

TELE NORTE CELULAR PARTICIPACOES SA
Form 20-F
May 08, 2003

As filed with the Securities and Exchange Commission on May 7, 2003

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

[] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-14479

TELE NORTE CELULAR PARTICIPACOES 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)

SCN QUADRA 3, BLOCO A, SOBRELOJA
70713-000 BRASILIA-DF, BRAZIL
(Address of principal executive offices)

SECURITIES REGISTERED OR TO BE REGISTERED PURSUANT TO
SECTION 12(b) OF THE ACT.

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| ----- | ----- |
| Preferred Shares without par value | New York Stock Exchange* |
| Depository Shares, each representing 50,000 Preferred Shares | New York Stock Exchange |

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* Not for trading, but only in connection with the registration of American Depository 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 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 X NO

INDICATE BY CHECK MARK WHICH FINANCIAL STATEMENT ITEM THE REGISTRANT HAS ELECTED TO FOLLOW:

ITEM 17 ITEM 18 X

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INTRODUCTION

Tele Norte Celular Participacoes S.A., a corporation organized under the laws of the Federative Republic of Brazil, is referred to in this annual report as "the Registrant." Amazonia Celular S.A. (previously named Amazonia Celular S.A. - Maranhao) is the Registrant's operating subsidiary and is referred to as "Amazonia Celular." Amazonia Celular, together with the Registrant, is referred to as "we," "us" or "our." On December 31, 2002, we merged the subsidiaries of Amazonia Celular S.A. - Maranhao, namely Amazonia Celular S.A. - Amapa, Amazonia Celular S.A. - Amazonas, Amazonia Celular S.A. - Para and Amazonia Celular S.A. - Roraima into Amazonia Celular S.A. - Maranhao. On March 19, 2003, the shareholders of Amazonia Celular S.A. - Maranhao approved the change of its name into Amazonia Celular S.A.

References in this annual report (i) to the "real," "reais" and "R\$" are references to Brazilian reais (plural) and to the Brazilian real (singular), the currency of Brazil, (ii) to "U.S. dollars," "dollars" and "US\$" are references to United States dollars, (iii) to "preferred shares" and "common shares" are references to the Registrant's authorized and outstanding shares of non-voting preferred shares, designated as *acoes preferenciais* and common shares, designated as *acoes ordinarias*, in each case without par value, (iv) to "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 *Comissao de Valores Mobiliarios*, 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 Telecomunicacoes*, as amended, which regulates the telecommunications industry in Brazil, (ix) "Anatel" are to *Agencia Nacional de Telecomunicacoes - ANATEL*, the Brazilian independent telecommunication regulatory agency, and (x) "our region" means the area covered by our concession agreement, including the states of Amazonas, Roraima, Amapa, Maranhao and Para.

We are one of the companies formed as a result of the breakup of *Telecomunicacoes Brasileiras S.A. - Telebras*, or *Telebras*, by the federal

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government of Brazil in May 1998. Amazonia Celular was formed in January 1998 to receive all of the share capital held by Telebras in its operating subsidiaries that provided cellular telecommunication services in the states of Para, Maranhao, Roraima, Amapa and Amazonas. References to Amazonia Celular operations prior to January 1998 are to the cellular operations of its predecessor. See "Item 4--Information on 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 for the years 2000, 2001, and 2002 and they have been audited by Ernst & Young Auditores Independentes S/C.

Unless otherwise specified, data relating to the Brazilian telecommunications industry included in this annual report was obtained from Anatel.

The "Glossary of Telecommunications Terms" that begins on page 74 provides the definition of certain technical terms used in this annual report.

FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements, principally in "Item 3D--Risk Factors," "Item 4--Information on the Company" and "Item 5--Operating and Financial Review and Prospects." We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business. These forward-looking statements are subject to risks, uncertainties and assumptions, including, among other things:

- o our ability to sustain or improve our performance,
- o competition in the Brazilian telecommunications industry,
- o government regulation and tax matters,
- o adverse legal or regulatory disputes or proceedings,

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- o changes in regional, national and international business and economic conditions, including inflation and currency devaluation, and
- o other risk factors as set forth under "Item 3D--Key Information--Risk Factors."

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

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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, 2001 and 2002 and for the years ended December 31, 2000, 2001 and 2002, and the related notes included in this annual report, as well as in "Item 5--Operating and Financial Review and Prospects."

ACCOUNTING CONSEQUENCES OF THE BREAKUP OF TELEBRAS

On May 22, 1998, in preparation for its privatization, Telebras was restructured to form twelve new holding companies, including us. Virtually all the assets and liabilities of Telebras were allocated to the new holding companies. In the breakup, some assets and liabilities of Telebras, including 80.3% of the total share capital of Amazonia Celular S.A. - Amazonas (formerly known as Telamazon Celular), 86.9% of Amazonia Celular S.A. - Roraima (formerly known as Telaima Celular), 90.6% of Amazonia Celular S.A. - Amapa (formerly known as Telemapa Celular), 69.1% of Amazonia Celular S.A. - Para (formerly known as Telepara Celular) and 66.8% of Amazonia Celular S.A. - Maranhao (formerly known as Telma Celular) were transferred to us.

For accounting purposes, we commenced operations on February 28, 1998. For periods beginning in 1998, our consolidated financial statements reflect our consolidated financial condition and results of operations. For earlier dates and periods, the consolidated financial statements reflect only the financial condition and results of operations of the cellular operations of our predecessor companies. Our formation has been accounted for as a reorganization of entities under common control in a manner similar to a pooling of interests.

Upon our foundation, we received, in addition to the shares of our subsidiaries, assets of Telebras consisting primarily of cash. As a result, our consolidated shareholders' equity, after giving effect to the breakup of Telebras, was R\$2.0 million higher than divisional equity at December 31, 1997.

We commenced operations on January 1, 1998, through the split up of our predecessor companies to separate their cellular operations from their wireline operations. The assets and liabilities of the cellular telecommunications business of our predecessor companies were transferred to us at their indexed historical costs. The revenues and expenses associated with these assets and liabilities were also allocated to us. For periods beginning January 1, 1998, our consolidated financial statements reflect the operations of our subsidiaries as fully independent companies. For prior years, our consolidated financial statements reflect the cellular operations of the predecessor companies but are not necessarily indicative of what the financial condition and results of operations would have been if the cellular operations of the predecessor companies had been carried out in separate legal entities.

CHANGES IN OUR ACCOUNTING METHODOLOGY

Through December 31, 1997, our consolidated financial statements recognize certain effects of inflation. During 1997, the three-year cumulative inflation rate fell below 100%, and, as a result, we no longer use the integral restatement method effective as of January 1, 1998. Therefore, our accounting methodology changed in 1998 to reflect the lower level of inflation in Brazil. Our consolidated financial statements for 2000, 2001 and 2002 are presented in nominal reais and do not recognize the effects of inflation.

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In May 2000, the Registrant contributed the capital stock of its other four subsidiaries to Amazonia Celular. At the same time Amazonia Celular acquired the minority interests in the four subsidiaries by means of redemptions and conversions of shares into Amazonia Celular capital stock. As a result, Amazonia Celular became the Registrant's only direct subsidiary and the sole shareholder of each of Amazonia Celular S.A. - Amazonas, Amazonia Celular S.A. - Roraima, Amazonia Celular S.A. - Amapa and Amazonia Celular S.A. - Para.

On December 31, 2002, the shareholders of Amazonia Celular approved in a shareholders' meeting the merger into Amazonia Celular of its subsidiaries, namely Amazonia Celular S.A.- Amapa, Amazonia Celular S.A.- Amazonas, Amazonia Celular S.A.- Para and Amazonia Celular S.A.- Roraima. Therefore, Amazonia Celular included five concession areas for the exploitation of mobile telecommunications services and related activities to the implementation of these services, in accordance with the concessions and authorizations granted by Anatel in the states of Amapa, Amazonas, Maranhao, Para and Roraima.

U.S. GAAP SELECTED FINANCIAL INFORMATION

| | YEARS ENDED DECEMBER 31, | | | |
|---|--|-------------|-------------|-------------|
| | 1998 | 1999 | 2000 | 2001 |
| | (IN THOUSANDS OF NOMINAL REAIS, EXCEPT PER SHARE DATA) | | | |
| STATEMENT OF OPERATIONS DATA: | | | | |
| Net revenues..... | 232,555 | 308,846 | 480,622 | 520,000 |
| Operating income..... | 57,910 | 33,747 | 30,153 | 50,000 |
| Cumulative effect of accounting change, net..... | -- | -- | -- | -- |
| Net income (loss) | 31,532 | 19,383 | 7,947 | (1,000) |
| Basic and diluted income (loss) per thousand common shares..... | | | | |
| Before cumulative effect of FAS 133.... | 0.09 | 0.05 | 0.02 | 0.02 |
| Cumulative effect of FAS 133..... | -- | -- | -- | -- |
| Net income..... | 0.09 | 0.05 | 0.02 | 0.02 |
| Basic and diluted income per thousand preferred shares..... | | | | |
| Before cumulative effect of FAS 133.... | 0.09 | 0.05 | 0.02 | 0.02 |
| Cumulative effect of FAS 133..... | -- | -- | -- | -- |
| Net Income..... | 0.09 | 0.05 | 0.02 | 0.02 |
| Dividends per thousand common shares..... | 0.01 | 0.02 | 0.01 | 0.01 |
| Number of shares (in thousands)..... | 334,399,027 | 334,399,027 | 334,652,366 | 335,000,000 |
| OTHER FINANCIAL DATA: | | | | |
| Capital expenditures..... | 31,672 | 151,037 | 187,121 | 160,000 |

| | AS OF DECEMBER 31, | | | |
|--|--------------------|------|------|------|
| | 1998 | 1999 | 2000 | 2001 |
| | | | | |

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(IN THOUSANDS OF NOMINAL REAIS)

BALANCE SHEET DATA:

| | | | | |
|--|---------|---------|---------|----|
| Cash and cash equivalents..... | 78,733 | 69,233 | 164,740 | 8 |
| Working capital..... | 78,654 | 43,213 | 156,995 | 1 |
| Total assets..... | 358,724 | 569,680 | 846,717 | 82 |
| Long-term debt (including current portion)..... | 39,203 | 89,128 | 348,900 | 40 |
| Shareholders' equity..... | 189,852 | 252,306 | 261,812 | 24 |

 (1) Dividends per common shares were calculated based upon the number of outstanding shares on the date the dividends were declared.

EXCHANGE RATES

There are two principal foreign exchange markets in Brazil:

- o the commercial rate exchange market, or commercial market, and
- o the floating rate exchange market.

Most trade and financial foreign exchange transactions, including transactions relating to the purchase or sale of preferred shares or the payment of dividends with respect to preferred shares or ADSs, are carried out on the commercial market at the applicable commercial market rate. Purchase of foreign currencies in the commercial

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market may be carried out only through a Brazilian bank authorized to buy and sell currency in that market. In both markets, rates are freely negotiated but may be strongly influenced by Brazilian Central Bank intervention.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the real against the U.S. dollar pursuant to an exchange rate policy that established a band within which the real/U.S. dollar exchange rate could fluctuate. Responding to pressure on the real, the Central Bank widened the foreign exchange band on January 13, 1999 and on January 15, 1999 allowed the real to float. As of March 31, 2003, the commercial market rate for purchasing U.S. dollars was R\$3.3531 to U.S. \$1.00. See "Item 5A--Operating and Financial Review and Prospects--Operating Results--Overview--Brazilian Political and Economic Environment."

The following table sets forth information on the commercial market rate for U.S. dollars for the periods and dates indicated.

| | EXCHANGE RATE OF BRAZILIAN CURRENCY | | |
|------|-------------------------------------|------|------------|
| YEAR | LOW | HIGH | AVERAGE (1 |
| ---- | --- | --- | ----- |

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| | | | |
|-----------|--------|--------|--------|
| 1998..... | 1.1164 | 1.2087 | 1.1644 |
| 1999..... | 1.2078 | 2.1647 | 1.8514 |
| 2000..... | 1.7234 | 1.9847 | 1.8348 |
| 2001..... | 1.9357 | 2.8007 | 2.3532 |
| 2002..... | 2.709 | 3.9552 | 2.9983 |

Source: Central Bank

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

| MONTH | EXCHANGE RATE OF BRAZILIAN |
|--------------------|----------------------------|
| ----- | ----- |
| | LOW |
| | --- |
| October 2002..... | 3.5936 |
| November 2002..... | 3.5035 |
| December 2002..... | 3.4278 |
| January 2003..... | 3.2758 |
| February 2003..... | 3.4930 |
| March 2003 | 3.3531 |

Source: Central Bank

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

This section is intended to be a summary of more detailed discussions contained elsewhere in this document. The risks described below are not the only ones we face. Additional risks may impair our business operations. Our business, results of operations or financial condition could be harmed if any of these risks materializes, and, as a result, the trading price of the ADSs could decline.

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 OUR BUSINESS, OPERATIONS AND THE MARKET PRICE OF OUR PREFERRED SHARES AND OUR ADSS.

