, enter into related-party transactions, or merge, consolidate or sell assets. Our financial instruments also require us to maintain certain ratios (such as a ratio of net indebtedness to adjusted EBITDA, and a ratio of adjusted EBITDA to net interest expense) and deliver certain financial reports. In addition, certain financing agreements of the Company have cross-acceleration clauses. Since our financing agreements limit our ability to incur indebtedness above a certain level, our ability to raise capital above the limits imposed by such agreements may be impaired, which may affect our ability to obtain resources needed to switch or upgrade our technology.

On December 31, 2006, we were in breach of the financial covenants set forth in the indenture related to the notes units issued in 2004. On April 16, 2007, we obtained waivers by the requisite amount of holders of the notes, thereby curing any event of default. In addition, the financial covenants were amended on terms more favorable to us. As such, we and Telemig Celular did not breach the financial covenants as of March 31, 2007.

On December 31 2006, we were also in breach of the financial ratios contained in the credit agreements with Unibanco. As of December 31, 2006, the Unibanco credit agreements only characterized a technical default to have occurred once two consecutive quarterly breaches were in place, followed by an automatic 90-day curing period. We were also in breach of the financial ratios on March 31, 2007 and do not expect to breach these covenants on the following quarters of 2007.

On June 28, 2007, management of the Company obtained a waiver in connection with these breaches, thereby curing the effects of an event of default. The Company is exempted from complying with the financial covenants for the three months ended June 30, 2007 and September 30, 2007. After that, as the Unibanco credit agreement only characterizes a technical default after two consecutive quarterly breaches followed by an automatic 90-day curing period, as mentioned above, the debt cannot be accelerated to a period before the original maturity date (April 2008). Therefore, in these financial statements, the debt is presented as non-current liabilities in accordance with the original terms of the credit agreement.

On June 28, 2007, at the option of Amazônia Celular, the financing agreements entered into with Unibanco/NIB and Unibanco/Nordea, in the amount of R\$34.2 million and R\$16.6 million, respectively, were fully repaid in advance.

The following table shows our U.S. dollar and non-U.S. dollar-indexed loans for the periods indicated (converted using the exchange rate at the end of the period):

	<b>As of December 31,</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<b>(in millions of reais)</b>		
<b>Short-Term Indebtedness Plus Current Portion of Long-Term Indebtedness:</b>			
Non-U.S. Dollar Indexed	33.9	-	-
U.S. Dollar-Indexed	91.2	58.4	149.6
<b>Total</b>	<b>125.1</b>	<b>58.4</b>	<b>149.6</b>
<b>Long Term Indebtedness:</b>			
Non-U.S. Dollar Indexed	-	-	-
U.S. Dollar-Indexed	160.8	190.0	91.5
<b>Total</b>	<b>160.8</b>	<b>190.0</b>	<b>91.5</b>
<b>Total Indebtedness</b>	<b>285.9</b>	<b>248.4</b>	<b>241.1</b>

### **C. Research and Development, Patents and Licenses, etc.**

We do not conduct any independent research and primarily depend upon the manufacturers of telecommunications products for the development of new hardware.

### **D. Trend information**

We expect competition in our area to remain strong. NBT (Vivo), Telemar, through its SMP operator, Oi, Telecom Italia Mobile TIM operate in our region. Though there are no more licenses to be auctioned in our region, the competition in our area for market share may prompt some of our competitors to reduce their rates and offer new or improved technologies, services and products.

We also expect that the supply of TDMA-compatible handsets will continue to decrease in 2007, resulting in pressure on our TDMA subscriber base to switch to GSM service if these subscribers need to replace their existing TDMA handsets.

### **E. Off-Balance Sheet Transactions**

We have not engaged in any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

### **F. Aggregate Contractual Obligations**

The following table sets forth the amount in millions of *reais* of our fixed contractual obligations at December 31, 2006.

<b>Less than</b>	<b>3-5</b>	<b>More than</b>
------------------	------------	------------------

	<b>Total</b>	<b>1 year</b>	<b>1-3 years</b>	<b>years</b>	<b>5 years</b>
	<b>(millions of reais)</b>				
Long-Term Debt Obligations <sup>(1)</sup>	210.7	63.4	135.6	11.7	-
Operating Lease Obligations	20.7	6.7	9.4	2.3	2.3
Purchase Obligations	-	-	-	-	-
Cross-currency interest rate swap	42.8	17.4	25.4	-	-
Other Long-Term Liabilities	14.2	-	10.5	-	3.7
Total Contractual Cash Obligations	288.4	87.5	180.7	14.0	6.0

- (1) Includes estimated interest payments determined using the interest rate at December 31, 2006. However, our long-term debt is subject to exchange rate variations and these estimated payments may differ significantly from payments actually made.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

We are managed by our *Conselho de Administração*, or board of directors, and our *Diretoria*, or executive officers.

**Board of Directors**

Our board of directors is currently comprised of eleven members serving for a term of three years. Our bylaws provide for our board of directors to convene a regular meeting once every three months and special meetings when called by the chairman or by two members of our board of directors.

The following table contains the current members of our board of directors elected on April 27, 2007, and their respective positions and ages.

<b>Name</b>	<b>Position</b>	<b>Age</b>
Sergio Spinelli Silva Junior	Chairman Vice	41
Alberto Ribeiro Güth	Chairman	47
Elemér André Surányi	Director	41
Jacques de Oliveira Pena	Director	51
Jorge da Cunha Fernandes	Director	67
José Luiz Rodrigues	Director	52
Kevin Michael Altit	Director	43
Paulo Conte Vasconcellos	Director	44
Pedro Paulo Elejalde de Campos	Director	52
Sérgio Francisco da Silva	Director	45
Susana Hanna Stiphan Jabra	Director	49

Set forth below are brief biographical descriptions of our directors:

*Sergio Spinelli Silva Junior* is the chairman of the board of directors of Tele Norte Celular Participações S.A. and Telemig Celular Participações S.A. He holds a bachelor's degree in law from Pontifícia Universidade Católica de São Paulo, he is currently a partner at Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados; member of the board of directors of Oeste Participações S.A. Opportrans Concessão Metroviária S.A., Zain Participações S.A., Invitel S.A., Techold Participações S.A., Solpart Participações S.A. and Telepart Participações S.A.; chairman of the board of directors of Futuretel S.A., Brasil Telecom S.A. and Brasil Telecom Participações S.A.

*Alberto Ribeiro Güth* holds a bachelor's degree from IME and an MBA from the Wharton School. He is partner of Angra Partners Consultoria e Participações. Prior to joining Angra, he was a partner at Investidor Profissional Gestão de Recursos (IP) and served as an executive officer at Esso Brasileira de Petróleo. He is member of the board of directors of Editora e Livraria Saraiva S.A., Metrô do Rio de Janeiro (Opportrans), Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A. Mr. Guth is also deputy board member at Brasil Telecom Participações S.A.

*Elemér André Surányi* holds a bachelor's degree in economics from University of São Paulo and an MBA from Harvard Business School. Mr. Surányi currently works as a contracted consultant to Citigroup Venture Capital

International Brazil, L.P., in São Paulo. In the past, Mr. Surányi served as an Advisor to Banco J. Safra S.A.; Chief Financial Officer, Investor Relations Director and member of the board of UOL Inc. S.A.; Chief Administrative Officer and Statutory Director of Merrill Lynch & Co. in Brazil; Vice President of Investment Banking for Merrill Lynch & Co. in São Paulo; Associate in the Latin America Investment Banking Group of Merrill Lynch & Co. in New York; Manager at the Brazilian Foreign Creditor Banks Debt Restructuring Committee at Citibank in New York; and Assistant Manager at the Financial Institutions Division at Citibank in São Paulo. He is a member of the board of directors of Brasil Telecom S.A., Brasil Telecom Participações S.A., Solpart Participações S.A., Amazônia Celular S.A., Tele Norte Celular Participações S.A., Telemig Celular S.A., Telemig Celular Participações S.A., Ret Participações S.A., Telinvest S.A., Capitalpart Participações S.A., and Longdis S.A.

*Jacques de Oliveira Pena* is graduated in History from the Brasília University. He has been working for Banco do Brasil since 1997, having served as Head of the Federal District Legislative Assembly Office from 1991 to

1992, General Secretary of the Banks Union of Brasilia from 1992 to 1995, Regional Administrator of the city of Samambaia under the Federal District Government from 1995 to 1998, member of the decision-making council of Previ (Banco do Brasil Pension Fund) from 2000 to 2004, President of the Banks Union of Brasilia from 2001 to 2004, member of the Executive Management of the Brazilian Pension Funds Union from 2002 to 2005, member of the Board of Directors of Tele Norte Celular - Amazônia Celular, since December 2001, President of the Banco do Brasil Foundation since 2003, member of the External Advisory Board of Embrapa Fruticultura e Mandioca - Cruz das Almas (BA), since 2005; member of the Apiculture Chamber under the Ministry of Agriculture, since 2006.

*Jorge da Cunha Fernandes* holds a degree in Economics from AUEDF (UNIDF). He has been on the board of directors and board of auditors of several Brazilian companies: Petróleo Brasileiro S.A. - Petrobrás, Empresa Brasileira de Aeronáutica S.A. - Embraer, Telecomunicações de Brasília S.A. - Telebrasil, Tele Norte Leste Participações S.A., Telecomunicações Brasileiras S.A. - Telebrás, Telecomunicações da Bahia S.A. - Tebahia, Companhia Docas do Estado da Bahia - Codeba, Florestas Rio Doce S.A., Telecomunicações de Minas Gerais S.A. - Telemig, and Instituto de Resseguros do Brasil - IRB. Mr. Fernandes served as deputy of the Department of Commercial and Industrial Regulation, or Departamento de Normas e Assuntos Comerciais e Industriais - DENAI, of Banco do Brasil S.A. From 1986 to 1995, he held several positions at the Brazilian Ministry of Finance, including chairman of the Council of Resources of the National Financial System.

*José Luiz Rodrigues* holds a degree in accounting and technical management with a specialization course in Tax and Public Accounting from USP-FIPECAFI, and has taken several courses in the areas in which he works. Mr. Rodrigues has 35 years of professional experience which began at the Banco de Crédito Nacional S.A. - BCN, with extensive experience, having worked at different levels and areas within the company, but mainly occupying a place at the board of directors. He is a specialist in issues relating to the National Financing System, actively participates in the development of administrative, operational, and controlling norms related to the modernization of the National Financing System. He was a member of the board of directors of Autotrac Comércio e Telecomunicações S.A. between 1992 and 1993, and founding partner of JL Rodrigues, Carlos Átila & Consultores Associados Ltda., a company providing services such as consulting and representation in the areas of Institutional and Governmental Relations, since 1998. Currently he is a member of the board of directors of Tele Norte Celular Participações S.A.

*Kevin Michael Altit* holds a bachelor's degree in law from the Universidade Federal do Rio de Janeiro and an LLM from UCLA. He is a partner at Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados; he is a member of the board of directors of Quigley Company, Inc. (Pfizer Group - NY), Opportunity Sul S.A., Dominó Holdings, S.A., Brasil Telecom Participações S.A. and Tele Norte Celular Participações S.A.; deputy member of the board of directors of Futuretel S.A.; vice-chairman of the board of directors of Zain Participações S.A., Techold Participações S.A., Daleth Participações S.A. and Newtel Participações S.A.; chairman of the board or directors of Mem Celular Participações S.A., Oeste Participações S.A., Sorocaba Empreendimentos e Participações S.A., Opportrans Concessão Metroviária S.A., Invitel S.A., Argolis Participações S.A., Telpart Participações S.A., and Capitalpart Participações S.A. He is the executive officer in charge of financing, economics, and data at Mem Celular Participações S.A., Futuretel S.A., Argolis Participações S.A., Daleth Participações S.A. Techold Participações S.A., and Oeste Participações S.A.; the executive officer in charge of financing, economics, and management of Newtel Participações S.A., Zain Participações S.A., Invitel S.A., and Telpart Participações S.A.; and executive officer in charge of investor relations and operations at Ret Participações S.A., and Teleinvest S.A.

*Paulo Conte Vasconcellos* holds a bachelor's degree in business from the Federal University of Rio Grande do Sul, an MBA in finances from IBMEC and a graduate degree in management from BSP - Business School São Paulo. Mr. Vasconcellos is a partner at ProxyCon Assessoria e Participações Ltda. He is a board member at Marcopolo S.A. and Klabin Segall S.A. He has also served as board member at Hospital Nove de Julho S.A., Cerâmica Chiarelli S.A., Grupo Orsa, IBGC - Instituto Brasileiro de Governança Corporativa and ABAMEC - Associação Brasileira de Analistas do Mercado de Capitais. Mr. Vasconcellos has also served as a member of the fiscal council of Cia. Siderúrgica Belgo



Mineira, Politeo S.A. and Tele Leste Celular Participações S.A. Mr. Vasconcellos has also served as a vice president in equity research at Merrill Lynch and, associate director of research at ING Barings Latin America and managing director of special projects at Bradesco Templeton Asset Management.

*Pedro Paulo Elejalde de Campos* holds bachelor's degree in engineering from UFRGS and a master's degree from EAESP-FGV. Mr. Campos is currently a managing partner at Angra Partners and holds board seats at Brasil Telecom and Petropar. In the past, Mr. Campos was a managing director at Citigroup in Latin America, CEO of GE Capital in Latin America and president of Bank GE Capital. He also was a managing director and partner of the investment bank Oppenheimer & Co., and vice-president of JP Morgan & Co. Mr. Campos is a former board member from Latasa, GE Dako and LatinTech.

*Sérgio Francisco da Silva* holds a post graduate degree in project administration from Getúlio Vargas Foundation. He has worked for 22 years at the Brazilian Federal Saving Bank (Caixa Econômica Federal), where he led the labor claiming process (1996/1998) and coordinated the implementation of employees' benefits and profit sharing. Since March 2003, he has been serving as the benefits and administration officer at FUNCEF (Brazilian Federal Saving Bank Pension Fund), managing the benefits of approximately 70 thousand people under the pension fund. In 2002, he served as secretary of finance at the Banks Union of São Paulo, Osasco and surroundings and member of the board of directors of São Paulo Confia (a non-profit organization responsible for micro-credit generation and motivation in an association with CUT and other work unions). In 2000, he became secretary of health at the same union and created a program to prevent AIDS at work, sponsored by the Ministry of Health and UNESCO. He was also member of the Brazilian Health Commission, where he developed a program related to the prevention and treatment of RSI (Repetitive Strain Injury). From 1998 to 1999, working at the São Paulo State Health Council, he participated in the preparation of the strategic guidelines for the São Paulo Health Single System (SUS São Paulo). From 1992 to 1994, he served as executive director at APCEF/SP.

*Susana Hanna Stiphan Jabra* holds a degree in economics from the University of São Paulo and an MBA in finance from IBMEC - the Brazilian Institute of Capital Markets. Ms. Jabra was an economist at Banco Itaú S.A. from 1980 to 1983, and also between 1989 and 1990. Ms. Jabra worked as a financial administrative manager at Empresa Municipal de Habitação de Santo André S.A. from 1990 to 1992. Mrs. Jabra was subsequently an economic research and planning manager at Agência Estado Ltda, a company of O Estado de São Paulo Group, from 1993 to 2000. Ms. Jabra has been a director at HJN Consultoria & Assessoria Ltda. since 2000 and a manager of the Governance Department at Fundação Petrobras de Seguridade Social - PETROS since 2003. As a manager of the Governance Department, she represents Petros before Investment Committees of several private equity funds and on the Board of Directors of other companies. Ms. Jabra was also a professor of graduate studies in economics at Universidade Paulista. Mrs. Jabra has been a member of our Board of Directors since 2003.

## Executive Officers

The Executive Committee of the Registrant currently consists of the following two executive officers.

Name	Position	Age	Date Elected
Oscar Thompson	Chief Executive Officer, responsible for Investor Relations, accumulating the function of Chief Financial Officer	41	03/20/2006
Marcus Roger Meireles Martins da Costa	Chief Human Resources Officer	49	03/20/2006

Set forth below are brief biographical descriptions of the executive officers of the Registrant:

*Oscar Thompson:* holds a degree in industrial engineering from the Escola Politécnica da Universidade de São Paulo and an MBA with a major in analytical finance and accounting from the University of Chicago. He worked at Lloyds Bank PLC in São Paulo and London from 1990 to 1994 and at UBS Warburg LLC in New York from 1996 to 2001. He also held the positions as partner and chief financial officer at TWW do Brasil S.A. from 2001 to 2003 and managing partner at Prometheus, a Brazilian financial boutique, from 2003 to 2006. Mr. Thompson is currently the chief executive officer and investor relations officer, accumulating the positions of chief financial officer of Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A. He is also chief financial officer of Telemig Celular S.A. and Amazônia Celular S.A.

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

*Marcus Roger Meireles Martins da Costa*: holds an economics degree from the State University of Minas Gerais and an Executive MBA from COPPEAD/UFRJ. Mr. Martins da Costa worked for Companhia Vale do Rio Doce as a director of its corporate human resources department. He also worked in the implementation and operation of gold and potassium projects as well as in the implementation of Carajás project from 1980 to 2005. Mr. Martins da Costa is presently the human resources director of Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

The Executive Committee of Amazônia Celular currently consists of the following three executive officers.

Name	Position	Age	Date Elected
André Machado Mastrobuono	Chief Executive Officer and Chief Operating Officer	45	October 6, 2006

Table of Contents

Oscar Thompson	Chief Financial Officer, accumulating functions of Investor Relations Officer	41	October 6, 2006
Marcus Roger Meireles Martins da Costa	Chief Corporate Services Officer	49	October 6, 2006

Set forth below is a brief biographical description of the executive officer of Amazônia Celular who is not also an officer of the Registrant.

*André Mastrobuono*. holds a degree in agronomic engineering from the University of São Paulo and an MBA with a major in finance, marketing and business strategy from the Graduate School of Business of the University of Chicago. From 2002 to 2006, Mr. Mastrobuono worked as director of strategic planning & performance control and eventually became a member of the board of directors of Vivo. He was also associate principal of McKinsey & Co. and a partner of their local office (McKinsey S/C Ltda) from 1996 to 2002. In addition, Mr. Mastrobuono was manager director of Cafés Finos do Brasil S.A. from 1991 to 1994, business analyst of the Sara Lee Corporate Development Group in Chicago, USA and summer financial analyst in Allied Signal's financial planning department in South Bend, USA.

## **B. Compensation**

For the year ended December 31, 2006, the aggregate amount of compensation paid to all directors and executive officers was approximately R\$2.6 million. Of the aggregate amount, we directly paid R\$1.2 million and the remaining R\$1.4 million was paid by our affiliate, Telemig Celular Participações S.A, relating to the compensation of the executive officers who share our management and the management of our affiliates. The aggregate total amount of compensation includes salaries of approximately R\$1.5 million and bonuses to the executive officers of approximately R\$1.1 million. We are not required under Brazilian law to disclose on an individual basis the compensation of our directors and executive officers.

We have a yearly bonus program that provides variable compensation to our executive officers upon the achievement of previously stipulated financial and operating performance results. On October 5, 2000, our board of directors approved two executive stock incentive plans, which apply to our executive officers. On December 29, 2003, our board of directors modified one of the stock incentive plans for key executive officers. See [Share Ownership](#) for a description of these plans. We do not have a compensation committee.

## **C. Board Practices**

Our board of directors is responsible for, among other things:

- establishing our general business policies,
- electing and removing the members of our board of executive officers,
- supervising our management and examining our corporate records,
- calling shareholders' meetings,

- expressing an opinion on the annual report and management's financial statements,
- appointing external auditors,
- determining the payment of interest on shareholders' equity;
- approving capital increases limited to the amount of the authorized capital stock; and
- authorizing the purchase of our own shares, to the extent permitted by law.

Our board of directors may be composed of a minimum of three and a maximum of 11 directors elected by our shareholders at the shareholders' meeting, which also appoints one chairman and one vice-chairman.

Our executive officers are responsible for our day-to-day management and the representation of the Registrant. The Registrant has three executive officer positions: the *Diretor Presidente* (Chief Executive Officer or CEO), the *Diretor Financeiro* (Chief Financial Officer or CFO) and the *Diretor de Recursos Humanos* (Chief Human Resources Officer). Our service contracts with executive officers provide benefits upon termination of employment.

Our *conselho fiscal*, or fiscal council (board of auditors) was established pursuant to our bylaws, which require us to maintain a fiscal council on a permanent basis. Our fiscal council is a supervisory committee independent from our board of directors and from our independent accountants, and its members are elected by our shareholders on a yearly basis. The responsibilities of the fiscal council are established by Brazilian Corporation Law and include overseeing the activities of management with respect to compliance with the law and our bylaws, reviewing the annual report submitted for the approval of our shareholders, calling shareholders meetings under certain circumstances and reporting at those meetings. The following table contains the members of our fiscal council elected on April 27, 2007, each of whom is serving as a member for a one-year term, and their respective ages:

Name	Position	Age
Alexsandro de Souza Popovic	Member	29
José Arthur Escodro	Member	56
Marcos Rocha de Araújo	Member	39
Reginaldo Ferreira Alexandre	Member	48
Ricardo Antunes Agostini	Member	37

Set forth below are brief biographical descriptions of the members of our fiscal council:

*Alexsandro de Souza Popovic* holds a law degree and a graduate degree in tax law. He has worked for over three years in the analysis of corporate governance practices of companies listed on the São Paulo Stock Exchange (BOVESPA). This work includes monitoring corporate events, verifying their legality and that they are in keeping with the current requirements of the international capital market, and that they meet the requirements of the differentiated levels of corporate governance within the BOVESPA, representing various equity investment funds in Brazil. He is a substitute member of the finance committee of Santos Brasil S.A. and member of the finance committees of the companies Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

*José Arthur Escodro* has a fifteen-year experience in independent auditing at main international and Brazilian auditing companies and is a former commissioner from the CVM. Mr. Escodro is a member of IBRACON – Brazilian Institute of Independent Auditors and a former member of CVM’s Consultative Accounting and Auditing Standards Council. Mr. Escodro acted as a professor at Fundação Getúlio Vargas, and since 1994 has been an independent consultant, providing business advisory services to private companies. Mr. Escodro also has participated in arbitration courts on behalf of the Chamber of Commerce Brazil-Canada, either as an arbitrator or an expert in fields of his specialty.

*Marcos Rocha de Araújo* is a Member of the Fiscal Council since the first half of 2007. Also worked as investment analyst for CENTRUS (Brazilian Central Bank Pension Fund) from 1997 to 2002 and since 2002 September work at FUNCEF (Brazilian Federal Saving Bank Pension Fund) with the research team. Graduated in Economics. Certified Investment Analyst by the IBCPI – Instituto Brasileiro de Certificação dos Profissionais de Investimento. Member of Investment Council of Fidúcia High Income FIDC since 2006 March and Logística Brasil FIP since September 2006. Was acting Member of Board of Directors at Brasil Ferrovias S.A. and Bahema S.A.

*Reginaldo Ferreira Alexandre* has a fifteen-year experience in the investment research area, as analyst, coordinator, organizer and head of equity research teams at Citibank, Unibanco, Paribas, BBA Creditanstalt and Itaú. He has also a five-year experience in credit analysis (mostly at Citibank) and practice, having acted as a manager and assistant director at the consultancies Accenture and Deloitte, in structured operations linked to the capital markets, as well as in other corporate banking activities, like mergers and acquisitions and company reorganizations. He is a certified investment analyst by the CVM and is a member of the accounting ruling commission created by the CVM

and the Brazilian Accounting Standards Board. He was elected, for the period of 2007-2008, as vice-president of the Brazilian Investment Research Association. He is also a former member of the audit committee (elected in April 2004 and re-elected in April 2005) of Arcelor Brasil, a major Brazilian steel company, controlled by the Arcelor Mittal Group.

*Ricardo Antunes Agostini* holds a bachelor's degree from Escola Politécnica of the University of São Paulo and a master's degree in business administration from Insead. He is currently a manager at Angra Partners. In the past, he worked as a senior consultant at Bain & Company, Monitor Group, MGDK and Price Waterhouse. During his career, he worked in more than 20 companies from different industries with focus on strategy, finance and turnarounds.

On July 29, 2005, our board of directors decided that our fiscal council would also undertake the responsibilities of an audit committee, including, among other, making recommendations to the board of directors on appointment and retention of independent auditors, processing complaints regarding accounting and auditing, and engaging advisers. See Item 16D. Exemptions from the Listing Standards for Audit Committees.

Disclosures are reviewed by the disclosure committee in support of the CEO and CFO. The disclosure committee is responsible for implementing the Policy for Disclosure of Relevant Acts or Facts set up by our board of directors in compliance with Article 16 of CVM Instruction no. 358, dated July 17, 2002, for ensuring transparency, and for the implementation of our disclosure controls and procedures.

#### **D. Employees**

At December 31, 2006, we had 814 employees, as compared to 891 employees at December 31, 2005 and 816 employees at December 31, 2004. At December 31, 2006, 56.1% of our employees were employed in customer service, 29.0% in sales and marketing, 4.4% in management, 9.6% in engineering and 0.9% in information technology. The decrease in the number of our employees during 2006 was primarily due to the reduction of employees in our sales and marketing and customer service departments.

Less than 10% of our employees are affiliated with Sinttel (*Sindicato de Trabalhadores de Telecomunicações*), the labor union for telecommunications companies, in the respective states. We believe that our relationship with our employees is satisfactory and we have not experienced any labor strikes since our privatization.

We have implemented a yearly bonus program, designed to stimulate an increase in our operating productivity, which provides variable compensation to employees according to previously specified financial and operating performance goals. The total amount paid in 2007 in connection with this bonus program was R\$2.4 million and the total amount paid in 2006 was R\$4.4 million. Competition has created, and we believe that it will continue to create, pressure on salaries and our ability to hire and retain qualified upper- and mid-level management personnel.

We participate in a pension fund, the *Fundação Sistel de Seguridade Social*, or Sistel, which supplements government-provided retirement benefits. Currently, we make monthly contributions to Sistel equal to 13.5% of the salary of each employee who is a Sistel member. Each member employee also makes a monthly contribution to Sistel based on his or her age and salary. Members of Sistel qualify for full pension benefits after reaching the age of 57, provided that they have been members of Sistel for at least ten uninterrupted years and have been affiliated with the social security system for at least 35 years. Sistel operates independently from us. At the time of the privatization, our employees had the right to maintain their rights and benefits in Sistel. In May 2004, we introduced a defined contribution plan, except for medical benefits for which there is a defined benefit up to 24 months, for all of our employees. Sistel participants were invited to switch their defined benefits plan to the new defined contribution plan. In this plan the participants define the percentage of their contribution. We make monthly contributions to Sistel of up to 8% of the employee's salary and each member employee also makes a monthly contribution to Sistel. Under the defined contribution plan, members of Sistel qualify for full pension benefits after reaching age 50, provided that they have been members of Sistel for at least ten consecutive years and they don't have to be affiliated with the social security system. See Note 19 to our consolidated financial statements.

#### **E. Share Ownership**

The members of our board of directors and our executive officers, on an individual basis and as a group, beneficially own less than 1% of any class of our stock. See Item 7A. Major Shareholders and Related Party Transactions Major Shareholders for more information.



On October 5, 2000, our board of directors approved two executive stock incentive plans. The first plan covers certain key executives who may receive shares of our common or preferred stock. The options vest only to the extent that we achieve performance goals determined by our board of directors during a five-year performance period. At December 31, 2006, no options were outstanding in connection with this incentive plan as all options had been forfeited.

The second plan covers key executives, who also participate in the first plan, and other employees. Options granted under this plan relate to preferred stock and are exercisable at market price at the date of the grant. The vesting period is 20% during the second year, 60% during the third year and 100% during the fourth year. At December 31, 2006, 24,168 options were outstanding. No options were exercised during either period. The exercise price for the

granted options is R\$4.76 per thousand preferred shares. The price is updated by the IGP-M inflation index until the date of exercise.

The second stock incentive plan for key employees was modified by our board of directors on December 29, 2003. As this plan had been inactive from 2001 to 2003, at a meeting of the board of directors in the combination of the amounts for 2001, 2002 and 2003 into a single tranche, with vesting available beginning in 2004 was approved. At December 31, 2006 and 2005 the plan covered three and eleven executives, respectively. Options granted under this plan relate to preferred stock and are exercisable at market price at the date of the grant, discounted by 20%. The vesting period is 40% during 2004, 30% during 2005 and 30% during 2006. At December 31, 2006, 120,749 options were outstanding under this plan. No options were exercised during the period. The exercise price of the granted options is R\$0.49 per thousand preferred shares. The price is updated by the IGP-M inflation index until the date of exercise.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### A. Major Shareholders

In accordance with our bylaws, our capital stock is divided into common shares (*ações ordinárias*) and preferred shares (*ações preferenciais*). Upon approval by the board of directors, our capital stock may be increased up to the limit of the authorized capital set forth in the by-laws, provided that the number of preferred shares may not exceed 2/3 of the total capital stock. Each common share entitles its holder to have full voting rights at meetings of our shareholders. Our preferred shares have voting rights under limited circumstances. See Item 10B. Additional Information Memorandum and Articles of Association Preferred Shares and Common Shares for more information regarding our capital stock and our two classes of shares.

The following table presents information concerning our major shareholders at June 15, 2007. We are not aware of any other shareholder owning more than 5% of the common shares or more than 5% of our preferred shares.

