ARACRUZ

Financial Statements | 2003

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Average list pulp price was $510/ton, compared with $468/ton in 2002.

Net operating revenues were $1,003.1 million, $334.1 million higher than last year, mainly as a result of higher pulp volume ($235.7 million) and higher pulp prices ($76.3 million).

Total cost of pulp, paper and sawn wood sales totaled $592.6 million, compared with $468.9 million in 2002.

Cost of pulp sales in 2003 was $569.2 million, compared with $456.9 million last year. Production cost per ton in 2003 was $226, compared with $238 in 2002. Cash production cost in 2003 was $144 per ton as against $138/ton in 2002, mainly due to higher wood costs as a consequence of purchased wood volume and longer average distance from the forest to the mill.

Selling and distribution expenses were $38.6 million, or $10.4 million higher than in the same period of last year, mainly due to higher sales volume.

Administrative expenses were $22.8 million, $0.5 million higher than last year, mainly due to the local currency appreciation against the dollar.

Other operating expenses were $42.0 million, or $12.1 million lower than in the same period of last year, mainly due to a lower provision of $21.9 million for losses on credit of ICMS, partially offset by a higher provision for fines on tax contingencies of $8.9 million.

Financial income was $43.0 million, compared with $61.6 million in 2002. The difference was mainly due to lower interest rates and lower interest on tax credits, given the reduction in the amount of credits.

Financial expenses were $108.2 million in 2003, compared with $82.0 million in the previous year, mainly due to an increase of $17.9 million in interest on financing, an increase of $7.3 million in provision for PIS/Cofins and CPMF taxes and an increase of $7.4 million for interest on fiscal contingencies provisions.

Currency re-measurement resulted in a net gain of $42.0 million, compared with $14.9 million in 2002, the differences arising from fluctuations in the exchange rate of reais versus dollars. The closing exchange rate on December 31, 2003 was US$1 = R$2.8892.

Income tax and social contribution totaled $129.1 million, compared with income tax credit of $15.6 million in the previous year. Given the fact that tax charges are calculated based on Brazilian GAAP results, the increase was mainly due to the profits in local currency, a record for the Company. No income tax payments were made during 2003. At the end of 2003, there was a tax credit balance amounting to $18 million, which will offset future tax charges.

Report of independent auditors

To the Board of Directors and Stockholders of
Aracruz Celulose S.A.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in stockholders' equity, expressed in United States dollars, present fairly, in all material respects, the financial position of Aracruz Celulose S.A. and its subsidiaries at December 31, 2002 and 2003 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the management of Aracruz Celulose S.A.; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As mentioned in Note 4, on January 9, 2004, the Company was notified by Agência de Desenvolvimento do Nordeste - ADENE (Northeast Development Agency), of its decision to cancel the fiscal benefits, consisting of reduction in income tax rates, to which the Company has so been entitled. Based on the advice of external legal counsels, Company's management believes that this decision is not correct and, therefore, does not affect the benefits already recorded, as they were duly recognized under existing authorization. In addition, management will seek all available legal instruments to protect its rights and to revoke ADENE's decision, in order to allow the Company to get all the fiscal benefits, i.e., for the entire period of the benefit.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
Auditores Independentes

Vitória, Brazil
January 12, 2004

Consolidated balance sheets

Expressed in thousands of United States dollars (except number of shares)

Assets	2002	December 31, 2003
Current assets		
Cash and cash equivalents	25,474	66,284
Time deposits	248,455	285,991
Accounts receivable, net		
Related party	2,781	3,174
Other	130,308	219,874
Inventories, net	81,553	131,486
Deferred income tax, net	8,653	13,181
Recoverable income and other taxes	25,985	20,464
Prepaid expenses and other current assets	1,207	2,280
	524,416	**742,734**
Property, plant and equipment, net	2,000,071	2,270,369
Investment in affiliated company	70,943	174,257
Goodwill	16,026	208,061
Other assets		
Advances to suppliers	28,229	38,197
Deposits for tax assessments	10,605	14,319
Deferred income tax, net	361	
Recoverable income and other taxes	45,170	1,548
Other	2,993	4,948
	87,358	**59,012**
	2,698,814	**3,454,433**

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

Liabilities and stockholders' equity	December 31, 2002	2003
Current liabilities		
Suppliers	45,902	79,673
Payroll and related charges	7,426	16,245
Income and other taxes	2,054	24,120
Current portion of long-term debt		
Related party	47,281	55,190
Other	120,033	212,472
Short-term borrowings - export financing and other	10,811	118,306
Accrued finance charges	4,555	6,120
Other accruals	442	1,553
	238,504	513,679
Long-term liabilities		
Long-term debt		
Related party	214,772	208,076
Other	396,319	771,359
Tax assessments and litigation contingencies	65,620	94,500
Deferred income tax, net		26,467
Suppliers	20,113	15,222
Other	2,668	23,877
	699,492	1,139,501
Commitments and contingencies (Note 15)		
Minority interest	255	292
Stockholders' equity		
Share capital - no-par-value shares authorized and issued		
Preferred stock		
Class A - 2002 – 40,326,290 shares; 2003 - 38,137,170 shares	32,990	31,199
Class B - 2002 - 536,837,131 shares; 2003 - 539,026,251 shares	581,506	583,297
Common stock - 2002 and 2003 - 455,390,699 shares	297,265	297,265
Treasury stock		
Class B preferred stock – 2002-1,374,000 shares; 2003 – 1,378,000 shares; and Common stock – 2002 and 2003 - 483,114 shares	(2,285)	(2,288)
Total share capital	909,476	909,473
Appropriated retained earnings	117,173	334,246
Unappropriated retained earnings	733,914	557,242
	1,760,563	1,800,961
	2,698,814	3,454,433