In the past, the Brazilian government has intervened in the Brazilian economy and occasionally made drastic changes in policy. The Brazilian government's actions to control inflation and affect other policies have

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often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things. Our business, financial condition and results of operations may be adversely affected by changes in government policies, as well as general economic factors including:

- o currency fluctuations;
- o inflation;
- o price instability;
- o energy policy;
- o interest rates;
- o tax policy; and
- o other political, diplomatic, social and economic developments in or affecting Brazil.

At the end of 2002, Brazil elected a new president from the Workers Party, Luis Inacio Lula da Silva, known as Lula. In the period leading up to, and subsequent to, his election there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in a loss of confidence in the Brazilian capital markets, including the steady devaluation of the real against the U.S. dollar in that period. Although the new government has not departed in any material way from previous policy, it is premature to evaluate the way in which investors and the capital markets will react, whether these policies will continue and whether they will be effective. Any substantial negative reaction to the policies of the Brazilian government could adversely affect our business, operations and the market price of our preferred shares and ADSs.

INFLATION AND CERTAIN GOVERNMENT MEASURES TO CURB INFLATION MAY HAVE ADVERSE EFFECTS ON THE BRAZILIAN ECONOMY, THE BRAZILIAN SECURITIES MARKET AND/OR OUR BUSINESS AND OPERATIONS.

Brazil has historically experienced extremely high rates of inflation. Inflation and certain of the government's measures taken in the attempt to curb inflation have had significant negative effects on the Brazilian economy. Since 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort 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. Brazil's general price index, or the IGP-DI, reflected inflation rates of 26.4% in 2002, 10.4% in 2001 and 9.8% in 2000. If Brazil experiences significant inflation, we may be unable to increase service rates to our customers in amounts that are sufficient to cover our increasing operating costs, and our business may be adversely affected as a consequence.

FLUCTUATIONS IN THE VALUE OF THE REAL AGAINST THE VALUE OF THE U.S. DOLLAR AND OTHER FOREIGN CURRENCY MAY ADVERSELY AFFECT OUR ABILITY TO PAY U.S. DOLLAR- AND OTHER FOREIGN CURRENCY-DENOMINATED OR U.S. DOLLAR- AND OTHER FOREIGN CURRENCY-LINKED OBLIGATIONS AND COULD LOWER THE MARKET VALUE OF OUR PREFERRED SHARES AND ADSS.

The Brazilian currency has historically experienced frequent

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devaluations. The real devalued against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. During 2002, the real continued to undergo significant devaluation due in part to the political uncertainty in connection with the elections and the global economic slowdown. In 2002, the real devalued against the U.S. dollar by 52.3%. See "Item 3.A--Selected Financial Data--Exchange Rates" for more information on exchange rates.

As of December 31, 2002, we had R\$417.0 million in total debt, of which R\$258.4 million was denominated in U.S. dollars and R\$65.5 million denominated in reais indexed to the Banco Nacional de Desenvolvimento Economico e Social - BNDES, or BNDES currency basket. As of December 31, 2002, we had currency hedges in place to cover 90% of our U.S. dollar and foreign currency denominated debt. Significant costs relating to our network infrastructure are payable or linked to payment by us in U.S. dollars. However, other than

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revenues derived from hedging transactions, all of our revenues are generated in reais. To the extent that the value of the real decreases relative to the U.S. dollar, our debt becomes more expensive to service and it becomes more costly for us to pay for our U.S. dollar-denominated technology and goods, that are necessary to operate our business.

In addition, further devaluations of the real relative to the U.S. dollar would reduce the U.S. dollar value of distributions and dividends on our ADSs and may also reduce the market value of our preferred shares and ADSs. Further devaluations would also create additional inflationary pressures in Brazil and could curtail access to foreign financial markets to all extent that may require government intervention, including recessionary governmental policies.

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 issued 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 are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. 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.

For example, in 2001, after prolonged periods of recession followed by political instability, Argentina announced that it would no longer continue to service its public debt. In order to address the deteriorating economic and social crisis, the Argentine government abandoned its decade-old fixed dollar-peso exchange rate, allowing the peso to float to market rate levels. In 2002, the Argentine peso experienced a 223.1% devaluation against the U.S. dollar. The situation in Argentina has negatively effected investors' perceptions towards Brazilian securities.

The recent political crisis in Venezuela may also influence investors' perception of risk in Brazil. Although market concerns that similar crises would ensue in Brazil have not become a reality, the volatility in market prices for Brazilian securities increased in 2001 and 2002. If market conditions in Argentina and Venezuela continue to deteriorate, they may adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital, when and if there is a need. Accordingly, adverse developments in

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Argentina, Venezuela or in other emerging market countries could lead to a reduction in both demand and the market price for the preferred shares and ADSs.

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 CHANGE IN OUR COST STRUCTURE OR IMPACT OUR TARIFFS.

Our business is subject to extensive government regulation. Anatel, which is the telecommunications industry regulator in Brazil, regulates, among other things:

- industry policies and regulations;
- licensing;
- tariffs;
- competition;
- service standards; and
- interconnection and settlement arrangements.

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 uncertain. As we operate under an operating license from the Brazilian government, our ability to retain this license is a precondition to our success, but in light of the regulatory uncertainty, we cannot assure that

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Anatel will not unilaterally limit or otherwise modify the terms of our license. Furthermore, according to the terms of our operating license, we are obligated to meet certain requirements and to maintain minimum quality 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 financial condition and results of operations.

CERTAIN COVENANTS CONTAINED IN AMAZONIA CELULAR'S FINANCIAL AGREEMENTS LIMIT AMAZONIA CELULAR'S ABILITY TO INCUR INDEBTEDNESS AND CONTAIN FINANCIAL COVENANTS IN RESPECT OF WHICH AMAZONIA CELULAR HAS HAD TO OBTAIN WAIVERS IN THE PAST.

Amazonia Celular's financing agreements, certain of which are guaranteed by the Registrant, limit its ability to incur indebtedness above a certain level. As a result, Amazonia Celular's ability to raise capital above the limits imposed by such agreements may be impaired, which may affect Amazonia Celular's ability to obtain resources needed to switch or upgrade its technology.

THE WIRELESS TELECOMMUNICATIONS INDUSTRY IS UNDERGOING A SERIES OF TECHNOLOGICAL CHANGES AND IT IS DIFFICULT TO PREDICT HOW THESE CHANGES WILL AFFECT OUR BUSINESS.

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The 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 Amazonia Celular is able to provide. The time division multiple access, or TDMA, technology that Amazonia Celular uses is now the most prevalent wireless telecommunications technology in Brazil. However, global trends indicate that the future of wireless service lies with other technologies including CDMA ONE and its updated version, CDMA 2000, and on GSM and its updated version, UMTS. As a result, it is likely that we will eventually replace TDMA at some time in the relatively near future and we will have to migrate our network to a new technological platform. We may lose part of our subscriber base if we do not have the resources to respond by switching our technology or if we are late in doing so. In addition, if we are not able to respond to market changes in technology, the network supplies, handsets or services that are necessary to operate our existing technology may be discontinued by the third parties we currently rely upon as they shift their emphasis to supplying and servicing new dominant technologies.

THE BRAZILIAN WIRELESS TELECOMMUNICATIONS INDUSTRY'S COMPETITIVE LANDSCAPE IS CHANGING IN A WAY THAT MAY ADVERSELY AFFECT OUR MARKET SHARE IN OUR REGION AND OUR MARGINS.

Upon acquiring our A Band concessions in 1997, we were the only cellular operator in our region. The arrival of Norte Brasil Telecom S.A., or NBT, the B Band cellular operator that began operations using TDMA technology in October 1999, Telemar, the principal wireline operator in our region commenced using GSM technology on D Band in certain areas of our region in June 2002 through its subsidiary TNL PCS S.A., under the brand name "Oi" and Telecom Italia Mobile - TIM, the E Band cellular operator than began operations using GSM technology in October 2002, has resulted in a reduction of our market share, which was an estimated 56% at December 31, 2002. Despite the fact that our region is very large, the majority of our subscribers are concentrated in just a few cities. The full impact that these new market entrants will have on our business is not yet clear. They may be able to offer lower prices than we do; develop and deploy more rapidly new or improved wireless technologies, services and products; and, in the case of companies such as Telemar, bundle offerings of wireless services with fixed-line telephone services. Our responses to the entry of these new competitors may require us to lower rates and/or to extend higher subsidies to our customers for the acquisition of handsets, thereby affecting our margins, and make capital expenditures that would not otherwise be required to upgrade our network.

WE EXPERIENCE A HIGH RATE OF CUSTOMER TURNOVER.

We have experienced a customer turnover, or churn rate, that is high in comparison to other service providers in the cellular industry. The churn may be voluntary or involuntary, depending on whether the customer freely decides to terminate our services or we terminate the provision of mobile services due to lack of payment. Our average churn rate has increased during the last three years from 1.9% per month in 2000 to 2.6% per month in 2002. Our increasing churn rates have primarily been a consequence of the increase in competition in our region and of economic problems in Brazil that have resulted in an increase in unemployment and a decrease in salaries in

real terms. To the extent that our competition continues to increase or the

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Brazilian economy falters, our churn rate will likely continue to be high, negatively affecting our revenues and results.

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 various electronic medical devices including hearing aids and pacemakers. 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, prospects, financial condition and results of operations.

RISKS RELATED TO THE PREFERRED SHARES AND THE ADSS

IF YOU EXCHANGE THE ADSS FOR PREFERRED SHARES, YOU RISK LOSING THE ABILITY TO REMIT FOREIGN CURRENCY AS A RESULT OF BRAZILIAN REGULATIONS.

The Brazilian custodian for the preferred shares must register with the Central Bank to remit U.S. dollars abroad. If you decide to exchange your ADSSs for the underlying preferred shares, you will be entitled to continue to rely, for five business days from the date of exchange, on the custodian's registration. Thereafter, you may not be able to obtain and remit U.S. dollars abroad unless you obtain your own registration. Obtaining your own electronic registration will result in expenses and may cause you to suffer delays in receiving distributions. See "Item 10D-- Additional Information--Exchange Controls" for more information on the registration process.

THE PREFERRED SHARES AND ADSS GENERALLY DO NOT HAVE VOTING RIGHTS.

In accordance with Brazilian corporate law and our bylaws, holders of preferred shares, and therefore of the ADSSs, are not entitled to vote at meetings of our shareholders, except in limited circumstances. See "Item 10B--Memorandum and Articles of Association."

YOU MIGHT BE UNABLE TO EXERCISE PREEMPTIVE RIGHTS WITH RESPECT TO THE PREFERRED SHARES UNLESS THERE IS A CURRENT REGISTRATION STATEMENT IN EFFECT WHICH COVERS THOSE RIGHTS OR UNLESS AN EXEMPTION FROM REGISTRATION APPLIES.

You will not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSSs unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to those rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement. Unless we file a registration statement or an exemption from registration applies, you may receive only the net proceeds from the sale of your preemptive rights by the depositary, or if the preemptive rights cannot be sold, they will lapse and you will not receive any value for them. For more information on the exercise of your rights, see "Item 10--Additional Information--Memorandum and Articles of Association--Preemptive Rights."

ITEM 4. INFORMATION ON THE COMPANY

We provide cellular telecommunications services in a region covering the states of Para, Amazonas, Maranhao, Amapa, and Roraima in the north and northeast of Brazil under five separate concessions granted by the federal government of Brazil. At December 31, 2002, we had 940,958 subscribers, 27% of which were contract subscribers and 73% of which were prepaid subscribers, and an estimated market share of 56%.

The Registrant owns 74.96% of the share capital, including 89.79% of the voting shares, of Amazonia Celular. Until December 31, 2002, all of the

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share capital of each of the other four operating companies, Amazonia Celular S.A. - Para, Amazonia Celular S.A. - Amazonas, Amazonia Celular S.A. - Amapa, Amazonia Celular S.A. - Roraima were owned by Amazonia Celular - Maranhao. Amazonia Celular - Maranhao served as the hub operating entity for the group. On December 31, 2002, the shareholders of Amazonia Celular approved in a shareholders' meeting the merger into Amazonia Celular - Maranhao of its subsidiaries, namely Amazonia Celular S.A. - Amapa, Amazonia Celular S.A. - Amazonas, Amazonia Celular S.A. - Para and Amazonia Celular S.A. - Roraima. Therefore, Amazonia Celular included the concession areas for the exploitation of mobile

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telecommunications services and related activities to the implementation of these services, in accordance with the concessions and authorizations granted by Anatel in the states of Amapa, Amazonas, Maranhao, Para and Roraima. On March 19, 2003, the shareholders of Amazonia Celular S.A. - Maranhao approved the change of its name into Amazonia Celular S.A. Substantially all of the Registrant's assets other than cash and cash equivalents consist of shares in its subsidiaries. The Registrant relies almost exclusively on dividends from its subsidiaries to meet its needs for cash, including cash to pay dividends to its shareholders.

The Registrant's legal name is "Tele Norte Celular Participacoes S.A." It is a corporation (sociedade anonima) organized under the laws of the Federative Republic of Brazil. Our headquarters are located at SCN, Quadra 3, Bloco A, Sobreloja, 70713-000 Brasilia-DF, Brazil, and our telephone number is 55-61-429-5600.