Name of Owner	Common Shares	%	Preferred Shares	%	Total Shares	%
		Common Shares		Preferred Shares		Total Capital
Telpart Participações S.A	64,633,961,594	51.86	185,778,351	0.09	64,819,739,945	19.34
Emerging Markets Growth Fund Inc	9,214,930,561	7.39	22,698,900,000	10.79	31,913,830,561	9.52
Funcionários do Banco doBrasil	6,722,609,329	5.39	5,926,356,870	2.82	12,648,966,199	3.77
Ventura Capital LLC	391,900,000	0.31	14,981,700,000	7.12	15,373,600,000	4.59
Naustdal S.A	463,200,000	0.37	12,848,800,000	6.11	13,312,000,000	3.97
JGP Hedge Fundo de Investimento Multimercado	28,300,000	0.02	11,115,800,000	5.28	11,144,100,000	3.33

Source: Banco ABN AMRO Real S.A.

The Registrant's controlling shareholder is Telpart Participações S.A., or Telpart, which as of June 15, 2007, owned 51.86% of the Registrant's outstanding common shares. As a result of its controlling interest, Telpart has the ability to control the election of the majority of our board of directors, and to direct our operations.

Telpart is a corporation owned by Newtel Participações S.A., or Newtel, which owns approximately 51.07% of Telpart, and TPSA do Brasil Ltda., or TPSA, which owns approximately 48.90% of Telpart. TPSA is controlled by Highlake International Business Company Ltd., or Highlake, which is controlled by Opportunity Fund.

Newtel is a holding company. Fifty-three percent of Newtel is owned by MEM S.A., which is indirectly held by the three mutual funds: Opportunity Fund, Citigroup Venture Capital International Brazil L.P. and Investidores Institucionais FIA.

The following four Brazilian pension funds own 46.9% of Newtel: Fundação 14 de Previdência Privada, TELOS - Fundação Embratel de Seguridade Social, PETROS - Fundação Petrobrás de Seguridade Social and PREVI - Caixa de Previdência dos Funcionários do Banco do Brasil. The relationship among the shareholders of Newtel is governed by a shareholders' agreement.

Telpart also owns a controlling interest in our affiliate, Telemig Celular Participações S.A., the controlling shareholder of Telemig Celular S.A., which is a cellular service provider in the region that includes the state of Minas Gerais.

On December 28, 1999, our shareholders approved a corporate reorganization whereby Telpart contributed assets to us, resulting in future tax benefits. We recorded a deferred tax asset of R\$48.8 million, which will be realized over a period of up to ten years. In accordance with Brazilian Corporation Law, we must issue shares (*pro rata* both common and preferred) to Telpart for the amount of the tax benefits recognized by us. In addition, minority shareholders are granted preemptive rights. If the minority shareholders do not elect to exercise these rights, the shares will be issued and subscribed for by Telpart. As of December 31, 2006, we maintain a valuation allowance for the entire amount of the referred tax benefit. See Note 17 to our consolidated financial statements for a more detailed description of this transaction.

## **B. Related Party Transactions**

We have entered into transactions with some of our shareholders and other related parties for the provision of certain services. Transactions with related parties are carried out based on an amount agreed upon by the respective related parties and we believe those transactions are carried out on an arm's length basis. Our bylaws and applicable Anatel regulations require that any long term agreement we enter into with related parties must be previously approved by the majority of our voting and non-voting shareholders, with the exclusion of the conflicted party.

We consider Brasil Telecom S.A. as related party due to the existence of common partners in our control chain mentioned above.

### *Shared Service Agreement*

In order to increase efficiency in the allocation of resources, capitalize on synergies, avoid unnecessary duplication of activities and improve operating efficiencies, we are a party to a shared service agreement with Telemig Participações S.A. pursuant to which certain costs incurred for the benefit of both companies and their subsidiaries are allocated to each company based on criteria designed to reflect the actual amount of use by each company. The costs allocated under this shared service agreement relate primarily to personnel, marketing and outside consulting fees. See Note 18 to our consolidated financial statements.

### *Interconnection*

Incumbent fixed-line providers are obliged to provide interconnection services to wireless operators with the incumbent's own installations. We have entered into interconnection agreements with a number of other telecommunications operators in Brazil, including Brasil Telecom and the long-distance and 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.

We have agreements with certain other telecommunications operators in Brazil, including Telemig Celular, regarding short message interworking. These interconnections allow customers of Amazônia Celular and of all parties to the agreements to exchange SMS between their mobile stations in Brazil and other countries.

A multi-media message, or MMS, network was established and successfully integrated in July 2005 between certain other telecommunications operators in Brazil, including Telemig Celular. These interconnections allow the

customers of Amazônia Celular and of such operators to exchange MMS between their mobile stations and across Brazil.

*Roaming Agreements*

Roaming services must be made available to other wireless operators upon the request of that operator. We have entered into agreements for automatic roaming with all other A and B Band service providers in Brazil outside our area for the use of the TDMA network, and we have also signed agreements with all other GSM cellular operators in Brazil, including Brasil Telecom and Telemig Celular S.A., to provide GSM roaming for our postpaid and prepaid customers. We also offer to our customers GPRS roaming with other cellular service providers, including Telemig Celular S.A., under which our clients have access to the networks of such other cellular service providers while

traveling or roaming outside our area and we are required to provide roaming services to customers of those wireless 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 customers 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.

### **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. Consolidated Financial Statements and Other Financial Information**

The information included in Item 18 of this annual report is referred to and incorporated by reference into this Item 8A.

### **Legal Proceedings**

We are involved in a number of legal proceedings, lawsuits and claims incidental to the normal conduct of our business, relating to such matters as taxes, labor and civil lawsuits. As of December 31, 2006, we maintained provisions in the total amount of R\$152.2 million and court deposits in the total amount of R\$99.0 million. We believe that if these legal proceedings, lawsuits and claims were to be decided against us, they would not have a material adverse effect on our business, results of operations or financial condition.

#### ***Civil Legal Proceedings***

At December 31, 2006, we had provisions of R\$3.1 million for contingent liabilities which we consider sufficient to meet reasonably estimated probable losses arising from civil lawsuits. The most significant civil suits involving us are described below.

#### ***Litigation Relating to the Breakup of Telebrás***

The breakup of Telebrás is the subject of several lawsuits in which the plaintiffs have requested, and in certain cases obtained, preliminary injunctions against the breakup. All of these preliminary injunctions have been subsequently quashed by decisions of the relevant federal court, but several of these decisions are currently on appeal.

These lawsuits are based on a number of legal theories, the principal among them being:

- Brazil's federal constitution requires that the creation of the 12 holding companies spun-off from Telebrás be specifically authorized by the Telecommunications Law;
- the Telebrás shareholders' meeting held on May 22, 1998, which approved the breakup, was not properly convened;
- national sovereignty will be threatened if the country's telecommunications companies are controlled by foreign entities; and

- the General Telecommunications Law requires that some matters, such as the entry of new competitors and the administration of development and technology funds, be regulated prior to the breakup and privatization either by an executive order of the President or by an act of Congress.

If any of the plaintiffs in the above-described lawsuits ultimately prevails, the Telebrás breakup might have to be unwound. This could require any combination of the following:

- amending the Telecommunications Law;
- reconvening the May 22, 1998 Telebrás shareholders meeting; and

- the passing of additional laws by Congress or the issuance of executive orders by the President.

*Litigation Arising Out of Events Prior to the Telebrás Breakup*

Telebrás, our predecessor company, and we are defendants in a number of legal proceedings, including tax- and labor-related matters, and are subject to certain other claims and contingencies.

Liability for any claims arising out of acts committed by our predecessor company prior to the effective date of the spin-off of the predecessor company's cellular assets and liabilities to us remains with the predecessor company except for:

- labor and tax claims, for which the predecessor company and we are jointly and severally liable by operation of law, and
- liabilities with respect to which our predecessor company made a specific accounting provision prior to the breakup and assigned them to us.

Any claims against our predecessor company that are not satisfied by it could result in claims against us to the extent that the assets received at the time of the spin-off might have been used to settle those claims. Under the shareholders' resolution pursuant to which the spin-off was effected, we have contribution rights against our predecessor company with respect to the entire amount of any payments made by us in connection with any labor or tax claims brought against us that relate to events prior to the effective date of the spin-off.

Under the terms of the Telebrás breakup, liability for any claims arising out of acts committed by Telebrás prior to the effective date of the breakup remains with Telebrás except for:

- labor and tax claims, for which Telebrás and the 12 holding companies are jointly and severally liable by operation of law, and
- any liability with respect to which Telebrás made a specific accounting provision prior to the breakup, to the extent that such provision has been assigned to Telemig or one of the 12 holding companies.

*Consórcio VOA*

Consórcio Voa was created for the purpose of acquiring and operating aircraft for the exclusive use of the parties to the consortium, which include Tele Norte Participações S.A. and Amazônia Celular S.A., under the leadership of Opportunity Equity Partners Administradora de Recursos Ltda. Brasil Telecom has filed a legal proceeding against all members of Consórcio VOA, seeking to remove the leader of the consortium, as well as to receive indemnity for losses, claiming that Opportunity Equity Partners Administradora de Recursos Ltda. abused its power as leader of the consortium, resulting in losses to Brasil Telecom, as member of the consortium and at the time also a member of the Opportunity Group. Even though the injunction was not granted, the members of the consortium removed the leader at a shareholders' meeting held at the end of 2005. Amazônia Celular filed its response in October 2006, alleging it is not a legitimate party to the lawsuit because Brasil Telecom did not attribute any irregularity to Amazônia Celular as member of the consortium. The main argument in this lawsuit in our favor is that the leadership of the consortium could only be altered by an unanimous decision by all members of the consortium, and not by a judicial decision or at a meeting where not all members were present, which was the case at the shareholder's meeting held at the end of 2005. We remain awaiting decision on the matter.

*Litigation Related to Caller ID and of the Trademark BINA*



Lune Projetos Especiais Telecomunicação Comércio Ind. Ltda., or Lune, has brought a lawsuit against Amazônia Celular and other Brazilian mobile telecommunication operators in which Lune claims to be the owner of patents relating to *Equipamento Controlador de Chamadas Entrantes e do Terminal Telefônico*, or Caller ID, and of the trademark BINA ( B Identifies the Number of A ), and alleges that the mobile telecommunication operators are copying the patent and using the trademark without proper authorization. Lune has requested that the operators be ordered to cease providing Caller ID services and using the trademark BINA and that Lune be indemnified for the unauthorized use of the Caller ID system in an amount equal to the fees paid to the operators by customers for use of the Caller ID system.

In addition to operators, the suit also involves network component manufacturers that supply the Caller ID to the operators. The amount of the indemnification alleged to be owed by the mobile telecommunication operators has not yet been calculated and we believe we have the right to indemnity from the component manufacturers. Nortel has indemnified us against any obligation arising out of allegations of unauthorized use of patents. Accordingly, we have not recorded any provisions with respect to this lawsuit.

The proceeding is still in its preliminary stage. Amazônia Celular has presented its defense and the court has determined that the issue be analyzed separately by the courts located in the states where each defendant is based. As we and our legal advisors believe the chance of success in this lawsuit is possible, no provisions were recorded.

#### *Prepaid Credits*

We and other wireless operators in Brazil are party to lawsuits challenging the validity of expiration dates for prepaid telephone credits. These proceedings are still in their preliminary stages, and the court has requested that the defendants submit information supporting the basis for setting an expiration term. In May, 2005, the Public Prosecutor's Office filed a public civil action against all wireless operators in Area 8 (among which, Amazônia Celular) and, also against ANATEL, regarding the imposition of deadlines for the use of prepaid credits. The request to have the deadlines for the use of credits suspended until the issuance of a decision was denied. Amazônia Celular filed a counterclaim in September 2005 and we remain awaiting decision on this matter. In September 2006, the injunction requested by the Federal Public Prosecutor's Office was rejected. We and our legal advisors believe the chance of success in these lawsuits is probable. As there is no monetary value involved in this lawsuit, no provisions have been recorded.

#### *Lawsuit related to the use of the Amazônia Celular logo*

In December 2002, NET Design Produções Fotográficas, or NET, with main offices in Belo Horizonte, state of Minas Gerais, filed a suit against Amazônia Celular for damages moral and property with request of anticipatory relief, on the grounds that the logo (ellipse) used by Amazônia Celular was being unduly used, since, according to the plaintiff, it is identical to the one that NET developed for Telemig Celular, with a mere change of the color (Telemig Celular is red and Amazônia Celular is green). In its defense, Amazônia Celular argued that the plaintiff does not own the right to exploit the respective logo, considering that Telemig Celular commissioned and bought the work of NET. Thus, the ownership was invested by derivated means (holding the property rights) and the Agreement for Assignment of Use of Brand signed between Telemig Celular and Amazônia Celular is perfectly legal. We asked for dismissal without prejudice in view of the plaintiff's inactivity, as nothing has happened in this lawsuit since March 13, 2003. We are awaiting a decision on our request for dismissal. Based on the opinion of our counsel, we believe chances of loss are remote.

#### *Civil Class Action against SMP operators for the installation of cellular blocks in prisons*

In June 2006, the Federal Attorney's Public Office initiated a civil class action against SMP operators, including Amazônia Celular, for the installation of cellular blocks in Brazilian prisons. This proceedings is still in the defense stage. We and our legal advisors believe the chance of success in this lawsuit is probable. As there is no monetary value involved in this lawsuit, no provisions have been recorded.

#### *Readjustment of VU-M*

SMP provides free negotiation of interconnection fees (VU-M) among certain telecommunications service providers. Accordingly, as of July 2005 we implemented a 4.5% interim adjustment in the interconnection for the use of the SMP network exclusively for local calls VC1 among operators that executed the agreement. In March 2006, we

also implemented a 4.5% interim adjustment interconnection fee on long-distance calls VC2 and VC3, pursuant to an interim agreement entered into at the end of 2005 between ourselves and other operators. However, as not all operators could reach an agreement on the terms of the interconnection, including with respect to the fees, Anatel was requested to act as the final arbiter. A decision has not yet been reached. Concurrently, Tele Norte Celular filed a claim questioning this adjustment and requesting that the interconnection fee be adjusted either according to the IGP-DI or at a fixed rate of 7.99% . We remain awaiting a decision on the matter.

## ***Regulatory Legal Proceedings***

### *Telecommunications Regulations Proceeding*

The Brazilian telecommunications regulations prohibit a shareholder from having a controlling interest in more than one wireless telecommunications carrier operating in the same area in Brazil. On June 15, 2005, the Company has initiated court proceedings seeking a court order to prevent PREVI and Banco do Brasil from exercising their voting rights in the Company, until the legality of their shareholding interest is resolved. The main argument in this lawsuit is that Caixa de Previdência dos Funcionários do Banco do Brasil - PREVI (which is the Banco do Brasil S.A. pension fund) and Banco do Brasil are a part of our controlling shareholder block and also are a part of the controlling shareholder block of Telemar, which competes with us in our area under the Oi brand name. As we currently believe the claim has no legal grounds and therefore, would probably be rejected by the Brazilian court, we relinquished our claim on October 18, 2006. We are still awaiting termination of this lawsuit.

### *Litigation with Anatel*

In February 2007, Amazônia Celular filed a writ of mandamus to suspend Anatel's requirement that Amazônia Celular pay fine amounting to R\$150.0 thousand due to non-compliance with the quality standards established in the General Quality Targets Plan. As the injunction was not granted, Amazônia Celular filed an appeal, which was refused. We are awaiting the decision on another appeal filed by Amazônia Celular. As we and our legal advisors believe the chance of success of this lawsuit is possible, no provisions have been recorded.

The purpose of this injunction is to suspend the administrative proceeding (Procedure to Investigate Breaches of Obligations - PADO) filed by Anatel, mentioned below in Administrative Proceedings before Anatel Quality Standards, in which the initial decision was rendered against Amazônia Celular.

## ***Tax Legal Proceedings***

As of December 31, 2006, we had provisions of R\$147.7 million for contingent liabilities relating to tax matters, the most significant of which are described below.

### *Litigation Related to the Application of ICMS*

In June 1998, the governments of the individual Brazilian states approved an agreement to interpret existing Brazilian tax law to apply the state value-added tax, commonly known as ICMS, to certain services, including cellular activation and monthly subscriptions. The agreement also provides that the ICMS may be applied retroactively to activation services rendered during the five years preceding June 1998.

*Retroactive and Prospective Application of ICMS to Cellular Activation.* We believe that the attempt by the state governments to extend the scope of the ICMS to services that are supplementary to basic telecommunications services, such as cellular activation and monthly subscriptions, is unlawful. Therefore, we filed a lawsuit in each state of our area seeking injunctive relief from retroactive and prospective application of the ICMS to cellular activation. We have obtained final judgments in our favor prohibiting the application of ICMS to our activation services in the state of Amazonas, Amapá, Maranhão, Roraima and Pará, all states in which we operate.

We believe that the retroactive application of the ICMS to cellular activation during the five years preceding 1998 is improbable. We also believe that in the event we do not prevail, our predecessor company would be liable to us for any tax liability arising from the retroactive application of the ICMS to cellular activation recognized prior to 1998. Therefore, we have not made any provision with respect to such retroactive application in our consolidated

financial statements.

We have made provisions totaling approximately R\$0.5 million for the application of the ICMS to cellular activation from June 1998 (the effective date of the agreement) to December 31, 2003. The application of the ICMS to cellular activation for the year ended December 31, 1998 would have had a maximum negative impact estimated at R\$0.1 million and R\$0.5 million on our results of operations for 2001 and 2002, respectively, and no material effect on our results of operations for 2003 and 2004. The application of ICMS on cellular activation would not materially affect our results of operations for 2000, 2001 and 2002 because we eliminated the activation fee for all but one of our plans. For the remaining plan, cellular activation has been significantly reduced. We do not believe that application of the ICMS on cellular activation, applied on a prospective basis will have a material impact on our results of operations.

*Monthly Subscriptions and Additional Services.* In December 1998, each of Amazônia Celular's then-existing subsidiaries filed an injunction with the treasury court of the state in which it is located and therefore suspended the remittance of the ICMS on monthly subscriptions and additional services and deposited such amounts in a trust account administered by the courts.

In 2004, we obtained a final favorable decision in the state of Amapá. We have also obtained decisions in our favor prohibiting the application of ICMS to monthly subscription and other additional services, and to authorization of cellular mobile station in the states of Pará and Maranhão. As the favorable decisions to us in the legal proceedings in the states of Maranhão and Pará had been officially declared final and binding, we withdrew the amounts deposited in the respective trust accounts. However, at a later date the public prosecutors' offices of both states appealed alleging that for technical procedural issues the term for appeal had not elapsed and, therefore, the decision in each proceeding was not final. In the state of Maranhão the appeal was decided against us and the Superior Court of Justice determined that the claim be retried. We appealed against such decision and in May 2007 the Superior Court of Justice determined that the case records be submitted to the Maranhão state court. In the state of Pará the state's appeal was decided in our favor and, therefore, the state filed another appeal against the decision. We also remain awaiting final decision. In 2006, we recorded provisions in the amount of R\$27.0 million and R\$23.0 million related to the legal obligations in the states of Maranhão and Pará, respectively.

Concerning the state of Roraima, in December 2004, the Superior Court of Justice decided in our favor stating that ICMS does not apply to the authorization of cellular mobile stations. As the Superior Court did not admit the final appeal of the State of Roraima against the decision in favor of Amazônia Celular, the Public Treasury filed an appeal with the Supreme Court of Justice requesting that an extraordinary appeal be recognized. We remain awaiting final decision on the matter. We have recorded a provision in the amount of R\$11.8 million related to this legal obligation and as of December 31, 2006, the respective judicial deposits amounted to R\$11.7 million.

In 2003, we obtained a favorable decision in the state of Amazonas and the Superior Court of Justice decided for the non-application of ICMS to the authorization of cellular mobile stations. The state of Amazonas appealed against this decision but we are still awaiting final decision. In the lawsuit on the application of ICMS to monthly subscription and other additional services of the cellular mobile stations, the Court of Appeals of Amazonas ratified the decision issued by the trial judge, partially granting the request. Amazônia Celular has appealed against this decision but we are still awaiting final decision. We have recorded a provision in the amount of R\$9.4 million related to this legal obligation, and as of December 31, 2006 the respective judicial deposits amounted to R\$9.1 million.

#### *Litigation Relating to the Conveyance of PIS and COFINS to Users*

A civil class action has been filed by the Public Prosecutor's Office against us and other telecommunications companies to (i) prevent the passing on to customers of the amounts paid as Contribution to the Social Integration Program, or PIS, and Contribution for Social Security Financing, or COFINS, and (ii) to require that we return to our customers two times the amount of PIS- and COFINS-related charges passed along to them. These social contributions are levied on gross telecommunication services revenues from final customers located within the jurisdiction of the state of Maranhão. The Public Prosecutor's Office considers the transfer of the tax to customers to be unconstitutional. No preliminary injunction has been granted and we believe that the civil class action has no legal basis. The maximum liability for this action is approximately R\$128 million. On June 7, 2004, the civil class action was dismissed without prejudice because of lack of interest in the action. This decision has already become final and binding.

We believe the probability of an unfavorable outcome in this proceeding is remote. In any event, regardless of the outcome of this proceeding, we believe we will not be adversely affected because we did not segregate such taxes in our invoices.

*Litigation Related to the Telecommunication Inspection Fund (FISTEL)*

We are subject to the payment of the Telecommunication Inspection Fund contribution FISTEL. The Telecommunication Inspection Fund is supported by revenues resulting from a tax imposed on telecommunication operators. We have adopted the position that the FISTEL is not due in respect of telecommunications stations that are not owned by us. As a result, we are involved in legal proceedings to obtain a judicial authorization for us to pay the FISTEL solely in respect of telecommunication stations owned by us. The amount involved in these proceedings is R\$74.8 million. We have recorded a provision in the amount of the FISTEL that would be payable, on a monthly basis

and we are depositing in court the amount involved. As the court decided against us, we filed an appeal and remain awaiting a decision on the matter. We and our legal advisors believe the chance of success in this lawsuit is possible.

*Litigation Related to the Universalization Fund of Telecommunication Services (FUST)*

Based on Article 6 of Law No. 9,998/2000, which instituted FUST, the Company does not include in the calculation base of the contribution, the revenues obtained from telecommunications services providers as interconnection fee and for the use of its network resources. On December 15, 2005, Anatel's board approved Precedent #7 which determines the inclusion of such revenues in the calculation base of FUST, with retroactive application to January 2001.

Management, based on the advice of its legal advisors, is of the opinion that Precedent #7 of Anatel contravenes the provisions of Law No. 9,998/2000, in addition to several constitutional provisions. Therefore, in January 2006, the mobile telecommunication operators, including Amazônia Celular, filed for a writ of mandamus in order to protect their legal rights to continue to pay FUST without any increase in the calculation base that is not provided for by law.

The injunction was not granted by the trial judge since the judge understood the matter to be complex. The petitioners appealed and in a decision given in March 2006, the Superior Court Judge granted the injunction request to remove the application of the second part of Precedent #7 of Anatel. In February 2007, the lower court judge ruled that the levy of FUST on interconnection revenues specified in the second part of Precedent #7 of Anatel is unconstitutional. As we and our legal advisors believe the chance of success in this lawsuit is possible, no provision has been recorded.

*Universalization Fund of Telecommunication Services (FUST)*

In November 2006, Amazônia Celular received a tax claim from Anatel, regarding the payment of FUST on interconnection revenues received in 2001. The collection of FUST on interconnection revenues received in 2001 was suspended by an injunction granted in the litigation related to FUST. For further information, see "Litigation Related to the Universalization Fund of Telecommunication Services (FUST)" above. Amazônia Celular submitted a defense and is awaiting decision on the matter. The amount involved in this administrative proceeding is R\$4.5 million. As we and our legal advisors believe the chance of success in this lawsuit is possible, no provision has been recorded.

***Administrative Proceeding before the Ministry of Communications***

*Telecommunications Technological Development Fund (FUNTTEL)*

In December 2006, Amazônia Celular received a tax claim from the Ministry of Communications regarding the payment of FUNTTEL on interconnection revenues received in 2001. Amazônia Celular has submitted a defense and is awaiting decision on the matter. The amount involved in this administrative proceeding is R\$0.9 million. As we and our legal advisors believe the chance of success in this lawsuit is possible, no provision has been recorded.

***Labor Legal Proceedings***

The Company is party to several labor claims filed by former employees related mainly to salary adjustments and related charges. At December 31, 2006, we had provisions of R\$1.4 million for contingent liabilities in connection with labor claims.

*Service Providers*



We currently use the services of approximately 1,891 outsourced service providers. Under Brazilian labor legislation, the legality of outsourced services is closely related to the nature of the services involved. Where the outsourced contracted services are related to the primary activities of the contracting company, there is, in effect, a strong presumption that the outsourcing is not legal. Thus, if the relationship between the outsourced service provider and the company contains any indicator of the essential elements of employment, such as subordination of the outsourced individual worker within the management hierarchy of the company, the outsourcing of services is likely to be found illegal.

We believe there is a risk that part of the services we outsource could be considered illegal. For this reason, we are exposed to the risk of (i) infraction notices issued by labor and social security authorities, (ii) a civil public

action by the Government Labor Attorney's Office and (iii) labor claims filed by outsourced service providers claiming the existence of an employment relationship.

The Federal Public Prosecutor brought a public civil action against Amazônia Celular in September 2006. An injunction was granted imposing that all hirings of outsourced service providers be suspended, under penalty of paying a fine per outsourced service provider that is hired. This decision was subsequently reversed with respect to the hiring of new outsourced service providers. The appellate court maintained the lower court's decision, reducing, however, the amount of the penalty. Although the courts decided against us, the decision, if maintained, will only be effective six months after becoming final and not subject to appeal. We appealed such decision and are awaiting final decision on the matter.

On March 30, 2007, Amazônia Celular terminated the contract of outsourced employees who provided administrative services, with direct reporting to the managers of Amazônia Celular. We believe this measure will bring the outsourcing into conformity with the applicable laws regarding this aspect.

#### *Labor Claim against Former Management*

In December 2006, Amazônia Celular filed a R\$1 million suit for damages against its former management, seeking indemnification for damages caused to the Company as a result of undue payments made by Amazônia Celular's former management. The defendants filed a counterclaim, claiming moral damages in the amount of at least R\$2 million. As we and our legal advisors believe the chance of success in this lawsuit is possible, no provision has been recorded.

#### *Administrative Proceedings before Anatel Regarding Quality Standards*

Anatel filed two Procedures to Investigate Breaches of Obligations (PADO) against Amazônia Celular, alleging that it has not complied with the quality standards established in the General Quality Targets Plan. In one of these proceedings, filed in October 2006, involving the sum of R\$400 thousand, Amazônia Celular filed an administrative defense and is awaiting decision on the matter. An initial decision was rendered against Amazônia Celular in the second proceeding, filed in October 2005, involving the sum of R\$147 thousand. Amazônia Celular filed a request for reconsideration and administrative remedy and is currently awaiting decision on the matter. We and our legal advisors believe the chance of success in this lawsuit is possible, no provision has been recorded.

### **Dividend Policy and Dividends**

#### *General*

Pursuant to Brazilian Corporation Law, each corporation is required to pay its shareholders a minimum mandatory dividend at least on a yearly basis, except in specific cases provided for in the applicable law. The amount of the minimum mandatory dividend may be determined in the bylaws or, should the bylaws be silent, the relevant amount is determined in accordance with the applicable provisions in the Brazilian Corporation Law. The company may also consider the amount of the interest on shareholders' equity distributed to its shareholders for the calculation of the minimum obligatory dividend to be paid. See Item 10B. Additional Information Memorandum and Articles of Association Allocation of Net Income and Distribution of Dividends. Moreover, Brazilian Corporation Law provides that each Brazilian company may only issue new preferred shares for public distribution if one of the following terms applies to the preferred shares: (i) priority in the receipt of dividends corresponding to at least 3% of the book value per share; (ii) dividends 10% higher than those paid for common shares; or (iii) tag along rights at 80% of the price paid to the controlling shareholder in case of a transfer of control. Our bylaws provide that preferred shares will be entitled to receive, on a priority basis, minimum, non-cumulative dividends according to the greater of the following

criteria: (i) 6% per annum of the amount resulting from the division of the amount of the outstanding capital stock by the number of our outstanding shares; or (ii) the right to a share of the mandatory dividend (see the next following paragraph) based on (a) a priority to receive a minimum, non-cumulative dividend corresponding to 3% of the net asset value of each share; and (b) a right to a share of the profits to be distributed on the same basis as common shares, after common shares have been paid a dividend equal to the minimum preferred dividend mentioned in (a) above.

Under our by-laws, we are required to distribute to our shareholders as dividends in respect to each fiscal year ending on December 31 an amount equal to not less than 25% of our net profit in any particular year, adjusted in accordance with the Brazilian Corporation Law. In addition to the mandatory dividend, our board of directors may recommend to our shareholders the payment of intermediate dividends from retained earnings and profit reserves.

Any payment of intermediate dividends or the payment of interest on net worth will be netted against the amount of the mandatory dividend for that fiscal year.

Under the Brazilian Corporation Law, if our board of directors determines prior to the annual shareholders meeting that payment of the mandatory dividend for the preceding fiscal year would be inadvisable in view of our financial condition, we need not pay the mandatory dividend, as long as it does not affect the right of the preferred shareholders to receive fixed or minimum dividends. This determination must be reviewed by our fiscal council and reported to our shareholders and to the CVM. If a mandatory dividend is not so paid, these earnings must be allocated to a special reserve account. If we do not incur the expected losses that cause us to withhold the mandatory dividend, we will be obligated to pay the mandatory dividend.