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

Consolidated statements of income

Expressed in thousands of United States dollars (except number of shares and per-share amounts)

	Year ended December 31, 2001	2002	2003
Operating revenues			
Sales of eucalyptus pulp			
Domestic	23,579	17,126	42,401
Export	583,365	700,622	1,056,498
	606,944	**717,748**	**1,098,899**
Sales taxes and other deductions	(32,589)	(48,765)	(95,829)
Net operating revenues	574,355	668,983	1,003,070
Operating costs and expenses			
Cost of sales	420,606	468,875	592,555
Selling	23,253	28,242	38,617
Administrative	22,012	22,302	22,762
Provision for loss on ICMS credit	10,754	45,093	23,178
Other, net	14,807	8,968	18,784
	491,432	**573,480**	**695,896**
Operating income	82,923	95,503	307,174
Non-operating (income) expenses			
Equity in results of affiliated company	(1,195)	(6,076)	6,844
Financial income	(54,749)	(61,611)	(43,037)
Financial expenses	70,215	82,014	108,209
Loss (gain) on currency remeasurement, net	18,029	(14,888)	(41,955)
Other, net	(171)	(212)	(129)
	32,129	**(773)**	**29,932**
Income before income taxes and minority interest	50,794	96,276	277,242
Income tax expense (benefit)			
Current	35,722	(23,988)	106,549
Deferred	(2,992)	8,415	22,567
	32,730	**(15,573)**	**129,116**
Minority interest in losses (earnings) of subsidiary Company	43	64	(37)
Net income for the year	18,107	111,913	148,089
Basic and diluted earnings per share			
Class A preferred stock	0.05	0.11	0.15
Class B preferred stock	0.02	0.11	0.15
Common stock	0.01	0.10	0.14
Weighted-average number of shares outstanding (thousands)			
Class A preferred stock	40,651	40,395	39,819
Class B preferred stock	536,512	536,768	535,969
Common stock	454,908	454,908	454,908

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

Consolidated statements of cash flows

Expressed in thousands of United States dollars

	Year ended December 31, 2001	2002	2003
Cash flows from operating activities			
Net income for the year	18,107	111,913	148,089
Adjustments to reconcile net income to cash provided by operating activities:			
Non-cash items			
Depreciation and depletion	162,567	171,527	191,508
Equity in results of affiliated company	(1,195)	(6,076)	6,844
Deferred income tax	(2,992)	8,415	22,567
Loss (gain) on currency remeasurement	18,029	(14,888)	(41,955)
Loss on sale of equipment	8,883	1,077	1,903
Other		(1,346)	
Decrease (increase) in assets			
Accounts receivable, net	(5,122)	(50,557)	(24,199)
Inventories, net	13,552	(11,868)	(23,556)
Interest receivable on time deposits	4,792	54,817	(15,540)
Recoverable income taxes	(27,025)	10,246	68,848
Other	5,019	6,708	(2,725)
Increase (decrease) in liabilities			
Suppliers	27,977	10,437	(38,554)
Payroll and related charges	(353)	(1,537)	6,460
Income and other taxes and litigation contingencies	31,382	(3,751)	25,641
Accrued finance charges	5,825	(9,927)	(3,689)
Other	714	1,061	14,783
Net cash provided by operating activities	260,160	276,251	336,425
Cash flows from investing activities			
Time deposits	(92,279)	27,927	75,194
Proceeds from sale of equipment	392	1,199	699
Investments in affiliate	(5,137)		(110,158)
Acquisition of Riocell (net of cash received)			(563,208)
Additions to property, plant and equipment	(416,353)	(260,658)	(118,663)
Net cash used in investing activities	(513,377)	(231,532)	(716,136)
Cash flows from financing activities			
Short-term debt, net	(15,224)	(78,789)	104,486
Long-term debt			
Issuances			
Related parties	160,889	112,199	
Other	280,374	250,000	612,512
Repayments			
Related parties	(53,214)	(43,309)	(52,719)
Other	(54,945)	(203,756)	(133,080)
Treasury stock acquired		(2,175)	(3)
Dividends paid	(63,169)	(73,765)	(109,310)
Net cash provided by (used in) financing activities	254,711	(39,595)	421,886
Effect of changes in exchange rates on cash and cash equivalents	540	225	(1,365)
Increase in cash and cash equivalents	2,034	5,349	40,810
Cash and cash equivalents, beginning of year	18,091	20,125	25,474
Cash and cash equivalents, end of year	20,125	25,474	66,284
Supplementary cash flow information			
Financial charges paid	49,258	60,412	64,828
Income taxes paid, including escrow deposits for tax assessments	66	140	2,186
Withholding income tax on financial income	34,020	1,404	6,969

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

Consolidated statements of changes in stockholders´ equity

Expressed in thousands of United States dollars (except number of shares and per-share amounts)