BUSINESS

OUR REGION

Our concession area covers an area of more than 3,500,000 square kilometers in the north and northeast of Brazil, spanning approximately 41% of Brazil's area, with a population of approximately 15.8 million people, representing approximately 9% of Brazil's population. During 2002, our region generated approximately 4.6% of Brazil's gross domestic product. Per capita income is relatively low. At December 31, 2002, our region had 18 metropolitan areas with populations in excess of 100,000 people, including the cities of Belem, Manaus, Sao Luis, Boa Vista and Macapa. Of the 15.8 million inhabitants in our region, approximately 10% use cellular services. Our business, financial condition, results of operations and prospects depend largely on the performance of the Brazilian economy and the economy of our region, in particular. See "Item 5--Operating and Financial Review and Prospects--Brazilian economic environment" for a description of the Brazilian economic conditions.

The following table presents the gross domestic product and per capita income statistics for each state in our region at the date and for the year indicated.

| STATE | YEAR ENDED DECEMBER 31, 2000 | |
|---------------|------------------------------|-------------------|
| | % OF BRAZIL'S GDP | PER CAPITA INCOME |
| Maranhao..... | 0.8 | R\$ 1,627 |
| Para..... | 1.7 | R\$ 3,041 |

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| | | |
|---------------|-------|-----------|
| Amazonas..... | 1.7 | R\$ 6,668 |
| Amapa..... | 0.2 | R\$ 4,098 |
| Roraima..... | 0.1 | R\$ 3,417 |
| | ----- | ----- |
| Region..... | 4.5 | R\$ 3,770 |
| | ===== | ===== |

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.

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[MAP OF BRAZIL]

SERVICES

We are the leading provider of cellular telecommunications services in our region and had a 56% market share as of December 31, 2002. Our digital service is based upon Time Division Multiple Access, or TDMA, technology and our analog service uses a technology standard called Advanced Mobile Phone Service, or AMPS. Compared to analog technology such as AMPS, TDMA makes voice signals harder to intercept, increases traffic volume and makes it possible to provide mobile internet-related and additional value-added services to subscribers. Digital service also provides added benefits and services to our customers, including improved voice quality and extended battery life. Customers using TDMA technology have nationwide digital roaming coverage. We offer digital service to subscribers in all the cities in our region, covering 157 locations. At December 31, 2002, approximately 99% of all of our subscribers received digital service and 95% of all of our wireless traffic was digital.

In December 2000, we became the first company in Brazil, together with our affiliate, Telemig Celular Participacoes S.A., to provide internet access through cellular telephones. A Wireless Application Protocol, or WAP, platform from Ericsson and Circuit Switched Data technology from Nortel and Nokia handsets enable our subscribers to send and receive short-messaging, e-mail, customized news and obtain interconnectivity for notebooks and handheld devices, all through mobile handsets.

In 2002, we offered a series of new services to prepaid and contract subscribers, as well as new business solutions to corporate users. In September 2002, we launched a new and innovative tariff plan commercially branded as Plano Controle (Control Plan). We identified one market niche (including some of our contract and prepaid subscribers) that would pay a set fee as long as the fee was in a low and controlled rate. In order to fulfill this demand, the Plano Controle was implemented, mixing the prepaid and contract plans best features. After the monthly set amount is spent, no more originating calls are allowed; however, the user is still able to receive calls. If the user considers necessary, he can recharge his phone with extra calling minutes, just like the prepaid plans. The minutes that are not used can be carried over to the following month.

Another important development was the revolutionary voice portal launched in June 2002, generating a consumption of approximately 1.0 million minutes in the year. This portal offers voice access to several services, including local and international news and the ability to send and receive email. We were also the first telecommunication company in Brazil to offer mobile service integrated chat rooms through SMS.

We also provide value-added services such as fax reception through the mobile handset, 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), location-based services, and convenience services, ranging from providing weather forecasts to finding locksmiths and plumbers, 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. We also sell handsets at or near cost to our subscribers.

Through agreements with other mobile service providers, we offer automatic roaming services throughout Brazil to our subscribers that allows them to make and receive calls while out of our region using their usual mobile phone number. Amazonia Celular also offers international roaming in countries such as the United States, Argentina and Uruguay through agreements with local mobile service providers based in those countries.

In addition, Amazonia Celular provides mobile telecommunications services to subscribers of other cellular service providers while they are in our region. The other services providers are charged by us pursuant to roaming agreements for the service provided to their subscribers. See "--Operating Agreements--Roaming Agreements" for a description of these roaming arrangements.

STRATEGY

Our current strategy is to increase profitability by maintaining our market share of high revenue subscribers and reducing and containing our costs. The key elements in implementing this business strategy are to:

- o Retain the quality of our subscriber base by providing the best customer service and incentives 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 our high revenue subscriber base by providing them with the best customer service we can make available to them and customizing the services we provide them to better suit their individual preferences and spending profiles.
- o Streamline our costs of operations by realizing synergies with our affiliate, Telemig Celular Participacoes S.A. We intend to achieve synergies by combining certain aspects of our operations with those of Telemig. By centralizing services related to billing systems and customer service call centers, we believe that we will eliminate unnecessary duplication of services, thereby increasing our operating efficiency, reducing costs and increasing our margins.
- o Limit capital expenditures to those that will yield an acceptable

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economic return. We have an operating presence in all of the major cities in our region and we have fulfilled the network expansion obligations imposed by Brazilian telecommunications regulations. Our intention is to make capital expenditures on network expansion and technological improvements only if doing so will generate a satisfactory economic return.

SUBSCRIBERS

The following table sets forth information on our subscriber base, coverage and related matters for the years indicated.

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| | 2000 | 2001 |
|---|---------|---------|
| | ----- | ----- |
| Cellular lines in service at year-end: | | |
| Contract subscribers..... | 347,953 | 305,000 |
| Prepaid subscribers | 407,712 | 602,000 |
| | ----- | ----- |
| | 755,665 | 907,000 |
| Net subscriber growth during year..... | 120% | |
| Estimated population of our region at year-end (in millions) (1)..... | 14.8 | |
| Estimated covered population at year-end (in millions) (2) | 8.8 | |
| Percentage of population covered at year-end (3) | 63% | |
| Penetration at year-end (4)..... | 7% | |
| Average monthly incoming minutes of use per subscriber: | | |
| Contract subscribers..... | 110 | |
| Prepaid subscribers..... | 88 | |
| Average monthly outgoing minutes of use per subscriber: | | |
| Contract subscribers..... | 118 | |
| Prepaid subscribers..... | 18 | |
| Average monthly revenues per subscriber: (5) | | |
| Contract subscribers..... | R\$82 | |
| Prepaid subscribers..... | R\$25 | |
| | ----- | ----- |
| Total average..... | R\$57 | |
| Cost of acquisition per subscriber | R\$125 | R\$125 |
| Average monthly churn..... | 1.9% | |
| Estimated Market share..... | 75% | |

-
- (1) Estimates based on data from the Brazilian Institute of Geography and Statistics (Instituto Brasileiro de Geografia e Estatística - IBGE) in 2000.
 - (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.

Contract and prepaid market

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As of December 31, 2002, Amazonia Celular had 940,958 subscribers, an increase of 4% over 2001, and an estimated market share of 56%. Our subscriber 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 subscribers 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 subscribers are generally younger, have lower income than contract subscribers, and use their handsets more to receive than to originate calls.

Our contract subscribers used an average of 231 minutes of airtime per month in 2002, an increase from an average of 213 minutes per month in 2001. Our prepaid subscribers used an average of 57 minutes of airtime per month in 2002, as compared with an average of 82 minutes in 2001. Decreases in the average minutes of use per subscriber can be expected to continue as further market penetration adds customers to our subscriber base who had previously not been subscribers due to lower income or less active calling habits and consequently use fewer minutes of airtime per month. Recently, our prepaid subscriber base has grown considerably, increasing by 14% from 602,889 in 2001 to 686,055 in 2002. During that time, our contract subscriber base declined by 17%, increasing from 305,738 in 2001 to 254,903 in 2002. As of December 31, 2002, 73% of our subscribers were prepaid customers and 27% were contract customers. The cost of acquiring our subscribers increased by approximately 50% from R\$129 to R\$193, as we increased the amount of handset subsidies that we provide to our subscribers.

The growth of prepaid services is due to a number of factors, including (i) previous market penetration efforts having already reached 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 region; (iii) the ability 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. 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. However, offsetting these benefits is the fact that prepaid

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customers generally spend about one-third as much as contract customers on mobile telecommunications 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 services use our network to make an incoming call to one of our prepaid subscribers. We charge the telecommunications service provider from whose network the call is originated a fee for the use of our network to reach our prepaid subscriber.

The growth of our subscriber base will likely continue to be predominantly in the prepaid market in the future as those who have the profile of contract subscribers have usually already enrolled as subscribers 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 a specified

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period of time has 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. Prepaid card balances are automatically cancelled if the customer has not activated a new card within 180 days after activation of the previous card.

Churn

Amazonia Celular determines annualized contract 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 annualized churn rate in 2000, 2001 and 2002 was 22%, 33% and 32%, respectively. The increase in churn in 2001 and 2002 as compared to prior years was due to the increase in competition in our region, which prompted some subscribers to change mobile service providers, and to contract terminations linked to continuing economic problems in Brazil that have resulted in higher unemployment and a decrease in salaries in real terms. We were able, however, to keep churn rates at a lower level among our high value customers, through our customer segmentation strategy and retention programs.

NETWORK

At December 31, 2002, our mobile telecommunications network covered approximately 65% of our region's population, and consisted of 9 cellular switches and 411 cell sites. Our network handled call traffic in 2002 totaling 1.2 billion minutes, 678 million of which were incoming and 491 million of which were outgoing, representing a 14% decrease over 2001. Our network is interconnected directly with the local public wireline telephone network in our region and with every A Band and B Band service provider in the country, giving our subscribers access to roaming services automatically when they travel in areas of Brazil where mobile telecommunications services are available. Currently, our switches have the capacity to provide services to approximately 1.8 million subscribers. Our cell sites have a capacity of approximately 1.3 million subscribers. Ericsson is the principal supplier of our network equipment.

We will continue to expand our mobile telecommunications network to cover as broad a geographical area as is economically feasible in order to meet consumer demand. As we have already met the network expansion obligations we are required to meet under the terms of our license, we do not expect to install a significant number of additional cell sites in 2002. See "--Regulation of the Brazilian telecommunications industry--obligations of telecommunications companies" for a description of these obligations.

In addition to network expansion, in the past we have increased the capacity and improved the quality of our existing network in anticipation of changes in customer demand by building new base stations and adding channels. As a result of these measures to improve service quality, our rate of interrupted calls fell from 2.2% of total calls in 1999 to 1.0% in 2002, and blocking rate decreased from 4.8% in 1999 to 0.2% in 2002. Our concession requires us to meet quality of service obligations and we will continue to evaluate opportunities to improve the

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quality of our network in response to these requirements and customer demand. See "--Regulation of the Brazilian telecommunications industry--Obligations of telecommunications companies" for a description of these obligations. We are currently in compliance with our regulatory obligations relating to quality of service and we believe that going forward we will continue to be able to comply with all of these obligations.

BILLING AND COLLECTION

Amazonia Celular bills its contract customers through monthly invoices that generate itemized charges providing detail about minutes used and voicemail, call forwarding, call waiting, caller ID and three way calling, and long-distance and roaming charges. Seven 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 being given notification requesting the payment, service is suspended until full payment for all outstanding charges is received. 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 60 days past due.

Provisions for doubtful accounts were 6.9%, 11.2% and 2.8% of net service revenues in 2000, 2001, and 2002, respectively. The decrease of our high level of bad customer debt is a result of the implementation of more stringent credit and collection policies and the successful introduction of an anti-fraud system. However, in the fourth quarter of 2000, we implemented an aggressive sales strategy that resulted in the addition of some customers with unfavorable credit profiles and a high level of bad debt in 2001.

In the second quarter of 2001, we started to strengthen our collection and credit policies. The positive results from the implementation of these policies were reflected by the end of 2001. In 2002, the percentage of bad debt was the lowest ever reported by us since the privatization.

Amazonia Celular is currently in the process of integrating our billing and collection system with that of its affiliate, Telemig Celular. This integration will reduce administrative costs by eliminating unnecessary duplication of services. The project is scheduled for completion in the first half of 2003.

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. These calls are billed to the subscriber, but written off when we discover that the receivable arose from a fraudulent call. If part of a fraudulent call is carried by the network of another service provider, we are obligated to pay that service provider the applicable network usage 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. We have implemented fraud-detection and prevention measures to reduce fraud-related losses. Fraud-detection measures consist of collecting and reviewing 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 is changed. Fraud-prevention measures include restrictions on international calls from a given number and

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restrictions on three-way calling by customers with international direct-dial access.

To address cloning fraud, as of July 1998 we have access to a nationwide fraud detection system. This system aids in fraud detection by identifying instances of simultaneous usage by a single subscriber and monitoring call frequency and unusually high usage patterns. The system usually allows us to detect cloning within one to three days of commencement of fraudulent usage.

Amazonia Celular has also implemented a new authentication process to prevent cloning fraud relating to the interception of cellular signals transmitted by our users when they place international roaming calls from other regions.