#### *Payment of Dividends*

Every Brazilian corporation is required to hold an annual shareholders meeting, at which an annual dividend may be declared, no later than four months after the end of our fiscal year. Our bylaws allow the payment of intermediate dividends on a semiannual basis or shorter period in the current year based on a balance sheet prepared by our management, or out of preexisting and accumulated profits as set forth in the preceding fiscal year's balance sheet or in the preceding six-month period's balance sheet. According to the Brazilian Corporation Law, dividends inherent to a certain share are payable to the person registered as its holder on the date of approval of the payment, which in any event must occur within the same fiscal year of its declaration. See Note 15(c) to the financial statements. Any shareholder has a three-year period from the date the dividend payment was made available to claim dividends in respect of its shares, after which the right expires and the amount related to the dividends returns to the Company.

Payments of cash dividends and distributions, if any, will be made in *reais* to the custodian on behalf of the depositary, and the custodian will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. Under current Brazilian law, dividends paid to shareholders who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian income tax withholding.

#### *Dividend Policy and History of Dividend Payments*

Due to our significant capital expenditure requirements, our policy is to pay only the mandatory dividend owed to common and preferred shareholders, subject to an availability analysis conducted by our board of directors as discussed above. According to the Brazilian Corporation Law, Brazilian corporations cannot retain profits without justification. Therefore, except if retained under any of the reserves provided for in Articles 193 to 197 of the Brazilian Corporation Law, all net profits will have to be distributed to shareholders.

The only significant asset the Registrant has other than cash is shares of Amazônia Celular. The Registrant relies almost exclusively on dividends from Amazônia Celular to meet cash needs, including the payment of dividends to its shareholders. The Registrant controls the payment of dividends by Amazônia Celular S.A., subject to limitations under Brazilian Corporation Law.

The following table sets forth the dividends paid to holders of our common shares and preferred shares since 2002 in *reais*.

<b>Year</b>	<b>Common Shares</b>	<b>Preferred Shares</b>
	<b>(per 1,000 shares in R\$)</b>	
2007 (through June 15)		
2006		0.01552 <sup>(1)</sup>

2005  
2004  
2003  
2002

0.02073

---

(1) This amount refers to dividends declared in 2004 that were not paid at that time.

In 2006, the Company's statutory net loss, adjusted by the realization of the unrealized income reserve, amounted to R\$70.2 million. Accordingly, no minimum mandatory dividend distribution was proposed for the year ended December 31, 2006.

In the beginning of 2006, the Company reassessed the calculations of the minimum dividend related to the year ended December 31, 2004, as the statutory net loss adjusted by the realization of unrealized income reserve resulted in a net income amounting to R\$3.3 million. Accordingly, pursuant to article 203 of Law 6,404/76, in 2005, the Company recorded the minimum dividend related to the year ended December 31, 2004 to be paid to the record holders of preferred shareholders, in the amount of R\$3.3 million (R\$0.015524 per thousand shares), adjusted based on the accumulated SELIC interest rate from the end of the year ended December 31, 2005 until effective payment.

Shareholders who are not residents of Brazil must generally be registered with the Central Bank to have dividends and/or notional interest attributable to shareholders' equity, sales proceeds or other amounts with respect to their shares eligible to be remitted in foreign currency outside of Brazil. See Item 10D. Additional Information Exchange Controls. The preferred shares underlying the ADSs are held in Brazil by Banco Itaú S.A., our custodian, as agent for the depositary, which will be the registered owner on the records of the registrar for our preferred shares. The registrar is Banco ABN-AMRO Real S.A.

Payments of cash dividends and distributions, if any, will be made in *reais* to the custodian on behalf of the depositary, which will then convert those proceeds into U.S. dollars and will cause those U.S. dollars to be delivered to the depositary for distribution to holders of ADSs as described above. In the event that the custodian is unable to convert immediately the *reais* received as dividends and/or notional interest attributable to shareholders' equity into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the *real* that occur before those distributions are converted and remitted. See Item 3A. Key Information Selected Financial Data Exchange Rates. Taxation applicable to dividends and notional interest attributable to shareholders' equity in respect of the preferred shares paid to shareholders who are not Brazilian residents, including holders of ADSs, is discussed in Item 10E. Additional Information Taxation Brazilian Tax Considerations.

## **B. Significant Changes**

No significant changes or events have occurred after the close of the financial statements as of and for the year ended December 31, 2006, other than the events already described in this annual report.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

Our preferred shares trade on the New York Stock Exchange under the symbol TCN in the form of American Depositary Shares, or ADSs. Each ADS currently represents 50,000 preferred shares without par value. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued by The Bank of New York as depositary, under a deposit agreement among us, the depositary and the owners and beneficial owners of ADRs from time to time. We became a U.S. registered company listed on the New York Stock Exchange on November 16, 1998. See Item 10B. Memorandum and Articles of Association Preferred Shares and Common Shares for information of a proposed reverse share split of the shares issued by the Registrant.

The principal trading market for our preferred shares and for our common shares is the São Paulo Stock Exchange (*Bolsa de Valores de São Paulo* - BOVESPA). Our preferred shares commenced trading on the BOVESPA on September 21, 1998. Our preferred shares trade on the BOVESPA under the symbol TNCP4 and our common shares trade under the symbol TNCP3.

At December 31, 2006, there were:

- an aggregate of 210,460,313,451 preferred shares issued and outstanding and 124,623,841,906 common shares issued and outstanding, and
- 2,396,134 ADSs representing 119,806,700,000 preferred shares held by foreign investors (to our knowledge based in each case on their addresses as indicated in our records for the shares in our custody), representing 56.9% of the total preferred shares outstanding.

We have registered one class of ADSs under a registration statement on Form F-6 pursuant to the Securities Act. All of the ADSs were registered in the name of The Depository Trust Company. At December 31, 2006, there were 59 holders of record of the ADSs.

Table of Contents

The following table presents the reported high and low closing sale prices for our preferred shares as reported on the São Paulo Stock Exchange in *reais*.

<b>Calendar Period</b>	<b>R\$ per 1,000 preferred shares</b>	
	<b>High</b>	<b>Low</b>
2002	R\$1.09	R\$0.23
2003	R\$0.63	R\$0.30
2004	R\$0.71	R\$0.49
2005	R\$0.50	R\$0.27
2006	R\$0.61	R\$0.31
2007 (through June 15)	R\$0.44	R\$0.36
2005:		
1st quarter	R\$0.50	R\$0.35
2nd quarter	R\$0.36	R\$0.30
3rd quarter	R\$0.34	R\$0.27
4th quarter	R\$0.36	R\$0.28
2006:		
1st quarter	R\$0.61	R\$0.31
2nd quarter	R\$0.49	R\$0.35
3rd quarter	R\$0.45	R\$0.33
4th quarter	R\$0.42	R\$0.38
2007:		
1st quarter	R\$0.44	R\$0.37
2nd quarter (through June 15)	R\$0.42	R\$0.36
December 2006	R\$0.39	R\$0.38
January 2007	R\$0.44	R\$0.37
February 2007	R\$0.44	R\$0.39
March 2007	R\$0.44	R\$0.37
April 2007	R\$0.39	R\$0.36
May 2007	R\$0.42	R\$0.36
June 2007 (through June 15)	R\$0.42	R\$0.39

The following table presents the reported high and low closing sales prices for the ADSs in U.S. dollars on the New York Stock Exchange for the periods indicated.

<b>Calendar Period</b>	<b>U.S. dollars per ADS</b>	
	<b>High</b>	<b>Low</b>
2002	US\$23.76	US\$3.29



Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

2003	US\$11.01	US\$4.45
2004	US\$12.99	US\$8.47
2005	US\$9.10	US\$5.55
2006	US\$14.05	US\$7.20
2007 (through June 15)	US\$10.89	US\$8.44
2005:		
First quarter	US\$9.10	US\$6.58
Second quarter	US\$6.97	US\$6.12
Third quarter	US\$7.55	US\$5.55
Fourth quarter	US\$7.88	US\$6.39
2006:		
First quarter	US\$14.05	US\$7.20
Second quarter	US\$11.75	US\$7.61
Third quarter	US\$9.30	US\$7.85
Fourth quarter	US\$9.81	US\$8.72
2007:		

Calendar Period	U.S. dollars per ADS	
	High	Low
1st quarter	US\$10.55	US\$8.44
2nd quarter (through June 15)	US\$10.89	US\$8.95
December 2006	US\$9.35	US\$8.82
January 2007	US\$10.40	US\$8.44
February 2007	US\$10.55	US\$9.25
March 2007	US\$10.05	US\$9.07
April 2007	US\$9.55	US\$8.95
May 2007	US\$10.65	US\$9.10
June 2007 (through June 15)	US\$10.89	US\$9.81

## B. Plan of Distribution

Not applicable.

## C. Markets

### Trading on the BOVESPA

#### *General*

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade in common and preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, Companhia Brasileira de Liquidação e Custódia, or CBLC.

The BOVESPA is a nonprofit entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BOVESPA has two open outcry trading sessions each day from 11:00 a.m. to 6:00 p.m., São Paulo time, for all securities traded on all markets, except during daylight savings time in the United States. During daylight savings time in the United States, usually the sessions are from 10:00 a.m. to 5:00 p.m., São Paulo time, to closely mirror the NYSE trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States, on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 6:45 p.m. to 7:30 p.m. on an online system connected to traditional and internet brokers called the after market. Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through internet brokers. There are no specialists or officially recognized market makers for our shares in Brazil.

In order to better control volatility, the BOVESPA adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA fall below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

As of December 2006, the aggregate market capitalization of the 391 companies listed on the BOVESPA was approximately R\$1.6 billion (US\$748 million). The Brazilian equity market is relatively small and less liquid compared to major world markets. The ten largest companies represented 54% of the total market capitalization of all listed companies on the BOVESPA. As of December 2006 the average daily trading volume on the BOVESPA was approximately US\$2.4 billion. By comparison, as of December 2006, the aggregate market capitalization of the 3,637 companies listed on the NYSE was approximately US\$25 trillion, and the ten largest companies represented approximately 10%, of the total market capitalization of all listed companies. The 451 non-US listed companies, from 46 countries, represented US\$9.6 trillion in total global market capitalization and more than 10% of NYSE daily volume as of December 31, 2006.

### *Corporate Governance Practices*

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and New Market (*Novo Mercado*), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

To become a Level 1 (*Nível 1*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (a) ensure that shares of the issuer representing 25% of its total capital are effectively available for trading, (b) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (c) comply with minimum quarterly disclosure standards including cash flow statements, (d) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the issuer; (e) submit any existing shareholders' agreements and stock option plans to the BOVESPA; and (f) make an annual calendar announcing scheduled corporate events, including information on the company, the event, date and time it is going to take place; any changes in the schedule must be promptly forwarded to BOVESPA and published.

To become a Level 2 (*Nível 2*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (a) comply with all of the listing requirements for Level 1 companies, (b) grant tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share for controlling block common shares and 80% of the price paid per share for controlling block preferred shares, (c) grant voting rights to holders of preferred shares in connection with certain corporate restructurings and related-party transactions, such as: (i) any transformation of the company into another corporate form, (ii) any merger, consolidation or spin-off of the company, (iii) approval of any transactions between the company and its controlling shareholder, including parties related to the controlling shareholder, (iv) approval of any valuation of assets to be delivered to the company in payment for shares issued in a capital increase, (v) appointment of an independent company, with renowned expertise, to ascertain the economic value of the company in connection with any deregistration and delisting tender offer, and (vi) any changes to these voting rights, (d) have a board of directors comprised of at least five members, of which at least 20% must be independent, as defined by the BOVESPA, with a term limited to two years, (e) if it elects to delist from the Level 2 segment, hold a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be the economic value determined by an appraisal process), and, for the same purposes, in the case of companies with diffuse control (controlling power exercised by the shareholder holding less than 50% of the voting capital and per group of shareholders who are not signatories of voting agreements and which is not under a common control and does not act as a representative of a common interest) to comply with complementary rules to be issued by BOVESPA; (f) disclose: (i) quarterly financial statements in English or prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS); and (ii) annual financial statements in English, including cash flow statements, prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS), in U.S. Dollars or *reais*, and (g) adhere exclusively to the rules of the BOVESPA Arbitration Chamber for resolution of disputes involving the controlling shareholders, the managers and the members of the fiscal committee.

To be listed in the *Novo Mercado*, an issuer must meet all of the requirements described above, and in addition to (a) issuing only voting shares and ensuring that all the shares will be composed exclusively of common shares, (b) granting tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share for controlling block common shares.

*Regulation of Brazilian Securities Markets*

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and securities markets, as well as by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market are governed by Law No. 10,198 dated February 14, 2001, Law No. 10,303 dated October 31, 2001, known as Law No. 10,303, and Law No. 10,411 dated February 26, 2002, which introduced new concepts and several changes to Law No. 6,385 dated December 7, 1976, as amended and supplemented, the principal law governing the Brazilian securities markets, by Law No. 6,404 of December 15, 1976, as amended, known as the Brazilian Corporation Law, and by regulations issued by the CVM, the CMN and the Central Bank. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, criminal sanctions for insider trading and

price manipulation, and protection of minority shareholders. They also provide for licensing and oversight of brokerage firms and governance of Brazilian stock exchanges.

Under the Brazilian Corporation Law, a company is either publicly-held (*companhia aberta*), such as we are, or closely-held (*companhia fechada*). All publicly-held companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on the BOVESPA or in the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to some limitations. To be listed, a company must apply for registration with the CVM and the BOVESPA.

Trading in securities on the BOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended at the initiative of the BOVESPA or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the BOVESPA.

Trading on the BOVESPA by nonresidents of Brazil is subject to certain limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the preferred shares underlying the ADSs must, on behalf of the depositary for the ADSs, obtain registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereof. If you exchange your ADSs for preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for five business days after the exchange. Thereafter, you may not be able to obtain and remit abroad non-Brazilian currency upon the disposition of or distributions relating to the preferred shares, and will be subject to a less favorable tax treatment on gains with respect to the preferred shares, unless you obtain a new electronic certificate of foreign capital registration or qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on the BOVESPA without obtaining separate electronic certificates of foreign capital registration. See Item 10D. Additional Information—Exchange Controls.

The Brazilian securities laws and regulations provide for, among other things, disclosure requirements applicable to issuers of traded securities, protection of minority shareholders and criminal penalties for insider trading and price manipulation. On January 3, 2002, the CVM issued Instruction No. 358, which amended the rules applicable to the disclosure of relevant facts and became effective on April 28, 2002. In accordance with this regulation, companies must establish internal policies applicable to the disclosure of relevant facts and the confidentiality of non-public information. We have filed our disclosure and confidentiality policy with the CVM. However, the Brazilian securities markets are still not as regulated and supervised as the United States securities markets or markets in certain other jurisdictions.

#### *Changes in the Brazilian Corporation Law*

On October 31, 2001, Law No. 10,303, amending the Brazilian Corporation Law, was enacted. The main goal of Law No. 10,303 is to broaden the rights of minority shareholders. Law No. 10,303:

- obligates controlling shareholders to make a tender offer for shares if they increase their interest in share capital to a level that materially and negatively affects the liquidity of our shares, as defined by the CVM;
- requires any acquirer of control to make a tender offer for common shares at a price equal to 80% of the per share price paid for the controlling block of shares;
- authorizes us to redeem minority shareholders' shares if, after a tender offer, our controlling shareholders increase their participation in our total share capital to more than 95%;

- entitles dissenting or, in certain cases, non-voting shareholders to obtain redemption upon a decision to conduct a spin-off that results in (a) a change of our corporate purpose, (b) a reduction in the mandatory dividend or (c) any participation in a group of companies (as defined by the Brazilian Corporation Law);
- requires that the preferred shares have one of the following advantages in order to be listed and to trade on a stock exchange: (a) priority in receipt of dividends corresponding to at least 3% of the book value per share (after this priority condition is met, equal conditions apply to common shares); (b) dividends 10% higher than those paid for common shares; or (c) a tag-along right at 80% of the price paid to the controlling shareholder in case of a transfer control. No withdrawal rights arise from such amendments made before December 31, 2002;

- entitles shareholders that are not controlling shareholders but that together hold (a) preferred shares representing at least 10% of our total share capital or (b) common shares representing at least 15% of our voting capital the right to appoint one member and an alternate to our board of directors. If no group of common or preferred shareholders meets the thresholds described above, shareholders holding preferred or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. Until 2005, the board members that may be elected pursuant to (a) above or by the combined holdings of holders of preferred and common shares are to be chosen from a list of three names drawn up by the controlling shareholder. Any such members elected by the minority shareholders will have veto powers on the selection of our independent auditors;
- requires controlling shareholders, shareholders that appoint members of our board of directors or fiscal council and members of our board of directors, board of executive officers or fiscal council to file immediately with the CVM and the stock exchanges (or the over-the-counter markets on which our securities are traded) a statement of any change in their shareholdings; and
- requires us to send copies of the documentation we submit to our shareholders in connection with shareholders meetings to the stock exchanges on which our shares are most actively traded.

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

#### **F. Expenses of the Issue**

Not applicable.

### **ITEM 10. ADDITIONAL INFORMATION**

#### **A. Share Capital**

Not applicable.

#### **B. Memorandum and Articles of Association**

Set forth below is certain information concerning our capital stock and a summary of certain significant provisions of our bylaws and Brazilian Corporation Law.

#### **Corporate Purposes**

We are a publicly held corporation and our principal place of business is in the city of Belo Horizonte, Brazil. We are governed mainly by our bylaws and by the Brazilian Corporation Law. Our corporate purposes are found under Article 2 of our bylaws, which establishes that our objectives are:

- to control companies that perform activities related to the mobile telephone sector in the areas of concessions or authorizations;



- to promote, through our controlled or affiliated companies, the expansion and implementation of mobile telephone services in the areas of concessions or authorizations;
- to promote, to perform or to assist in domestic and foreign investments to be made by us or our controlled companies;
- to promote and stimulate studies and research on the development of the mobile telephone sector;

- to perform, directly or through our controlled or affiliated companies, technical services related to the mobile telephone sector;
- to perform or promote the import of goods and services for or through controlled or affiliated companies;
- to promote, to stimulate and to coordinate, directly or through our controlled or affiliated companies, the formation and training of professionals in the mobile telephone sector;
- to perform other mobile telephone related activities; and
- to hold equity interests in other companies.

### **Shareholders Meeting**

Our annual shareholders meeting must occur within four months following the close of our fiscal year and other shareholders meetings must be held whenever required. The Brazilian Corporation Law and our bylaws require that all our shareholders meetings be called by publication of a notice in newspapers of general circulation in our principal place of business, currently the city of Belo Horizonte, at least fifteen days prior to the meeting and for three consecutive business days. In addition, the CVM may also require the first call for a shareholders meeting to be made up to 30 days before such shareholders meeting. The quorum to hold shareholders meetings on first call is generally 25% of the shares entitled to vote and, on second call, the meetings can be held with the presence of any number of the shares entitled to vote.

Resolutions are generally passed by the majority of the voting shareholders present at the meeting. Brazilian Corporation Law requires the approval of shareholders representing at least half of the voting shares outstanding for matters such as the following:

- to create preferred shares or to increase the preferred shares of existing classes without maintaining the proportion with the remaining classes of preferred shares, except if provided for and authorized in the bylaws;
- to modify the privileges, advantages and amortization or redemption conditions of one or more classes of preferred shares or to create a new class with greater privileges;
- to decrease the mandatory dividend;
- to merge a company into, or to consolidate a company with, another company or to spin it off;
- to become a member of a group of companies;
- to modify the corporate purposes of the company;
- to cease the liquidating status of the company;
- to issue founder's shares; or
- to dissolve the company.

Our bylaws establish that general shareholders meetings addressed to deliberate subjects requiring special approval must be called at least 30 days in advance.

**Preferred Shares and Common Shares**

The following is a summary of the material terms of our common and preferred shares, including related provisions of our bylaws and the Brazilian Corporation Law.

*General*

As of December 31, 2006, our paid-in capital was R\$84,850,577.76, divided into a total of 124,623,841,906 outstanding common shares and 210,460,313,451 preferred shares, without par value. All our outstanding shares are fully paid. Under our bylaws, the number of preferred shares may not exceed two-thirds of the total number of outstanding shares. We may issue preferred shares without maintaining a fixed proportion to common shares provided we observe the limit prescribed by law. Under the Brazilian Corporation Law, the number of preferred non-voting or

restricted voting shares outstanding, such as the preferred shares, may not exceed one-half of the total number of outstanding shares. According to Law No. 10,303, this new limit on the issuance of preferred shares does not apply to existing listed companies, including us. Currently, our common shares and preferred shares ratio with respect to our total share capital is 0.3719 and 0.6281, respectively.

Under our bylaws, our board of directors may increase our share capital up to 700,000,000,000 shares. Our shareholders must approve at a shareholders meeting any capital increase that exceeds this limit. Under Brazilian Corporation Law, if we issue additional shares in a private transaction, the existing shareholders have preemptive rights to subscribe for shares on a *pro rata* basis according to their current holdings.

As approved by our board of director at a meeting held on May 31, 2007, the Registrant's management will submit for approval by its shareholders at an extraordinary general shareholders meeting to be held on July 12, 2007, a proposal to effect a reverse share split of the shares issued by the Registrant. In the event the proposal is approved, every 50,000 shares issued by the Registrant will become one share of the same type and each ADS will represent one preferred share, without par value.

### *Common Shares*

Each common share entitles the holder thereof to one vote at our annual and special shareholders meetings. Under the Brazilian Corporation Law, our common shares are entitled to dividends or other distributions made in respect of the common shares in proportion to their share of the amount available for the dividend or distribution. See

-Allocation of Net Income and Distribution of Dividends Distribution of Dividends for a more complete description of payment of dividends and other distributions on our common shares. In addition, upon any liquidation, our common shares are entitled to return of capital in proportion to their share of our net worth.

### *Preferred Shares*

Holders of preferred shares are generally entitled to priority in the receipt of dividends and return of capital, with no premium. Our bylaws also establish the payment of a minimum amount of non-cumulative dividends equivalent to 6% per year of the value resulting from the division of subscribed capital by the total number of shares, or the right to receive a share in the mandatory dividend to be distributed based on the greater of the following criteria: (a) priority to receive a minimum, non-cumulative dividend corresponding to 3% of the net asset value of each share; and (b) a right to receive a share in the profits to be distributed on the same basis as common shareholders, after common shares have been paid a dividend equal to the minimum preferred dividend mentioned in letter (a) above.

The Brazilian Corporation Law provides that non-voting or restricted-voting shares (such as the preferred shares) entitled to fixed or minimum dividends acquire unrestricted voting rights beginning when a company has failed for three consecutive fiscal years (or for any shorter period set forth in a company's constituent documents) to pay any fixed or minimum dividend to which such shares are entitled and continue to hold such voting rights until payment thereof is made. Our bylaws do not provide for any shorter period. Amazônia Celular, our operating company, has not paid any dividends to its holders of preferred shares during the last three consecutive years. Accordingly, preferred shares of Amazônia Celular have voting rights until Amazônia Celular resumes paying dividends.

Any change in the preferences or advantages of the preferred shares, or the creation of a class of shares having priority over the preferred shares, would require the approval of holders of a majority of the outstanding preferred shares, voting as a class at a special meeting of holders of preferred shares. In any circumstance in which holders of preferred shares are entitled to vote, each preferred share will entitle the holder thereof to one vote.

Moreover, the preferred shareholders are entitled to vote at shareholders meetings in respect of any of the following matters:

- to amend or delete the article in our bylaws that provides that a shareholders meeting will be required for approving the execution of long-term agreements between us or controlled companies, on one side, and the controlling shareholder, controlled or affiliated companies, those subject to common control, or that in any other way can be considered to be related to us, on the other side, except for standard-form agreements, as well as to approve the execution of any such agreements;
- to amend or delete the article in our bylaws that provides that extraordinary general shareholders meetings called to decide on special quorum subjects will be valid if the first call is made at least 30 days

in advance of the date on which the general shareholders meeting will take place, and a second call is made at least 10 days in advance therewith; and

- to amend or delete the article in our bylaws that provides that our approval of a merger, spin-off, consolidation or dissolution of controlled companies must be guided by the equal treatment to all the companies involved.

#### *Change in Shareholders Rights*

In principle, a change in shareholders rights, such as the reduction of the mandatory minimum dividend, requires the vote of shareholders holding at least one half of our voting shares. Under certain circumstances which may result in a change in the rights of shareholders, the Brazilian Corporation Law requires the approval of a majority of the shareholders who would be adversely affected by the change and who are present at a special meeting called for such purpose.

#### **Allocation of Net Income and Distribution of Dividends**

##### *Allocation of Net Income*

The allocation of our net income is proposed by our management and is subject to approval by our shareholders at a general shareholders meeting. However, the discretion of our management and our shareholders to determine the allocation of our net income, however, is limited by certain rules that determine whether such net income should be distributed as dividends or allocated to certain profit reserves or carried forward to future fiscal years, as described below.

*Mandatory dividends.* Our shareholders are generally entitled to receive mandatory dividends each year, in an amount equivalent to 25% of our adjusted net income. Adjusted net income is net income under Brazilian GAAP following the addition or subtraction of:

- amounts allocated to the formation of a statutory reserve account, and
- amounts allocated to the formation of a contingency reserve account and the return of any amounts in any contingency reserve accounts deposited in previous years.

The payment of our mandatory dividends may be limited to the profits actually realized in the fiscal year, if the portion of the profits not realized is allocated to the unrealized income reserve account (as described below).

If prior to a general shareholders meeting, our board of directors recommends that payment of mandatory dividends with respect to the preceding fiscal year would not be advisable in view of our financial condition, our shareholders would decide at the shareholders meeting whether or not to make that distribution. The recommendation of the board of directors must be reviewed by our fiscal council, if it is convened, and reported to our shareholders and to the CVM.

*Legal reserve account.* We are required to maintain a legal reserve account to which we must allocate 5% of our net income for each fiscal year until the amount of the reserve equals 20% of our share capital. The allocation of a portion of the net income to the legal reserve account is mandatory, even though it must be submitted to the approval by the shareholders voting at the general shareholders meeting and may be transferred to our capital account or used to offset accumulated losses. However, we are not required to make any allocations to our legal reserve in respect of any fiscal year in which it, when added to our other established capital reserves, exceeds 30% of our capital. Net losses, if

any, may be charged against the legal reserve account. The legal reserve account is not available for the payment of dividends. In 2006, the total amount of this reserve was used to offset accumulated losses.

*Statutory reserve account.* Our bylaws provide that our shareholders may allocate up to 10% of our net income (adjusted pursuant to the Brazilian Corporation Law) to a working capital backup reserve. This reserve, however, may not exceed 10% of our net book value. At December 31, 2006, we had no working capital backup reserve.

*Statutory reserve for investments.* Our bylaws establish a statutory reserve for investments, to be created with the remaining balance of net income for the preceding fiscal year, provided that it complies with the capital budget

previously approved by a shareholders meeting and provided that it is used to support costs with the expansion of our activities and those of our subsidiaries, including through capital increases or the development of new businesses. It may not be approved at the expense of retaining mandatory dividends, as provided in article 41 of our bylaws. The balance of this reserve, as well as all profit reserves, except those for contingencies and realizable profits, may not exceed our share capital. Should this limit be reached, a general shareholders meeting would have to decide whether the excess should be applied to pay in or increase the capital or to distribute dividends.

*Discretionary reserve accounts.* The Brazilian Corporation Law also provides for two discretionary allocations of net profits that are subject to approval by the shareholders at the annual meeting. First, a percentage of net profits may be allocated to a contingency reserve account for anticipated losses that are deemed probable in future years. Second, if the mandatory distributable amount exceeds the sum of realized net profits in a given year, such excess may be allocated to an unrealized income reserve account. Our bylaws, which authorize the allocation of a percentage of our net income to the discretionary reserve account, require that the purpose, criteria for allocation and maximum amount of the reserve be specified.

*Retention of our net income based on a capital expenditure budget.* A portion of our net income may be retained for capital expenditure projects, the amount of which is based on a capital expenditure budget previously presented by our management and approved by our shareholders. If a project relating to this approved capital expenditure budget has a term exceeding one year, the budget relating to the project must be submitted to the general shareholders meeting each fiscal year until the relevant investment is completed.

#### *Distribution of Dividends*

Under the Brazilian Corporation Law, we may pay dividends only from:

- our net income earned in a given fiscal year, i.e., our after-tax income reduced by (i) our losses carried forward from prior fiscal years, and (ii) distributions to holders of founders shares and to managers pursuant to profit-sharing arrangements. Our bylaws authorize a profit sharing plan for management and employees as well as a stock option plan. The amount to be paid is set by our board of directors. Under Brazilian Corporation Law, this profit sharing may only be paid to management with respect to a fiscal year in which the mandatory dividend has been declared to the shareholders;
- our net income accrued in previous fiscal years or in any six-month and/or quarterly interim periods of a fiscal year; or
- our profit reserves set aside in previous fiscal years or in the first six months of a fiscal year. In this case, profit reserves means any discretionary reserve account, contingency reserve account, amounts allocated to our capital expenditure budget approved by a shareholders resolution or unrealized income reserve account, not including the capital reserves.