	Year ended December 31,					
	2001		2002		2003	
	Shares	US$	Shares	US$	Shares	US$
Share Capital						
Preferred stock – Class A						
Balance, January 1	40,929,550	33,455	40,479,797	33,087	40,326,290	32,990
Treasury stock cancelled			(35,301)			
Conversion to Class B stock	(449,753)	(368)	(118,206)	(97)	(2,189,120)	(1,791)
Balance, December 31	40,479,797	33,087	40,326,290	32,990	38,137,170	31,199
Preferred stock - Class B						
Balance, January 1	581,599,464	581,041	582,049,217	581,409	536,837,131	581,506
Treasury stock cancelled			(45,330,292)			
Conversion from Class A stock	449,753	368	118,206	97	2,189,120	1,791
Balance, December 31	582,049,217	581,409	536,837,131	581,506	539,026,251	583,297
Common stock						
Balance, January 1 and December 31	455,390,699	297,265	455,390,699	297,265	455,390,699	297,265
Treasury stock						
Balance, January 1	(45,848,707)	(57,807)	(45,848,707)	(57,807)	(1,857,114)	(2,285)
Treasury stock cancelled			45,365,593	57,697		
Treasury stock acquired			(1,374,000)	(2,175)	(4,000)	(3)
Balance, December 31	(45,848,707)	(57,807)	(1,857,114)	(2,285)	(1,861,114)	(2,288)
Total share capital	1,032,071,006	853,954	1,030,697,006	909,476	1,030,693,006	909,473
Net unrealized gain on						
Available-for-sale securities						
Balance, January 1		1,095		10,920		
Unrealized gain (loss) on available-for-sale securities, net of reclassification adjustments		14,664		(16,299)		
Tax effect on above		(4,839)		5,379		
Balance December 31,		10,920				
Fiscal-incentive reserve						
Balance, January 1						
Transfer from unappropriated retained earnings						34,934
Balance, December 31						34,934
Investments reserve						
Balance, January 1		282,475		242,121		81,520
Treasury stock cancelled				(57,697)		
Transfer from (to) unappropriated retained earnings		(40,354)		(102,904)		158,989
Balance, December 31		242,121		81,520		240,509
Legal reserve						
Balance, January 1		57,775		52,985		35,653
Transfer from (to) unappropriated retained earnings		(4,790)		(17,332)		23,150
Balance, December 31		52,985		35,653		58,803
Total appropriated retained earnings		295,106		117,173		334,246
Unappropriated retained earnings						
Balance, January 1		577,822		577,750		733,914
Net income for the year		18,107		111,913		148,089
Cash dividends (per share: 2001 - U.S.$ 0.06 to Class A preferred stock and U.S.$ 0.06 to both Class B preferred and common stock; 2002 - U.S.$ 0.08 to Class A preferred stock and U.S.$ 0.07 to both Class B preferred and common stock; 2003 - U.S.$ 0.11 to both Class A preferred and Class B preferred stock and U.S.$ 0.09 to common stock)		(63,323)		(75,985)		(107,688)
Transfer from (to) reserves		45,144		120,236		(217,073)
Balance, December 31		577,750		733,914		557,242
Total stockholders' equity	1,032,071,006	1,737,730	1,030,697,006	1,760,563	1,030,693,006	1,800,961
Comprehensive income is comprised as follows:						
Net income for the year		18,107		111,913		148,089
Net unrealized gain on available-for-sale securities						
Increase(decrease)in the unrealized gain arising during the year, net of taxes		9,825		(10,920)		
Total comprehensive income		27,932		100,993		148,089

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

1 - Summary of significant accounting policies

The consolidated financial statements of Aracruz Celulose S.A. and its subsidiaries (the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses during the reporting periods and require the disclosure of contingent assets and liabilities as of the date of the financial statements. The Company's consolidated financial statements therefore include estimates concerning such matters as the selection of useful lives of property, plant and equipment, provisions necessary for asset impairments, contingent liabilities, employee postretirement benefits and other similar evaluations; actual results may vary from estimates.

(a) Basis of presentation

The consolidated financial statements have been prepared in accordance with US GAAP, which differ in certain respects from the Brazilian accounting principles applied by the Company in its statutory financial statements prepared in accordance with Brazilian corporate legislation. The Company has reported its financial statements in U.S. dollars since 1994 when the U.S. Securities and Exchange Commission permitted foreign registrants to report in U.S. dollars rather than in the currency of the country in which they are incorporated. The U.S. dollar amounts have been remeasured from Brazilian reais (R$) in accordance with the criteria set forth in Statement of Financial Accounting Standards Nº 52 - "Foreign Currency Translation" ("SFAS 52"). The Board of Directors and management have historically considered the U.S. dollar as the Company's functional currency as this has been, and remains in their opinion, the currency in which it principally operates as well as being the Company's primary unit of economic measure. Accordingly, the Company's management has concluded that the Company's functional currency is and will continue to be the U.S. dollar.

Gains and losses resulting from the remeasurement of the financial statements, as well as those resulting from foreign currency transactions have been recognized in the statements of income. The impact of the devaluation of the Real on the Company's monetary assets and liabilities in 2003 was a net gain of US$42.0 million (US$14.9 million gain in 2002 and US$18.0 million loss in 2001).