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SALES, MARKETING AND CUSTOMER SERVICE

Amazonia Celular sells mobile telecommunications services through four primary distribution channels: (i) an extensive network of mostly exclusive 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. As a result of market studies, we shifted the focus of our sales network throughout 2002 to emphasize company owned outlets. Accordingly, we have reduced the number of our indirect points-of-sale by 22%. This strategy has enabled us to phase out stores with low revenue and high maintenance costs, without impacting new customer acquisitions or the sale of our products and services. We have also increased the number of points-of-sale for prepaid cards by 8% over the number recorded in 2001. We develop customer awareness through marketing and promotion efforts and high-quality customer care, building upon the strength of our brand name to increase consumer awareness and customer loyalty, and employing advertising efforts through print, radio, television, and sponsorship of sports events and other outdoor advertising campaigns. A project to automatically monitor the effectiveness of our points of distribution is being tested and will be fully operational in 2003. This initiative will improve the performance analysis of each point-of-sale, by making available comparative data on prepaid cards sales and other supplies.

Independent retailers

Independent retailers sell telecommunications services and provide sales coverage across our region with minimal capital investment being made or operating expenses being incurred by us. Independent retailers provide customers with the convenience of being accessible from a greater number of locations. Independent distributors are paid a variable commission for each new contract customer they sign up for service, provided that the customer retains and pays for service for at least three months. Independent distributors also receive a variable commission for each new prepaid customer, as well as a mark-up margin on sales of handsets and prepaid card kits. In addition, independent distributors are eligible for quarterly bonuses for meeting or exceeding sales targets.

At December 31, 2002, we had 328 independent distributors points-of-sales, located primarily in metropolitan centers. We have exclusivity arrangements with approximately 78% of these distributors. Our exclusive independent retail network includes well-known retail chains, drugstores and supermarkets with well-traveled points of sale and active sales promotions. All

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exclusive independent retailers receive marketing support from us to help assure that they maintain our specified standards of service and participate in promotions.

Company stores

Amazonia Celular sells telecommunications services, handsets and accessories through company-owned stores located throughout our region. These stores are effective in building image and brand awareness and providing high-quality levels of service, greater accountability and ensuring consistent customer service. Although the majority of sales at company stores consist of subscriptions for mobile telecommunications services, the company-owned stores also sell handsets in connection with the sale of both contract and prepaid subscriptions. At December 31, 2002, Amazonia Celular had 9 company stores.

Distributors and other marketing efforts

Amazonia Celular makes prepaid cards available at approximately 8,100 points-of-sale located throughout our region, distributing them through national and regional franchise retail chains, lottery stands, newsstands and banking branches. In addition, we engage in telemarketing and mailing efforts aimed at increasing average revenue per user through the sales of value-added services, directing customers to service plans that best fit their usage patterns, and soliciting potential customers. We have also implemented a customer rewards program based upon the number of minutes of airtime used.

Customer service

One of the primary goals of Amazonia Celular is to provide subscribers with excellent customer care. New subscribers are contacted five times during their first year of service and asked about their degree of satisfaction, if they have had any service-related problems or questions, and to ensure they are receiving the plans and services that

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are best suited to their level of usage and preferences. We provide our subscribers with 24-hour customer service to answer questions and resolve service problems through a call center infrastructure that can accommodate up to 10,000 calls per hour during peak hours. Through our customer service attendants, we are able to provide immediate accessibility to customers for requests relating to matters such as reactivation, addition of value-added services and number changes. During 2002, our customer service department answered, on average, approximately 650,000 calls per month and responded to an average of 800 letters and e-mails per month. In 2002, Amazonia Celular's customer satisfaction rate among its subscribers reached 82%, and 80% of all complaints threatening termination of subscription were satisfactorily resolved with the customer deciding to retain his or her subscription.

SOURCES OF REVENUE

We generate revenue from (i) usage charges, which include measured service charges for outgoing calls and roaming and other similar charges; (ii) monthly subscription charges; (iii) network usage fees, which are amounts charged by us to other cellular and wireline services providers, and to long-distance service providers, for incoming calls requiring the use of our network; (iv) sales of handsets; and (v) other charges, such as charges for internet access, short messaging, call forwarding, call waiting and call blocking. The rates that we charge in connection with our service plans and network usage are subject to regulation by Anatel.

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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 originates, except that roaming charges are applicable to calls received outside the subscriber's home registration area. In addition, cellular subscribers wishing to place calls may avoid incurring airtime charges by making collect calls. Subscriber charges are computed based on factors such as the subscriber's calling 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 calls last less than 30 seconds, but they are not required to make any payment if their calls last less than 3 seconds. After the first 30 seconds of a call have elapsed, we charge subscribers for airtime based only upon the number of seconds actually used.

Amazonia Celular provides contract services through a variety of rate plans, mostly under the Fale Mais brand name, ranging from plans offering a fixed number of minutes each month that are exempt from airtime charges to plans offering airtime rate discounts to subscribers using wireless services during specified times of the day or on weekends. In 2002, we generated 18% of our service revenues from monthly fees paid by our subscribers to enroll in contract service plans. Under contract plans, airtime service charges are discounted for calls made on off-peak times, which are Saturdays, Sundays and national holidays and during the period from 9 p.m. until 7 a.m. Monday through Friday. Amazonia Celular offers four prepaid service plans that are mostly tailored for use during specified times of the day or on weekends. Together, monthly contract service fees and airtime charges for outgoing calls generated 50% of our service revenues in 2002.

We also offer our subscribers an internet-related service called "i.amazoniacelular". The i.amazoniacelular services include communication, news and entertainment services and internet and remote access to personal computers. The most popular of the i.amazoniacelular options is the short-messaging option, which is now used by approximately 30% of our digital subscribers. The user can send a short-message to any client or group of clients of Amazonia Celular. Subscribers using our homepage can (i) register an e-mail address to receive e-mails; (ii) manage appointments; (iii) register lists of phone numbers and addresses; and (iv) keep "to do" lists, all with his or her mobile handset. The i.amazoniacelular service can also be used to participate in chat rooms, customize ring tones and play games. Our data-related services do not comprise a significant portion of our overall revenues, accounting for 1% in 2001.

Roaming fees

We also receive revenue from roaming agreements with other cellular service providers. When a call is made from within our region by a subscriber of another cellular service provider, that service provider pays us for the call at the applicable rate. Conversely, when one of our subscribers makes a cellular call outside our region, we must pay charges associated with that call to the mobile telecommunications service provider in whose region the call originates.

Network usage fees

Amazonia Celular earns revenues from any call, cellular or wireline, originating with another service provider and terminating on the handset of one

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of our subscribers within our region. We charge the service provider from whose network the call originates a network usage fee for every minute our network is used in connection with the call. From February 2002 until January 2003, the network usage fee, or interconnection fee, Amazonia Celular charged was R\$0.2944 per minute, net of taxes. As of February 2003, the interconnection fee increased to R\$0.3591 per minute. We currently offer the incumbent wireline operator in our concession area a 30% discount on this fee for off-peak calls. Network usage fees accounted for 46% of our service revenues in 2002.

TECHNOLOGY

The TDMA (IS-136) technology that we currently use is being replaced by GSM and/or CDMA technologies in Brazil and worldwide, which are likely to become dominant in the near future.

In the next few months, we will be adopting one of these technologies, which will eventually substitute our current technology. One of the main factors to be considered in our decision-making process is that the implementation of the GSM technology will result in the acquisition of additional spectrum from Anatel to operate within the 1.8 GHz broadband frequency and the need to migrate to SMP. CDMA, in turn, may be operated within the 850MHz frequency, which we already operate. The choice of technology to be used will depend on the financial return and strategic benefits to be received. See "--Regulation of the Brazilian Telecommunications Industry--Migration from Cellular to SMP."

COMPETITION

On September 22, 2000, Anatel published guidelines for the introduction of personal communications services, or SMP, operations in Brazil. These guidelines dramatically changed the landscape and competition for the provision of these services. The guidelines established rules regarding the selection of up to three additional mobile telecommunications service providers per region, corresponding to newly created bands or sub-ranges C, D and E. Under the guidelines, Brazil was divided into three regions for SMP operation within the 1.8 GHz frequency, as opposed to ten regions for each of the current A Band and B Band cellular service providers. Each of the three regions was expected to have three new competitors in addition to the existing A Band and B Band providers.

There were few restrictions on the participation of companies in the SMP auction bidding process. Foreign-owned companies would be required to be incorporated and based in Brazil and the interested companies would be allowed to compete in all of the regions, but the same provider could not provide both cellular and SMP services in the same region. Each successful bidder for Bands C, D and E would be granted three licenses. The first license would authorize SMP operations; the second would permit national long distance service as of January 1, 2002; and the third would permit international long distance service as of January 1, 2002. The first license would be immediately available to the successful bidder, but the second and third licenses could be used at the successful bidder's discretion, within a set period of time. For the purpose of the second and third licenses, the new SMP providers would have their own access codes to forward long distance calls.

Anatel planned an auction in January 2001 for the C Band frequency range for SMP covering a geographic region that included our region. In the C Band auction, incumbent fixed-line telecommunications service providers were not permitted to make bids. The auction was delayed by lawsuits and postponed because of a lack of bidders. There were no bidders again in an auction organized in August 2001. In 2002, Anatel decided that the C Band frequency would be used as an additional frequency to existing wireless operating companies.

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An auction was held in February 2001 for D Band frequency range for SMP licenses covering a geographic region that included our region. A subsidiary of Tele Norte Leste Participacoes S.A., or "Telemar", a holding company that owns the principal fixed-line service provider in our region, won the bid and began operations in June 2002, using the brand name "Oi". As a result of the entry of the third operator, we experienced decrease in our market share and an increase in our marketing expenses.

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An auction was held in March 2001 for the E Band frequency range for SMP licenses covering a geographic region that included our region. Telecom Italia Mobile, or TIM, won the bid. TIM commenced operations in our region in October 2002.

Currently, we face direct competition in our region from B, D and E Band operators. The license to provide mobile telecommunications services in our region on B Band was granted to Norte Brasil Telecom, or NBT, a direct subsidiary of Tele Centro Oeste Celular Participacoes S.A. The rights and obligations of NBT under its license are substantially the same as ours. However, our operating licenses expire in 2009, while NBT's authorization is for an unlimited period of time, though its radio frequency license will expire in 2013. All wireless operators may have their frequencies licenses renewed for an additional 15-year period. Our license will expire in 2009 while NBT will expire in 2013 and Oi and TIM will both expire in 2017. Currently, there are no more licenses to be sold in our region.

At December 31, 2002, we had an estimated market share of 56%. NBT, Oi and TIM had estimated market shares of 34%, 9% and 1%, respectively.

Other competition

Amazonia Celular also competes with wireline telephone services providers, the most important of which is Telemar. We do not believe that wireline service providers present a significant threat or new competition in the telecommunications services market. We also compete with other wireless telecommunications services, such as paging and beeper services, which are used in our region as a substitute for mobile telecommunications services because they are generally less expensive than cellular telecommunications services. 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 and therefore do not represent a feasible alternative for most wireless customers.

OPERATING AGREEMENTS

Interconnection agreements

Incumbent wireline providers are obliged to provide interconnection services to wireless operators with the incumbent's own installations. We have entered into interconnection agreements with NBT, our B Band competitor, Oi, our D Band competitor, TIM, our E Band competitor, Embratel and Intelig, the two long distance carriers, and with Telemar and Vesper S.A., the two local carriers operating in our region. 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. In addition, network usage fees are assessed based on the terms of these agreements. See "--Regulation of the Brazilian telecommunications

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industry--Obligations of telecommunications companies--Interconnection."

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 region. These roaming agreements permit our subscribers to access the networks of other cellular service providers while traveling or "roaming" outside our region. Conversely, we are required to provide roaming services to subscribers of those wireless operators from outside our region when they are within our region. 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 have a three-year term which is automatically renewable for further one-year terms. We have also entered into international roaming agreements with foreign carriers that permit our subscribers to use roaming services in Argentina and Uruguay and that enable subscribers of those carriers to use roaming services in our region.

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HISTORICAL BACKGROUND

Before the incorporation of Telebras in 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebras and its operating subsidiaries, collectively the "Telebras 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 Telebras System.

In January 1998, in preparation for the restructuring and privatization of the Telebras System, the cellular telecommunications operations of the Telebras System were spun off into separate companies. In May 1998, the Telebras System was restructured to form, in addition to Telebras, twelve new holding companies. Virtually all assets and liabilities of Telebras, including the shares held by Telebras in the Telebras System, were allocated to the new holding companies. The resulting holding companies, together with their respective subsidiaries, consisted of (i) eight cellular holding companies, each in one of eight cellular regions, holding one or more operating companies providing cellular services; (ii) three wireline holding companies, each in one of three wireline regions, holding one or more operating companies providing local and intraregional long-distance services; and (iii) Embratel Participacoes S.A., a holding company of Telecomunicacoes 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 Telebras restructuring. In connection with the breakup of Telebras, the Registrant was allocated all the share capital held by Telebras in the operating subsidiaries that provided cellular telecommunications services in the states of Para, Maranhao, Roraima, Amapa 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 Participacoes S.A. See "--Organizational Structure."

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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 services providers. Before becoming effective, proposed regulations must undergo a period of public comment, which may include public hearings. Once effective, regulations imposed by Anatel may be challenged in Brazilian courts.