We are required to pay a non-cumulative preferred dividend on our preferred shares in an amount equal to 6% per year, over the value resulting from the division of subscribed capital by the total number of shares, or, alternatively, minimum non-cumulative dividends corresponding to 3% of the net asset value of each share. We must choose the alternative representing the higher value. In 2006, we paid holders of preferred shares R\$3.4 million related to the minimum dividends for the year ended December 31, 2004. However, no payment was made to the holders of common shares, in view of the absence of profits for distribution as dividends from Amazônia Celular. The retention of dividends related to the year ended December 31, 2004 was approved by the shareholders at a meeting held on April 27, 2006.



For purposes of the mandatory distribution requirement, we included in adjusted net income part of the unrealized income reserve transferred upon the breakup of Telebrás, which amounted to R\$59.3 million (R\$5.9 million as of December 31, 2006) and is included in distributable capital and other reserves in our shareholders' equity. We decided to include the unrealized reserve in the calculation of the mandatory distribution requirements over a ten-year period, ending in 2007. We cannot assure you that the mandatory distribution of the unrealized income reserve will not result in substantial additional dividend requirements.

Distributions of interest on our net worth may constitute an alternative form of payment to shareholders. These payments may qualify as part of the mandatory dividend at their net value. Please see [Taxation - Brazilian Tax Considerations](#).

Dividends are generally required to be paid within 60 days after the date the dividends were declared to the holder of record, unless a shareholders' resolution sets forth another date of payment. This date must, in either case, be prior to the end of the fiscal year in which the dividend is declared. A shareholder has a three-year period following the date on which the dividend payment is made available to claim a dividend in respect of its shares, after which it reverts to the company. We are not required to adjust the amount of the dividend for inflation for the period from the date of declaration to the payment date (except for the case of judicial dispute resulting indemnity for pain and suffering).

Our calculation of net profits and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with Brazilian GAAP and adjusted in accordance with Brazilian Corporation Law. The financial statements included herein have been prepared in accordance with U.S. GAAP and, although our allocations to reserves and dividends will be reflected in those financial statements, investors will not be able to calculate these allocations or required dividend amounts from the US GAAP financial statements.

### **Interest on Shareholders' Equity**

Law No. 9,249, dated December 26, 1995, as amended, provides for distribution of interest on net worth to shareholders as an alternative form of payment to shareholders. Such interest is limited to the daily *pro rata* variation of the TJLP, as determined by the Central Bank from time to time, and may not exceed the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits, but before taking into account the provision for income tax and the interest on shareholders' equity) for the period in respect of which the payment is made; or
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payments of interest on shareholders' equity may be treated as a deductible expense for corporate income tax and social contribution purposes, provided that some limits are observed. See Item 10E. Taxation Brazilian Tax Considerations Distribution of Interest on Shareholders' Equity.

The amount paid to shareholders as interest on shareholders' equity, net of any withholding tax, may be included as part of any mandatory distributable amount. Under Brazilian law, we are obligated to distribute to shareholders an amount sufficient to ensure that the net amount received by them, after payment by us of applicable Brazilian withholding taxes in respect of the distribution of interest on shareholders' equity, is at least equal to the mandatory distributable amount. When we distribute interest on shareholders' equity, and that distribution is not accounted for as part of the mandatory distribution, Brazilian withholding tax will apply.

### **Specific Shareholders' Rights**

According to the Brazilian Corporation Law, neither a company's bylaws nor actions taken at a general meeting of shareholders may deprive a shareholder of certain specific rights, such as:

- the right to participate in the distribution of profits;
- the right to participate equally and ratably in any remaining residual assets in the event of the company's liquidation;
- the right to supervise the management of the corporate business as specified in the Brazilian Corporation Law;

- preemptive rights in the event of a subscription of shares, debentures convertible into shares or subscription bonuses (other than with respect to a public offering of such securities, as may be provided in the bylaws); and
- the right to withdraw from the company in the cases specified in the Brazilian Corporation Law.

**Other Provisions**

Neither the Brazilian Corporation Law nor our bylaws expressly addresses:

- staggered terms for directors;
- cumulative voting, except as described below; or
- measures that could prevent a takeover attempt.

Nevertheless, the General Telecommunications Law requires Anatel's prior approval for any spin off, merger, incorporation, transformation or transfer of control involving corporations holding any telecommunications concession or authorization.

According to the Brazilian Corporation Law and CVM regulation, shareholders representing at least 5% of the voting capital may request that a multiple voting procedure be adopted to entitle each share to as many votes as there are board members and to give each shareholder the right to vote cumulatively for only one candidate or to distribute his/her votes among several candidates. Pursuant to the Brazilian Corporation Law, shareholders' actions must be taken at a shareholders' meeting duly convened, and not by written consent.

### **Preemptive Rights**

Each of our shareholders has a general preemptive right to subscribe for shares or securities convertible into shares in any capital increase, in proportion to its holding, except in the event of the grant and exercise of any option to acquire shares of our share capital. A period of at least 30 days following the publication of notice of the issuance of shares or securities convertible into shares is allowed for exercise of the right. Under the Brazilian Corporation Law, we may amend our bylaws to eliminate preemptive rights or to reduce the exercise period in connection with a public offering of shares or an exchange offer made to acquire another company. Currently our bylaws provide for such elimination of the preemptive rights in those circumstances upon approval of the shareholders or the board of directors.

In the event of a capital increase which would maintain or increase the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to subscribe only for newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs, except as described above, would have preemptive rights to subscribe for preferred shares in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in us.

### **Redemption and Rights of Withdrawal**

The Brazilian Corporation Law provides that, under limited circumstances, a shareholder has the right to withdraw his or her equity interest from the company and to receive payment for the portion of shareholder's equity attributable to his or her equity interest. This right of withdrawal may be exercised by our dissenting shareholders in the event that at least half of all voting shares outstanding authorize us:

- to create preferred shares or to increase the existing classes of preferred shares, without maintaining the proportion with the remaining classes of preferred shares, except if provided for and authorized in the bylaws, subject to the conditions set forth in the Brazilian Corporation Law;
- changes in the preferences, advantages and conditions of redemption or amortization of one or more classes of preferred shares, or the creation of a new class with greater privileges, subject to the conditions set forth in the Brazilian Corporation Law;

- to reduce the mandatory distribution of dividends;
- to merge into another company or to consolidate with another company, subject to the conditions set forth in the Brazilian Corporation Law;
- to participate in a centralized group of companies as defined under the Brazilian Corporation Law and subject to the conditions set forth therein;
- to change our corporate purpose;

- to split up, subject to the conditions set forth in the Brazilian Corporation Law;
- to transform into another type of company;
- to transfer all of our shares to another company or to receive shares of another company in order to make the company whose shares are transferred a wholly owned subsidiary, a procedure known as *incorporação de ações*; or
- to acquire control of another company at a price which exceeds the limits set forth in the Brazilian Corporation Law.

The right of withdrawal lapses 30 days after publication of the minutes of the shareholders' meeting that approved the corporate actions described above. We would be entitled to reconsider any action giving rise to withdrawal rights within 10 days following the expiration of such rights if the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

In addition, the rights of withdrawal in the fourth, fifth and ninth bullet points above may not be exercised by holders of shares if such shares (i) are liquid, which definition entails being part of the São Paulo Stock Exchange Index or other stock exchange index (as defined by the CVM), and (ii) are widely held, such that the controlling shareholder or companies it controls have less than 50% of the shares.

This right of withdrawal may also be exercised in the event that the entity resulting from a merger, *incorporação de ações*, as described above, consolidation or spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken.

The Brazilian Corporation Law allows companies to reimburse the withdrawn shareholders of the amount of their shares at their economic value, subject to the provisions of their bylaws and certain other requirements. Our bylaws currently do not provide that the reimbursement will be effected at its economic value of the shares; consequently, any reimbursement pursuant to the Brazilian Corporation Law would be made based on the book value per share, determined on the basis of the last balance sheet approved by the shareholders. However, if a shareholders' meeting giving rise to the reimbursement rights occurred more than 60 days after the date of the last approved balance sheet, a shareholder would be entitled to demand that his or her shares be valued on the basis of a new balance sheet dated within 60 days of such shareholders' meeting.

## **Form and Transfer**

According to the Brazilian Corporation Law, all shares issued by Brazilian companies must be nominative and either registered within the companies' registry books (the *Registro de Ações Nominativas*) or placed under the custody of a financial institution specifically designated to perform custodial services by each company. Because preferred shares are in registered book-entry only form, the transfer of shares is effected by either an entry made by us in our books by debiting the share account of the transferor and crediting the share account of the transferee or by a book entry by the custodian in case the board of directors authorizes the maintenance of our shares under the custody of a financial institution specifically designated by the shareholders to perform book-entry services. Under our bylaws, our shares are in the form of book-entry shares and the transfer of those shares is effected through an order to the financial institution which controls the registration of those shares.

Transfers of preferred shares by a foreign investor are made in the same way and executed by that investor's local agent on the investor's behalf except that, if the original investment was registered with the Central Bank pursuant to the Annex IV Regulations, the foreign investor also should seek amendment, if necessary, through its local agent, of

the certificate of registration to reflect the new ownership.

The São Paulo Stock Exchange operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system and all shares elected to be put into the system will be deposited in custody with the stock exchange (through a Brazilian institution that is duly authorized to operate by the Central Bank having a clearing account with the stock exchange). The fact that these shares are subject to custody with the stock exchange will be reflected in our registry of shareholders. Each participating shareholder will, in turn, be registered in our register of beneficial shareholders maintained by the stock exchange and will be treated in the same way as registered shareholders.

## **Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (i) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (ii) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules, and (iii) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies. The discussion of the significant differences between our corporate governance practices and those required of U.S. listed companies follows below.

### *Majority of Independent Directors*

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both Brazilian Corporate Law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. Although our directors meet the qualification requirements of Brazilian Corporate Law and the CVM, we do not believe our directors would be considered independent under the NYSE test for director independence. Brazilian Corporate Law and our bylaws require that our directors be elected by our shareholders at a general shareholders meeting.

### *Executive Sessions*

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management. Brazilian Corporate Law does not have a similar provision. According to Brazilian Corporate Law, up to one-third of the members of the board of directors can be elected from management. The remaining non-management directors are not expressly empowered to serve as a check on management and there is no requirement that those directors meet regularly without management. All of our directors are non-management directors.

### *Nominating/Corporate Governance Committee*

NYSE rules require that listed companies have a Nominating/Corporate Governance Committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. We are not required under applicable Brazilian law to have a Nominating Committee/Corporate Governance Committee, and accordingly, to date, have not established such a committee. Pursuant to our bylaws, our directors are elected by our shareholders at a general shareholders meeting. Our corporate governance practices are adopted by the entire board.

### *Compensation Committee*

NYSE rules require that listed companies have a Compensation Committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to CEO compensation,



evaluating CEO performance and approving CEO compensation levels and recommending to the board non-CEO compensation, incentive-compensation and equity-based plans. We are not required under applicable Brazilian law to have a Compensation Committee. Under Brazilian Corporate Law, the total amount available for compensation of our directors and executive officers and for profit-sharing payments to our executive officers is established by our shareholders at the annual general meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board members. In making such determinations, the board reviews the performance of the executive officers, including the performance of our CEO.

### *Audit Committee*

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee, or fiscal council in our case, meet the SEC rules regarding audit committees for listed companies. Brazilian Corporate Law requires companies to have a permanent or non-permanent fiscal council composed of three to five members who are elected at the general shareholders' meeting. The fiscal council operates independently from management and from a company's external auditors. Its main function is to monitor the activities of management, examine the financial statements of each fiscal year and provide a formal report to our shareholders.

On July 29, 2005, our board of directors decided that our fiscal council would also undertake the responsibilities of an audit committee, including, among others, making recommendations to the board of directors on appointment and retention of independent auditors, processing complaints regarding accounting and auditing, and engaging advisers. See Item 16D Exemptions from the Listing Standards for Audit Committees.

We have a permanent fiscal council that consists of three to five members. Beginning in April 2006, our fiscal council holds ordinary meetings on a quarterly basis and, extraordinarily, whenever necessary. The members of our fiscal council are all financially literate and one member has accounting expertise that qualifies him as audit committee financial expert.

### *Shareholder Approval of Equity Compensation Plans*

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under Brazilian Corporate Law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital established in our bylaws is subject to shareholder approval.

### *Corporate Governance Guidelines*

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We have not adopted any formal corporate governance guidelines beyond those required by applicable Brazilian law. We have adopted and observe a disclosure policy which requires the public disclosure of all relevant information pursuant to guidelines set forth by the CVM, as well as an insider trading policy, which, among other things, establishes black-out periods and requires insiders to inform management of all transactions involving our securities.

### *Code of Business Conduct and Ethics*

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors and certain officers, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement. However, in December 2003, we adopted a code of ethics and conduct applicable to our officers, directors and employees, including at the subsidiary level, providing a whistleblower protection for those who reports violations to the code terms.

### *Internal Audit Function*

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. Our internal audit function is the responsibility of our chief executive officer. Our financial department is supported in its internal audit function by our quality control department, which is responsible for the evaluation and effectiveness of our internal procedures and reporting systems.

**C. Material Contracts**

**Personal Mobile Service Authorizations**

We obtained a mobile cellular concession from the Brazilian Ministry of Communications on November 4, 1997. On February 19, 2004, we signed an authorization contract with Anatel to migrate to the SMP regime, which will replace the SMC. We also acquired additional spectrum from Anatel on the 1,800 MHz and the 900 MHz frequency ranges. The terms of our authorization are described in Item 4B. Information on the Company Business Overview Regulation of the Brazilian Telecommunications Industry.

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.

### **Network Agreements**

*Ericsson Telecomunicações S.A. and Ericsson Serviços de Telecomunicações Ltda.*

On March 31, 2005, Amazônia Celular S.A., Telemig Celular, Ericsson Telecomunicações S.A. and Ericsson Serviços de Telecomunicações Ltda. entered into an agreement to provide and implement the expansion of our GSM CORE network. Under the terms of this agreement, Ericsson will provide the equipment, material, software and services necessary for the expansion of our GSM CORE network. The total amount payable to Ericsson under the terms of the agreement is R\$72.6 million, of which we will pay R\$22.0 million, and Telemig Celular will pay R\$50.6 million.

On September 19, 2006, Amazônia Celular S.A. entered into a new agreement with Ericsson Telecomunicações S.A. and Ericsson Serviços de Telecomunicações Ltda. to provide and implement the expansion of our GSM CORE network. Under the terms of this agreement, Ericsson has agreed to provide all equipment, material, software and services necessary for the expansion of our GSM CORE network. The total amount payable to Ericsson under the terms of the agreement is R\$0.8 million.

On September 19, 2006, Amazônia Celular S.A. entered into a new agreement with Ericsson Telecomunicações S.A., Ericsson Serviços de Telecomunicações Ltda. and Ericsson Gestão e Serviços de Telecomunicações Ltda. to provide and implement the expansion of our GSM ACCESS network. Under the terms of this agreement, Ericsson has agreed to provide all equipment, material, software and services necessary for the expansion of our GSM ACCESS network. The total amount payable to Ericsson under the terms of the agreement is R\$4.9 million.

### **D. Exchange Controls**

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADS and to remit the proceeds abroad.

Resolution No. 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of

the ADSs are entitled to favorable tax treatment under certain circumstances.

Under Resolution 2,689 of the CMN, of January 26, 2000, foreign investors registered with the CVM may buy and sell Brazilian securities, including our preferred shares, on Brazilian stock exchanges without obtaining separate certificates of registration for each transaction. Registration is available to qualified foreign investors, which principally include foreign financial institutions, insurance companies, pension and investment funds, charitable foreign institutions and other institutions that meet certain minimum capital and other requirements. Resolution 2,689 also extends favorable tax treatment to registered investors. See Taxation Brazilian Tax Considerations.

Pursuant to the Resolution 2,689 foreign investors must: (i) appoint at least one representative in Brazil with the ability to perform actions regarding the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by a foreign investor pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in register, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities is restricted to transactions carried out on the stock exchanges or over-the-counter markets licensed by the CVM.

A certificate of registration has been generated in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary. Pursuant to the registration, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the depositary's certificate of registration for five business days after such exchange following which such holder must seek to obtain its own certificate of registration with the Central Bank. A holder of preferred shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distribution with respect to, the preferred shares, unless such holder qualifies under Resolution No. 2,689 regulations or obtains its own certificate of registration.

If the shareholder does not qualify under Resolution 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil, the holder will be subject to less favorable Brazilian tax treatment than a holder of ADSs. Regardless of qualification under Resolution 2,689, residents in tax haven jurisdictions are subject to less favorable tax treatment than other foreign investors. See [Taxation Brazilian Tax Considerations](#).

Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance in Brazil's balance of payments. For approximately six months in 1989 and early 1990, the federal government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. There can be no assurances that the federal government will not impose similar restrictions on foreign repatriations in the future.

## **E. Taxation**

The following discussion is a summary of the material Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs. This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase preferred shares or ADSs. This summary is based upon the tax laws of Brazil and related regulations and on the Federal income tax laws of the United States and related regulations as in effect on the date of this annual report. These laws and regulations may change in the future possibly with retroactive effect and may be subject to differing interpretations.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. We cannot assure you, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares or ADSs. In some circumstances, due to internal provisions of each country, a tax in Brazil (see below [Brazilian Tax Considerations Distribution of Shareholders Equity](#)), can generate a tax credit for the holder. Prospective holders of preferred shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition,

ownership and disposition of preferred shares or ADSs in their particular circumstances including, the effect of any state, local or other tax laws including U.S. Federal estate, gift and alternative minimum taxes.

**Brazilian Tax Considerations**

The following discussion summarizes material Brazilian tax consequences relating to the acquisition, ownership and disposition of preferred shares or ADSs by a holder not deemed to be domiciled in Brazil for Brazilian tax purposes (a non-Brazilian holder ). This discussion does not address all the Brazilian tax considerations that may be applicable to any such particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor about the Brazilian tax consequences of investing in preferred shares or ADSs.

### *Taxation of Dividends*

Dividends paid by us in cash or in kind from profits for periods beginning on or after January 1, 1996 (i) to the depositary in respect of preferred shares, underlying ADSs or (ii) to a non-Brazilian holder in respect of preferred shares, will not be subject to Brazilian withholding income tax, in accordance with Law No. 9.249/95, article 10.

### *Taxation of Capital Gains*

According to Law No. 10,833/03, the disposition of assets located in Brazil, by a non-Brazilian holder, whether to a resident in Brazil or not, may be subject to taxation in Brazil. In this sense, on the disposition of the preferred shares, as defined as an asset located in Brazil, the non-Brazilian holder may be subject to income tax on the gains assessed, following the rules described below, no matter if the transaction is conducted in Brazil or abroad and with a Brazilian resident or not. Regarding ADSs, although we believe that the ADSs do not fall within the definition of assets located in Brazil, for purposes of Law No. 10,833/03, considering the general and unclear scope of such provisions and the lack of a judicial court ruling in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil. Thus, the gain on the disposition of ADSs by a non-Brazilian holder to a resident in Brazil (or even to a non-Brazilian holder in case the argument above do not prevail) may be subject to income tax in Brazil according to the rules described below for the disposition of preferred shares, when applicable.

As a general rule, capital gain or loss is defined as the difference between the amount realized on the sale or exchange and the acquisition cost of the shares sold, measured in nominal *reais* (without correction for inflation).

It is important to note that, for purposes of Brazilian taxation, the income tax rules on gains related to the disposition of preferred shares or ADSs vary depending on the domicile of the non-Brazilian holder, the form by which it has registered its investment before the Central Bank and/or how the disposition is carried out, as described below.

The deposit of preferred shares in exchange for ADSs may be subject to Brazilian income tax on capital gains at the rate of 15% if the amount previously registered with the Central Bank, as a foreign investment in the preferred shares is lower than (1) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or (2) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greater number of preferred shares were sold in the 15 trading sessions immediately preceding such deposit. In such a case, the difference between the amount previously registered and the average price of the common shares calculated as above, will be considered a capital gain. There is ground to argue that such taxation is not applicable in case of non-Brazilian holder registered under Resolution 2,689/00 of the National Monetary Council ( 2,689 holder ) that is not domiciled in a country or location that does not impose income tax or where the income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment ( tax haven holder ). The withdrawal of preferred shares upon cancellation of ADSs is not subject to Brazilian tax as far as the regulatory rules are appropriately observed in respect to the registration of the investment before the Brazilian Central Bank.

Capital gains realized by non-Brazilian holders on dispositions of preferred shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market):

- are exempt from income tax when assessed by a non-Brazilian holder that is a 2,689 holder and is not a tax haven holder;
- are subject to income tax at a rate of 15%, in any other case, including gains assessed by a non-Brazilian holder that (i) is not a 2,689 holder; or (ii) is a 2,689 holder but is a tax haven holder. In these cases, a



withholding income tax of 0.005% will be applicable and can be offset with the eventual income tax due on the capital gain.

Any other gains assessed on the disposition of the preferred shares that are not carried out on the Brazilian stock exchange are subject to income tax at a rate of 15%, except for a tax haven resident who, in this case, is subject to income tax at a rate of 25%. In case these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% will also be applicable and can be offset against with the eventual income tax due on the capital gain.

In the case of redemption or capital reduction of preferred shares or ADSs, the positive difference between the amount effectively received by the non-Brazilian holder and the acquisition cost of the securities reduced/redeemed is treated as gains from the disposition of such preferred shares not carried out on a Brazilian stock exchange market being therefore subject to income tax at a rate of 15%, or 25%, as the case may be.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian taxation. Gain realized by a non-resident holder on the disposition of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to the sale or disposition of preferred shares.

#### *Distribution of Interest on Shareholders' Equity*

Brazilian corporations may make payments to shareholders characterized as interest on the shareholders' equity of the company as an alternative form of making dividend distributions. Amounts paid as interest on shareholders' equity, net of applicable withholding tax, may be treated as payments in respect of the dividends we are obligated to distribute to our shareholders in accordance with our bylaws and the Brazilian Corporation Law. Distributions of interest on shareholders' equity in respect of the preferred shares, including distributions to the depositary in respect of preferred shares underlying ADSs, may be converted into U.S. dollars and remitted outside of Brazil, subject to applicable exchange controls. The rate of interest is calculated on the company's equity and it may not be higher than the federal government's long-term interest rate as determined by the Central Bank from time to time. The deduction of the total amount distributed as interest on shareholders' equity may not exceed the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits but before taking into account the provision for income tax and the interest on shareholders' equity) for the period in respect of which the payment is made, or
- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payments of interest on shareholders' equity are decided by the shareholders on the basis of the recommendations of a company's board of directors.

Distributions of interest on shareholders' equity paid to non-Brazilian holders of preferred shares, including payments to the depositary in respect of preferred shares underlying ADSs, are subject to Brazilian withholding tax at the rate of 15%, or 25%, if the non-Brazilian holder is a tax haven holder.

We cannot assure you that our board of directors will not recommend that future distributions of profits should be made by means of interest on shareholders' equity instead of by means of dividends.

#### *Other Brazilian Taxes*

There are no Brazilian taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes levied by some states in Brazil on gifts made or inheritances bestowed by such non-Brazilian holder to individuals or entities that are resident or domiciled within such state in Brazil.

Conversion of Brazilian currency into foreign currency, such as for purposes of paying dividends and interest, and the conversion into Brazilian currency of proceeds received by a Brazilian entity is subject to Tax on Foreign Exchange Transactions ( IOF/Exchange ). The tax rate on transactions involving preferred shares or ADSs is currently 0%, but the Minister of Finance has the legal power to increase the rate to a maximum of 25%. Any such increase will

be applicable only prospectively.

Tax on Transactions with Bonds or Securities ( IOF/Bonds and Securities ) may be imposed on any transactions involving bonds and securities, even if these transactions are performed on the Brazilian stock, futures or commodities exchange. As a general rule, the rate of this tax is currently 0% for transactions involving preferred shares and ADSs, but the Minister of Finance may increase such rate up to 1.5% per day, but only with respect to future transactions.

In addition, as a general rule, Tax on Bank Accounts ( CPMF ) is imposed on any debit to bank accounts at the rate of 0.38% . Therefore, transactions carried out by the depositary or by holder of the preferred shares which

involve the transfer of Brazilian currency through Brazilian financial institutions could be subject to CPMF. Currently, funds transferred for the acquisition of shares on Brazilian stock exchange and the remittance abroad of the proceeds earned from the disposition of preferred shares in Brazil are exempt of the CPMF.

### **U.S. Federal Income Tax Considerations**

The following discussion is a general summary of the material U.S. federal income tax considerations of the ownership and disposition of our preferred shares or ADSs that may be relevant to you if you are a U.S. holder (as defined below) of such shares or ADSs. This discussion is based on provisions of the U.S. Internal Revenue Code of 1986, as amended (the Code), existing and proposed U.S. Treasury regulations, administrative pronouncements of the U.S. Internal Revenue Service (IRS) and judicial decisions, all as now in effect, and all of which are subject to change, possibly with retroactive effect, and to different interpretations. This discussion does not address all of the U.S. federal income tax considerations that may be relevant to you in light of your particular circumstances, and does not discuss any application of state, local or non-U.S. tax law or any aspect of U.S. federal tax law other than income taxation. Moreover, this discussion deals only with our preferred shares or ADSs that you will hold as capital assets (generally, property held for investment), and it does not apply to U.S. holders subject to special U.S. federal income tax rules, such as banks or other financial institutions, insurance companies, securities dealers, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, tax-exempt organizations, persons that hold our preferred shares or ADSs as a hedge or as part of an integrated investment (including a straddle), persons owning directly, indirectly or constructively, 10% or more of our voting stock and persons whose functional currency, for U.S. federal income tax purposes, is not the U.S. dollar. For purposes of this discussion, a U.S. holder is a beneficial owner of our preferred shares or ADSs that is, for U.S. federal income tax purposes:

- a citizen or resident alien individual of the United States,
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia,
- an estate the income of which is subject to U.S. federal income tax regardless of its source, or
- a trust if (A) a court within the United States is able to exercise primary supervision over the administration of the trust, and one or more U.S. persons have the authority to control all substantial decisions of the trust or (B) the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership holds preferred shares or ADSs, the U.S. federal income tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners of partnerships holding preferred shares or ADSs should consult their own tax advisers.

In general, for U.S. federal income tax purposes, holders of American Depositary Receipts evidencing ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs. Accordingly, deposits and withdrawals of our preferred shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

#### *Taxation of Distributions*

In general, distributions with respect to our preferred shares or ADSs (which likely would include distributions of notional interest charges attributed to shareholders' equity, as described above under **Brazilian Tax Considerations - Distribution of Interest on Shareholders' Equity**) will constitute dividends for U.S. federal income tax purposes, to the extent made from our current or accumulated earnings and profits, as determined under U.S. federal

income tax principles. If a distribution exceeds the amount of our current and accumulated earnings and profits, the excess will be treated as a non-taxable return of capital to the extent of your tax basis in our preferred shares or ADSs, and thereafter as capital gain. As used below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any taxable dividend (including amounts withheld in respect of Brazilian taxes) paid with respect to our preferred shares or ADSs generally will be subject to U.S. federal income taxation as ordinary dividend income and will not be eligible for the dividends received deduction allowed to corporations. Taxable dividends paid in Brazilian currency will be included in your gross income in a U.S. dollar amount calculated by

reference to the exchange rate in effect on the date you receive the dividends, or, in the case of dividends you receive in respect of ADSs, on the date the dividends are received by the depositary, whether or not converted into U.S. dollars. You will have a tax basis in any distributed Brazilian currency equal to the amount included in gross income, and any gain or loss recognized upon a subsequent disposition of such Brazilian currency generally will be ordinary income or loss. If dividends paid in Brazilian currency are converted into U.S. dollars on the day you or the depositary, as the case may be, receive such dividends, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. Such foreign currency gain or loss, if any, will be U.S. source ordinary income or loss. We urge you to consult your own tax advisers regarding the treatment of any foreign currency gain or loss if any Brazilian currency received by you or the depositary is not converted into U.S. dollars on the date of receipt.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at the current rate of 15% if the dividends represent qualified dividend income. Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid, a passive foreign investment company ( PFIC ). Under current guidance issued by the IRS, the ADSs should qualify as readily tradable on an established securities market in the United States so long as they are listed on the New York Stock Exchange. However, no assurances can be given that the ADSs will be or remain readily tradable under future guidance. Based on our audited financial statements, financial projections, relevant market and shareholder data, and current estimates regarding the value and nature of our assets, we do not believe that we were a PFIC for U.S. federal income tax purposes with respect to the current taxable year. However, because these determinations are based on the nature of our income and assets, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current, or any past or future tax year. See [Passive Foreign Investment Company Rules](#) below.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares to the extent not represented by ADSs will be treated as qualified dividend income, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividend income. Because such rules have not yet been issued, we are not certain that we will be able to comply with them. U.S. holders of ADSs and preferred shares should consult their own tax advisers regarding the availability of the preferential U.S. federal income tax rates for qualified dividend income in the light of their own particular circumstances.