The exchange rates at December 31, 2003, 2002 and 2001 were, respectively: US$1: R$2,8892, R$3,5333 and R$2,3204.

Stockholders' equity included in the consolidated financial statements presented herein differs from that included in the Company's statutory accounting records as a result of the variations in the U.S. dollar exchange rate, the indexation mandated over the years up to December 31, 1995 for statutory financial statements and adjustments made to reflect the requirements of US GAAP.

(b) Basis of consolidation

The financial statements of majority-owned subsidiaries have been consolidated, and all significant intercompany accounts and transactions have been eliminated. Accordingly, the following companies were consolidated: Aracruz Trading S.A., Aracruz Celulose (USA) Inc., Portocel – Terminal Especializado de Barra do Riacho S.A., Mucuri Agroflorestal S.A., Aracruz Produtos de Madeira S.A. and Riocell S.A.

(c) Cash and cash equivalents

Cash and cash equivalents represent cash, bank accounts and short-term financial investments with a ready market and maturities when purchased of 90 days or less, and are stated at the lower of cost plus accrued interest or market value.

(d) Concentration of risk

Financial instruments which potentially subject the Company to concentrations of credit and performance risk are cash and cash equivalents, time deposits and trade accounts receivable. The Company limits its credit and performance risk associated with cash and cash equivalents and time deposits by placing its investments with highly rated financial institutions and in very short-term securities. An allowance for doubtful accounts is established to the extent the Company's trade receivables are estimated not to be fully collectible.

The Company's pulp sales are made substantially to the paper industry; consequently, its performance is dependent upon that industry's worldwide demand for pulp and the related supply, as well as fluctuations in the market price for pulp which can be significant.

(e) Inventories

Inventories are stated at the lower of the average cost of purchase or production, and replacement or realizable values. Cost is determined principally on the average-cost method.

(f) Investments in affiliated companies

The Company uses the equity method of accounting for its long-term investment (Veracel Celulose S.A.) for which it owns 50% of the investee's voting stock and has the ability to exercise significant influence over operating and financial policies of the investee. The equity method requires periodic adjustments to the investment account to recognize the Company's proportionate share in the investee's results, reduced by receipt of investee dividends and, up to January 1, 2002, amortization of goodwill.

In accordance with SFAS 142 – "Goodwill and Other Intangible Assets", goodwill will be tested for impairment at least annually using an estimation of a reporting unit.

(g) Property, plant and equipment

Timber resources are stated at cost, less accumulated depletion. Forest development and maintenance costs are capitalized. Depletion is determined on the unit-of-production basis, excluding from the amount to be depleted the portion of tree-development costs that benefits future harvests; such costs are deferred and included in the cost of those harvests.

Other property, plant and equipment are recorded at cost, including interest incurred on financing during the construction period of major new facilities. Interest on local currency borrowings is determined as that part of the total finance cost incurred on borrowings net of the foreign currency translation adjustments arising on such borrowings, and, on foreign currency borrowings (including those denominated in U.S. dollars) at the contractual interest rates.

Depreciation is computed on the straight-line basis at rates, which take into consideration the useful lives of the assets, principally an average of 25 years for buildings, 10 years for improvements and installations, and 4 to 25 years for machinery and equipment and other assets.

(h) Environmental costs

Expenditures relating to ongoing programs for compliance with environmental regulations are generally expensed but may be capitalized under certain circumstances. Capitalization is considered appropriate when the expenditures relate to the acquisition and installation of pollution control equipment. These ongoing programs are designed to minimize the environmental impact of the Company's pulp-producing activities.

(i) Recoverability of long-lived assets

In accordance with SFAS 144 – "Accounting for the Impairment or Disposal of Long-Lived Assets", management reviews long-lived assets, primarily property, plant and equipment to be held and used in the business, for the purposes of determining and measuring impairment on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable. Management did not identify the need for a provision for impairment in 2001, 2002 and 2003.

(j) Employee retirement and postemployment benefits

The cost of the retirement benefits plans is accrued currently. Employee postretirement and postemployment benefits as defined by SFAS 106 - "Employers' Accounting for Postretirement Benefits other than Pensions" and SFAS 112 - "Employers' Accounting for Postemployment Benefits", respectively, are not significant. The Company is required by law to provide severance benefits to employees terminated without just cause. No amounts were accrued at December 31, 2001, 2002 and 2003, since future severance costs are not reasonably estimable.

(k) Compensated absences

The liability for employees' future vacation compensation is accrued as vacation vests during the year.

(l) Revenues and expenses

Revenues arise from annual and long-term contracts and from spot sales and are recognized on an accrual basis when persuasive evidence of arrangements exists, title has transferred to the customer, the selling price is fixed or determinable and collectibility is reasonably assured. Expenses and costs are accrued as incurred.

(m) Accounting for derivatives and hedging activities

The Company has adopted Statement of Financial Accounting Standards No. 133 - Accounting for Derivative Financial Instruments and Hedging Activities ("SFAS 133"), as amended, as from January 1, 2001. SFAS 133 defines derivatives broadly such that the Company's purchase and sale contracts could be considered derivatives except that the Company may qualify for certain exemptions. The Company has determined that these contracts qualify for these exemptions. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge relationship. For fair value hedge transactions in which the Company is hedging changes in an asset's, liability's, or a firm commitment's fair value, changes in the fair value of the derivative instrument will generally be offset in the income statement by changes in the hedged item's fair value attributable to the hedged risk.

For cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to a variable-rate asset, variable-rate liability, or a forecasted transaction, the effective portion of the gain or loss on the derivative instrument is reported in other comprehensive income. The gains and losses on the derivative instrument that are reported in other comprehensive income are reclassified to the income statement in the periods in which earnings are impacted by the hedged item. The ineffective portion of all hedges is recognized in current period earnings. The gains and losses on all derivatives not designated as hedges are recognized in earnings.

The adoption of SFAS 133 did not have an effect upon the financial position and results of operations of the Company as it had previously recognized and continues to recognize all derivative financial instruments as non-hedge transactions, with the derivative instrument recorded at fair value in the balance sheet and changes in the fair value of the instrument recorded in the income statement.

(n) Income taxes

The Company has adopted SFAS 109 - "Accounting for Income Taxes" for all years presented. Accordingly, the Company recognizes (i) the benefits of tax loss carryforwards available to be offset against future taxable income and (ii) deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the tax bases and financial reporting bases of assets and liabilities, as well as on the effects of adjustments made to reflect the requirements of US GAAP. A valuation allowance is provided to reduce deferred tax assets when management considers that realization is not reasonably assured.

(o) Basic and diluted earnings per share

Basic and diluted earnings per share are computed by dividing net income by the weighted average number of all classes of shares outstanding during the year, net of treasury stock, after taking into consideration the dividend provisions applicable to Class A preferred and Class B preferred stocks, assuming that all earnings for the year are fully distributed. There were no dilutive securities outstanding in 2001, 2002 and 2003.

(p) Comprehensive income

The Company has disclosed comprehensive income as part of the Statement of Changes in Stockholders´ Equity, in compliance with SFAS 130 - "Reporting Comprehensive Income".

2 - Business combination – acquisition of Riocell S.A.

On July 2, 2003, the Company completed the acquisition of all outstanding shares of Riocell S.A. and its subsidiaries ("Riocell") from Klabin S.A. and Klabin do Paraná Produtos Florestais Ltda for the amount of US$610,500.

Riocell, is a producer of bleached eucalyptus pulp, most of which is exported, with a production capacity of 400,000 tons of pulp per year and forestry operations which encompass 40,000 hectares of eucalyptus plantations.

The acquisition is in line with the Company's strategy objective of increasing capacity. The goodwill paid is related to potential operating synergy gains. The final price paid is within the market value evaluation made by independent appraisers.

After the completion of the due diligence process, the initial purchase price of US$610,500 was reduced to US$567,296.

The Company retained an independent appraiser to perform a detailed fair value valuation of Riocell´s assets and liabilities. This valuation was completed in December 23, 2003 and after the final allocation of the purchase price to the net assets acquired, the company recognized a goodwill in the amount of US$192,035 at December 31, 2003; there was no intangible assets identified on the acquisition.

The following table summarizes the estimated fair value of Riocell's assets and liabilities at July 2, 2003, after giving effect to the final price adjustments:

	July 2, 2003
Cash and cash-equivalents	4,088
Inventory	29,525
Property, Plant and equipment	340,129
Other assets acquired	77,068
Total assets	**450,810**
Liabilities	75,549
Net worth	**375,261**
Shares owned	100%
Company´s interest	375,261
Consideration paid	567,296
Goodwill	192,035

The final goodwill assessment under Brazilian GAAP was R$839,3 million (tax deductible in accordance with Brazilian tax legislation), of which R$282,1 (US$ 97,5 at December 31, 2003 exchange rate) based on asset market value, to be amortized in a period equivalent to the depreciation of property, plant and equipment (approximately 18 years); and R$557,2 (approximately US$192,7 million at December 31, 2003 exchange rate) based on expected return of investments to be amortized in 10 years.

Unaudited pro-forma results of operations for the year ended December 31, 2003 as if the acquisition of Riocell had taken place at the beginning of 2003 is presented below. Riocell was incorporated on November 30, 2002 and, accordingly no financial information is available for the year ended December 31, 2002. The pro-forma results of operations include estimates and assumptions which management believes are reasonable. However, pro forma results do not include any anticipated cost savings and are not necessarily indicative of the results which could have occurred if the business combination had been in effect on the dates indicated or which may result in the future.

	2003 (Unaudited)
Operating revenues	1,104,350
Net income	148,577
Earnings per share, basic and diluted :	
Preferred shares	0.15
Common shares	0.14

Expressed in thousands of United States dollars (unless otherwise stated)

3 - Recently issued accounting pronouncements

The Financial Accounting Standards Board ("FASB"), recently issued the following pronouncements:
SFAS Nº 147 - "Accounting for Acquisitions of Certain Financial Institutions".
SFAS Nº 148 - "Accounting for Stock-Based Compensation".
SFAS Nº 149 - "Amendment of SFAS 133".
SFAS Nº 150 - "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity".
Management believes that adoption of these pronouncements did not or will not, as applicable, have a material impact on the financial position and results of operations of the Company.
In January 2003, the FASB issued Interpretation Nº 46 (FIN 46) – Consolidation of Variable Interest Entities. FIN 46 provides guidance on when certain entities should be consolidated or the interests in those entities should be disclosed by enterprises that do not control them through majority voting interest. This interpretation applies immediately to variable interest entities created after January 31, 2003. The Company does not have any entities or transactions, which are subject to the requirements of FIN 46 and does not expect FIN 46 to have a material impact on its financial statements.