Licenses

In accordance with the General Telecommunications Law, a concession relates to the provision of telecommunication services under the public regime, as determined by the public administration. A concession may only be granted upon a prior auction bidding process. As a result, regulatory provisions are inserted in the relevant concession agreements and the concessionaire is subject to public service principles of continuity, changeability and equal treatment of subscribers. Also, the government authority is entitled to direct and control the performance of the services, to apply penalties and to declare the expiration of the concession and the return of assets of the concessionaire to the government authority upon termination of the concession. Another distinctive feature is the right of the concessionaire to maintain an economic and financial balance of the concession agreement. The concession is granted for a determinate period of time and is generally renewable once.

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An authorization is a permission granted by the public administration under the private regime, which may or not be granted upon a prior auction bidding process, to the extent that the authorized party complies with the objective and subjective conditions deemed necessary for the exploitation of the relevant type of telecommunication service in the private regime. The authorization is granted for an indeterminate period of time. It is not guaranteed to the authorized party the maintenance of the economic and financial balance of the relationship with the governmental authority.

We were awarded a concession agreement to operate wireless services. In accordance with the General Telecommunications Law and the changes to the telephony model in connection with the provision of SMP, Anatel is effecting the conversion of the concession regime into an authorization regime. We would be entitled to wait until 2009, when our concession agreement expires, to transition to the authorization regime. As a result of this change, we will no longer be subject to regulatory uncertainties relating to the renewal of the agreement as it is granted for an indeterminate period of time, but we would still be required to apply to the government authority for an extension of the right of use of radio frequencies.

Obligations of telecommunications companies

As a telecommunications service provider, we are subject to regulations concerning quality of service and network expansion. 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 a concession to be revoked for noncompliance with the obligations imposed by its terms, there

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are no precedents for such a revocation. If, by operation of law, we now hold authorizations, those authorizations can only be cancelled by Anatel in the limited circumstances outlined in the General Telecommunications Law.

Currently, our quality of service obligations require (i) our cellular network to be fully operational at least 98% of the time; (ii) our rate of failed call completion due to signal loss not to exceed 3%; (iii) the rate at which our cellular network rejects attempted calls because no circuits are available not to exceed 5%; (iv) the rate at which interconnected calls fail to complete not to exceed 3%; (v) our cellular network to be available on first call attempts at least 90% of the time; and (vi) the number of our subscription complaints per month not to exceed five per 100 subscribers. We must submit monthly reports to Anatel that are compiled in accordance with Anatel guidelines, reporting on our quality of service performance indicators.

In addition, we are also required to meet network coverage obligations by providing cellular services to 70% of the municipalities within our region with more than 30,000 inhabitants. We have met these network expansion obligations in advance and are presently in compliance with our quality of service obligations.

Anatel has submitted for public comment a proposal to apply quality of service obligations similar to those applicable to SMP providers to A Band and B Band operators. The proposed quality of service standards, if approved, will impose new obligations on us relating to customer service complaints, customer service response time, maximum time for calls completion and network recovery time. Discussions with Anatel regarding the method of collecting the relevant data are still ongoing and, depending on the method established by Anatel, we may be forced to make additional investments in our network and customer service facilities.

Interconnection

Under the General Telecommunications Law, all mobile telecommunications services providers must provide interconnection upon the request of any other mobile or fixed-line telecommunications service provider. The terms and conditions of the interconnection are freely negotiated between wireless and fixed-line operators, subject to a price cap and compliance with regulations established by Anatel relating to the traffic capacity and interconnection infrastructure that must be made available to requesting parties. If a service provider offers any party an interconnection tariff below the price cap, it must offer the same tariff to any other requesting party on a nondiscriminatory basis. If the parties cannot reach an agreement on the terms of interconnection, including with respect to the interconnection tariff, Anatel will act as the final arbiter.

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Rate regulation

Our initial concession restricts our ability to adjust rates relating to existing customer service plans. The price cap for the Basic Plan, which is the plan established under the concession agreement, is adjusted on an annual basis, under a formula that reflects the rate of inflation, offset by an Anatel-determined productivity rate. The productivity rate is determined on a case by case annual basis during discussions between the service provider and Anatel. The other service plans' rates may be adjusted on an annual basis according to inflation. We may introduce new service plans that have freely set rates. Once these plans become effective, they are thereafter subject to the

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annual price-cap mechanism. While subscribers cannot be forced to migrate to new plans, existing plans can be terminated after notice has been given to all subscribers under the plan being terminated.

Other telecommunications companies wishing to interconnect with and use our network must pay a network usage fee to us. The network usage fee is a flat fee charged per minute of use. The network usage fee we charge is subject to a price cap set by Anatel that is based on the same inflation-indexed formula that applies to the Basic Plan service rates.

Migration from cellular to SMP

According to regulations currently enforced by Anatel, the renewal of a concession for the operation of wireless telecommunications is conditioned upon the conversion of the concession into a SMP authorization. In order to migrate to SMP, a wireless telecommunications operator is required to comply with several technical and operational conditions, including, among others, the adoption of a carrier selection code as of June 2003.

As a consequence of the SMP migration process, Anatel will no longer be responsible for setting interconnection tariffs, after June 2004, allowing wireless telecommunications operators to freely negotiate these tariffs among themselves. Anatel will continue to settle disputes arising out of the terms of interconnection among wireless telecommunications operators, but will not be bound by any price cap relating to interconnection tariffs.

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 owns 74.96% of the share capital and 89.79% of the voting stock of Amazonia Celular, a cellular service operator in the states of Maranhao, Para, Amazonas, Amapa and Roraima.

The Registrant is part of a group of companies controlled by Telpart Participacoes S.A., a consortium comprised of: (i) Newtel Participacoes S.A (51.07%), which is controlled indirectly by investment and mutual funds managed by Banco Opportunity, a private Brazilian investment bank, and several Brazilian pension funds; (ii) TIW do Brasil Ltda., renamed TPSA do Brasil Ltda. ("TPSA do Brasil") (48.90%), which is controlled indirectly by investment and mutual funds managed by Opportunity; and (iii) others (0.03%). See "Item 7--Major Shareholders and Related Party Transactions" for a fuller description of this consortium. Telpart Participacoes S.A. also controls Telemig Celular Participacoes S.A., which is a Brazilian cellular telecommunications services provider under a concession from the federal government of Brazil that covers the state of Minas Gerais.

PROPERTY, PLANT AND EQUIPMENT

Our principal physical properties consist of transmission equipment, switching equipment and base stations. Our headquarters are located in Brasilia. We lease approximately 54,000 square meters of space in the region we operate.

At December 31, 2002, we had 9 cellular switches and 411 cell sites, the majority of which were located on land leased by us. Most of these leases are renewable every five years. In addition, we lease approximately 9 retail stores throughout the region. Our switches have a total capacity of approximately 1.8 million subscribers and our cell sites have a capacity of approximately 1.3 million subscribers.

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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 statements included under "Item 3A--Key information--Selected Financial Data." Except as otherwise indicated, all financial information in this annual report has been prepared in accordance with U.S. GAAP and 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 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 Brazilian company with all of our operations in Brazil, we are significantly affected by economic, political and social conditions in the country. In particular, we have been affected by the devaluation of the real, inflation and measures taken by the Brazilian government to combat inflation, principally through the interest rate setting mechanism.

Since 1998, economic uncertainties in other emerging market countries resulted in an outflow of investment funds from Brazil and downward pressure on the real. Despite the Brazilian government's attempts to defend the currency, including the continuous increases in the Central Bank's interest rate (SELIC), confidence in the real continued to erode and on January 15, 1999, the Central Bank abandoned its policy of intervening in the Brazilian currency market when the real moved outside a predetermined trading band and started to float freely. The continuing outflow of foreign exchange reserves, together with the Central Bank's lack of intervention, caused the real to devalue by 48% against the U.S. dollar in 1999. However, the erosion in the value of the real was well received by the international markets, and the second half of 1999 was characterized by an increase in exports, a relatively stable real and low inflation which resulted in a decline in the SELIC rate to 19% by the end of 1999.

The rise in economic activity that began in the second half of 1999 continued through most of 2000 and GDP growth was 4.4% for the year. Although fears regarding developments in Argentina and a slowdown of the U.S. economy caused uncertainty, credit availability generally remained high, as did the exports of manufactured goods for the most part of 2000. Foreign direct investment flows also grew significantly in 2000, and the government was able to achieve the International Monetary Fund targets for inflation and fiscal surpluses. However, beginning in the last quarter of 2000 and continuing into 2002, the real was again subjected to increasing pressures due to economic uncertainties in emerging market countries, most notably Argentina. The Brazilian government strengthened measures to guard against inflation, principally by raising interest rates and also by entering into a new loan agreement with the IMF in the amount of US\$15 billion. During 2000, the real devalued by 9.3% against the U.S. dollar.

In 2001, the Central Bank tightened its monetary policies in response

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to the Brazilian energy crisis and the inflationary effects of the real's continuing devaluation. From July 2001 until January 2002, the Central Bank maintained the interest rate at 19%. Devaluation of the real against the U.S. dollar was 18.7% for the year ended December 31, 2001.

In 2002, the Brazilian economy was negatively affected by various factors, including uncertainties relating to Brazil's own political and economic future, the continued economic and political uncertainties in Argentina, the political uncertainties in Venezuela and the global economic slowdown. These factors contributed to an increased level of volatility in the Brazilian capital markets, a lack of confidence from market participants, a reduction in the availability of credit and constraints on the ability of Brazilian companies to raise capital.

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These domestic and international pressures also contributed to the devaluation of the real against the U.S. dollar which reached a low level of R\$3.96 to US\$1.00 in October 22, 2002. At December 31, 2002, the exchange rate was R\$3.30 to US\$1.00. The real devalued by 52.3% against the U.S. dollar during the year.

The devaluation of the real in turn contributed to an increase in inflation which according to the consumer price index, or the IPCA, reached 12.5% in 2002, as compared to 7.7% in 2001. In response to these inflationary pressures, the Central Bank tightened its monetary policies and increased interest rates from 19% at December 31, 2001 to 25% at December 31, 2002. If high interest rate levels persist, there is increased risk that the economy will enter a period of recession, which may have a negative impact in our business.

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. Further, continuing declines in the value of the real would reduce the purchasing power of Brazilian consumers, negatively affecting demand for cellular telephony services. Continuing real devaluations would also affect our margins by increasing the carrying costs of our U.S. dollar denominated debt and increasing those line items of our costs and expenses that are linked to U.S. dollars.

The following table shows, for each of the years ended December 31, 2002, 2001 and 2000, the real GDP growth, the inflation rate and the average real interest rate in Brazil:

| | AT AND FOR THE YEAR ENDED | | |
|--|---------------------------|-------|-------|
| | DECEMBER 31, | | |
| | 2002 | 2001 | 2000 |
| | ----- | ----- | ----- |
| Real GDP growth % (1) (6) | 1.5 | 1.4 | 4.4 |
| Inflation rate % (2) (6) | 26.4 | 10.4 | 9.8 |
| Inflation rate % (3) (6) | 12.5 | 7.7 | 6.0 |
| Exchange rate devaluation % (R\$/US\$) (4) (6) | 52.3 | 18.7 | 9.3 |
| SELIC % (5) | 25.0 | 19.0 | 15.8 |

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- (1) Source: Instituto Brasileiro de Geografia e Estatistica (IBGE).
 - (2) Source: IGP-DI, as published by the Fundacao Getulio Vargas.
 - (3) Source: IPCA, which is the Consumer Price Index.
 - (4) Source: Central Bank.
 - (5) Source: Central Bank.
 - (6) Percentages are annual for the years ended 2002, 2001 and 2000.

Effects of Inflation in Our Results of Operations

Since the introduction of the real as the Brazilian currency in July 1994, inflation was controlled until January 1999, when it increased due to the devaluation of the real. During periods of high inflation, wages in Brazilian currency tended to fall because salaries typically did not increase as quickly as inflation. The effect was 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 service rates 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-DI and the IPCA) for the years ended December 31, 1997 through 2002:

| | INFLATION RATE (%) AS MEASURED BY IGP-DI (1) | INFLATION MEASURED |
|-------------------|---|-----------------------|
| | ----- | ----- |
| December 31, 2002 | 26.4 | |
| December 31, 2001 | 10.4 | |
| December 31, 2000 | 9.8 | |
| December 31, 1999 | 20.0 | |
| December 31, 1998 | 1.7 | |

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| | INFLATION RATE (%) AS MEASURED BY IGP-DI (1) | INFLATION MEASURED |
|-------------------|---|-----------------------|
| | ----- | ----- |
| December 31, 1997 | 7.5 | |

-
- (1) Source: IGP-DI, as published by the Fundacao Getulio Vargas.
 - (2) Source: IPCA, which is a consumer price index.

COMPOSITION OF OPERATING REVENUES AND EXPENSES

Operating Revenues

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We generate operating revenues from:

- o 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;
- o monthly subscription payments, which depend upon which service plan has been selected by the contract customer;
- o network usage fees, which are the amounts charged by us to other cellular and wireline telephone services providers for use of our network by customers of these service providers;
- o activation fees, which are one-time sign up charges paid to obtain cellular service under our Basic plan;
- o sales of handsets and accessories; and
- o 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 companies may not charge customers for incoming calls, unless the customer is roaming.