For foreign tax credit purposes, dividends paid with respect to our preferred shares or ADSs generally will be treated as income from sources outside the United States. The limitation on foreign taxes eligible for the credit is calculated separately with respect to specific classes of income. Subject to generally applicable limitations under U.S. federal income tax law, Brazilian withholding tax imposed on such dividends, if any, will be eligible for credit against your U.S. federal income tax liability (or at your election, all foreign income taxes paid may instead be deducted in computing your taxable income provided that you elect to deduct, rather than credit, all foreign income taxes paid during the taxable year). In general, special rules will apply to the calculation of foreign tax credits in respect of dividend income that is subject to preferential rates of U.S. federal income tax. You should be aware that the IRS has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. holders of ADSs. Accordingly, the discussion above regarding the creditability of Brazilian withholding tax on dividends could be affected by future actions that may be taken by the IRS. The rules with respect to foreign tax credits are complex and you should consult your own tax advisers regarding the availability of foreign tax credits in light of your particular circumstances.

*Taxation of Capital Gains*

In general, gain or loss, if any, realized upon a sale or other taxable disposition of our preferred shares or ADSs will be subject to U.S. federal income taxation as capital gain or loss in an amount equal to the difference between the amount realized (including the gross amounts of the proceeds of the sale or other taxable disposition before deduction of any Brazilian tax) on the sale or other taxable disposition and your adjusted tax basis in our preferred shares or ADSs. Such capital gain or loss will be long-term capital gain or loss if at the time of sale or other taxable disposition you held our preferred shares or ADSs for more than one year. Certain non-corporate U.S. holders (including individuals) are eligible for preferential rates of U.S. federal income taxation in respect of long-term capital gains. The deduction for capital losses is subject to certain limitations under the Code. Gain (or loss), if any, realized by a U.S. holder on the sale or other taxable disposition of our preferred shares or ADSs generally will be treated as

U.S. source gain (or loss) for U.S. foreign tax credit purposes. Consequently, if a Brazilian withholding tax is imposed on the sale or other taxable disposition of our preferred shares or ADSs, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of such Brazilian withholding tax. U.S. holders of our preferred shares or ADSs should consult their own tax advisers regarding the application of the U.S. foreign tax credit rules to their investment in, and disposition of, such shares or ADSs.

#### *Passive Foreign Investment Company Rules*

Special U.S. federal income tax rules apply to U.S. persons owning shares of a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying the relevant look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75% of its gross income is passive income ; or
- on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income.

For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets and gains from commodities transactions.

Based on current estimates of our income and assets, we do not expect our preferred shares or ADSs to be considered shares of a PFIC for our current fiscal year or for foreseeable future fiscal years. However, because the determination of whether our preferred shares or ADSs constitute shares of a PFIC will be made by us on an annual basis, is based upon the composition of our income and assets (including, among others, entities in which we hold at least a 25% interest), and the nature of our activities, from time to time, and because there are uncertainties in the application of the relevant rules, we cannot assure you that our preferred shares or ADSs will not be considered shares of a PFIC for any fiscal year. Moreover, we will not obtain an opinion of counsel, and no ruling will be sought from the IRS, regarding our annual PFIC determination. If our preferred shares or ADSs were shares of a PFIC for any fiscal year, U.S. holders (including certain indirect U.S. holders) may be subject to adverse U.S. federal income tax consequences upon a sale or other disposition of such preferred shares or ADSs, or upon the receipt of certain distributions from us (including imposition of an interest charge on gains or excess distributions attributable to prior years in the U.S. holder's holding period during which we were determined to be a PFIC), unless such U.S. holders made certain available elections, generally for the first taxable year for which shares of a PFIC were considered to be held.

If you are a U.S. holder of marketable stock in a PFIC, you may make a mark-to-market election, provided the PFIC stock is regularly traded on a qualified exchange. Under applicable U.S. Treasury regulations, a qualified exchange includes a national securities exchange, such as the New York Stock Exchange, that is registered with the SEC or the national market system established under the Securities Exchange Act of 1934. Also, under applicable Treasury Regulations, PFIC stock traded on a qualified exchange is regularly traded on such exchange for any calendar year during which such stock is traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter. We cannot assure you that our stock will be treated as regularly traded for this purpose.

If the mark-to-market election is made, you, as the electing U.S. holder, generally would (i) include in gross income, entirely as ordinary income, an amount equal to the difference between the fair market value of the PFIC stock as of the close of such taxable year and its adjusted tax basis, and (ii) deduct as an ordinary loss the excess, if any, of the adjusted tax basis of the PFIC stock over its fair market value at the end of the taxable year, but only to the extent of the amount previously included in gross income as a result of the mark-to-market election. Any loss in



excess of the amount previously included in gross income would generally be deductible as a capital loss.

The mark-to-market election is made with respect to marketable stock in a PFIC on a shareholder-by-shareholder basis and, once made, can only be revoked with the consent of the IRS. If we are deemed to be a PFIC for a taxable year, dividends on our ADSs would not constitute qualified dividend income subject to preferential rates of U.S. federal income tax, as discussed above. Special rules would apply if the mark-to-market election is not made for the first taxable year in which a U.S. person owns stock of a PFIC. You should consult with your tax advisor regarding the application of the PFIC rules to our preferred shares or ADSs and the availability and advisability of making an election to avoid the adverse U.S. federal income tax consequences of the PFIC rules should we be considered a PFIC for any taxable year.

### *U.S. Backup Withholding and Information Reporting*

If you are a U.S. holder of our preferred shares or ADSs, you may, under certain circumstances, be subject to information reporting and backup withholding (currently at the rate of 28%), with respect to certain payments to you, such as dividends or the proceeds of a sale of our preferred shares or ADSs, unless you (i) are a corporation or come within certain other exempt categories, and demonstrate this fact when so required, or (ii) provide a correct taxpayer identification number and certify that you are not subject to backup withholding, and otherwise comply with applicable requirements of the backup withholding rules. Backup withholding is not an additional tax. Any amount withheld under these rules will be creditable against your U.S. federal income tax liability, provided the requisite information is timely furnished to the IRS.

### **F. Dividends and Paying Agents**

Not applicable.

### **G. Statement by Experts**

Not applicable.

### **H. Documents on Display**

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, pursuant to which we file reports and other information with the U.S. Securities and Exchange Commission. Reports and other information filed by us with the Commission may be inspected and copied at the public reference room at the Commission at 100 F Street, N.E., Washington, D.C. 20549, and at the Commission's Regional Offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, IL 60661-2511. You may obtain copies of this material by mail from the Public Reference Section of the Commission, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may also inspect these reports and other information at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which our ADSs are listed. We also file financial statements and other periodic reports with the CVM.

Copies of our annual report on Form 20-F and documents referred to in this annual report and our bylaws will be available for inspection upon request at our offices at Rua Levindo Lopes, 258, Funcionários, 30140-170, Belo Horizonte (MG), Brazil.

### **I. Subsidiary Information**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are primarily exposed to market risk from changes in both foreign currency exchange rates and interest rates. We are exposed to foreign exchange rate risk because certain of our costs and debt are denominated in currencies, primarily the U.S. dollar, other than the *real*, which is the currency in which we earn our revenues. Similarly, we are subject to market risk resulting from changes in interest rates, which may affect the cost of our financing. Except for swap instruments relating to foreign currency denominated debt, as described below, we do not use derivative instruments, such as foreign exchange forward contracts, foreign currency options and forward rate agreements, to manage these market risks, nor do we hold or issue derivative or other financial instruments for trading purposes.

**Exchange Rate Risk**

We have exchange rate exposure with respect to the U.S. dollar. At December 31, 2006, all of our indebtedness (R\$241.1 million) was indexed to the U.S. dollar. As of December 31, 2006, we had cross-currency interest rate swap agreements in effect for 62.1% of our total foreign currency indexed debt to mitigate foreign exchange risks. The potential additional costs to us that would result from a hypothetical 10% devaluation of the real as compared to the U.S. dollar would be approximately R\$4.9 million. This calculation considers the hedge effect.

Significant costs relating to our network infrastructure and handsets are linked to payment in U.S. dollars. However, other than revenues derived from cross-currency interest rate swap agreements, 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.

### **Interest Rate Risk**

At December 31, 2006, we had R\$50.8 million in loans and financing outstanding and bearing interest at floating rates. We invest our excess cash (which was R\$51.4 million at December 31, 2006) mainly in short-term instruments. At December 31, 2006, we had swap instruments in place with updated notional amounts of R\$ 192.0 million to manage our interest rate risk. The potential loss in earnings to us over one year that would result from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates applicable to financial assets and liabilities on December 31, 2006 would be approximately R\$1.9 million.

The above sensitivity analysis is based on the assumption of an unfavorable 100 basis point movement of the interest rates applicable to each homogeneous category of financial assets and liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each homogeneous category (e.g., U.S. dollars). As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuations for such financial instruments as consistently unfavorable movements of all interest rates are unlikely.

### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Currently we are not in default under any of our obligations nor are any payment of dividends in arrears. On December 31, 2006, Amazônia Celular was in breach of the financial covenants set forth in the indenture related to the 8.75% unsecured senior notes due 2009 issued by Telemig Celular and Amazônia Celular in 2004. On April 16, 2007, management of Telemig Celular and Amazônia Celular obtained waivers by the requisite amount of holders of the notes, thereby curing any event of default. In addition, the financial covenants were amended on terms more favorable to us. As such, we did not breach the financial covenants as of March 31, 2007 and we do not expect to breach these covenants on the following quarter of 2007. For more information, see Item 5B. Liquidity and Capital Resources Indebtedness.

On December 31 2006, we were also in breach of the financial ratios contained in the credit agreements with Unibanco. As of December 31, 2006, the Unibanco credit agreements only characterized a technical default to have occurred once two consecutive quarterly breaches were in place, followed by an automatic 90-day curing period. We were also in breach of the financial ratios on March 31, 2007.

On June 28, 2007, management of the Company obtained a waiver in connection with these breaches, thereby curing the effects of an event of default. The Company is exempted from complying with the financial covenants for the three months ended June 30, 2007 and September 30, 2007. After that, as the Unibanco credit agreement only characterizes a technical default after two consecutive quarterly breaches followed by an automatic 90-day curing period, as mentioned above, the debt cannot be accelerated to a period before the original maturity date (April 2008).

Therefore, in these financial statements, the debt is presented as non-current liabilities in accordance with the original terms of the credit agreement.

On June 28, 2007, at the option of Amazônia Celular, the financing agreements entered into with Unibanco/NIB and Unibanco/Nordea, in the amount of R\$34.2 million and R\$16.6 million, respectively, were fully repaid in advance.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

## **ITEM 15. DISCLOSURE CONTROLS AND PROCEDURES**

Management with the participation of our chief executive officer and chief financial officer, after evaluating, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 under Rules 13a-15(e)) as of December 31, 2006, the end of the period covered by this report, have concluded that, as of such date, our disclosure controls and procedures were adequate and effective to ensure information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and is collected and communicated to management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

### **Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal controls over financial reporting as of December 31, 2006 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte Touche Tohmatsu Auditores Independentes, as our independent registered public accounting firm, has issued an auditor's report on our assessment of and the effectiveness of internal control over financial reporting as of December 31, 2006.

### **Attestation Report of Independent Registered Public Accounting Firm**

The auditor's report on our assessment of and the effectiveness of internal control over financial reporting as of December 31, 2006, issued by our independent auditors, Deloitte Touche Tohmatsu Auditores Independentes, an independent registered public accounting firm, is presented on page F-6.

### **Changes in Internal Controls**

There were no changes in our Company's internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our Company's internal control over financial reporting.

## **ITEM 16.**

**A. Audit Committee Financial Expert**

We have determined that José Arthur Escodro, member of our fiscal council is the audit committee financial expert as defined by the United States Securities and Exchange Commission.

**B. Code of Ethics**

Our board of directors has adopted a code of ethics applicable to our directors, officers and employees, including our principal executive officer, principal financial officer and controller, providing a whistleblower protection for those who report violations to the code terms. There were no waivers of compliance with our code of ethics in 2006.

**C. Principal Accountants Fees and Services**

The following table sets forth by category of service the total fees for services performed by Deloitte Touche Tohmatsu Auditores Independentes and PricewaterhouseCoopers Auditores Independentes during the fiscal years ended December 31, 2006 and December 31, 2005, respectively:

	<b>2006</b>	<b>2005</b>
	<b>(in thousands of reais)</b>	
Audit Fees	518	337
Audit-Related Fees		
Tax Fees		
All Other Fees		
Total	518	337

*Audit Fees*

Audit fees in 2006 and 2005 consisted of the aggregate fees, including expenses, billed by Deloitte Touche Tohmatsu Auditores Independentes and PricewaterhouseCoopers Auditores Independentes, respectively, in connection with the audit of our annual financial statements prepared under U.S. GAAP and included in our annual report on Form 20-F, and in connection with the audit of our annual statutory financial statements prepared under Brazilian GAAP and reviews of our quarterly financial information filed with the CVM. Audit fees in 2006 also include fees related to the audit of the management assessment and the effectiveness of the Company's internal control over financial reporting by Deloitte Touche Tohmatsu Auditores Independentes. Out of the R\$518 thousand audit fees in 2006, R\$39 thousand were paid to PricewaterhouseCoopers Auditores Independentes in connection with the review of first quarter of 2006 financial information filed with the CVM.

*Audit-Related Fees*

None.

*Tax Fees*

None.

*All Other Fees*

None.

**D. Exemptions from the Listing Standards for Audit Committees**



Pursuant to the exemption under Rule 10A-3(c)(3) of the U.S. Securities Exchange Act of 1934, we have our fiscal council, which is a board of statutory auditors that follows the requirements of Rule 10A-3(c)(3). In addition, on July 29, 2005, our board of directors decided that our fiscal council would undertake the responsibilities of an audit committee, whose responsibilities include making recommendations to the board of directors on appointment and retention of independent auditors, processing complaints regarding accounting and auditing, and engaging advisers.

**E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

**PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this Item.

**ITEM 18. FINANCIAL STATEMENTS**

*Tele Norte Celular Participações S.A.*

	Page
Management's Report on Internal Control over Financial Reporting	F-3
Reports of Independent Registered Public Accounting Firms	F-4 and F-5
Report of Independent Registered Public Accounting Firm, on Internal Control over Financial reporting	F-6
<b>Consolidated Financial Statements</b>	
Balance Sheets	F-8
Statements of Operations	F-9
Statements of Changes in Shareholders' Equity	F-11
Statements of Cash Flows	F-12
Notes to Financial Statements	F-13

**ITEM 19. EXHIBITS**

1.	<u>Bylaws in English of Tele Norte Celular Participações S.A.</u>	*
2(a).	Amended and Restated Deposit Agreement dated as of December 3, 2002 among Tele Norte Celular Participações S.A., The Bank of New York, as depositary, and owners and beneficial owners of American Depositary Receipts	(6)
4(a).	Letters of Authorization for Operation of Personal Communications Systems Services between Brazil's National Telecommunications Agency Anatel and Amazônia Celular S.A. (for states of Amazonas, Roraima, Amapá, Maranhão and Pará)	(3)
4(b).	Terms of Concession of Authorization for the Use of Radio Frequency Blocks between Anatel and Amazônia Celular S.A. (for states of Amazonas, Roraima, Amapá, Maranhão and Pará)	(3)
4(c).	Cellular System Agreement dated September 27, 1998 between Tele Norte Celular Participações S.A., and Ericsson Telecomunicações S.A	
4(d).	US\$50 million Credit Agreement dated October 20, 2000 among Telepará Celular S.A., Telamazon Celular S.A., Telma Celular S.A., Teleamapá Celular S.A., Telaima Celular S.A., Tele Norte Celular Participações S.A., Banco Citibank S.A. and others	(1)
4(e).	Service Agreement in English dated as of June 30, 2001 by and among LHS do Brasil Ltda., Telemig Celular S.A. and Amazônia Celular S.A. Pará	(2)
4(f).	Agreement for Supply and Rendering of Services dated July 1, 2004 among Amazônia Celular S.A., Telemig Celular S.A., Ericsson Telecomunicações S.A., and Ericsson Serviços de Telecomunicações Ltda. (English translation)	(4)
4(g).	Agreement for Supply and Rendering of Services dated March 31, 2005 among Amazônia Celular S.A., Telemig Celular S.A., Ericsson Telecomunicações S.A., and Ericsson Serviços de Telecomunicações Ltda. (English translation)	(5)
4(h).	Agreement for Supply and Rendering of Services dated September 19, 2006 among Amazônia Celular S.A., Ericsson Telecomunicações S.A., and Ericsson Serviços de Telecomunicações Ltda. (English translation)	(5)
4(i).	Agreement for Supply and Rendering of Services dated September 19, 2006 among Amazônia	

Celular S.A., Ericsson Telecomunicações S.A., Ericsson Serviços de Telecomunicações Ltda.

and Ericsson Gestão e Serviços de Telecomunicações Ltda. (English translation)

(5)

4(j). First Supplemental Indenture dated April 16, 2007 among Amazônia Celular S.A., Telemig Celular S.A. and The Bank of New York, as Trustee

(5)

6. Computation of earnings per share (See Note 16 to the consolidated financial statements).

8. List of subsidiaries (See Item 4C. Information on the Company Organizational Structure ).

11. Code of Ethics

(3)

12.1 Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

\*

12.2 Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

\*

13.1 Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350 as Enacted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*

- 13.2 Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350 as Enacted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*
- 
- (1) Previously filed in our Annual Report on Form 20-F for the year ended December 31, 2000, filed with the Commission on June 29, 2001.
- (2) Previously filed in our Annual Report on Form 20-F for the year ended December 31, 2001, filed with the Commission on July 12, 2002.
- (3) Previously filed in our Annual Report on Form 20-F for the year ended December 31, 2003, filed with the Commission on June 30, 2004.
- (4) Previously filed in our Annual Report on Form 20-F for the year ended December 31, 2004, filed with the Commission on June 30, 2005.
- (5) Previously filed in our Annual Report on Form 20-F for the year ended December 31, 2005, filed with the Commission on April 30, 2007.
- (6) Previously filed in Post- Effective Amendment No. 1 to Registration Statement on Form F-6 (333-9554) on November 26, 2002.
- \* Filed herewith

**GLOSSARY OF TELECOMMUNICATIONS TERMS**

AMPS (Advanced Mobile Phone System):	The analogue mobile phone technology used in North and South Americas and in approximately 35 countries. Analogue technology represents information by a continuously variable physical quantity such as voltage. AMPS operates in the 800 MHz band using FDMA (Frequency Division Multiple Access) technology, a transmission technique where the assigned frequency band for a network is divided into sub-bands that are allocated to a subscriber for the duration of their calls.
base station:	A radio transmitter/receiver that maintains communications with the cellular telephones within a given cell. Each base station is interconnected with one MSO (Mobile Switch Office).
CDMA (Code Division Multiple Access):	Also known as spread spectrum, CDMA cellular systems use a single frequency band for all traffic, differentiating individual transmissions by assigning them unique codes before the transmission. There are a number of CDMA variations.
CDMA ONE:	The first commercial CDMA cellular system, deployed in North America and Korea and also known as IS-95.
CDMA 2000:	A member of the IMT 2000 family, compatible with CDMA ONE.
cell:	The area covered by a cellular base station. A cell site may allocate its antennas to service several cells from one location.
cellular service:	A mobile telecommunications service provided by means of a network of interconnected base stations, each of which covers one small geographic cell within the total cellular telecommunications system service area.
channel:	One of a number of discrete frequency ranges utilized by base stations and cellular phones.
digital:	A method for representing information as numbers with discrete values; usually expressed as a sequence of bits.
exchange:	See switch.
GSM (Global System for Mobile):	Global system for mobile communications, the second-generation digital technology originally developed for Europe. Initially developed for operation in the 900 MHz band and subsequently modified for the 850, 1800 and 1900 MHz bands. GSM originally stood for <i>Groupe Speciale Mobile</i> , the CEPT (Conference of European Post and Telecommunications) committee that began the GSM standardization process.
IMT 2000:	The family of third-generation technologies approved by the ITU (International

Telecommunications Union).

interconnection fee: Amount paid per minute charged by network operators for the use of their network by other network operators. Also known as network usage fee.

penetration: The percentage of a given total population which owns a mobile phone.

repeater: A device that amplifies an input signal for retransmission.

roaming: A function that enables subscribers to use their cellular telephones on networks of service providers other than the one with which they are subscribed.

SMP (*Serviço Móvel Pessoal*):

A specific Brazilian set of rules for advanced digital cellular service, enacted by Anatel through Resolution no. 316, dated September 27, 2002, to replace the former SMC (*Serviço Móvel Celular*) cellular service rules. SMP is also an independent technology definition of service to which was originally allocated the

1.8 GHz frequency band, almost equivalent to the PCS (Personal Communication Services), the North American standard for advanced digital cellular services, usually provided at 1.9 GHz frequency band.

switch: A device that opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is the process of interconnecting circuits to form a transmission path between users. Switches may also record information for billing and control purposes.

TDMA (Time Division Multiple Access): A technique for multiplexing multiple users onto a single channel on a single carrier by splitting the carrier into time slots and allocating these on an as-needed basis.

UMTS: Third-generation wireless telecommunications system designed by ETSI (European Telecommunications Standard Institute) in accordance with ITU-T's (International Telecommunication Union) standard. It is viewed as the most likely upgrade of GSM systems.

value-added services: Value-added services provide additional functionality to the basic transmission services offered by a telecommunications network.



**SIGNATURES**

Pursuant to the requirements of Section 12 of the Securities Exchange Act, as amended, the registrant certifies that it meets all of the requirements for filing this annual report on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TELE NORTE CELULAR PARTICIPAÇÕES S.A.**

By: /s/ Oscar Thompson

Name: Oscar Thompson

Title: Chief Executive Officer and responsible for  
Investor Relations, accumulating the function of Chief  
Financial Officer

Dated: July 05, 2007.

**Tele Norte Celular  
Participações S.A.  
Consolidated Financial Statements at  
December 31, 2006 and 2005, and for  
each of the Three Years in the period  
ended December 31, 2006**

---

**Index to Consolidated Financial Statements**

	Page
<u>Management's Report on Internal Control over Financial Reporting</u>	<u>F-3</u>
<u>Reports of Independent Registered Public Accounting Firms</u>	<u>F-4 and F-5</u>
<u>Report of Independent Registered Public Accounting Firm, on Internal Control over Financial reporting</u>	<u>F-6</u>
<b>Consolidated Financial Statements</b>	
<u>Balance Sheets</u>	<u>F-8</u>
<u>Statements of Operations</u>	<u>F-9</u>
<u>Statements of Changes in Shareholders' Equity</u>	<u>F-11</u>
<u>Statements of Cash Flows</u>	<u>F-12</u>
<u>Notes to Financial Statements</u>	<u>F-13</u>

## **MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Company's Internal control over financial reporting is designed to provide reasonable assurance to management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework. Based on this assessment, management has concluded that, as of December 31, 2006, our internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal controls over financial reporting as of December 31, 2006 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, the independent registered public accounting firm who also audited our consolidated financial statements. Deloitte Touche Tohmatsu Auditores Independentes, as our independent registered public accounting firm, has issued an auditor's report on our assessment

/s/ Oscar Thompson  
Chief Executive Officer and Responsible of  
Investor Relations, accumulating the function of Chief  
Financial Officer

July 2 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Management of  
Tele Norte Celular Participações S.A.  
Belo Horizonte MG Brazil

We have audited the accompanying consolidated balance sheet of Tele Norte Celular Participações S.A. (a Brazilian corporation) and subsidiary (the Company ) as of December 31, 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Tele Norte Celular Participações S.A. and subsidiary as of December 31, 2006, the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 3 and 19 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) , effective December 31, 2006. As discussed in Notes 3 and 24 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 123 (R), Share-Based Payment , effective January 1, 2006.

As discussed in Note 16 to the consolidated financial statements, during the year ended December 31, 2006, the Company changed its accounting policy for calculating earnings per share and has retroactively revised the amounts previously reported for 2005 and 2004.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 2, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

Belo Horizonte, Brazil  
July 2, 2007

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders  
Tele Norte Celular Participações S.A.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of changes in shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Tele Norte Celular Participações S.A. and its subsidiary at December 31, 2005, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 16 to the consolidated financial statements, the Company changed the manner in which it accounts for earnings per share and revised the amounts for 2005 and 2004.

/s/ PricewaterhouseCoopers Auditores Independentes

Brasília, Brazil

March 30, 2007, except for Note 16, as to which the date is July 2, 2007.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and Management of  
Tele Norte Celular Participações S.A.  
Belo Horizonte MG Brazil

We have audited management's assessment, included in the accompanying Management's annual report on internal control over financial reporting, that Tele Norte Celular Participações S.A. and subsidiary (the "Company") maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.





We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Tele Norte Celular Participações S.A. and subsidiary (the Company ) as of December 31, 2006, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended and our report dated July 2, 2007 expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding the Company's adoption of new accounting standards and a change in accounting principle.

/s/ Deloitte Touche Tohmatsu Auditores Independentes

Belo Horizonte, Brazil

July 2, 2007

F-7

---

**Tele Norte Celular Participações S.A.****Consolidated Balance Sheets****Expressed in thousands of Brazilian reais, unless otherwise stated**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	22,674	15,234
Temporary cash investments (Note 4)	28,726	50,418
Accounts receivable (includes R\$1,571 (2005 - R\$1,413) receivable from related parties), net of		
allowance for doubtful accounts of R\$42,494 (2005 - R\$38,982) (Note 5)	104,899	88,761
Inventories (Note 6)	10,535	11,549
Cross-currency interest rate swap agreements (Note 22)	-	287
PIS and COFINS taxes recoverable (Note 7)	9,728	-
Temporary cash investments (restricted deposits) (Note 11)	-	7,491
Recoverable taxes	12,289	12,422
Other	5,086	2,369
	193,937	188,531
<b>Non-current assets</b>		
Property and equipment, net (Note 8)	371,255	431,614
Pension plan surplus (Note 19)	13,524	3,343
Judicial deposits for legal proceedings (Note 14)	98,977	63,547
PIS and COFINS taxes recoverable (Note 7)	1,435	-
Other recoverable taxes	7,146	-
Other	2,931	20,998
	495,268	519,502
	689,205	708,033
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable (includes R\$2,363 (2005 - R\$1,984) payable to related parties) (Note 9)	132,000	117,103
Accrued liabilities (includes R\$13,159 (2005 - R\$5,187) payable to related parties)	25,587	20,213
Value-added and other taxes payable	6,577	7,236
Dividends payable	819	3,991
Short-term debt (Note 10)	61,622	42,482
Current portion of long-term debt (Note 11)	87,985	15,852
Cross-currency interest rate swap agreements (Note 22)	17,439	35,882
Authorization contracts payable (Note 12)	6,264	-

Other	5,634	4,856
	343,927	247,615
<b>Non-current liabilities</b>		
Long-term debt (Note 11)	91,530	190,004
Cross-currency interest rate swap agreements (Note 22)	25,443	13,293
Provision for contingencies (Note 14)	152,178	69,406
Authorization contracts payable (Note 12)	10,491	14,617
Asset retirement obligations (Note 13)	3,741	2,866
Other	2,715	2,300
	286,098	292,486
Minority interest	15,538	42,434
<b>Shareholders equity</b> (Note 15)		
Capital stock, 700,000,000 thousand shares authorized at December 31, 2006 and 2005		
Preferred shares, no par value, 210,460,313 thousand shares issued and outstanding at		
December 31, 2006 and 2005, respectively	53,293	53,293
Common shares, no par value, 124,623,842 thousand shares issued and outstanding at		
December 31, 2006 and 2005, respectively	31,558	31,558
Additional paid-in capital	7,587	7,587
Capital reserves	149,601	149,601
Accumulated deficit	(203,897)	(116,541)
Accumulated other comprehensive income	5,500	-
	43,642	125,498
	689,205	708,033

The accompanying notes are an integral part of these financial statements.

**Tele Norte Celular Participações S.A.****Consolidated Statements of Operations****Expressed in thousands of Brazilian reais, unless otherwise stated**

	<b>Years ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Gross operating revenue			
Services provided	634,673	552,707	629,628
Sales of handsets and accessories	74,006	59,466	82,190
	708,679	612,173	711,818
Sales deductions, taxes and returns			
On services provided includes taxes of R\$107,683 (2005 R\$98,402; 2004 R\$120,288)	(281,852)	(149,157)	(175,761)
On sales of handsets and accessories, includes taxes of R\$17,388 (2005 R\$13,311, 2004 R\$19,662)	(22,768)	(17,449)	(23,701)
	(304,620)	(166,606)	(199,462)
Net operating revenue			
Services provided	352,821	403,550	453,867
Sales of handsets and accessories	51,238	42,017	58,489
	404,059	445,567	512,356
Cost of services (exclusive of depreciation classified separately below)	(152,336)	(118,390)	(161,878)
Cost of handsets and accessories	(59,515)	(56,085)	(86,421)
Selling, general and administrative expenses (exclusive of depreciation classified separately below)	(127,546)	(125,523)	(115,896)
Cost sharing agreement related party (Note 18)	(12,268)	(14,864)	(15,079)
Allowance for doubtful accounts (Note 5)	(16,325)	(13,313)	(20,517)
Depreciation	(113,665)	(109,911)	(95,835)
Other operating expense, net	(793)	(842)	(841)
Operating profit (loss)	(78,389)	6,639	15,889
Non-operating income (expenses)			
Financial income (Note 23)	11,965	17,826	22,113
Financial expense (Note 23)	(74,643)	(83,413)	(60,182)
Foreign exchange gain (Note 23)	21,341	36,908	17,847

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

Loss before taxes and minority interest	(119,726)	(22,040)	(4,333)
Taxes on income (Note 17)	3,637	(4,165)	(94,749)
Loss before minority interest	(116,089)	(26,205)	(99,082)
Minority interest	28,733	6,156	12,583
Net loss	(87,356)	(20,049)	(86,499)

The accompanying notes are an integral part of these financial statements.