4 - Taxes

4.1 Income taxes

Income taxes in Brazil comprise federal income tax and social contribution (which is an additional federal income tax). The statutory rates applicable for federal income tax and social contribution for the years ended December 31, 2001, 2002 and 2003 are presented as follows:

Federal income tax rate	25.0%
Social contribution (*)	9.0%
Composite tax rate	34.0%

The amounts reported as income tax expense in the consolidated statements of income are reconciled to the statutory rates as follows:

			Year ended December 31,
	2001	**2002**	**2003**
Income before income taxes and minority interest	50,794	96,276	277,242
Federal income tax and social contribution at statutory rates	17,270	32,734	94,262
Adjustments to derive effective tax rate:			
Effects of differences in remeasurement from reais to U.S. dollars, using historical exchange rates and indexing for tax purposes:			
Translation effect for the period	(4,131)	(89,660)	43,778
Depreciation on difference in asset basis	21,083	40,746	25,893
Valuation allowance (reversal)			
Operations outside Brazil	(2,474)		
Reversal of income tax and social ontribution related to "plano verão"			(9,106)
Fiscal incentive – income tax (*)			(34,934)
Other permanent items	982	607	9,223
Income tax expense (benefit) in the consolidated statements of income	32,730	(15,573)	129.116

(*) The Company's operations are located within the geographic area of the Agência de Desenvolvimento do Nordeste (Northeast Development Agency, or ADENE) and the pulp and paper sector is considered by the Federal Government as a priority for the development of such geographic area. Accordingly, during 2002, the Company applied and was awarded the right to a reduction in the income taxes payable over its operating profits. The tax benefit was authorized by ADENE and subsequently confirmed by the Revenue Service in December 2002, as follows:

(i) Profits corresponding to the volumes of Plant C, limited to 780 thousand tons/year, for 10 years: 75% reduction of the statutory tax rate, as from 2003 through 2012;
(ii) Profits corresponding to the volumes of Plants A and B, limited to 1,300 thousand tons/year, for 10 years: 37.5% reduction of the statutory rate through 2003, 25% reduction from 2004 through 2008 and 12.5% reduction from 2009 through 2013.

For the year ended December 31, 2003, the reduction in taxes amounted to US$34,934. This amount was transferred from retained earnings and was recognized as a Fiscal Incentive Reserve in the Stockholders' Equity and can only be used to increase capital, according to the ADENE rules.

On January 9, 2004, the Company was notified by ADENE of its decision to cancel the fiscal benefits to which the Company has so been entitled. Such decision has resulted from a reexamination by the legal department of the Regional Integration Ministry, which has concluded that the geographical area where the Company is located would not be within the geographical area of the fiscal incentive and, therefore, the Company would no longer be entitled to such fiscal incentive.

Based on the advice of external legal counsels, Company's management believes that such decision is not correct, as the most appropriate interpretation of the legislation would necessarily lead to the conclusion that the Company does operate within the geographical area of ADENE and, therefore, is entitled to the fiscal incentive. Also, based on the advice of external legal counsels, management believes that the ADENE's decision does not affect the benefits already recorded during 2003 as they were duly recognized under so existing authorization. Accordingly, management has not recorded any provisions for the benefits recognized during the year ended December 31, 2003.

Finally, management will seek all available legal instruments to protect its rights and to revoke the ADENE's decision, in order to allow the Company to get all the fiscal benefits, i.e., for the entire period of the benefit.

The major components of the deferred tax accounts in the balance sheet are as follows:

		December 31,
	2002	**2003**
Assets (liabilities)		
Tax loss carryforwards		
Operations in Brazil	1,354	
Expenses not currently deductible	34,633	48,596
Other capitalized investments	(35,626)	(75,063)
Others	8,653	13,181
	9,014	(13,286)
Current assets	8,653	13,181
Long-term assets (liabilities)	361	(26,467)

Although realization of net deferred tax assets is not assured, management believes that, except where a valuation allowance has been provided, such realization is more likely than not to occur. The amount of the deferred tax asset considered realizable could, however, be reduced if estimates of future taxable income during the tax loss carryforwards period are reduced. Tax loss carryforwards do not expire and are available to offset against future taxable income limited to 30% of taxable income in any individual year.

4.2 Other taxes

Since the promulgation of the Federal Law nº 87, on September 13, 1996, the Company has been accumulating ICMS (state sales tax) credits resulting from ICMS paid on purchases, credited to its books and not compensated against ICMS on sales because export sales are exempted from ICMS. The Company has the legal right, not contested by the state authorities, to claim those credits against the Espirito Santo State. However, due to the priority given by Espirito Santo government to financially restructure public account, the Company does not foresee a short-term solution to the utilization of the credits.

Accordingly, the Company decided in October 2002 to increase its original valuation allowance from 25% to 100% of the existing credits, as well as to make similar provisions related to any future credit to be accumulated. At December 31, 2003, the Company had ICMS credits in the amount of US$92,010 and a valuation allowance in the same amount.