Operating Expenses

Operating expenses consist of cost of services, selling, general and administrative expenses, bad debt 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 Fistel inspection fees. Selling, general and administrative expenses consist primarily of salaries, wages and related benefits for administrative personnel, advertising and promotional expenses and other overhead expenses.

THE EFFECTS OF THE INCREASE OF OUR PREPAID CUSTOMER BASE IN OUR RESULTS OF OPERATIONS

Since the inception of our prepaid plans in June 1999, the number of prepaid customers has grown to represent approximately 54%, 66% and 73% of our total client base at December 31, 2000, 2001 and 2002. Our prepaid customers are able to originate calls until the credit is fully used or otherwise until the card expires at the end of 180 days (if another card is not activated), whichever occurs first. Our customers have access to limited cellular service during the following 60 days (during the first 30 days they can receive calls and originate emergency calls and calls to our call center, after that, they can only originate calls to our call center).

Prepaid customers, on average, have substantially lower minutes of use than contract customers and do not pay monthly fees and, as a result, generating substantially lower average monthly revenues per customer. Prepaid customers use their cellular phones predominantly for incoming calls, so prepaid customers revenues consist primarily of interconnection fees.

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, do not have the credit profile required to purchase a contract plan or seek cellular services for emergencies or limited use only.

CONSOLIDATION OF OPERATIONS WITH AFFILIATE

In order to create operating efficiencies and reduce costs, we entered into a shared services arrangement in February 2001 with our affiliate, Telemig Celular Participacoes S.A., and its operating subsidiary, Telemig Celular. Pursuant to this arrangement, 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.

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 and financial conditions could be negatively affected by the actions of the Brazilian authorities, including, in particular, the following types of actions:

- o delays in the granting of, or the failure to grant, approvals for rate increases;
- o the granting of operating licenses in our region; and
- o the introduction of new or stricter operational requirements.

We began to face competition in our region in the fourth quarter of 1998 and anticipate that competition will contribute to declining prices for cellular telecommunications services and increasing pressure on operating margins. Our growth and results of operations will depend significantly on a variety of factors, including:

- o our ability to attract new customers,
- o the rate of growth of our customer base,
- o the usage and revenue generated from our customers,
- o the level of airtime usage,
- o equipment prices,
- o the rate of churn, and
- o our ability to control costs.

At the end of the first half of 2002, we began to face competition in certain areas of our region from Telemar - "Oi," in the D Band SMP frequency. In the second half of 2002, we began to face competition from Telecom Italia Mobile - TIM, in the E Band SMP frequency and from Telemar - "Oi" in other states of our region. The extent of increased competition and any adverse effects on our results and market share will depend on a variety of factors that we cannot now assess with precision and many of which may be beyond our control.

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 21% in 2000 and in 2001 and 22% in 2002. The principal taxes are a state value-added tax, the Imposto sobre Circulacao de Mercadorias e Servicos, commonly known as the "ICMS," and a municipal tax on services, the Imposto sobre Servico, referred to as the "ISS." The ICMS is a tax that the Brazilian states impose at varying rates on revenues from the sale of

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goods and services, including communications services. The ICMS rate for domestic telecommunications services in the states of Amazonas, Maranhao, Amapa and Roraima is 25%, except for the state of Para, which is 30%. The ISS is imposed on services not subject to the ICMS and its average rate is 5%.

Other taxes on gross operating revenues include two federal social contribution taxes, the Programa de Integracao Social, referred to as "PIS," and the Contribuicao para Financiamento da Seguridade Social, known as "COFINS," imposed on the gross revenues derived from telecommunications services at a combined rate of 3.65%. Prior to February 1999, the combined rate of both taxes was 2.65%.

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

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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 Statements and Other Financial Information--Legal Proceedings" for a fuller description of these developments.

In addition, the following contributions are imposed on certain telecommunications services revenues:

- o Contribution for the Fund for Universal Access to Telecommunication Services - "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 telecommunication services that cannot be recovered with efficient service exploration or that is not the responsibility of the concessionaire. Contribution to FUST, by all telecommunication services companies, started on January 2, 2001, at the rate of 1% of net operating telecommunication services revenue (excepting interconnection revenues), and it may not be passed on to customers.
- o Contribution for the Fund of Telecommunication Technological Development - "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 (excepting interconnection revenues), and it may not be passed on to customers.

We must also pay the Contribution for the Fund of Telecommunication Fiscalization - "FISTEL". FISTEL is a fund supported by a tax applicable to telecommunications operators (the "FISTEL Tax"), and was established in 1966 to provide financial resources to the Brazilian government for the regulation and

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inspection of the Telecommunications sector. The FISTEL Tax consists of two types of fees: (i) an installation inspection fee assessed on telecommunications stations (which could be a base, a repeater or a mobile according to the General Telecommunications Law) 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, 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.

DISCUSSION OF CRITICAL ACCOUNTING ESTIMATES AND POLICIES

General

The preparation of the 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. Although we review these estimates and assumptions in the ordinary course of business, the portrayal of our financial condition and results of operation 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 of our consolidated financial statements includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements.

Deferred Taxes

As of December 31, 2002, we had a net deferred tax asset of R\$120.0 million, related to paid-in capital and tax loss carryforwards and other temporary differences relating primarily to accrued expenses, fair value adjustment of swap agreements and provision for contingencies that may be utilized to offset future taxable income. Management believes it may be able to offset this tax credit against taxable income of Amazonia Celular, in order to benefit from this asset. However, we have not yet determined the appropriate means by which such offsetting can best be implemented.

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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 year-ended 2001 and 2002 were impacted by the acceleration of the depreciation of our billing system that will be replaced by the end of the first half of 2003. Changes in the lives of operating assets with significant impact on the financial statements are disclosed whenever they occur.

Contingencies

We do not believe that we are a party to any legal proceedings that will have a material adverse effect on our consolidated financial position. As discussed in Note 12 of our consolidated financial statements, in December 1998 we were granted an injunction by the Treasury Court of each of the five states in which we operate related to the application of ICMS on monthly fees and

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rentals. We do not believe such services should be subject to ICMS, as they do not constitute telecommunications services. We have accrued our best estimate of the probable cost for the resolution of this claim. This estimate has been developed in consultation with external legal counsel that is handling this matter. To the extent additional information arises or our strategy changes, it is possible that our best estimate of the probable liability in these matters may change. We recognize the costs of legal defense in the periods incurred. Accordingly, the future costs of defending claims are not included in the estimated liability and are not believed to have a material effect on our consolidated financial position.

RESULTS OF OPERATIONS

The following table shows the components of our net income for 2002, 2001 and 2000.

| | YEAR ENDED DECEMBER 31, | | |
|---|-------------------------|----------|----------|
| | 2002 | 2001 | 2000 |
| | ---- | ---- | ---- |
| | (in thousands of reais) | | |
| Revenues | | | |
| Services provided to third parties..... | 411,964 | 457,838 | 356,711 |
| Sale of handsets..... | 50,555 | 64,205 | 123,900 |
| | 462,519 | 522,043 | 480,620 |
| Cost of services (1)..... | 128,485 | 133,301 | 102,610 |
| Cost of handsets..... | 63,203 | 68,862 | 133,110 |
| Selling, general and administrative expenses (1) | 124,014 | 135,909 | 134,840 |
| Bad debt expense..... | 11,646 | 51,427 | 24,760 |
| Other net operating (income) expense (1)..... | (1,108) | 456 | (1,590) |
| Depreciation and amortization..... | 97,939 | 74,524 | 56,730 |
| Operating income..... | 38,340 | 57,564 | 30,150 |
| Interest income..... | (56,588) | (22,022) | (12,330) |
| Interest expense..... | 44,791 | 57,065 | 18,750 |
| Foreign exchange loss..... | 134,819 | 42,566 | 13,570 |
| Income (loss) before minority interest, taxes and cumulative effect of accounting change..... | (84,682) | (20,045) | 10,150 |
| Income taxes (1)..... | (24,943) | (3,172) | (1,530) |
| Minority interest..... | (15,289) | (3,511) | 3,740 |
| Income (loss) before cumulative effect of accounting change..... | (44,450) | (13,362) | 7,940 |
| Cumulative effect of accounting change (2)..... | - | (1,567) | |
| Net income and comprehensive income..... | (44,450) | (11,795) | 7,940 |

(1) Line items were reclassified in 2001 and 2000 in order to make numbers more comparable to 2002 results.

(2) See Note 3(j) to the financial statements.

RESULTS OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 2002 COMPARED TO YEAR ENDED DECEMBER 31, 2001

Net Revenues

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Net revenues decreased by 11% to R\$462.5 million in 2002, from R\$522.0 million in 2001. This decrease is attributable to a more stringent credit policy and a cautious policy in acquiring new customers, as well as our efforts to reevaluate subscribers base in 2002. Net revenues derived from the provision of wireless services were

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R\$412.0 million in 2002, compared to R\$457.8 million reported in 2001, representing a 10% decrease. The decrease in net service revenues was also related to the change in the mix of our customer base, which reached 940,958, with 73% in the prepaid segment as compared to 66% in 2001.

Our service revenues are comprised mainly of monthly fees, service charges (outgoing traffic) and interconnection revenues (incoming traffic). The decrease in net service revenues was also a result of the decrease by 13% in 2002 of interconnection revenues due to a 19% decrease in the volume of incoming traffic, which was offset by an increase of 10% in interconnection fees authorized by Anatel in February 2002.

Our revenues from the sale of handsets decreased by 21% in 2002 when compared to the previous year. This decrease can be explained principally by the 25% decrease in the number of gross additions in 2002 as compared to 2001, and a decrease in the price of handsets as a result of subsidies we offered our clients.

Cost of Services

Our cost of services decreased 4% to R\$128.5 million in 2002 from R\$133.3 million in 2001. This decrease is mainly explained by the reduction of approximately R\$7.0 million in leased line costs in 2002. Additionally, the amounts paid as FUST and FUNTTEL taxes decreased by approximately R\$2.0 million, due to lower service revenues. These decreases were partially offset by an increase of approximately R\$4.0 million in interconnection costs.

Cost of Handsets

Our cost of handsets decreased 8% to R\$63.2 million in 2002 from R\$68.9 million in 2001, in line with the decrease in our sales of handsets. The cost of handsets decreased to a rate lower than the sale of handsets as a result of subsidies we offered our clients.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 9% to R\$124.0 million in 2002 from R\$135.9 million in 2001. As a percentage of net services revenue, selling, general and administrative expenses remained stable at 30% for 2002 and 2001.

Selling expenses increased slightly, by 3%, to R\$84.8 million in 2002 from R\$82.0 million in 2001. This increase is attributable to higher marketing and advertising expenses, payroll expenses, resulting from an increase in salaries and the payment of severance expenses and provision for inventory to reflect its fair market values, all of which were partially offset by a decrease in commission paid to independent distributors, as a result of the low volume of customer additions in 2002 (a 25% decrease from 2001). As a percentage of net services revenue, selling expenses increased to 21% in 2002 from 18% reported in

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the previous year.

General and administrative expenses decreased by 27% to R\$39.2 million in 2002 from R\$53.9 million in 2001. This decrease is mainly due to the reversal of a contingency in the net amount of R\$14.0 million relating to a lawsuit over the payment of ICMS, a value added tax, in which we obtained a favorable judgment. See "Item 8A--Financial Information --Legal Proceedings--Litigation Related to the Application of the ICMS." If this reversal, which constitutes a non-recurring event, had not happened, general and administrative expenses would have been fairly stable as compared to the previous year.

Bad Debt Expense

In 2002, our bad debt decreased 77% to R\$11.6 million in 2002, from R\$51.4 million in 2001. As a percentage of net service revenue, our bad debt reached 3% in 2002 as compared to 11% recorded in the previous year. Our percentage of bad debt was the lowest since our privatization. This improvement is directly related to our strategy aimed at improving the quality of our customer base and consequently decreasing bad debt. In the second quarter of 2001 we started to strengthen our collection and credit policies. The positive results from the implementation of these policies started to be reflected by the end of the same year and throughout 2002. We maintain an allowance for past-due accounts receivables in an amount equal to our estimate of probable future losses

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on these accounts, based on historical losses and the current level of overdue accounts receivable. We also immediately charge off any account receivable arising from fraud.

Depreciation and Amortization

Our depreciation and amortization expense increased 31% to R\$97.9 million from R\$74.5 million in 2001. The increase can be primarily attributable to: (i) the increase of investments in property and equipment in order to expand our network capacity and improve the overall quality of our services; and (ii) the acceleration of depreciation of our billing system that is expected to be replaced by the end of the first half of 2003.

Operating Income

Our operating income decreased 33% to R\$38.3 million in 2002 from R\$57.6 million in 2001 as a result of the above factors.

Interest Income

Our interest income increased to R\$56.6 million in 2002 from R\$22.0 million in 2001, representing an increase of 157%. The increase is directly related to the positive results of our hedging operations in 2002 due to the strong devaluation of the real against the U.S. dollar. At the end of 2002, 90% of our debt denominated in foreign currency was hedged, as opposed to only 64% in the previous year.

Interest Expense

Although there was an increase in our consolidated indebtedness in

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2002, our interest expense decreased 22% to R\$44.8 million in 2002 from R\$57.1 million in 2001 due to a loss of R\$20.5 million in hedging operations incurred in 2001.