F-9

---

**Tele Norte Celular Participações S.A.****Consolidated Statements of Operations****Expressed in thousands of Brazilian *reais*, unless otherwise stated****Continued**

	<b>Year ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
		As Restated	As Restated
Weighted-average number of shares outstanding (thousands)			
Basic			
Preferred	210,460,313	210,460,313	210,460,313
Common	124,623,842	124,623,842	124,623,842
Diluted			
Preferred	210,460,313	210,460,313	210,460,313
Common	124,623,842	124,623,842	124,623,842
Basic and diluted loss per thousand shares (in <i>reais</i> )			
Preferred	-	-	-
Common	(0.70)	(0.16)	(0.69)

The accompanying notes are an integral part of these financial statements.

**Tele Norte Celular Participações S.A.****Consolidated Statements of Changes in Shareholders' Equity**  
**Expressed in thousands of Brazilian reais, unless otherwise stated**

	<b>Capital stock</b>					<b>Accumulated other comprehensive income</b>	<b>Total</b>
	<b>Preferred shares</b>	<b>Common shares</b>	<b>Additional paid-in capital</b>	<b>Capital reserves</b>	<b>Accumulated deficit</b>		
<b>Balance at December 31, 2003</b>	<b>53,293</b>	<b>31,558</b>	<b>7,587</b>	<b>149,601</b>	<b>(2,577)</b>	-	<b>239,462</b>
Expired dividends (Note 15(c))	-	-	-	-	213	-	213
Loss for the year	-	-	-	-	(86,499)	-	(86,499)
Dividends paid and proposed	-	-	-	-	(4,363)	-	(4,363)
<b>Balance at December 31, 2004</b>	<b>53,293</b>	<b>31,558</b>	<b>7,587</b>	<b>149,601</b>	<b>(93,226)</b>	-	<b>148,813</b>
Loss for the year	-	-	-	-	(20,049)	-	(20,049)
Dividends paid and proposed	-	-	-	-	(3,266)	-	(3,266)
<b>Balance at December 31, 2005</b>	<b>53,293</b>	<b>31,558</b>	<b>7,587</b>	<b>149,601</b>	<b>(116,541)</b>	-	<b>125,498</b>
Loss for the year	-	-	-	-	(87,356)	-	(87,356)
Initial application of SFAS 158, net of income taxes (Note 3 (m))	-	-	-	-	-	5,500	5,500
<b>Balance at December 31, 2006</b>	<b>53,293</b>	<b>31,558</b>	<b>7,587</b>	<b>149,601</b>	<b>(203,897)</b>	<b>5,500</b>	<b>43,642</b>

The accompanying notes are an integral part of these financial statements.

F-11

---



**Tele Norte Celular Participações S.A.****Consolidated Statements of Cash Flows****Expressed in thousands of Brazilian reais, unless otherwise stated**

	<b>Years ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Operating activities			
Net loss	(87,356)	(20,049)	(86,499)
Adjustments to reconcile net loss to cash from operating activities:			
Depreciation	113,665	109,911	95,835
Losses on disposal of property and equipment, net	867	927	1,349
Deferred income taxes	(40,201)	(12,035)	(575)
Changes in income tax valuation allowance	36,420	12,035	95,179
Minority interest	(28,733)	(6,156)	(12,583)
Unrealized foreign exchange gain and indexation charges			
on debt, net	(20,974)	(36,137)	(16,531)
Unrealized losses on cross-currency interest swaps	29,933	36,166	25,177
Unrealized gains on temporary cash investments	(2,424)	(6,445)	(4,047)
Provision for contingencies, net of judicial deposits	48,063	(2,731)	3,119
PIS and COFINS recoverable	(10,409)	-	-
Changes in operating assets and liabilities:			
Temporary cash investments	24,116	52,194	(92,758)
Trade receivables	(16,138)	2,299	4,355
Accounts payable and accrued liabilities	(8,194)	(86,984)	46,520
Value-added and other taxes payable	(659)	(5,692)	3,144
Other	(25,803)	(2,939)	(30,510)
Cash provided by operating activities	12,173	34,364	31,175
Investing activities			
Temporary cash investments (restricted deposits)	7,491	-	-
Additions to property and equipment	(25,297)	(19,923)	(77,077)
Cash proceeds from disposals of property and equipment	2,472	-	218
Cash used in investing activities	(15,334)	(19,923)	(76,859)
Financing activities			
Proceeds from issuances of short-term debt	104,251	38,503	14,514
Proceeds from issuances of long-term debt	6,000	70,374	200,160
Payment of short-term debt	(81,841)	(6,774)	(30,339)
Payment of long-term debt	(14,637)	(103,502)	(135,982)

Edgar Filing: TELE NORTE CELULAR PARTICIPACOES SA - Form 20-F

Dividends paid	(3,172)	(357)	(6,621)
Cash provided by (used in) financing activities	10,601	(1,756)	41,732
Increase (decrease) in cash and cash equivalents for the year	7,440	12,685	(3,952)
Cash and cash equivalents, beginning of the year	15,234	2,549	6,501
Cash and cash equivalents, end of the year	22,674	15,234	2,549
Supplemental cash flow information			
Taxes on income paid	-	3,212	3,325
Interest paid	23,026	20,309	20,145
Disclosure of non-cash investing activities			
Accounts payable for property and equipment	25,984	52,528	78,974

The accompanying notes are an integral part of these financial statements.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****1 Background and Description of Business**

Tele Norte Celular Participações S.A. (the Company) is a publicly held company listed on the Brazilian and New York stock exchanges and the parent company of Amazônia Celular S.A., a Brazilian listed company, in which it holds 89.78% of its subsidiary's voting capital and 74.96% of its total capital stock on December 31, 2006 and 2005.

The Company is part of a group of companies controlled by Telpart Participações S.A. (Telpart), a consortium comprised of: (i) Newtel Participações S.A., which owns 51.07% of Telpart, and is controlled indirectly by investment and mutual funds, and several Brazilian pension funds; (ii) TPSA do Brasil Ltda. (TPSA do Brasil), which owns 48.90% of Telpart, and is controlled indirectly by investment and mutual funds; and (iii) others, who own 0.03% of Telpart.

Telpart also owns a controlling interest in the Company's affiliate, Telemig Celular Participações S.A., the controlling shareholder of Telemig Celular S.A., which is the A Band cellular service provider in the state of Minas Gerais.

Amazônia Celular S.A. (the Operating Subsidiary) is mainly engaged in providing cellular mobile services and any supplementary activities required to perform such services, in conformity with the authorizations granted in the states of Amazonas, Roraima, Amapá, Pará and Maranhão under the terms of concessions granted by the Brazilian Federal Government on October 23, 1997. Through its predecessors Telamazon, Telaima, Telemapá, Telepará and Telma, the Operating Subsidiary has provided cellular telecommunications services in the states of Amazonas, Roraima, Amapá, Pará and Maranhão since April 1994.

The services offered and the tariffs charged by the Operating Subsidiary are regulated by the National Telecommunications Agency (ANATEL), the regulatory authority for the Brazilian telecommunications industry, according to the General Law of Telecommunications and pertinent regulations.

In 2002, ANATEL promoted modifications to the December 2000 Personal Mobile Service Contract (SMP - *Serviço Móvel Pessoal*), encouraging companies operating under the Cellular Mobile Service Contract (SMC - *Serviço Móvel Celular*) to migrate to the SMP regime. SMP is an authorization contract and it replaces the SMC (concession) contract. New rules are applicable to companies that migrate to the SMP regime, including changes on long-distance traffic billing and free negotiation between telecommunication service providers on network usage remuneration.

The Operating Subsidiary and ANATEL entered into an Authorization Instrument for the migration to the SMP, which became effective March 1, 2004. The SMP authorization granted to the Operating Subsidiary is effective for an undetermined term. The radio frequency authorization which expires in 2009 is effective for the previously granted remaining period of the concession and may be renewed for an additional 15-year period, with extensions being remunerated.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated**

From August 2004, new rules governing the collection of interconnection fees became effective. Under the new rules, interconnection fees for local wireless traffic were due only if the traffic balances between any two companies operating in the same area were either less than 45% or in excess of 55% ("bill & keep" regime).

On July 13, 2006, ANATEL released Resolution No. 438, which approved the "Regulation on Remuneration for Network Usage of Personal Mobile Service Providers (SMP)". Amongst other amendments, Resolution No. 438 sets forth new rules for concession, pass-through and disclosure of discounts granted over the Value of Usage of SMP Network (VU-M) and established the end of the "bill & keep" regime mentioned above. Therefore, beginning on July 14, 2006, the new regulation on SMP network usage fees issued by ANATEL established that interconnection payments between SMP operators for traffic in the same registration area should occur for the full amount of traffic between operators ("full billing" regime).

The creation of the "full billing" regime has resulted in an increase of interconnection costs and revenues in 2006.

On August 16, 2006, the Company filed with ANATEL an application to extend the right of use of radio frequencies, associated with the instrument of authorization for personal mobile service. According to the regulations, the extension is automatically granted.

**Results from Operating Subsidiary**

The Operating Subsidiary has incurred operating losses and presents working capital deficient at December 31, 2006. Management has implemented several actions with the purpose of improving liquidity, operating efficiency, reducing costs and expenses and maximizing the return of its investments in fixed assets. The results of these actions have made possible the obtaining of new financing from financial institutions and the extension of maturity dates of its loans.

In March 2007, the Operating Subsidiary entered into a new credit agreement with ABN AMRO Bank in the amount of US\$48.6 million.

In February 2007, the Customer Service Centers of the Operating Subsidiary and Telemig Celular S.A. were integrated and have since then been operating solely in Belo Horizonte (head office of Telemig Celular). This measure is in line with the national market trend shown by carriers to concentrate their customer service in large Service Centers, thus enabling standardization and economies of scale. As a result of this integration, the Operating Subsidiary reduced its staff by approximately 370 employees.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated**

In April 2007, the Operating Subsidiary launched a new portfolio of postpaid plans. Management believes that the new portfolio will increase the competitiveness of the Company in its region.

Management believes that the cash flow generated from its operations, jointly with new financing obtained from financial institutions and existing cash on hand, will enable the Operating Subsidiary to comply with its financial and operating commitments through 2007.

**2 Presentation of the Financial Statements**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( US GAAP ) and rules and regulations of the US Securities and Exchange Commission.

The Company has also prepared and issued consolidated financial statements in accordance with accounting practices adopted in Brazil, Brazilian Corporate Law and rules and regulations of the Brazilian Securities Commission ( CVM ) ( Brazilian GAAP ), not included herewith.

The Brazilian GAAP distributable reserves are the basis out of which dividends are payable.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to: selection of useful lives of the property, plant and equipment, provisions necessary for contingent liabilities, determination of provisions for income tax, allowance for doubtful accounts and other similar items. Actual results may vary from those estimated.

**3 Summary of Significant Accounting Policies****(a) Consolidation**

The consolidated financial statements include the accounts of the parent company Tele Norte Celular Participações S.A. and of the Operating Subsidiary Amazônia Celular S.A..

All intercompany transactions and balances are eliminated in consolidation. The main consolidation procedures include:

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

- Elimination of asset and liability accounts among the consolidated companies;
- Elimination of the capital, reserves and retained earnings of the Operating Subsidiary;
- Elimination of revenues and expenses generated by transactions among the consolidated companies;
- Separate disclosure of the minority interest participation in the consolidated financial statements, where applicable.

**(b) Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less at the time of purchase, which are readily convertible to known amounts of cash and which are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

**(c) Temporary cash investments**

Securities that are bought and held primarily for the purpose of resale in the near term are classified as temporary cash investments assets and are stated at fair value.

Instruments utilized in trading activities include securities stated at fair value in accordance with SFAS N° 115, "Accounting for Investments in Debt and Equity Securities." Fair value is generally based on quoted market prices. If quoted market prices are not available, fair values are estimated based on dealer quotes, pricing models or quoted pricing models or quoted prices for instruments with similar characteristics.

Realized and unrealized gains and losses are recognized to financial income/expenses.

**(d) Accounts receivable, net of allowance for doubtful accounts**

Accounts receivable are mainly represented by services and products billed to customers, for services provided up to the balance sheet date but not yet billed, and by amounts arising from the use of the Operating Subsidiary's network, by subscribers of other telecommunications carriers.

Allowances are provided, when necessary, in an amount considered by management to be sufficient to meet expected losses.

**(e) Inventories**

Inventories mainly comprise mobile telephone handsets and are stated at the average acquisition cost, net of allowances for market value adjustment for handsets and accessories or in the event acquisition costs are higher than realizable values.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(f) Property and equipment**

Property and equipment are stated at acquisition and/or construction cost less accumulated depreciation. Depreciation is provided using the straight-line method based on the estimated useful lives of the underlying assets as follows:

	<b>Years</b>
Buildings	20
Network equipment	5 to 8
Software	5
Mobile service authorization	10
Other	5 to 10

Interest accrued on loans and financing is capitalized as part of property and equipment through the date the asset is placed in service, and to the extent that loans and financing do not exceed construction-in-progress.

The Operating Subsidiary reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

As the wireless telecommunications industry is rapidly evolving it is reasonably possible that property and equipment could become impaired as a result of technological or other industry changes. For assets the Operating Subsidiary intends to hold for use, if the total of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying value of the assets. For assets the Operating Subsidiary intends to dispose of, a loss is recognized for the amount that the estimated fair value, less costs to sell, is less than the carrying value of the assets. The Operating Subsidiary uses the discounted cash flow method to estimate the fair value of long-lived assets. No impairment indicators were noted by the Company in 2006 and 2005.

**(g) Income taxes**

Income taxes in Brazil comprise Federal income tax and social contribution taxes, as recorded in the Company's and Operating Subsidiary's statutory accounting records. There is no state or local income taxes in Brazil. The Company and the Operating Subsidiary have applied FASB Statement of Financial Accounting Standard - SFAS No 109, "Accounting for Income Taxes", for all years presented. The effect of adjustments made to reflect the requirements of US GAAP, as well as differences between the reporting basis of assets and the amounts included in the tax records, are recognized as temporary differences for the purpose of recording deferred income taxes. Net operating loss carryforwards are recognized as deferred tax assets as losses are incurred to the extent that realization is considered to be more likely than not. A valuation allowance was recorded in the years ended December 31, 2006 and 2005, pursuant to the guidance provided by SFAS No. 109, in view of the cumulative losses in recent years and taking into account the weight of evidence for the foreseeable near future (Note 17(d)).

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(h) Provision for contingencies**

The Operating Subsidiary is party to a number of legal proceedings in the normal course of its business. Based on the opinion of its legal advisors, management records provisions for contingencies when it considers a loss to be probable and estimatable.

**(i) Foreign currency transactions**

Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences are recognized in the statement of operations as they occur.

**(j) Swaps**

The Operating Subsidiary recognizes its cross-currency and interest rate swap agreements on the balance sheet at fair value, with changes in fair value recorded through income.

**(k) Revenue recognition**

Revenues from services and sales of handsets and accessories equipment are recognized when the service is provided or when the equipment is sold and delivered in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, and Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*. Revenues from cellular telephone services consist of monthly subscription charges, usage charges, network usage charges, long distance charges and charges for maintenance and other customer services. Unbilled revenues from the billing date to the month-end are measured and recognized as revenue during the month in which the service was provided.

The service agreements signed by customers in connection with sales of subsidized handsets are considered to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement (i.e., service and handset contracts) based on relative fair values. The Company does not charge activation fee in connection with its service agreements.

Revenues from the sales of prepaid cards are recognized according to the service used for each card or when such credits contractually expire. The Company's *Plano Controle* rate plans also include a feature whereby unused credits do not expire each month but rather are available for future use. The Company defers revenue based on unused credits in prepaid cards and in the *Plano Controle* rate plan. Unused credits are controlled and measured by systems. The balance of the deferral as of December 31, 2006 and 2005 was R\$4,554 and R\$4,457 respectively, and has been included as Other under current liabilities in the consolidated balance sheets.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reals*, unless otherwise stated****(l) Employees profit sharing**

The Company and its Operating Subsidiary record employee profit sharing personnel expenses based on the achievement of performance goals established for the year, which is subject to the approval of the Shareholders Meeting.

**(m) Pension and other post-retirement benefits**

The Operating Subsidiary participates in (i) a multi-employer pension plan that covers employees who retired prior to January 30, 2000 and (ii) multiple employer pension plans that cover its active employees and employees who retired after 2000. The Operating Subsidiary also participates in a multi-employer post-retirement benefit plan for all of its employees.

Until December 31, 2005, the Operating Subsidiary accounted for such benefit costs in accordance with SFAS No. 87, *Employers Accounting for Pensions* (Note 19). Accounting for defined benefit plans requires the use of an actuarial method for determining defined benefit pension costs and provides for the deferral of actuarial gains and losses (in excess of a specific corridor) that result from changes in assumptions or actual results that may differ from that which was previously assumed.

On December 31, 2006, the Operating Subsidiary adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106 and 132R ( *SFAS 158* ). This statement requires an employer to recognize the over or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through other comprehensive income. The net effect of the adoption of SFAS No. 158 on other comprehensive income was R\$5,500, net of taxes, on December 31, 2006.

For defined contribution plans, the Operating Subsidiary recognizes as an expense in the statement of operations, the contributions accrued in favor of the beneficiaries of the plans during the relevant periods.

**(n) Advertising costs**

Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Such costs amounted to R\$10,418, R\$9,245 and R\$16,999 for the years ended December 31, 2006, 2005 and 2004, respectively.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(o) Stock-based compensation plan**

The Company grants stock options for a fixed number of shares to employees.

In December 2004, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment*. SFAS 123(R) amended SFAS 123, *Accounting for Stock-Based Compensation* and superseded Accounting Principles Board Opinion ( APB ) No. 25, *Accounting for Stock Issued to Employees*. In March 2005, the SEC issued Staff Accounting Bulletin ( SAB ) No. 107 to provide guidance on the valuation of share-based payments for public companies. SFAS 123(R) requires companies to recognize all share-based payments, which include stock options and restricted stock, in compensation expense over the service period of the share-based payment award.

SFAS 123(R) establishes fair value as the measurement method in accounting for share-based payment transactions with employees.

The Company adopted SFAS 123(R) effective January 1, 2006 using the modified prospective method in which compensation cost is recognized over the service period for all awards granted subsequent to the Company's adoption of SFAS 123(R) as well as for the unvested portions of awards outstanding as of the Company's adoption of SFAS 123(R). In accordance with the modified prospective method, results for prior periods have not been restated.

As required under this statement, costs resulting from all stock-based compensation transactions are recognized in the financial statements. The amount of compensation cost recorded is measured based on the grant-date fair value of the equity or the liability instruments issued. In addition, liabilities awards are remeasured each reporting period. Compensation cost is recognized over the period that an employee provides services in exchange for the award.

Prior to the adoption of SFAS 123(R), the Company accounted for stock option grants in accordance with APB Opinion No. 25 *Accounting for Stock Issued to Employees* and related Interpretations.

Pro forma information regarding net income (loss) and earnings (loss) per share was required by SFAS No.123 *Accounting for Stock-Based Compensation* and had been determined as if the Company had accounted for its employee stock options under the fair value method.

The Company has primarily used the Black-Scholes option-pricing model to determine fair value of options issued. The following table presents the pro forma impact on losses and losses per share for the years ended December 31, 2005 and 2004 if the Company had applied the fair value recognition provisions of SFAS 123.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated**

	<b>2005</b>	<b>2004</b>
	As restated	As restated
Net loss	(20,049)	(86,499)
Basic and diluted loss per thousand of shares (in <i>reais</i> )		
Preferred (*)	-	-
Common (*)	(0.16)	(0.69)
Compensation expense under the fair value method (SFAS 123), net of taxes	(25)	(193)
Pro forma net loss	(20,074)	(86,692)
Pro forma basic and diluted loss per thousand of shares (in <i>reais</i> )		
Preferred (*)	-	-
Common (*)	(0.16)	(0.69)

(\*) As mentioned in Note 16, the Company changed its accounting policy for calculating earnings per share in 2006, and retrospectively applied the new policy to prior years.

For purposes of pro forma disclosures, the estimated fair value of the options was amortized to expense over the options' expected life.

**(p) Segment information**

The Company has adopted SFAS N<sup>o</sup>. 131 "Disclosures about Segments of an Enterprise and Related Information" which introduces a "management approach" concept for reporting segment information, whereby financial information is required to be reported on the basis that the chief operating decision-maker uses such information internally for deciding how to allocate resources to segments and in assessing performance. Management, however, has concluded that the Company and its Operating Subsidiary operate in a single segment - telecommunication services provider - and does not consider additional segment disclosures to be necessary.

**(q) Asset Retirement Obligation**

In March 2005, the FASB issued FASB Interpretation N<sup>o</sup> 47, Accounting for Conditional Asset Retirement Obligations. This statement requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement obligations that are conditional on a future event if the amount can be reasonably estimated. This statement became effective on December 31, 2005.

The Operating Subsidiary performed an analysis for the retirement of its cellular mobile site structures, switches and equipment (ground towers, roof top sites, and co-location sites) under FIN 47 to determine whether the Operating Subsidiary had any asset retirement obligations. Although the timing of the performance of the asset retirement activity is conditional on removing the towers and equipment and disposing them, the Operating Subsidiary has the responsibility to remove the towers and equipment, dispose of the assets and return the sites as originally found in

accordance with the lease agreements.

F-21

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The Operating Subsidiary determined an average price for removing the towers and equipment. The calculation was performed based on the number of sites and considered (i) for GSM sites, a period through 2024 and (ii) for TDMA sites, a period through 2014. Since the Operating Subsidiary expects to assume the obligation for dismantling and removing the assets and restoring the site on which they are located, all sites were considered in the calculation. The Company adopted the FIN 47 in 2005. As of December 31, 2005 the cumulative effect of the adoption of FIN 47 in liability and in property and equipment amounted to R\$2,866. The effect in the income statement was not significant. As of December 31, 2006, the updated liability for asset retirement obligations amounted to R\$3,741 (Note 13). The accretion in the liability for asset retirement obligations and the depreciation of the related assets resulted in additional expenses of R\$777 in 2006.

**(r) New accounting pronouncements**

- In June 2006, the EITF confirmed the consensus on EITF 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. EITF 06-03 provides that taxes imposed by a governmental authority on a revenue-producing transaction between a seller and a customer should be shown in the income statement on either a gross or a net basis, based on the seller's accounting policy, which should be disclosed pursuant to Accounting Principles Board Opinion (APBO) No. 22, *Disclosure of Accounting Policies*. Amounts that are allowed to be charged to customers as an offset to taxes owed by a company are not considered taxes collected and remitted. If such taxes are significant and are presented on a gross basis, the amounts of those taxes should be disclosed. EITF 06-03 will be effective for interim and annual reporting periods beginning after December 15, 2006. The Company decided to maintain the presentation of these taxes on a net basis, with related impacts recorded on *Gross operating revenue* and *Sales deductions, taxes and returns* on consolidated statements of operations.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

- In July 2006, FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement No. 109" which clarifies the accounting for and disclosure of uncertain tax positions. This guidance seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to tax positions with uncertainty. FIN 48 requires that a tax position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e., a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company will adopt the provisions of FIN 48 effective January 1, 2007. Based on Management's current assessment, the adoption of these standards will not have a material impact on the Company's consolidated financial statements. Management's assessment of FIN 48 is subject to revision as it completes its analysis.
- In September 2006, FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurement. SFAS No. 157 does not require any new fair value measurements and the Company does not expect the application of this standard to change its current practice. SFAS No. 157 requires prospective application for fiscal years ending after November 15, 2007. The Company will apply the requirements of SFAS No. 157 as transactions occur.
- In September 2006, FASB issued SFAS No. 158, Employers' Accounting for Defined-benefit Pension and Other Post-retirement Plans, an amendment of FASB Statements No. 87, No. 88, No. 106 and No. 132 (R). SFAS No. 158 requires an employer that is a business entity and sponsors one or more single-employer defined benefit plans to: (i) recognize the funded status of a benefit plan in its statement of financial position; (ii) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87, Employers' Accounting for Pensions, or No. 106, Employers' Accounting for Post-retirement Benefits Other Than Pensions; (iii) measure defined-benefit plan assets and obligations as of the date of the employers' fiscal year-end statement of financial position; and (iv) disclose in the notes to financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition net asset or obligation. The Company adopted SFAS No. 158 requirements and related disclosure provisions as of December 31, 2006, which impact was as a gain of R\$5,500, net of income taxes, recorded directly in accumulated other comprehensive income on December 31, 2006.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

- In February 2007, FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities", a standard that provides companies with an option to report selected financial assets and liabilities at fair value. The Standard requires companies to provide additional information that shows the effect of the Company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosures about fair value measurements included in FASB Statements No. 157, "Fair Value Measurements", and No. 107, "Disclosures about Fair Value of Financial Instruments". SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. The Company will assess the impact SFAS No. 159 will have on its consolidated financial statements during 2007.

**4 Temporary Cash Investments**

On December 31, 2006 and 2005, temporary cash investments were mainly represented by interests held by the Company and its Operating Subsidiary, together with the affiliated companies, Telemig Celular Participações S.A. and Telemig Celular S.A., in an exclusive quotas investment fund administered by Banco Itaú S.A., comprised of quotas of financial investment funds. On December 31, 2006 and 2005, the portfolios of the Investment Funds were substantially comprised of Brazilian Federal government securities with original maturities of more than three months, as follows:

	<b>2006</b>	<b>2005</b>
Brazilian Federal Treasury Bills - LTN	62.4%	54.4%
Brazilian Financial Treasury Bills - LFT	26.7%	39.7%
Other	10.9%	5.9%
	100.0%	100.0%

On December 31, 2006 and 2005, there were no guarantees, sureties, mortgages or other guarantees granted in favor of the exclusive funds.

**5 Accounts Receivable, net**

	<b>2006</b>	<b>2005</b>
Telecommunications services	129,167	113,241
Handset and accessories sales	18,226	14,502

Allowance for doubtful accounts	147,393 (42,494)	127,743 (38,982)
	104,899	88,761



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The roll-forward of the allowance for doubtful accounts was as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Balance at beginning of year	38,982	42,261	39,333
Charged to cost and expenses	16,325	13,313	20,517
Write-off	(12,813)	(16,592)	(17,589)
Balance at end of year	42,494	38,982	42,261

On December 31, 2006 and 2005, accounts receivable from telecommunications services also included amounts receivable from customers relating to the pass-through of domestic and international long-distance calls made by the Operating Subsidiary's subscribers using the Carrier Selection Code (CSP) of the long-distance carriers, according to the SMP rules.

On December 31, 2006, the Operating Subsidiary had past due accounts receivable from other operators in the amount of R\$20,647 (2005 R\$11,300), resulting from the use of its network. The past due amounts are in the process of collection and negotiation with the operators, which also involve Operating Subsidiary's past due accounts payable amounting to R\$13,616 (2005 R\$6,242) (Note 9 (b)) in view of not having collected a portion of the mentioned receivables. Management believes that the recovery of past due amounts is probable.

During 2007, the Operating Subsidiary concluded negotiation for a portion of the past due accounts receivable in the amount of R\$16,759, which also included the settlement of the related accounts payable in the amount of R\$13,616, without material impacts in Operating Subsidiary's statements of operations. Management believes that the recovery of the remaining past due amounts is probable.

**6 Inventories**

	<b>2006</b>	<b>2005</b>
Handsets and accessories	16,731	15,035
Provision for adjustment to market value	(6,196)	(3,486)
	10,535	11,549

**7 PIS and COFINS Taxes Recoverable**

In 2006, the Company and the Operating Subsidiary were successful in their legal action that questioned the constitutionality of the increase in the calculation base of PIS and COFINS (taxes on revenues) (Law 9,718). Accordingly, considering that the decision is final and unappealable, the Company and the Operating Subsidiary recognized the credit of these taxes in the amount of R\$10,409, against Financial expense in the statement of operations in 2006. The updated amounts of this credit at December 31, 2006 is R\$11,163 (R\$9,728 are presented as current assets and R\$1,435 are presented as non-current assets).

F-25

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****8 Property and Equipment, net**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Value</b>
<b>December 31, 2006</b>			
Buildings	9,231	6,304	2,927
Network equipment	778,532	533,291	245,241
Software	120,215	78,614	41,601
Mobile service authorization	14,067	6,626	7,441
Construction-in-progress (*)	55,396	-	55,396
Other	54,787	36,138	18,649
	1,032,228	660,973	371,255
<b>December 31, 2005</b>			
Buildings	12,630	7,719	4,911
Network equipment	751,811	458,317	293,494
Software	108,774	63,151	45,623
Mobile service authorization	14,067	1,641	12,426
Construction-in-progress (*)	52,262	-	52,262
Other	44,907	22,009	22,898
	984,451	552,837	431,614

(\*) Primarily refers to network equipment for which installation by the supplier and/or acceptance by the Operating Subsidiary has not yet been completed. The amounts include civil works, towers, supports, protectors and electric power equipment necessary for installation and operation of the equipment. The Company capitalized interest of R\$4.618, R\$4,383 and R\$5,961 in property and equipment in the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2006, the Company had equipment, property and other fixed assets pledged or cited in court proceedings, the book value of which totaled R\$3,799 (2005 R\$4,155).