5 - Cash and cash equivalents

		December 31,
	2002	**2003**
Brazilian reais	4,176	3,307
United States dollars	20,658	61,775
Other European currencies	640	1,202
	25,474	66,284

Cash equivalents denominated in Brazilian Reais and in United States dollars represent principally investments in certificates of deposit placed with major financial institutions.

Expressed in thousands of United States dollars (unless otherwise stated)

6 - Time deposits

At December 31, 2003, comprised of certificates of deposit with prime institutions in Brazil, with final maturities from February 2004 to July 2006 and daily liquidity.

7 - Accounts receivable, net

		December 31,
	2002	**2003**
Customers - pulp sales		
Domestic	4,305	7,383
Export	124,689	196,911
Advances to suppliers	1,036	4,258
Other	4,130	18,007
	134,160	226,559
Allowance for doubtful accounts	(1,071)	(3,511)
Total, net	133,089	223,048

At December 31, 2003, two customers accounted for 44% of total customer receivables (At December 31, 2002 two customers accounted for 35%) and no other accounted for more than 10%.

Export receivables are denominated in the following currencies:

		December 31,
	2002	**2003**
United States dollars	122,127	193,599
European currency units – EURO	2,562	3,312
	124,689	196,911

Export receivables in currencies other than U.S. dollars are swapped into U.S. dollars through forward foreign exchange contracts as discussed in Note 17.

8 - Inventories, net

		December 31,
	2002	**2003**
Finished products	36,689	67,903
Work in process	1,078	1,380
Timber	2,853	3,872
Raw materials	11,445	24,059
Spare parts and maintenance supplies, less allowance for loss of US$8,111 (2002 – US$3,512)	29,488	34,272
	81,553	131,486

9 - Property, plant and equipment

	December 31, 2002		
	Cost	Accumulated depreciation	Net
Land	206,211		206,211
Timber resources	523,122	352,690	170,432
Buildings, improvements and installations	472,799	282,835	189,964
Equipment	1,812,318	868,242	944,076
Information technology equipment	47,753	30,872	16,881
Other	143,510	109,957	33,553
	3,205,713	1,644,596	1,561,117
Construction in progress	352,074		352,074
Total	3,557,787	1,644,596	1,913,191

	December 31, 2003		
	Cost	Accumulated depreciation	Net
Land	295,364		295,364
Timber resources	341,054	75,087	265,967
Buildings, improvements and installations	563,872	326,633	237,239
Equipment	2,606,971	1,193,750	1,413,221
Information technology equipment	55,926	41,303	14,623
Other	153,481	125,653	27,828
	4,016,667	1,762,425	2,254,242
Construction in progress	16,127		16,127
Total	4,032,794	1,762,425	2,270,369

Fiberline C - Expansion Project

The Expansion project consists of a new pulp line with a capacity of 700,000 tons that, together with additional optimization of the two existing lines from 1.24 to 1.30 million tons, increased the Company's production capacity at its site in northern Espírito Santo State to 2 million tons per year. The new production capacity requires an increase in the forest base of the Company of approximately 72,000 hectares of eucalyptus plantations. The construction of the new pulp line began in the second semester of 2000 and start up occurred in May 2002. The Company reached full production capacity in the first quarter of 2003. The total budgeted investment in the Expansion project is approximately US$825 million, of which US$575 million was invested in the production line and the balance in land, forest and other investments. As of December 31, 2003 the Company had invested approximately US$711 million.

During 2002 up to the start-up of the new pulp line – "Fiberline C" on May 2002, the Company capitalized approximately US$7.5 million of interest cost on funds used to construct the new pulp line.

Acquisition of Florestas Rio Doce S.A.

In September 2002, Aracruz Celulose S.A., together with Bahia Sul Celulose S.A., signed an agreement with Companhia Vale do Rio Doce S.A. (CVRD) and its subsidiary Florestas Rio Doce S.A. (FRDSA), for the acquisition of the assets of FRDSA, located in the Municipality of São Mateus, in the State of Espírito Santo. Such assets are comprised of approximately 40,000 hectares of land and eucalyptus forests with amount of (R$193.3 million - US$49.6 million) net of the assignment to the buyers of the rights of a preexisting wood supply agreement (R$49.5 million - US$13.3 million), with a combined net price of R$143.8 million (approximately US$36.3 million).

The net purchase price will be paid in 12 quarterly installments and the Company recorded its share in the agreement (50%) as a liability (supply agreement) and as an asset (land and forests). Aracruz and Bahia Sul each will separately control its share of the assets. The Company has paid 5 installments through December 31, 2003.

Expressed in thousands of United States dollars (unless otherwise stated)

10 - Investment in affiliated company

Veracel Celulose S.A.

On October 10, 2000, the Company acquired a 45% interest in Veracel Celulose S.A. ("Veracel") for US$81,011. Veracel is growing eucalyptus plantations in the state of Bahia in Brazil and did not begin operations until January 2002. Stora Enso OYJ ("Stora Enso") and Odebrecht S.A. ("Odebrecht") owned the remaining 45% and 10%, respectively. Upon closing of the purchase agreement, the Company and Veracel entered into a three-year wood supply contract to provide wood for the Company´s mill expansion. Under the terms of the contract, which began in January 2002, Veracel supplies up to 3.85 million cubic meters of wood at US$40.50 per cubic meter.