Foreign Exchange Loss

As a result of the increase of our denominated in or indexed to foreign currencies indebtedness and consequently due to the 52% devaluation of the real against the U.S. dollar, our foreign exchange loss increased substantially to R\$134.8 million in 2002 from R\$42.6 million in 2001. Our foreign exchange loss was partially offset by hedging operations, minimizing the effects of the real devaluation in our financial results.

Income Taxes

We recorded R\$24.9 million in income tax credit in 2002 as compared to a tax credit of R\$3.2 million in 2001. The effective rate of tax on income before taxes in 2002 was 29%, as compare to 16% in 2001. The combined statutory rate is 34%. The difference between the effective tax rate in 2002 is mainly attributable to a tax loss forfeited by the merger into Amazonia Celular S.A. - Maranhao of its four subsidiaries at the end of 2002, partially compensated by the social contribution enacted rate adjustment recorded in 2002 (see Note 8 to our consolidated financial statements).

Net Loss

We had a net loss in the amount of R\$44.5 million in 2002 as compared to a net loss in the amount of R\$11.8 million in 2001 as a result of the above factors.

RESULTS OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 2001 COMPARED TO YEAR ENDED DECEMBER 31, 2000

Net Revenues

Net revenues increased to R\$522.0 million in 2001 from R\$480.6 million in 2000. This 9% increase was primarily a result of the 20% growth in our customer base to 908,627 customers in 2001 from 755,665 customers in 2000. The customer growth is attributable mainly to the 47% increase in the number of prepaid customers to

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602,889 in 2001 from 407,712 in 2000. As a result, our customer base mix has changed significantly from 54% prepaid customers in 2000 to 66% in 2001.

Our revenues from the sale of handsets decreased by 48% in 2001. The number of handsets sold decreased as the market for second hand handsets has been developing. In terms of price, growth in our client base came primarily from the influx of new prepaid customers, who generally purchase less expensive handsets.

Our service revenues are comprised mainly of monthly fees, service charges (outgoing traffic) and interconnection revenues (incoming traffic). During 2001, the growth of our client base and the associated increase in traffic usage contributed to the 28% increase in our net service revenues. The main factor responsible for this growth was the increase in interconnection

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revenues, which grew by 69% during the year. These interconnection revenues represented 47% of our net service revenues in 2001 as compared to 36% in 2000. There was also an increase of 23% in interconnection fees authorized by Anatel in November 2000, which was fully reflected in 2001.

Cost of Services

Our cost of services increased to R\$133.3 million in 2001 from R\$102.6 million in 2000, representing a 30% increase. This growth is mainly the result of the increase in our interconnection costs, related to the 21% increase in our outgoing traffic.

Cost of Handsets

Our cost of handsets decreased 48% to R\$68.9 million in 2001 from R\$133.1 million in 2000, in line with the decrease in our sales of handsets.

Selling, General and Administrative Expenses

Selling, general and administrative expenses nominally increased 1% to R\$135.9 million in 2001 from R\$134.8 million in 2000. As a percentage of net services revenue selling, general and administrative expenses was 30% in 2001 down from 38% in 2000.

Selling expenses increased by 25% to R\$82.0 million in 2001 from R\$65.7 million in 2000. This increase is attributable to higher marketing and advertising expenses, increases in the payment of third party services and increases in payroll expenses resulting from the growth in the number of employees, combined with a general increase in annual salaries. As a percentage of net services revenue, selling expenses remained stable at 18% in 2001 and 2000.

General and administrative expenses decreased by 27% to R\$53.9 million in 2001 from R\$69.1 million in 2000. The decrease is mainly due to the recognition of a nonrecurring expense in 2000 represented by invoices issued by TIWI to us for the reimbursement of expenses allegedly incurred by it on our behalf. We registered approximately R\$12.7 million as general and administrative expenses in 2000 in connection with these invoices. For more detailed information relating to the TSA, see "Item 8A - Financial Information - Legal Proceedings."

Bad Debt Expense

In 2001, our bad debt increased 108% to R\$51.4 million as compared to R\$24.8 million in 2000. As a percentage of net service revenue, our bad debt reached 11.2% as compared to 6.9% registered in 2000. The increased level of bad debt was a result of the significant increase of our customer base at the end of 2000 due to the adoption of a less rigid credit control policy upon the activation of new clients at the end of that year. In the second quarter of 2001 we started to strengthen our collection and credit policies and by the fourth quarter, the positive results from the implementation of these policies started to be reflected in our results.

We maintain an allowance for past-due accounts receivable in an amount equal to our estimate of probable future losses on such accounts, based on historical losses and the current level of overdue accounts receivable. We also immediately charge off any account receivable arising from fraud.

Depreciation and Amortization

Our depreciation and amortization expense increased 31% to R\$74.5 million in 2001 from R\$56.7 million in 2000, primarily as a result of an increase of investments in property and equipment in order to expand our network capacity and improve the overall quality of our services. We are currently changing our billing system.

Operating Income

Our operating income increased 91% to R\$57.6 million in 2001 from R\$30.2 million in 2000 as a result of the above factors.

Interest Income

Our interest income increased to R\$22.0 million from R\$12.3 million mainly as a result of the increase of our average balances of our invested cash.

Interest Expense

Interest expense increased 204% to R\$57.1 million in 2001 from R\$18.8 million in 2000. The increase was due to an increase in our consolidated indebtedness in 2001 related to the funding of our capital expenditures.

Foreign Exchange Loss

As a result of the 19% devaluation of the real against the U.S. dollar, our foreign exchange loss was R\$42.6 million in 2001, as compared to R\$13.6 million in 2000, a 213% increase.

Income Taxes

We recorded R\$3.2 million in income tax credit in 2001 as compared to a tax credit of R\$1.5 million in 2000. The effective rate of tax on pretax loss in 2001 was 16%, compared to the combined statutory rate of 34%. The difference between the effective tax rate in 2001 is mainly attributable to tax rate adjustments and certain nondeductible expenses.

Net Income (Loss)

We had a net loss in the amount of R\$11.8 million in 2001 as compared to a net income in the amount of R\$7.9 million in 2000 as a result of the above factors.

B. LIQUIDITY AND CAPITAL RESOURCES GENERAL

We have funded our operations and capital expenditures principally from operating cash flows and loans obtained from financial institutions. At December 31, 2002, we had R\$59.9 million in cash and cash equivalents. We have a policy of maintaining cash and cash equivalents in order to be in a position to respond to the changing regulatory and competitive environment in which we operate. Our principal cash requirements include:

- o capital expenditures,
- o the servicing of our indebtedness, and
- o the payment of dividends.

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Our primary sources of liquidity have historically been borrowings and cash flow from operating activities. Net cash generated from operating activities was R\$138.1 million in 2002, R\$87.2 million in 2001 and R\$79.1 million in 2000. Net cash used in financing activities was R\$121.8 million in 2002. Net cash provided by financing was R\$7.2 million in 2001 and R\$203.6 million in 2000.

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INDEBTEDNESS

Our total debt was R\$417.0 million at December 31, 2002, as compared to R\$400.3 million at December 31, 2001 and to R\$348.9 million at December 31, 2000. In 2002, of our total debt, R\$258.4 million was denominated in U.S. dollars bearing interest at three- or six-month LIBOR plus an annual rate of 0.4% to 5.75%, and R\$158.6 million was denominated in reais bearing interest at a rate of 3.8% over either (i) the average cost of the BNDES currency basket and (ii) the long-term interest rate, or TJLP (which was 10.0% at December 31, 2002) disclosed by the Central Bank. See "Item 10C--Additional Information--Material Contracts" for a description of our principal credit agreements.

At December 31, 2002, 90% of our foreign currency indexed debt was hedged against exchange rate fluctuation. The hedging agreement exchanges fixed rates (9.0% to 14.9%) over the U.S. dollar variation for an internal floating rate (interbank deposit rate). At December 31, 2001, 64% of our foreign currency indexed debt was hedged against exchange rate fluctuation. At December 31, 2000, 9.0% of our foreign currency indexed debt was hedged against exchange rate fluctuation. Our credit facilities are described under "Item 10C--Additional Information--Material contracts." We did not obtain any new financing in 2002.

Substantially all start-up costs and initial capital investments were financed by cash flows from the wireline telephone operations of our predecessor company. At December 31, 2002, R\$6.9 million of our total debt was related to credit obtained by our predecessor company to invest in network expansion. Accordingly, our indebtedness does not reflect the amount of debt we would have been required to incur to build our current network if we had operated on a stand-alone basis from the inception of our predecessor company's cellular telecommunications operations.

Our financing agreements, some of which are guaranteed by the Registrant, limit our ability to incur indebtedness above a certain level. As a result, 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.

In 2002, Amazonia Celular breached certain financial covenants contained in a credit agreement entered into with the Export Development Corporation of Canada and other parties and with the BNDES and a consortium of three Brazilian banks, including Banco Itau S.A., Banco Bradesco S.A. and Banco Alfa de Investimento S.A. Waivers were obtained in connection with the covenant breaches.

The following table sets forth the amount in millions of reais of our indebtedness position at December 31, 2002.

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| | TOTAL | LESS THAN ONE YEAR | ONE YEAR | TWO YEARS | THREE YEAR |
|--|-------|-----------------------|----------|--------------|------------|
| | ----- | ----- | ----- | ----- | ----- |
| Long-Term Debt..... | 417.0 | 199.7 | 118.6 | 96.5 | 2.0 |
| Operating Leases..... | 10.0 | 4.8 | 3.4 | 1.3 | 0.4 |
| | ----- | ----- | ----- | ----- | --- |
| Total Contractual Cash Obligations..... | 427.0 | 204.5 | 122.0 | 97.8 | 2.4 |
| | ===== | ===== | ===== | ===== | === |

CAPITAL EXPENDITURES

Prior to the privatization, the capital expenditures of our predecessor companies were planned and allocated on a system-wide basis, and subject to approval by the federal government. These constraints on capital expenditures restricted the ability of our predecessors to make investments to modernize their network in a timely manner.

Since the privatization of Telebras, these restrictions have not applied. We are now able to determine our own capital expenditure budget, although, as is the case with all telecommunications services providers, we must comply with build-out obligations under our concession. See "Item 4--Information on the Company--Regulation of the Brazilian Telecommunications industry--Obligations of Telecommunications Companies" for a description of these obligations.

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We spent R\$46.2 million in capital expenditures in 2002, R\$169.4 million in 2001 and R\$187.1 million in 2000. We currently expect that our capital expenditures for 2003 will be approximately R\$50.0 million, excluding any expenses associated with network upgrades. Our capital expenditure priorities include expansion of our network capacity, improvement of overall quality, increase of the level of digitalization of our network and the upgrade of our billing system. In order to remain competitive, we will probably invest in the technological transition of our network (currently operating in TDMA mode) to GSM/GPRS or CDMA/1xRTT. We are carrying out tests for alternative technologies and requesting proposals for the supply of the infrastructure necessary for the eventual network transition. This transition, depending on the financial return and strategic benefits, may take place in the second half of 2003. Furthermore, in 2002, we demonstrated an interest in purchasing additional 1800 MHz bands. The purchase of these bands will imply the transition of our network to the SMP environment.

We believe that our capital expenditure requirements can be met through a combination of cash flow from operations, equipment financing from vendors and credit facilities from export credit agencies and Brazilian and international financial institutions.

C. RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.

We do not conduct any independent research and primarily depend upon

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the manufacturers of telecommunications products for the development of new hardware.

D. TREND INFORMATION

We expect an increase in competition. Telemar, through its SMP operator, Oi, began operations in certain areas of our region in June 2002 and increased its coverage to our entire region in September 2002. Telecom Italia Mobile--TIM commenced wireless telecommunications operations in our region in October 2002. There are no more licenses to be auctioned in our region. The increase in competition may negatively affect our market share and profit margins. See "Item 4-- Information on the Company--Competition" for a detailed description of the competitive environment in our region.

We also expect to continue to make capital expenditures to improve the quality of our network, launch new services and possibly invest in the technological transition from our TDMA network to either GSM/GPRS or CDMA/1xRTT. See "Liquidity and Capital Resources--Capital Expenditures."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

We are managed by our Conselho de Administracao, 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 the board of directors. During the shareholders' meeting held on April 29, 2002, elections for a new board of directors were supposed to take place, however an injunction prevented the election of the following members: Arthur Joaquim de Carvalho, Veronica Valente Dantas, Maria Amalia Delfim de Melo Coutrim, Jose Leitao Viana, Franklin Madruga Luzes, Rodrigo Bhering Andrade, Paulo Conte Vasconcellos, Marcos Nascimento Ferreira, Jorge da Cunha Fernandes, Jacques de Oliveira Pena and Marco Antonio Horta Pereira. The predecessor board of directors, elected on November 13, 2001, remained in office until August 7, 2002, when another injunction allowed the election of the members described above, enabling them to also take office. See "Item 7-Major Shareholders and Related Party Transactions."