**9 Accounts Payable**

	<b>2006</b>	<b>2005</b>
Materials and service suppliers	94,899	87,767
Interconnection charges to be transferred to other		

telecommunication service providers - SMP	37,101	29,336
	132,000	117,103

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(a) Materials and service suppliers**

On December 31, 2006 and 2005 the balance mainly included the liability to suppliers for handsets, equipment, services and execution of civil works related to expansion of the GSM/EDGE network.

**(b) Interconnection charges to be transferred - SMP**

Includes accounts payable to other mobile, fixed and long-distance telephony carriers, related to network usage charge, additional call pass-through, roaming and long-distance calls.

On December 31, 2006 the Operating Subsidiary had outstanding amounts payable to other carriers amounting to R\$13,616 (2005 - R\$6,242), which are undergoing a negotiation process (Note 5).

**10 Short-Term Debt**

At December 31, 2006 and 2005, the principal amount of short-term debt was as follows:

	<b>2006</b>	<b>2005</b>
<b>Votorantim Resolution 2770</b> U.S. dollar denominated and bears annual interest of 5.5%. Due in a single installment in April 2007.	21,577	-
<b>Itaú BBA Resolution 2770</b> U.S. dollar denominated and bears annual interest of 7.45%. Due in a single installment in February 2007 (2005 - June 2006).	20,311	24,577
<b>Safra IV</b> - U.S. dollar denominated and bears annual interest of 6.5%. Due in a single installment in January 2007.	19,734	-
<b>Safra</b> - U.S. dollar denominated and bears annual interest of 6.5%. Due in a single installment in April 2006.	-	13,224
<b>Santander Resolution 2770</b> U.S. dollar denominated and bears annual interest of 0.95%. Due in a single installment in March 2006.	-	4,681
<b>Total</b>	<b>61,622</b>	<b>42,482</b>

At December 31, 2006, accrued interest on short-term debt in the amount of R\$302 (2005 - R\$950) is shown in the caption "Accrued liabilities" in current liabilities.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The financing agreements with Itaú BBA, Safra, Votorantim and Santander are guaranteed by promissory notes issued by the Operating Subsidiary. The financing agreement with Itaú-BBA is also guaranteed by surety of the Company.

The financing agreements entered with Safra, Itaú - BBA and Votorantim were fully repaid in the first quarter of 2007.

**11 Long-Term Debt**

At December 31, 2006 and 2005, the principal amount of long-term debt was as follows:

	<b>2006</b>	<b>2005</b>
<b>Senior Notes</b> U.S. dollar denominated plus annual interest of 8.75%. Interest is due semiannually. Principal is due in January 2009.	85,520	93,628
<b>Votorantim</b> U.S dollar denominated plus annual interest of 7.46%. Interest is due semiannually. Principal is due in February 2007.	37,148	40,670
<b>Unibanco/NIB</b> U.S. dollar denominated plus annual interest of 5.25% above LIBOR. Interest is due semiannually. Principal is due semiannually, beginning April 2006 through October 2010.	34,208	46,814
<b>Unibanco/Nordea</b> U.S. dollar denominated plus annual interest of 5.25% above LIBOR. Interest and principal due semiannually, beginning April 2006, with final maturity in April 2010.	16,629	23,407
<b>BNDES (*)</b> Denominated in <i>reais</i> indexed to the BNDES currency basket, plus 3.8% p.a. until December 2004 and BNDES currency basket, plus 5.8% p.a. beginning December 2004. Installments are due monthly with final maturity in January 2006.	-	1,189
<b>Unibanco</b> - U.S. dollar denominated and bears annual interest of 1%. Due in a single installment in April 2008.	6,010	-
Other	-	148
Total	179,515	205,856
Less current portion	(87,985)	(15,852)
Long-term portion	91,530	190,004

(\*) BNDES National Bank for Economic and Social Development  
F-28

---



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

As of December 31, 2006 long-term debt installments fall due as follows:

2008	6,010
2009	85,520
Total	91,530

At December 31, 2006 the interest on long-term debt in the amount of R\$5,974 (2005 R\$6,701) are shown in the item Accrued liabilities in current liabilities.

The Unsecured Senior Notes funding program ( Notes ) and the financing agreements entered into with Unibanco, Unibanco/NIB and Unibanco/NORDEA include restrictive covenants regarding the use of funds for the purpose specified in the agreements, certain related-party transactions, merger and takeover transactions, and certain limits substantially based on balance sheet financial ratios, among others. In the event of default, the amortization may be accelerated.

Due to the additional ICMS provisions mentioned in Note 14, on December 31, 2006 the Operating Subsidiary breached the financial covenants contained in the Indenture related to the 8.75% unsecured senior notes due 2009 issued by the Company's Operating Subsidiary and Telemig Celular S.A. in 2004. On April 16, 2007, Management of the Operating Subsidiary and Telemig Celular S.A. obtained waiver by the requisite amounts of holders of the notes, thereby curing the effects of an event of default. The waiver included certain modifications on the covenant calculation terms that are more favorable to the companies. As such, the companies were not in breach of the financial covenants as of March 31, 2007 and Management does not expect to breach these covenants on the following quarters of 2007. Therefore, in these financial statements, the debt is presented as non-current liabilities in accordance with the original terms of the Indenture.

As a result of additional ICMS provisions mentioned above, on December 31, 2006, the Company and its Operating Subsidiary were also in breach of the financial ratios contained in the credit agreements with Unibanco S.A. As of December 31, 2006, the Unibanco credit agreements only characterized a technical default to have occurred once two consecutive quarterly breaches were in place, followed by an automatic 90-day curing period. The Company and its Operating Subsidiary also breached the financial ratios on March 31, 2007.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated**

On June 28, 2007, Management of the Company obtained a waiver in connection with these breaches, thereby curing the effects of an event of default. The Company is exempted from complying with the financial covenants for the three months ended June 30, 2007 and September 30, 2007. After that, as the Unibanco credit agreement only characterizes a technical default after two consecutive quarterly breaches followed by an automatic 90-day curing period, as mentioned above, the debt cannot be accelerated to a period before the original maturity date (April, 2008). Therefore, in these financial statements, the debt is presented as non-current liabilities in accordance with the original terms of the credit agreement.

On June 28, 2007, at the option of the Operating Subsidiary, the financing agreements entered into with Unibanco/NIB and Unibanco/Nordea in the amount of R\$34,208 and R\$16,629, respectively, were fully repaid in advance.

The Unibanco/NIB agreement is guaranteed by a surety of the Company, by promissory note issued by the Operating Subsidiary and by lien on equipment of the Operating Subsidiary in the book value of R\$20,118 at December 31, 2006. The Unibanco/Nordea agreement is guaranteed by a surety of the Company and by promissory notes issued by the Operating Subsidiary. The Votorantim agreement is guaranteed by promissory notes issued by the Operating Subsidiary.

The BNDES agreement was guaranteed by a surety of the Company, promissory notes issued by the Operating Subsidiary and lien on receivables amounting to 1.4 times the highest installment falling due. At December 31, 2005, restricted financial investments linked to BNDES of R\$7,491 (2006 nil) were recorded as Temporary cash investments (restricted deposits) in current assets.

The Votorantim agreement was fully repaid in the first quarter of 2007.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****12 Authorization Contracts Payable**

At December 31, 2006 and 2005 the Operating Subsidiary had the following authorization contracts payable to ANATEL:

	<b>2006</b>	<b>2005</b>
<b>Personal Mobile Service Authorization (SMP) - Indexed to IGP-DI plus 1% per month. Installments are due annually beginning in March 2007, with final maturity in March 2009. (*)</b>	12,672	11,060
<b>Additional spectrum on the 900 MHz frequency range - Indexed to IGP-DI plus 1% per month. Installments are due annually beginning in April 2007, with final maturity in April 2009. (**)</b>	4,083	3,557
	16,755	14,617
Less current portion	(6,264)	-
Long-term portion	10,491	14,617

(\*) Authorization required to migrate to the Personal Mobile Service.

(\*\*) Authorization to expand GSM technology operations

**13 Asset Retirement Obligations**

As of December 31, 2006, the estimated present value of the Company's asset retirement obligations was R\$3,741. The changes in the liability were as follows:

Asset retirement obligations at December 31, 2005	2,866
Liabilities incurred	745
	130
Accretion expense	
Asset retirement obligations at December 31, 2006	3,741

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****14 Contingencies and Judicial Deposits**

	<b>2006</b>	<b>2005</b>
<b>Contingencies</b>		
Tax contingencies	147,666	64,840
Civil and labor claims	4,512	4,566
	152,178	69,406
	<b>2006</b>	<b>2005</b>
<b>Court judicial deposits</b>		
Tax contingencies	97,610	61,532
Civil and labor claims	1,367	2,015
	98,977	63,547

Roll-forwards of the provision and the court judicial deposits were as follows:

	<b>2006</b>	<b>2005</b>
<b>Provision for contingencies</b>		
Balance at beginning of year	69,406	50,952
Provisions	82,930	24,845
Interest	1,798	2,627
Reversal	(1,956)	(9,018)
Balance at end of year	152,178	69,406
<b>Court judicial deposits</b>		
Balance at beginning of year	63,547	42,362
Deposits	32,911	27,360
Interest	2,519	2,571
Withdraw	-	(8,746)
Balance at end of year	98,977	63,547

The provisions include not only the tax and other amounts allegedly due, but also interest that may be imposed in the event the Operating Subsidiary's position does not prevail. The court judicial deposits accrue interest based on federal or state official rates.

F-32

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****(a) Tax contingencies****i. Value Added Tax on Sales and Services (ICMS) on monthly subscription, value-added services and activation fees**

Management, supported by its legal advisors, believes that ICMS should be levied only on telecommunication services and, therefore, the incidence on the monthly subscriptions, value-added and previously charged activation fees is unlawful since these are not deemed telecommunication services.

Therefore, the Operating Subsidiary filed a lawsuit in each State of its area seeking injunctive relief from application of the ICMS to cellular activation. The Operating Subsidiary obtained final judgments in its favor prohibiting the application of ICMS to activation services in the states of Amazonas, Amapá, Maranhão, Roraima and Pará, all states in which the Operating Subsidiary operates.

In December 1998, each of Amazônia Celular's then-existing subsidiaries filed an injunction with the treasury court of the state in which they are located and therefore suspended the remittance of the ICMS on monthly subscriptions and additional services and deposited such amounts in a trust account administered by the courts.

Management of the Operating Subsidiary appointed in October 2006 (Note 26 (a)) reassessed the accruals related to the ICMS on monthly subscriptions and additional services recorded by the Operating Subsidiary. Based on this reassessment, Management decided to record additional accruals for ICMS on monthly subscription and value-added services, in the amount of R\$61,900, of which R\$23,045 relate to the State of Pará, R\$27,046 relate to the State of Maranhão and R\$11,809 relate to the State of Roraima. Of the total amount of R\$61,900, R\$46,291 were recorded in Sales deductions, taxes and returns and R\$15,609 in Financial expense in the statement of income.

**• State of Pará**

In 2005, the Operating Subsidiary obtained favorable decision prohibiting the application of ICMS to monthly subscription and value-added services in the State of Pará. As the favorable decision had been officially declared final and bidding, the Operating Subsidiary withdrew the amount deposited in the respective escrow account (R\$7.200) and the corresponding provision in the amount of R\$8,470 was released. However, at a later date, the State public prosecutors' office appealed alleging that for technical procedural issues the term of appeal had not been elapsed and, therefore, the decision in the proceeding was not final. The appeal was decided in the Operating Subsidiary's favor and, therefore, the state filed another appeal against the Operating Subsidiary, which is pending judgment.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

In 2006, as a result of the appeal filed by the state and the reassessment described above, Management of the Operating Subsidiary decided to record an accrual in the amount of R\$23,045 to cover its state tax legal obligation. The updated outstanding balance of judicial deposits at December 31, 2006 totaled R\$1,898 (2005 R\$1,588).

- **State of Amazonas**

The Court of Justice rendered a decision against the Operating Subsidiary on June 18, 2003, against which the Operating Subsidiary filed an appeal with the Superior Court of Justice. The accrual recorded on December 31, 2006 amounted to R\$9,361 (2005 - R\$7,259), with corresponding judicial deposits in the amount of R\$9,100 (2005 - R\$5,889).

- **State of Roraima**

The Superior Court of Justice rendered a decision in favor of the Operating Subsidiary on December 14, 2004. That decision allowed the Operating Subsidiary to reverse the provision associated with the dispute in the amount of R\$8,310 in 2004. In 2005, the state filed a request for clarification, which was denied by the Superior Court of Justice on April 7, 2005. The state filed a Divergency request, which was also denied by the Superior Court of Justice on September 29, 2005. The State Office of the Attorney General filed a Regulatory Appeal, equally denied by the Superior Court of Justice on March 22, 2006. For this reason, the State filed an Extraordinary Appeal with the Federal Supreme Court, which was once again denied. Finally, on December 14, 2006 the State Office of the Attorney General filed an Interlocutory Appeal with the Federal Supreme Court, which is pending judgment.

In 2006, Management of the Operating Subsidiary decided to record an accrual in the amount of R\$11,809 to cover its state tax legal obligation. At December 31, 2006, the corresponding judicial deposits totaled R\$11,693 (2005 - R\$10,174).

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****• State of Maranhão**

In 2002, the Operating Subsidiary obtained a favorable decision prohibiting the application of ICMS to monthly subscription and other additional services in the state of Maranhão. As the favorable decision in the legal proceedings had been officially declared final and binding, the Operating Subsidiary reversed the provision in 2002 and withdrew the amounts deposited in the respective trust account in 2003. However, at a later date the public prosecutors' offices appealed alleging that for technical procedural issues the term for appeal had not elapsed and, therefore, the decision in the proceeding was not final. The appeal was decided against the Operating Subsidiary and the Superior Court of Justice determined that the claim be retried. The Operating Subsidiary appealed such decision. Management is still awaiting final decision.

In the year 2006, in view of the reassessment described above, Management of the Operating Subsidiary decided to record an accrual in the amount of R\$27,046 to cover its state tax legal obligation.

**• State of Amapá**

In 2004, the Operating Subsidiary obtained a final favorable decision in the State of Amapá. Therefore, in 2004, there was a reversal in the amount of R\$5,720, recorded in Selling, general and administrative expenses in the statement of operations.

**ii. Telecommunications Inspection Fee - FISTEL**

The Operating Subsidiary filed a writ of mandamus questioning the responsibility for the payment of inspection fees on mobile stations, which are not owned by the Operating Subsidiary. The Operating Subsidiary has provided for the obligation and deposited amounts in court related to the Operating Inspection Fee (TFF) and Installation Inspection Fee (TFI). The accrual recorded at December 31, 2006 was R\$74,779 (2005 - R\$55,462), with corresponding court deposits in the same amount.

**iii. Universalization Fund of Telecommunications Services - FUST**

Pursuant to Article 6 of Law 9,998/2000, which instituted the FUST, the Operating Subsidiary does not include in the contribution calculation basis revenues from telecommunications service providers as interconnection remuneration and from the use of its network resources. On December 15, 2005, the Board of ANATEL approved the Precedent No. 7, which determines the inclusion of such revenues in the calculation base of FUST, with retroactive application to January 2001.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated**

In the understanding of management and its legal advisors, the Precedent No. 7 of ANATEL contravenes the provisions of Law 9,998/2000, in addition to several constitutional provisions. In January 2006, the mobile telephony carriers filed for a Writ of Mandamus with the purpose of protecting their legal rights to continue to pay FUST without any increase of the calculation base not provided for in law.

On November 16, 2006 the Operating Subsidiary received 48 Assessment Notices related to FUST on the revenues from interconnection in 2001. On November 17, it received additional 36 Assessment Notices that were duplicates of those received on November 16. The Notices total R\$7,633. The pertinent Administrative Appeals were filed on December 14, 2006.

In the understanding of management and its legal advisors, there are possible chances of loss in this proceeding. Accordingly, no provision for contingency has been made. On December 31, 2006 the amount related to such proceeding was R\$11,736 (2005 R\$12,609).

Corroborating the above understanding, on March 5, 2007, The Honorable Federal Judge of the Lower Court of The Federal District judged the action in favor of the Operating Subsidiary, permitting calculation and payment of the FUST contribution on the total amount of the gross operating revenue deriving from rendering of telecommunication services, without inclusion of the amounts for transfer of interconnection charges.

**iv. Fund for Telecommunications Technological Development - FUNTTEL**

On December 11, 2006 the Company received 4 Assessment Notices related to the FUNTTEL on interconnection revenues in 2001, amounting to R\$2,160. The pertinent Administrative Appeals were filed on January 5, 2007.

In the understanding of Management and of its legal advisors, the chances of loss in these administrative proceedings are possible. Thus, no provision was set up for this contingency.

**v. Income tax and social contribution**

In October 2005, the Operating Subsidiary received tax notices from the Secretary of the Federal Revenue of approximately R\$68,500. These notices mainly question the deductibility of certain expenses in the calculation bases of income tax and social contribution.

The Operating Subsidiary presented its defense to the infraction notices, providing proof of existence of the supporting documentation for the deductibility of the expenses.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

In April 2006, the 1<sup>st</sup> Panel of the Federal Revenue Judgment Department of Belém ruled the assessment made by the tax auditor as void, considering the Assessment Notice against the subsidiary as groundless. The Brazilian Internal Revenue Service filed a mandatory appeal against the decision in favor of the Operating Subsidiary, which was denied. The Operating Subsidiary is currently awaiting publication of the sentence by the Third Chamber.

In March 2007, the Operating Subsidiary was notified on a Decision of the Council of Taxpayers, which denied the *ex officio* appeal filed by the Revenue Office, thus fully dismissing administrative proceeding.

**vi. Other tax contingencies**

The Operating Subsidiary is subject to other tax proceedings for which a provisions were made in the amount of R\$1,626 at December 31, 2006(2005 R\$2,119) with corresponding court deposits totaling R\$140 at December 31, 2006 (2005 R\$181). Management, based on the opinion of its legal advisors, believes that the provision recorded is sufficient to cover probable losses that might result from these proceedings.

**(b) Civil and labor contingencies**

The Operating Subsidiary is party to certain labor and civil lawsuits. Civil contingencies refer mainly to proceedings filed by the Operating Subsidiary's customers and labor contingencies refer to proceedings filed by its former employees. Based on the advice of its legal advisors, management believes that the provision recorded in the amount of R\$4,512 at December 31, 2006 (2005 R\$4,566) is sufficient to cover probable losses that might arise from these proceedings. The corresponding court deposits totaled R\$1,367 at December 31, 2006 (2005 R\$2,015).

**(c) Possible loss contingencies not provisioned**

The Operating Subsidiary has other tax claims involving risks of loss classified by Management and its legal advisors as possible in the amount of R\$13,107 at December 31, 2006 (2005 R\$17,386) for which no provision for contingencies has been recorded.

**15 Shareholders Equity****(a) Capital Stock**

The Company's authorized share capital at December 31, 2006 and 2005, comprised 700,000,000 thousand shares. Throughout 2006 and 2005, there were 210,460,313 thousand outstanding preferred shares and 124,623,842 thousand outstanding common shares.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(b) Share rights**

The preferred shares are non-voting, except under limited circumstances, and are entitled to receive, (a) on a priority basis, minimum, annual non-cumulative dividends according to the greater of the following: (i) 6% of the stated value of the Company's preferred shares; or (ii) (a) 3% of the stated value of the Company's shareholders' equity; and (b) the right to a portion of the profits to be distributed on the same basis as common shares, after common shares have been paid a dividend equal to the minimum preferred dividend mentioned in (a).

Preferred shares will acquire voting rights should the Company, during three consecutive years, fail to pay the minimum dividends they are entitled to.

**(c) Dividends**

All shareholders are entitled to an annual dividend of not less than 25% of the net income of each year upon the existence of accumulated retained earnings, calculated in accordance with Brazilian Corporate Law.

Management is required by the Brazilian Corporate Law to propose dividends at year-end to conform to the mandatory minimum dividend regulations. In 2006, the net loss adjusted by the realization of the Unrealized income reserve totaled R\$70,153 in the Brazilian GAAP financial statements. Consequently, the distribution of mandatory minimum dividends in the fiscal year ended December 31, 2006 was not proposed.

In 2005, the Company reassessed the calculations of the minimum dividends relating to the fiscal year 2004, since the net loss adjusted by the realization of Unrealized income reserve resulted in net income in the amount of R\$3,266.

Consequently, in compliance with the provisions in the Article 203 of Law 6,404/76, the Company recorded in 2005 minimum dividends relating to the fiscal year 2004, to be paid to shareholders of preferred shares, in the amount of R\$3,266 (R\$ 0.0155 per one thousand shares). This amount was increased, as from the end of 2005 up to the date of the effective payment, by the accumulated variation of SELIC in the period.

If dividends remain unclaimed for a period of three years, a shareholder's right to receive the dividend lapses. During 2004, dividends totaling R\$213, expired and were reversed to equity.

In the event of winding-up of the Company, the preferred shares have priority to capital reimbursement.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements**  
**Expressed in thousands of Brazilian reais, unless otherwise stated**

Dividends provided per thousand shares were:

	<i>in reais</i>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Preferred shares	-	0.02	0.02
Common shares	-	0.00	0.00

**(d) Stock option plan**

At December 31, 2006 the Company had reserved 144,917 shares of preferred stock for issuance in connection with its stock option grants (120,749 for the 2003 grants and 24,168 for the 2000 grants) (Note 24).

**(e) Capital reserves**

On December 28, 1999, the shareholders approved a legal reorganization whereby Telpart contributed assets to the Company, resulting in future tax benefits. A deferred tax asset of R\$48,818 was recorded which may be realized over a period of up to ten years. Realization of such tax benefit is dependent on the Company generating sufficient future taxable income. In accordance with Brazilian Corporate Law, the Company may issue shares (*pro rata* both common and preferred) to Telpart for the amount of the tax benefits realized. In addition, minority shareholders are granted preemptive rights. If the minority shareholders do not elect to exercise these rights, the shares will be issued and subscribed for by Telpart. As of December 31, 2006, the unrealized portion of the capital reserve related to the legal reorganization under U.S. GAAP amounted to R\$46,983.

**(f) Retained earnings / accumulated deficit****(i) Appropriated retained earnings**

Appropriated retained earnings are reserve balances, which are restricted as to their distributions that reflect the amounts in the Brazilian GAAP financial statements. The tax incentive and statutory reserves may be transferred to capital or used to absorb losses in the statutory accounting records, but are not, generally, available for distribution as cash dividends.

The statutory reserve is formed based on (i) appropriations from retained earnings of 5% of annual net income as stated in the Company's Brazilian GAAP financial statements and bylaws (ii) tax incentive reserve which arises from an option to apply a portion of income tax otherwise payable for certain government approved projects. The amount so applied is credited to income tax and subsequently appropriated from retained earnings to this reserve.

The retained earnings balance includes appropriated retained earnings of R\$7,764 at December 31, 2005 (December 31, 2006 Nil) in the Brazilian GAAP financial statements.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****(ii) Unappropriated retained earnings / accumulated deficit**

Brazilian law allows the payment of dividends only in *reais* and these are limited to the retained earnings balances in the Brazilian GAAP financial statements. Distributable retained earnings aggregated R\$3,146, at December 31, 2006 (2005 R\$37,256).

**16 Earnings (loss) Per Share**

Since preferred and common shareholders have different dividend, voting and liquidation rights, basic earnings per share have been calculated using the two-class method. The two-class method is an allocation formula that determines earnings per share for preferred and common shares according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings.

Basic earnings per common share is computed by reducing net income by distributable and undistributable net income available to preferred shareholders and dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period. Net income available to preferred shareholders is the sum of the preferred dividends and the preferred shareholders' portion of undistributed net income.

Undistributed net income is computed by deducting preferred dividends and common dividends from net income. Options issued under the Company's 2000 and 2003 stock options plans were out of the money at December 31, 2006, 2005 and 2004. Therefore, diluted earnings per share equals basic earnings per share.

Under the Company's bylaws, if the Company is able to pay dividends in excess of the minimum requirement for preferred shareholders and the remainder of the net income is sufficient to provide equal dividends to both common and preferred shareholders, then the dividends per share will be the same for both common and preferred shareholders.

Since the preferred shares have a liquidation preference over common shares, net losses are not allocated to preferred shares.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The following table sets forth the computation of basic and diluted net loss per thousand common shares:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Basic and diluted numerator			
Net loss	(87,356)	(20,049)	(86,499)
Net loss allocated to preferred shareholders	-	-	-
Net loss allocated to common shareholders	(87,356)	(20,049)	(86,499)
Basic and diluted denominator (in thousands of shares)			
Weighted-average number of shares			
Preferred	210,460,313	210,460,313	210,460,313
Common	124,623,842	124,623,842	124,623,842
Basic and diluted loss per thousand shares (in reais)			
Preferred	-	-	-
Common	(0,70)	(0.16)	(0.69)

Effective January 1, 2006, the Company changed its accounting policy for calculating earnings per share. Previously, based on its rights and terms, the Company viewed its preferred shares as in-substance common stock for purposes of calculating earnings per share. As a result, the Company allocated undistributed net losses to both common and preferred shares on a proportionate basis. Starting in 2006, the Company believes it is more appropriate to view these securities as preferential securities. The Company has retrospectively applied the new accounting policy to prior periods, and restated its 2005 and 2004 earnings per share calculations.

Basic and dilutive earnings per share calculation for the year ended December 31, 2005

	<b>As Originally Reported</b>	<b>As Restated</b>
Net loss	(20,049)	(20,049)
Net loss allocated to the preferred shareholders	(12,592)	-
Net loss allocated to the common shareholders	(7,457)	(20,049)
Basic and dilutive denominator (in thousands of weighted average number of shares)		
Preferred stock	210,460,313	210,460,313
Common stock	124,623,842	124,623,842
Basic and dilutive loss per thousand shares (in reais)		
Preferred stock	(0.06)	-

Common stock

(0.06)

(0.16)

F-41

---



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements**  
**Expressed in thousands of Brazilian reais, unless otherwise stated**

Basic and dilutive earnings per share calculation for the year ended December 31, 2004

	<b>As Originally Reported</b>	<b>As Restated</b>
Net loss	(86,499)	(86,499)
Net loss allocated to the preferred shareholders	(54,328)	-
Net loss allocated to the common shareholders	(32,171)	(86,499)
Basic and dilutive denominator (in thousands of weighted average number of shares)		
Preferred stock	210,460,313	210,460,313
Common stock	124,623,842	124,623,842
Basic and dilutive loss per thousand shares (in reais)		
Preferred stock	(0.26)	-
Common stock	(0.26)	(0.69)

**17 Income Taxes****(a) Statutory rates**

Brazilian income taxes comprise federal income tax and the social contribution taxes. The statutory rates for federal income tax and for the social contribution tax are 25% and 9%, respectively.

The following is the income tax (expense) benefit for the years ended December 31, 2006, 2005 and 2004:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Federal income tax	(108)	(3,720)	-
Social contribution tax	(36)	(445)	(145)
Deferred taxes	40,201	12,035	575
Valuation allowance	(36,420)	(12,035)	(95,179)
Income tax expense	3,637	(4,165)	(94,749)

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(b) Tax reconciliation**

The following is a reconciliation of the reported income tax expense/benefit and the amount calculated by applying the composite statutory tax rate of 34% for the years ended December 31, 2006, 2005 and 2004, respectively:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Loss before taxes and minority interest	(119,726)	(22,040)	(4,333)
Composite statutory rate	34%	34%	34%
Tax benefit at statutory rates	40,707	7,494	1,473
Adjustments to arrive at effective rate:			
Non-taxable income (non-deductible expense), net	(650)	376	(1,043)
Valuation allowance	(36,420)	(12,035)	(95,179)
Income tax benefit (expense)	3,637	(4,165)	(94,749)

**(c) Tax assets and liabilities**

The following is an analysis of deferred income tax assets and liabilities:

	<b>2006</b>	<b>2005</b>
Deferred tax assets		
Income tax loss carryforwards	59,183	39,656
Accrued expenses and provision for contingencies	63,519	32,923
Assets related to legal reorganization (Note 15 (e))	14,670	19,700
Allowance for doubtful accounts	14,868	13,831
Other	554	4,093
	152,794	110,203
Deferred tax liabilities		
Capitalized interest	(3,861)	(2,989)
Prepaid pension asset	(5,299)	-
Net deferred tax asset	143,634	107,214
Valuation allowance	(143,634)	(107,214)

Deferred income taxes

- -

Brazilian tax legislation limits the use of tax loss carryforwards to 30% of taxable income per year; the tax loss carryforwards do not expire.

F-43

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****(d) Valuation allowance**

The Company's deferred tax asset is comprised primarily of net operating loss carryforwards from income tax and social contributions losses available for offset, tax benefit arising from the legal reorganization and the tax effect of timing differences. In view of the cumulative losses in recent years and taking into account the weight of positive and negative evidence for the foreseeable future, pursuant to the guidance provided by FAS 109, although the components of the deferred tax asset do not expire and despite expectations of more favorable pretax results once the TDMA equipment is fully depreciated and replaced by service provided through the GSM network systems, management has determined that a valuation allowance should be recorded at December 31, 2006 and 2005 to provide for the full amount of tax assets net of deferred tax liabilities.

Under Brazilian GAAP, pursuant to the CVM (Brazilian Exchange Commission) Instruction No. 371/2002, the Company and its Operating Subsidiary prepare technical feasibility studies on deferred tax assets future realization, considering the probable future taxable income generation capacity by the Companies. A valuation allowance is required to the amount of deferred tax asset that will be realized beyond the ten years period determined by CVM Instruction 371/2002.

Based on the referred technical studies, Management considered that a portion of the Company and its Operating Subsidiary's deferred tax assets, in the amount of R\$66,366 (2005 - R\$34,207) will be realized beyond the ten years period mentioned above. Accordingly, in the Brazilian GAAP financial statements, a valuation allowance in these amounts was made. As of December 31, 2006 and 2005, the deferred tax asset recorded, net of the valuation allowance above, amounted to R\$82,131 and R\$68,453, respectively.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****18 Transactions with Related Parties**

The Company and its Operating Subsidiary entered into transactions with the controlling shareholders and other related parties for certain services. Transactions with related parties are carried out based on amounts agreed upon by the respective related parties.

	<b>2006</b>	<b>2005</b>	
<b>Assets</b>			
<b>Current assets</b>			<b>Accounts receivable</b>
Telemig Celular S.A.	29	16	
Brasil Telecom S.A.	1,542	1,397	
	1,571	1,413	
<b>Liabilities</b>			
<b>Current liabilities</b>			<b>Accounts payable</b>
Telemig Celular S.A.	4	30	
Brasil Telecom S.A.	2,359	1,954	
	2,363	1,984	
<b>Current liabilities</b>			<b>Accrued liabilities</b>
Telemig Celular S.A.	11,059	4,640	
Telemig Celular Participações S.A.	2,100	547	
	13,159	5,187	
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Statement of Operations</b>			
<b>Service revenue</b>			
Telemig Celular S.A.	660	453	1,157
Brasil Telecom S.A.	13,809	15,303	117
	14,469	15,756	1,274
<b>Expenses from sharing of resources</b>			
Telemig Celular S.A.	(9,764)	(11,007)	(11,428)
Telemig Celular Participações S.A.	(2,504)	(3,857)	(3,651)

(12,268)

(14,864)

(15,079)

F-45

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****(a) Roaming Agreements**

The Operating Subsidiary is a member of a Brazilian roaming committee of cellular operators that includes Telemig Celular S.A. The purpose of the committee is to oversee technical and system aspects to assure the highest quality of roaming service. As required by Brazilian regulations, the Operating Subsidiary and Telemig Celular S.A. facilitate roaming to their respective subscribers.

Accounts receivable and payable, as well as service revenue with Telemig Celular S.A., refer to the transfer of the additional tariff and roaming services rendered by the subscribers of the companies.

**(b) Cost Sharing Agreement**

In order to optimize resource allocation efficiency among Telemig Celular Participações S.A and its subsidiary, and the Company and its Operating Subsidiary, the Company entered into a cost sharing agreement pursuant to which certain costs that are incurred for the benefit of both companies and their subsidiaries are allocated to each company based on criteria designed to reflect the actual use by each company. The costs allocated under this agreement refer primarily to personnel, marketing and outside consulting fees.

The balances presented in the current liabilities - accrued liabilities and in the expenses from sharing of resources are related exclusively to the resource sharing and jointly-owned unit.

The balances are adjusted based on the *Certificado de Depósito Interbancário* (Interbank Certificates of Deposit) rate, or CDI.

**(c) Brasil Telecom S.A.**

Brasil Telecom is considered a related party due to the existence of common partners in the Company's control chain.

Beginning August 1, 2004, the Operating Subsidiary started offering the Carrier Selection Code (CSP) option to its subscribers for intercity (VC2 and VC3) and international calls in conformity with the Personal Mobile Service (SMP) rules. The Operating Subsidiary entered into an agreement with Brasil Telecom S.A. under which its subscribers pay a lower rate to use long-distance services offered by Brasil Telecom S.A..

On December 31, 2006, accounts payable to Brasil Telecom S.A., refer to the transfer of intercity and international calls made by the Operating Subsidiary's subscribers using the CSP service of Brasil Telecom S.A. Accounts receivable and service revenue mainly refer to the interconnection revenues for the Operating Subsidiary's network usage in such long-distance calls.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****19 Pension Plan and Other Post-Retirement Benefit Plans****(a) Defined benefit plans**

The Operating Subsidiary participates in a multi-employer defined benefit pension plan (PBS Assistidos - PBS-A ) and a multi-employer post-retirement benefit plan (Plano de Assistência Médica ao Aposentado - PAMA) administered by the *Fundação Sistel de Seguridade Social* ( Sistel ), a minority shareholder.

In 1999, Sistel approved changes to the plan's statutes resulting in the break up of plan assets and liabilities related to the active participants of each sponsor. Sistel did not break up plan assets and liabilities related to retired participants and, thus, the Operating Subsidiary will continue to sponsor the Sistel plan for such retired participants.

Effective January 2000, the plan was modified and changed into a multiple employer pension plan (PBS - Tele Norte Celular) with respect to active employees. The plan assets and liabilities related to active employees were transferred into this new plan and the benefits remained unchanged. The post-retirement benefit plan continues unchanged as multi-employer plan.

The pension benefit is generally defined as the difference between (i) 90% of the retiree's average salary during the last 36 months indexed to the date of retirement and (ii) the value of the retirement pension paid by the Brazilian social security system. For retired participants the initial pension payment is adjusted to recognize cost of living increases and productivity awards granted to active employees. In addition to the pension supplements, post-retirement health care and life insurance benefits are provided to eligible pensioners and their dependents.

Contributions to the plans are based on actuarial studies prepared by independent actuaries. The Operating Subsidiary uses a measurement date of December 31 for its pension and other post-retirement benefit plans.

The Operating Subsidiary contributed R\$1, R\$47 and R\$80 in 2006, 2005 and 2004, respectively, with respect to the multi-employer plans.

The Operating Subsidiary expects to contribute up to R\$217 to the defined benefit pension plan in 2007.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****Funded status and amounts recorded**

Based on the report of the Operating Subsidiary's independent actuary, the funded status and amounts recorded in the Company's consolidated balance sheet for the multiple employer plan (PBS - Tele Norte Celular) are:

	<b>2006</b>	<b>2005</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	26,115	22,751
Actual return on plan assets	4,312	3,497
Sponsors' and participants' contributions	296	466
Benefits paid and expenses	(946)	(599)
Fair value of plan assets at end of year	29,777	26,115
	<b>2006</b>	<b>2005</b>
<b>Change in benefit obligations</b>		
Benefit obligation at beginning of year	16,154	14,626
Service cost	495	605
Interest cost	1,793	1,629
Actuarial gains	(673)	(107)
Benefits paid and expenses	(946)	(599)
Benefit obligation at end of year	16,823	16,154
	<b>2006</b>	<b>2005</b>
<b>Pension benefits recognized in the balance sheet</b>		
Funded status	12,954	9,961
Unrecognized net gains	-	(6,697)
Prepaid benefit cost	12,954	3,264

The accumulated benefit obligation for the pension plan was R\$15,952 and R\$14,990 at December 31, 2006 and 2005, respectively.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

Components of net periodic pension cost of the multiple employer plan (PBS Tele Norte Celular) are as follows:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Service cost	495	605	536
Interest cost	1,793	1,629	1,437
Expected return on assets	(3,580)	(4,149)	(2,168)
Deferred gains amortization	(393)	(280)	(665)
Employee contributions	(193)	(212)	(210)
Effect of curtailment	-	-	(619)
Effect of settlement	-	-	(4,408)
Other	3,185	(166)	-
Net periodic pension (cost) benefit	1,307	(2,573)	(6,097)

The changes in the accrued pension cost for the for the year ended December 31, 2005 and 2006 areas follows:

	<b>2006</b>	<b>2005</b>
Prepaid pension cost in the beginning of the year	3,264	441
Net periodic pension benefit (cost)	(1,307)	2,573
Company contributions during the year	166	250
Prepaid pension cost at the end of the year	2,123	3,264
Effect of adoption of SFAS 158	10,831	-
Net amount recognized	12,954	3,264

The benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are summarized as follow:

	<b>PBS Tele Norte Celular</b>
2007	823
2008	1,014
2009	1,052
2010	1,094
2011	1,302

2012 to 2016

8,299

The net periodic pension cost for 2007 is summarized as follow:

	<b>2007</b>
Service cost	346
Interest cost	1,682
Expected return on assets	(3,367)
Amortization gain	(458)
Employee contributions	(129)
Net periodic pension benefit	(1,926)

F-49

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The effect of the adoption of SFAS 158 mentioned in Note 3 (m) on the Company's consolidated balance sheet for the PBS Tele Norte Celular plan is shown below.

	<b>Before Adoption</b>	<b>Adjustments</b>	<b>After Adoption</b>
Pension plan surplus	2,123	10,831	12,954
Deferred income taxes liability	722	3,683	4,405
Minority Interest	351	1,790	2,141
Accumulated other comprehensive income	-	5,358	5,358

**(b) Defined contribution and defined benefit plan (CelPrev - Tele Norte Celular)**

In March 2004, the Operating Subsidiary offered to its employees a new benefit plan, which is also administered by Sistel. The new plan permitted, through June 16, 2004, the migration of the participants of the PBS Tele Norte Celular plan. The Company recognized, during 2004, a curtailment and settlement charge relating to the implementation of the new plan in the amounts of R\$4,338 and R\$3,719 within the Net Benefit Obligation and Fair Value of Plan Assets, respectively.

The new plan is a defined contribution plan, except for medical benefits, for which there is a defined benefit of up to 24 months. Participants and the Operating Subsidiary will each contribute with 50% of the plan's cost. The plan defines retirement at age 60, with early retirement at age 50, and includes disability, retirement, illness benefits and pension in case of casualty. Operating Subsidiary matching contributions will range from 0.5% to 2% and additional contributions without Operating Subsidiary matching may range from 0.5% to 6% of the participant's salary. Benefits at the time of retirement will depend on the time and amount of contributions, as well as on the performance of the fund's investments.

Based on the report of the Operating Subsidiary's independent actuary, the funded status and amounts recorded in the Company's consolidated balance sheet for the multiple employer plan (CelPrev - Tele Norte Celular) are:

	<b>2006</b>	<b>2005</b>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	1,496	393
Actual return on plan assets	(634)	1,052
Sponsors' contributions	-	51
Fair value of plan assets at end of year	862	1,496

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

	<b>2006</b>	<b>2005</b>
<b>Change in benefit obligations</b>		
Benefit obligation at beginning of year	254	237
Service cost	29	31
Interest cost	28	26
Actuarial losses	(19)	(40)
Benefit obligation at end of year	292	254

	<b>2006</b>	<b>2005</b>
<b>Pension benefits recognized in the balance sheet</b>		
Funded status	570	1,242
Unrecognized net transition obligation	-	(1,017)
Unrecognized gain	-	(146)
Prepaid benefit cost	570	79

Components of net periodic pension cost of the CelPrev - Tele Norte Celular for 2006 and 2005 are (2004 not applicable):

	<b>2006</b>	<b>2005</b>
Service cost	29	31
Interest cost	28	26
Expected return on assets	(208)	(75)
Deferred gains amortization	(52)	(10)
Net periodic pension cost (benefit)	(203)	(28)

The benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are summarized as follows:

**CelPrev -  
Tele Norte**

**Celular**

2007	14
2008	28
2009	30
20010	33
2011	35
2012 to 2016	229

F-51

---

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The changes in the accrued pension cost for the for the year ended December 31, 2005 and 2006 areas follows:

	<b>2006</b>	<b>2005</b>
Prepaid pension cost in the beginning of the year	79	-
Net periodic pension benefit	203	28
Company contributions during the year	-	51
Prepaid pension cost at the end of the year	282	79
Effect of adoption of SFAS 158	288	-
Net amount recognized	570	79

The net periodic pension cost for next year is summarized as follow:

	<b>2007</b>
Service cost	30
Interest cost	29
Expected return on assets	(101)
Amortization gain	(3)
Transition obligation	(10)
Net periodic pension benefit	(55)

The effect of the adoption of SFAS 158 mentioned in Note 3 (m) on the Company s consolidated balance sheet for the CelPrev Tele Norte Celular plan is shown below.

	<b>Before Adoption</b>	<b><u>Adjustments</u></b>	<b>After Adoption</b>
Pension plan surplus	282	288	570
Deferred income taxes liability	96	98	194
Minority Interest	47	48	94
Accumulated other comprehensive income	-	142	142

**(c) Main actuarial assumptions**

Main actuarial assumptions used in the calculation of the PBS-Tele Norte Celular and CelPrev Tele Norte Celular:

**Weighted-average assumptions**

	<b>PBS - Tele Norte Celular / CelPrev</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Discount rate of actuarial liabilities (1)	10.24%	11.30%	11.30%
Expected return on plan assets (1)	11.59%	13.75%	18.20%
Salary increase rate (1)	6.08%	7.10%	7.10%

(1) Expressed in nominal terms - assumed future inflation of 4 % for 2006 and 5% for 2005 and 2004

F-52

---



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

The discount rate is based on the Brazilian government bonds rates and considers the timing of the expected benefit payment.

The expected return on plan assets for 2007 was set up based on the pension portfolio's past average rate of earnings, discussion with portfolio managers and comparisons with similar companies, which was based on the following target assets allocation:

	<b>PBS - Tele Norte Celular / CelPrev</b>
Debt securities	74.8%
Equity securities	15.2%
Loans	0.9%
Other	9.1%
Total	100.0%

The pension plan weighted-average asset allocations at December 31, 2006 and 2005, by asset category are as follows:

	<b>PBS - Tele Norte</b>		<b>CelPrev</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Debt securities	74.8%	79.8%	73.5%	83.3%
Equity securities	15.2%	19.1%	17.0%	15.5%
Loans	0.9%	1.1%	1.4%	1.2%
Other	9.1%	-	8.1%	-
Total	100.0%	100.0%	100.0%	100.0%

The Sistel PBS Tele Norte Celular and CelPrev Tele Norte Celular Benefit Plan Investment Policy sets forth the policy for application and management of funds supporting the Plan with the objective of meeting the profitability and social security goals in accordance with the related actuarial liability.

Based on the short, medium and long-term macroeconomic scenarios prepared by Sistel, the Plan Investment Policy sets out objectives, goals and restrictions to the plan fund's investments. The Plan Investment Policy also determines and designs the strategic assignment of these funds in each segment and portfolio, as well as the assets that may be

selected and the strategy to be adopted to manage these assets. The Plan Investment Policy sets forth the ceiling and floor limits to break down the asset portfolio into fixed-income and variable assets, as well as loans and financings to the members of the plan. The minimum actuarial rate forecast for the plan consists of a return at least equal to the INPC (Broad National Consumer Price Index) + 6% p.a.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****20 Commitments****(a) Capital expenditures**

At December 31, 2006, the Operating Subsidiary had capital expenditure commitments related to the continuing expansion and modernization of the network in the amount of R\$27 (2005 Nil).

**(b) Rental agreements**

The Operating Subsidiary rents certain equipment and premises through a number of operating lease agreements that expire at different dates. Total rent expense under these agreements was R\$12,872, R\$14,574 and R\$10,748 for the years ended December 31, 2006, 2005 and 2004, respectively.

Future minimum lease payments under non-cancelable operating leases with an initial term of one year or more are as follows at December 31, 2006.

2007	6,657
2008	5,665
2009	3,725
2010	1,563
2011 a 2019	3,083
Total minimum payments	20,693

The Operating Subsidiary's concession requires that certain network coverage requirements and service quality milestones be met to continue to be valid and allow the Operating Subsidiary to operate.

On September 19, 2006, the Operating Subsidiary entered into an agreement with Ericsson Telecomunicações S.A. and Ericsson Serviços de Telecomunicações Ltda. to provide and implement the expansion of its GSM CORE network. Under the terms of this agreement, Ericsson has agreed to provide all equipment, material, software and services necessary for the expansion of the GSM CORE network. The total amount payable to Ericsson under the terms of the agreement is R\$800.

On September 19, 2006, the Operating Subsidiary entered into a new agreement with Ericsson Telecomunicações S.A., Ericsson Serviços de Telecomunicações Ltda. and Ericsson Gestão e Serviços de Telecomunicações Ltda. to provide and implement the expansion of its GSM ACCESS network. Under the terms of this agreement, Ericsson has agreed to provide all equipment, material, software and services necessary for the expansion of the GSM ACCESS network. The total amount payable to Ericsson under the terms of the agreement is R\$4,900.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****21 Financial Instruments****(a) Fair value of financial assets and liabilities**

Estimated fair values of the Company and its Operating Subsidiary's financial assets and liabilities have been determined using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimated fair values. Accordingly, the amounts presented below are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimated methodologies may have a material effect on the estimated fair values.

The fair value information as of December 31, 2006 and 2005 presented below is based on the Company and its Operating Subsidiary's current loans and financing rates for similar types of loans and financing arrangements.

	2006		2005	
	Book value	Fair value	Book value	Fair value
Long-term debt	179,515	187,237	205,856	223,888

The carrying value of cash, cash equivalents, trade accounts receivables, other current assets, accounts payable and accrued liabilities are a reasonable estimate of their fair value because of the short maturities of such instruments. Interest rates that are currently available to the Company for issuance of debt with similar terms and maturities were used to estimate the fair value of loans and financing.

**(b) Concentration of risks**

Credit risk connected with receivables derives from telecommunications services billed and unbilled amounts, resale of handsets and distribution of prepaid cards. The Operating Subsidiary continuously monitors credit granted to its customers and the delinquency level.

Customer access to telecommunications services is blocked when the bill is overdue for more than 15 days, except for telephone services to be maintained for security or national defense reasons. The credit risk of accounts receivable of telecommunications mobile services is diversified. The Operating Subsidiary sets credit limits for handset resellers and prepaid card distributors. These limits are defined based on potential sales, risk history, payment promptness and delinquency levels. On December 31, 2006, the Operating Subsidiary's allowance for losses on receivables amounted to R\$42,494 (2005 - R\$38,982) - Note 5.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

There are no concentration of services, concessions or rights that could, if suddenly eliminated, severely impact the operations of the Company and its Operating Subsidiary.

**22 Swaps**

At December 31, 2006 and 2005, the Operating Subsidiary held cross-currency interest rate swap agreements related to its U.S. dollar denominated debt to mitigate risk against volatility of the U.S. dollar and the Brazilian *real* exchange rate.

Through the swap agreements, at December 31, 2006, the Operating Subsidiary earns the exchange variation between the United States dollar and the Brazilian *real* plus 0.0% to 7.83% and pays an amount based on 74.8% to 110.5%, of the variation of the short term interbank rate. The short-term interbank rate variation was 15.0% and 19.0% in 2006 and 2005, respectively. At December 31, 2006 and 2005, these agreements have total updated notional amounts of R\$191,897 and R\$224,346, respectively, and expire on various dates through 2009.

The fair values of the Operating Subsidiary's cross-currency interest rate swap agreements were estimated based on quoted market prices of comparable contracts. As of December 31, 2006 and 2005, the unrealized gain and losses of the individual swap contracts are presented on the balance sheet on a gross basis, segregating assets and liabilities as follows:

	<b>2006</b>	<b>2005</b>
Fair market value of asset portion of cross-currency interest rate swap agreements	182,833	213,346
Fair market value of liability portion of cross-currency interest rate swap agreements	(225,715)	(262,234)
Cross-currency interest rate swap agreements	(42,882)	(48,888)
Current assets	-	287
Current liabilities	(17,439)	(35,882)
Non-current liabilities	(25,443)	(13,293)
Cross-currency interest rate swap agreements	(42,882)	(48,888)

The losses arising from the swap agreements of R\$43,966, R\$55,068 and R\$29,814 for 2006, 2005 and 2004, respectively, are reflected in financial expenses. The Operating Subsidiary does not apply hedge accounting for any of these contracts.



**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated****23 Financial Results**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Financial Income</b>			
Interest	10,028	17,003	22,030
Other	1,937	823	83
	11,965	17,826	22,113
<b>Financial Expenses</b>			
Interest	(35,061)	(19,659)	(20,405)
Loss on swap agreements	(43,966)	(55,068)	(29,814)
Taxes on financial transactions	6,350	(6,418)	(7,251)
Other	(1,966)	(2,268)	(2,712)
	(74,643)	(83,413)	(60,182)
<b>Foreign exchange gain</b>	21,341	36,908	17,847
	(41,337)	(65,587)	(20,222)

Taxes on financial transactions in 2006 include gain on PIS and COFINS related to the legal action that questioned the constitutionality in the basis of these taxes, in the amount of R\$10,409, as mentioned on Note 7.

**24 Stock-Based Compensation Plan**

On October 5, 2000, the Company's Board of Directors approved two long-term incentive plans as follows:

**(a) Plan A** - covers certain key executives who may receive shares of the Company's common or preferred stock. The options vest only to the extent that the Company achieves performance goals determined by the Board of Directors during a five-year performance period. On December 31, 2006 all of the options granted had been forfeited.

**(b) Plan B** - covers key executives (who can also participate in Plan A) and other employees. Options granted under this plan relate to preferred stock and are exercisable at the market price at the date of grant, adjusted by an inflation index. The vesting period is up to 20% during the second year, 60% during the third year and 100% during the fourth year. The options may be exercised through October 2007.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

A summary of option activity for three years ended December 31, 2006 is presented below (amounts in *reais* per shares):

**Plan B Options Granted on October, 2000**

	<b>Number of Options</b>	<b>Initial Exercise Price - R\$</b>	<b>Exercise Price - R\$</b>	<b>Market Price R\$</b>
Outstanding as of December 31, 2003	354,643	1.44	2.19	0.64
Forfeited	(56,816)	1.44	-	-
Outstanding as of December 31, 2004	297,827	1.44	2.47	0.50
Forfeited	(141,715)	1.44	-	-
Outstanding as of December 31, 2005	156,112	1.44	2.49	0.31
Forfeited	(131,944)	1.44	-	-
Outstanding as of December 31, 2006	24,168	1.44	2.59	0.38

At December 31, 2006 all the 24,168 options outstanding were exercisable at R\$2.59 (2005 156,112 options; 2004 297,827) options. The remaining contractual terms of these options were 0.8 year and there were no aggregate intrinsic value at December 31, 2006, since exercise price was above market price. The fair value of these options at the date of grant was R\$0.82.

During the meetings held on December 29 and 30, 2003, the Boards of Directors of the Company and its Operating Subsidiary, respectively, approved changes to Plan B, which did not affect the options granted on October 2000, as follows.

The new options granted under this plan relate to preferred stock and are exercisable at the market price at the date of the grant, discounted by 20%. Additionally, the exercise price is adjusted by an inflation index. The vesting schedule is 40% beginning on January 15, 2004, 70% on January 15, 2005 and 100% on January 15, 2006. The options may be exercised through January 2008.

Option activity for three years ended December 31, 2006 is presented below (amounts in *reais* per shares):

**Plan B Options Granted on December, 2003**

<b>Number of</b>	<b>Initial Exercise</b>	<b>Exercise</b>	<b>Market</b>
------------------	-----------------------------	-----------------	---------------



	<b>Options</b>	<b>Price - R\$</b>	<b>Price - R\$</b>	<b>Price R\$</b>
Outstanding as of				
December 31, 2003	1,064,331	0.49	0.49	0.64
Forfeited	(237,263)	0.49	-	-
Outstanding as of				
December 31, 2004	827,068	0.49	0.55	0.50
Forfeited	(184,936)	0.49	-	-
Outstanding as of				
December 31, 2005	642,132	0.49	0.56	0.31
Forfeited	(521,383)	0.49	-	-
Outstanding as of				
December 31, 2006	120,749	0.49	0.57	0.38

F-58

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian reais, unless otherwise stated**

At December 31, 2006 all the 20,749 options outstanding were exercisable at R\$0.57 (2005 - 449,492 options; 2004 - 330,828 options). At December 31, 2006, the remaining contractual terms of these options were 1.1 years and there were no aggregate intrinsic value since exercise price was above market price. The fair value of these options at the date of grant was R\$0.41.

The Company has a policy of issuing new shares upon option exercise.

As a result of a significant amount of expected and actual forfeitures during 2006, the adoption of SFAS 123(R) did not materially impact Company's consolidated financial statements at its adoption date, January 1, 2006, nor its stock-based compensation expense during the year ended December 31, 2006. Additionally, no stock-based agreements were issued during the year ended December 31, 2006.

As of December 31, 2006, there were no unrecognized compensation costs related to unvested share-based compensation arrangements, since all options were vested.

The remaining options outstanding at December 31, 2006 represent liability awards, as their exercise prices are indexed to inflation. The aggregate fair value of these outstanding awards was not material at December 31, 2006.

The fair value for the options was estimated using a Black-Scholes option-pricing model with the following weighted-average assumptions:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
Risk-free interest rate	6%	6%	6%
Dividend yield	6%	6%	6%
Volatility factor of the expected market price of the Company's preferred stock	71%	72%	76%
Weighted-average expected life of the option	6	6	6

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****25 Notice of the New York Stock Exchange ( NYSE )**

On August 1, 2005, the NYSE notified the Company that it was below criteria, as its total market capitalization was less than US\$75 million over a 30 trading-day period and its shareholders' equity was less than US\$75 million (under US GAAP). In the beginning of 2006, the NYSE accepted an 18-month business plan that the Company submitted to comply with the NYSE continued listing standards and during such period it was subject to periodical reviews by the NYSE for compliance with the goals and initiatives as outlined in the plan.

On May 11, 2007, the NYSE informed that the Company was removed from the Watch List and is currently considered in good standing with respect to the NYSE's quantitative continued listing standards, as a result of its compliance with the NYSE's listing standards and the completed filing of its Annual Report on Form 20-F for the year ended December 31, 2005. As of June 18, 2007, the Company's market capitalization amounted to US\$115 million over a 30 trading-day period, above the required threshold.

However, in accordance, with the NYSE's Listed Company Manual, the Company will be subject to a 12-month follow-up period to ensure compliance with the NYSE's continued listing standards. If during such period the Company falls 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 the Company's securities. The Company remains subject to the NYSE's normal continued listing monitoring.

**26 Other Information****(a) Change in Management**

In the Extraordinary Shareholders' Meeting of the Company held on March 20, 2006, shareholders resolved to dismiss certain members of the Board of Directors. On the same date, the Board of Directors of the Company unanimously resolved to dismiss the Board of Executive Officers, electing new members as substitutes, who took office on the same day (March 20), and have been managing the business effective beginning that date.

In the Extraordinary Shareholders' Meeting of the Operating Subsidiary, Amazônia Celular S.A., held on September 28, 2006, the shareholders resolved to remove certain members of the Board of Directors. On October 6, 2006 the Board of Directors of the subsidiary unanimously resolved to dismiss the Board of Executive Officers, electing new members as substitutes, who took office on the same day (October 6), and have been managing the business effective beginning that date.

**Tele Norte Celular Participações S.A.****Notes to Consolidated Financial Statements****Expressed in thousands of Brazilian *reais*, unless otherwise stated****(b) Proceedings related to the General Law of Telecommunications**

The Brazilian telecommunications regulations prohibit a shareholder from having a controlling interest in more than one wireless telecommunications carrier operating in the same area in Brazil. On June 15, 2005, the Company initiated court proceedings seeking a court order to prevent PREVI and Banco do Brasil from exercising their voting rights in the Company, until the legality of their shareholding interest is resolved. The main argument in this lawsuit is that Caixa de Previdência dos Funcionários do Banco do Brasil - PREVI (which is the Banco do Brasil S.A. pension fund) and Banco do Brasil are party to the controlling shareholder block and also are a party to the controlling shareholder block of Tele Norte Leste Celular Participações S.A., which competes with us in our area under the Oi brand name. As we currently believe that the claim has no legal grounds and therefore, would probably be rejected by the Brazilian courts, we relinquished our claim on October 18, 2006.

**(c) Dispute among shareholders**

On March 4, 2005, Highlake International Business Company Ltd. and Futuretel S.A., the latter of which was at that time managed by individuals appointed by Opportunity, announced the launch of a competitive bidding process for the sale of more than 50% of the Company's voting capital. However, shortly thereafter, the limited partner of Citigroup Venture Capital International Brazil, L.P. (formerly known as CVC/Opportunity Equity Partners L.P.), International Equity Investments, Inc, removed Opportunity Equity Partners, Ltd. (formerly known as CVC/Opportunity Equity Partners, Ltd.) as Limited Partner and secured an injunction to temporarily suspend the competitive bidding process.

Since then, the controlling shareholders have been litigating the control of the Company and the Operating Subsidiary. Currently, management is not able to assess when these disputes over the Company's control will end.

**27 Subsequent Event****(a) Number Portability**

On March 7, 2007, Anatel's Steering Committee approved the Number Portability, which will allow customers to change the operator company keeping the original phone number. Number portability will be provided by fixed and mobile operators within 24 months after the publishing of the final regulation, occurred on March 21, 2007, with all incurring costs being borne by the operators. Management is analyzing the impact of number portability on the Company's business and results of operations.

**Tele Norte Celular Participações S.A.**

**Notes to Consolidated Financial Statements**

**Expressed in thousands of Brazilian *reais*, unless otherwise stated**

**(b) Reverse share split**

As approved by the Company's board of directors at a meeting held on May 31, 2007, Management will submit for approval by the shareholders at an extraordinary general shareholders' meeting to be held on July 12, 2007, a proposal to effect a reverse share split of the shares issued by the Company. In the event the proposal is approved, every 50,000 shares issued by the Company will become one share of the same type and each ADS will represent one preferred share, without par value.

\* \* \*

F-62

---