The following are the current members of our board of directors elected on August 7, 2002 and their respective positions and ages.

| NAME | POSITION | AGE |
|--|---------------|-------|
| ----- | ----- | ----- |
| Arthur Joaquim de Carvalho..... | Chairman | 4 |
| Veronica Valente Dantas..... | Vice Chairman | 4 |
| Maria Amalia Delfim de Melo Coutrim..... | Director | 4 |
| Jose Leitao Viana..... | Director | 6 |
| Franklin Madruga Luzes..... | Director | 5 |

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| | | |
|---------------------------------|----------|---|
| Rodrigo Bhering Andrade..... | Director | 4 |
| Paulo Conte Vasconcellos..... | Director | 4 |
| Marcos Nascimento Ferreira..... | Director | 3 |
| Jorge da Cunha Fernandes..... | Director | 6 |
| Jacques de Oliveira Pena..... | Director | 4 |

Two members of our board of directors, Nelson Sampaio Bastos and Marco Antonio Pereira Horta, resigned on January 24, 2003 and March 24, 2003, respectively.

Set forth below are brief biographical descriptions of our directors.

ARTHUR JOAQUIM DE CARVALHO is the chairman of the board of directors of Tele Norte Celular Participacoes S.A. and Telemig Celular Participacoes S.A. He has a nine-year experience in private equity investments and is currently a partner at CVC/Opportunity Equity Partners. Mr. Carvalho was in charge of the investment area of CVC/Opportunity Equity Partners from 1980 to 1993, and, since the foundation of the Opportunity Group in 1993, he has been one of the main officers of the group. In the past, he also worked in two companies engaged in agribusiness and exports. Mr. Carvalho holds a business administration degree from the Universidade Federal da Bahia, or the Federal University of Bahia.

VERONICA VALENTE DANTAS is a partner and managing director of Opportunity Asset Management Ltda., and also the vice chairman of the board of directors of Telemig Celular Participacoes S.A. Her past experience includes being the managing director of Icatu Empreendimentos e Participacoes Ltda., an investment company established in Brazil. Ms. Dantas holds a degree in business administration from the Universidade Federal da Bahia, or the Federal University of Bahia.

MARIA AMALIA DELFIM DE MELO COUTRIM has been a director at CVC/Opportunity Equity Partners since 1997. Before that, she was a director of Opportunity Asset Management and had previously worked as a director and partner of Banco Icatu from 1986 to 1994. She has a degree in economics from the Universidade Federal Rural do Rio de Janeiro, or the Rural Federal University of Rio de Janeiro.

JOSE LEITAO VIANA is a member of the board of directors of both Telemig Celular Participacoes S.A. and Telemig Celular S.A., and also works as an independent business consultant. He was the chief financial officer of Telecomunicacoes de Minas Gerais S.A. - Telemig, from 1972 to 1982 and the vice chairman of the same company from 1982 to 1985. Mr. Viana worked as the chief investment officer of Fundacao de Seguridade Social SISTEL and the chief financial officer of Telebras from 1985 to 1989. His past experience also includes acting as chief financial officer and member of the boards of directors of several subsidiaries of Telebras. Mr. Viana holds a degree in economic sciences from the University of the State of Guanabara (currently the University of the State of Rio de Janeiro) and a master degree in economic engineering and industrial administration from the Universidade Federal do Rio de Janeiro, or the Federal University of Rio de Janeiro.

FRANKLIN MADRUGA LUZES holds a degree in Civil Engineering by the National School of Engineering (1969) and another in Business Administration by the Sociedade Universitaria Augusto Motta (1974). He has large experience in the telecommunications sector and has been administration director at Embratel (1995-1999), Vice-President and Economic-Financial Director of Embratel (1987-1990); Board Member of Embratel (1985-1991); Head of the Invoicing and Charging Department of Embratel (1990-1995); Human Resources Director of Telerj (former Telebras System) (1985-1987); and Administrative Director of Telebahia (former Telebras system) (1979- 1985).

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RODRIGO BHERING DE ANDRADE has been a partner of CVC/Opportunity Equity Partners since 1997. He was a vice-president in the M&A department for Latin America at J.P. Morgan from 1990 to 1995 and an investment officer at GP Investimentos from 1995 to 1997. His past experience includes working as an associate at two law firms, Pinheiro Neto Advogados and Bingham, Dana & Gould. Mr. Andrade holds a graduate degree from the Universidade de Brasilia, or the University of Brasilia and a master degree from the Yale Law School.

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PAULO CONTE VASCONCELLOS is a partner at ProxyCon Assessoria Empresarial S/C Ltda., a consulting firm, and currently a member of the board of directors of Marcopolo S.A., Ceramica Chiarelli S.A., Progresso Hudtelfa Ltda. and Grupo Orsa. He is also a member of the board of auditors of Cia. Siderurgica Belgo Mineira and Politeno Industria e Comercio S.A., and heads the research group at IBGC, or the Brazilian Institute of Corporate Governance. Mr. Vasconcellos has previously worked as a research analyst at Cotriexport, Terramar, Unibanco and Citibank, a research manager at Patrimonio and a research director at Merrill Lynch and ING Barings. He is a former executive director and member of the board of ABAMEC, or the Brazilian Security Analysts' Association. Mr. Vasconcellos holds a business administration degree from UFRG, or the Federal University of Rio Grande do Sul, a master degree in finance from IBMEC, or the Brazilian Capital Markets Institute, and has attended a post-graduation course in business administration at BSP - Business School Sao Paulo.

MARCOS NASCIMENTO FERREIRA is also a member of the board of directors of Telemig Celular Participacoes S.A. From 1988 to 1995, Mr. Ferreira worked in several positions for different companies of the OAS Group, including Vega Sopave and Ultratec Engenharia. From 1995 to 1998, he was a director of Pantanal Linhas Aereas, and, in recent years, he has been an active member of the boards of directors of major telecommunication companies in Brazil, including Telet S.A. and Americel S.A. (1999-2000) and Pegasus S.A. (2000). Mr. Ferreira holds a degree in civil engineering from the Federal University of Bahia, or Universidade Federal da Bahia, as well as a post-graduate degree in business administration from the University of California, Berkeley.

JORGE DA CUNHA FERNANDES has represented the Brazilian ministry of finance and/or PREVI - Caixa de Previdencia dos Funcionarios do Banco do Brasil in the board of directors and board of auditors of several Brazilian companies: Petroleo Brasileiro S.A. - Petrobras, Empresa Brasileira de Aeronautica S.A. - Embraer, Telecomunicacoes de Brasilia S.A. - Telebrasil, Tele Norte Leste Participacoes S.A., Telecomunicacoes Brasileiras S.A. - Telebras, Telecomunicacoes da Bahia S.A. - Telebahia, Companhia Docas do Estado da Bahia - Codeba, Florestas Rio Doce S.A., Telecomunicacoes de Minas Gerais S.A. - Telemig, and Instituto de Resseguros do Brasil - IRB. In the past, Mr. Fernandes served as co-chief 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. He holds a degree in Economics by the Associacao de Ensino Superior do Distrito Federal - AEUDF, or the Post-graduate Education Association of the Federal District.

JACQUES DE OLIVEIRA PENA is a deputy member of the advisory board (conselho deliberativo) of PREVI and a member of SINDAPP's executive board for National Union of the Closed Entities of Private Pension. Mr. Pena was the Regional Administrator of Samambaia from 1995 to 1998. Mr. Pena was the Head of

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Cabinet of Deputy Geraldo Magela at the Legislative Chamber of the Federal District from 1991 to 1992. Mr. Pena was Secretary General of the Bank Employees Union of Brasilia from 1992 to 1994. Mr. Pena began working at the Banco do Brasil in 1977 and he has held the position of cashier, deputy supervision assistant, junior analyst and division manager. Mr. Pena holds a degree in history from the University of Brasilia.

EXECUTIVE OFFICERS

The Executive Committee of the Registrant currently consists of three Executive Officers.

| NAME ---- | POSITION ----- | AGE --- |
|--------------------------------------|---|------------|
| Antonio Jose Ribeiro dos Santos..... | Chief Executive Officer | 58 |
| Joao Cox Neto..... | Chief Financial Officer and Responsible for Investor Relations | 39 |
| Aloysio Jose Mendes Galvao..... | Chief Human Resources Officer | 55 |

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

ANTONIO JOSE RIBEIRO DOS SANTOS was appointed as our chief executive officer in August 2002. He is also the chief executive officer of Telemig Celular Participacoes S.A. and works as a part-time professor at the Electrical Engineering Department of the University of Brasilia. He was an engineer and manager at Telecomunicacoes de Brasilia S.A. - Telebrasil from 1970 to 1983, and held the position of chief engineering officer of the same company from 1983 to 1995. In 1996 and 1997, Mr. Santos served as a senior advisor and steering committee

member for certain Brazilian pension funds that were members of a consortium participating in the public bidding for cellular B Band in Brazil. The consortium was awarded with two licenses, which are currently held by Americel S.A. and Telet S.A. In 1997-1998 Mr. Santos was the chief strategic planning officer of Americel S.A. and in 1998-1999 he served as the executive vice president of Telet S.A. In 1999-2001, he was the vice president for business development of Telemig and Tele Norte Celular Participacoes S.A. and in 2001-2002 he served as the chief executive officer of Telemig Celular S.A. and Amazonia Celular. Mr. Santos' past experience includes working as an advisor for the Brazilian Secretary of Information Technology. He holds a degree in Electric Engineering by the University of Brasilia, or Universidade de Brasilia.

JOAO COX NETO has been our chief financial officer since April 1, 1999. He was reelected in August 2002 and is currently the chief executive officer of Telemig Celular S.A. and Amazonia Celular S.A. Prior to joining us, Mr. Cox was chief financial officer at Odebrecht Servicos de Infraestrutura S.A., the infrastructure and public service arm of the Odebrecht Group. Previously, he held various financial management positions in the Odebrecht Group, including

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finance director for the holding company and CFO for OPP Petroquimica S.A. Mr. Cox holds a B.Sc. degree in economics from the Federal University of Bahia in Brazil and has attended post-graduate studies in economics at the University of Quebec in Montreal and at the Oxford University's CPS program. Since 1991, Mr. Cox has been a member of the boards of directors of several companies in Brazil and Argentina, and is currently a member of the board of ABRASCA (the Brazilian Association of Public Companies) and IBRI (the Brazilian Institute for Investor Relations).

ALOYSIO JOSE MENDES GALVAO has been our chief human resources officer since August 2001. From 1998 to 2001, Mr. Galvao acted as a human resources consultant to major corporations in Brazil including Petrobras, Embraer, Unimed and Nestle. Mr. Galvao was director of human resources of the Odebrecht Group for 25 years (from 1973 to 1998). In this period, he was engaged in several local and international projects (in the United States and Ecuador, among other countries). He also worked at Banco do Estado da Bahia (Bank of the State of Bahia) where he was responsible for the human development area from 1970 to 1973. Mr. Galvao holds a degree in business administration from the Escola de Administracao de Empresas da Bahia (Business Administration School of Bahia).

The Executive Committee of Amazonia Celular currently consists of four Executive Officers.

| NAME | POSITION | AGE |
|--|---|-----|
| ---- | ----- | --- |
| Joao Cox Neto..... | Chief Executive Officer | 39 |
| Joao Alberto Santos..... | Chief Financial Officer and responsible for Investor Relations | 49 |
| Marcos Pacheco..... | Chief Technical Officer | 46 |
| Ricardo Augusto de Oliveira Sacramento..... | Chief Operations Officer | 42 |

Set forth below are brief biographical descriptions of the executive officers of Amazonia Celular who are not concomitantly officers of the Registrant.

JOAO ALBERTO SANTOS is also the chief executive officer of our affiliate, Telemig Celular S.A. His previous experience includes fifteen years at Valvulas Schreider do Brasil S.A., where he worked at several administrative positions in connection with financial operations. Mr. Santos worked for several years with cocoa and coffee exports and with the manufacturing of tropical fruit juices. He holds an accounting degree from the Universidade Estadual de Feira de Santana, or the State University of Feira de Santana, and a master degree in finance and accounting from Fundacao Getulio Vargas, or the Getulio Vargas Foundation.

MARCOS PACHECO has worked for seven years with wireless telecommunications. In 1993, when wireless telecommunications were implemented in the state of Minas Gerais, he was responsible for the establishment of the network operation and maintenance structure and also for the activation and operation of the call center project. Mr. Pacheco also worked for 12 years at our predecessor company, Telecomunicacoes de Minas Gerais S.A. - Telemig, where he was responsible for management of the network, the call center and the operation support system development. Mr. Pacheco holds an electric engineering degree from the Universidade Federal de Minas Gerais, or the Federal University of Minas Gerais, and a master degree in nuclear engineering from the same

university.

RICARDO AUGUSTO DE OLIVEIRA SACRAMENTO was appointed as chief operations officer of Telemig Celular S.A. and Amazonia Celular in January 2003. From August 2001 to December 2002, Mr. Sacramento acted as vice president operations for Telemig Celular S.A. and Amazonia Celular S.A. From April 1998 to July 2001 Mr. Sacramento acted as Sales and Distribution Director for Telemig Celular S.A. and Amazonia Celular S.A. Prior to joining our companies Mr. Sacramento was international business manager at Novopharm, a large pharmaceutical company based in Toronto, Canada for two years where he dealt with international sales & distribution networks and was also director of business development at Healthcare Alliance Group, a mergers & acquisitions firm for the health sector, based in Chicago, for one year where he engaged in a wide number of projects in Latin America. Mr. Sacramento holds an MBA from the University of Bridgeport, Connecticut - USA and a bachelor