During the first quarter of 2003, the Company acquired, together with Stora Enso, the 10% Odebrecht's ownership on a 50/50 ratio, paying the amount of US$9,658, including US$443 of unallocated goodwill, for the acquisition of its portion of the additional investment in Veracel.

The Company accounts for its investment in Veracel using the equity method of accounting. At December 31, 2003 the Company's investment in Veracel included goodwill of US$16,026. In 2003, the Company recognized an equity gain of US$6,844 (2002 - loss of US$6,076).

In May 2003, the Company and Stora Enso jointly decided to proceed with the planned construction of Veracel´s own green field plant which will have a capacity 900,000 tons of pulp per year and will require investments of approximately US$1,250 million of which US$300 million were already invested in forestry and infrastructure including roads and a specialized maritime terminal.

11 - Short-term borrowings

The Company's short-term borrowings are principally from commercial banks for export financing and are substantially denominated in U.S. dollars. Average annual interest rates at December 31, 2002 and 2003 were, respectively, 1.5% and 4.33%.

At December 31, 2003, US$82,206 of short-term borrowings fall due within 90 days, US$34,975 from 91 to 180 days and US$1,125 from 181 to 360 days.

12 - Long-term debt

	December 31, 2002	2003
Denominated in Brazilian currency – term loans with varying interest rates; principally the "Long-term Interest Rate" (TJLP) plus 7.8% to 10.0% (2002 – 7.8% to 11.0%), due 2004 to 2009	191,177	210,955
Denominated in foreign currencies		
Term loans – 2.33% to 10.41% (2002 – 2.9% to 11.97%), due 2004 to 2009	134,940	89,813
Securitization of receivables – 5.99% to 7.05% due 2004 to 2009(2002 – 5.98%)	250,000	650,000
Import financing – 1.43% to 7.08% (2002 – 2.27% to 7.8%), due 2004 to 2007	22,288	16,317
Pre-export financing – 2.51% to 4.33% (2002 - 2.93% to 3.24%) due 2004 to 2007	180,000	280,012
	587,228	1,036,142
Total	778,405	1,247,097
Less current maturities	167,314	267,662
	611,091	979,435

During June 2001, Aracruz Trading S.A. obtained long term financing of US$100 million, with maturities from May 2004 to June 2004 with contractual clauses of early maturity and annual interest rates ranging from 2.51% to 2.67%, secured against future export sales receivables. Aracruz Trading S.A. pre-paid the amounts of US$37.5 million in December 2002 and US$25.0 million in May 2003.

In June 2003, the Company obtained bank financing against export receivables in the amount of US$60 million, with annual interest rate of 4.33% and maturity in December 2004.

In December 2003, the Company had an outstanding balance of BNDES loans in the amount of R$761 million (equivalent to US$263 million), denominated in Brazilian Reais and basket of foreign currencies, with annual interest rates ranging from 2.33% to 10,41%, to be repaid from 2004 through 2009.

In February 2002, the Company, through Aracruz Trading S.A., signed a financing agreement with a special-purpose entity (SPE) under which such entity received and advanced to the Company US$250 million, as an issuance of Senior Secured Notes. In August 2003, a second tranche of Senior Secured Notes was issued, in the amount of US$400,000 under the same securitization program established in February 2002. In return, the Company securitized the financing by selling to the SPE 95% of its current and future export accounts receivables. In June 2003 this obligation was reduced to 80%. Each month the collections in excess of contractual funding requirements are transferred to Aracruz Trading S.A.

The table below summarizes the conditions of the two tranches under the securitization program:

Tranche	Annual charges	Due date	Outstanding balance December 31, 2003	December 31, 2002
February 2002	5.98%	February /2009	250,000	250,000
August 2003	7.05%	September /2011	400,000	
			650,000	250,000

In November and December 2003, the Company obtained bank financing against export receivables in the amount of US$153 million, with annual interest rate ranging from 2.72% to 3,39% and maturity ranging from October 2006 to June 2007.

The long-term portion of the Company's debt at December 31, 2003 becomes due in the following years:

2005	123,302
2006	216,282
2007	266,957
2008	160,671
2009 and thereafter	212,223
Total	979,435

13 - Stockholders' equity

At December 31, 2002, the Company's principal common stockholders and their common stock ownership interests, either direct or indirect are as follows: Arapar S.A. (a Company associated with the Chairman of the Board of the Company), S.O.D.E.P.A. - Sociedade de Empreendimentos, Publicidade e Participação S.A. (SODEPA) (an affiliate of Banco Safra S.A.), and Votorantim Celulose e Papel (VCP) with 28% each; Banco Nacional de Desenvolvimento Econômico e Social – BNDES with 12.5%. At December 31, 2003, SODEPA and the Banco Nacional de Desenvolvimento Econômico e Social - BNDES also owned preferred stocks which in total amounted to 14.9% and 7.7%, respectively, of the total preferred stocks.

Treasury stock

At the Ordinary General Meeting held on July 29, 2002, management decided to cancel 45,365,593 preferred shares (35,301 class "A" shares and 45,330,292 class "B" shares), all held in treasury. The cancellation of shares did not result in a reduction of subscribed capital.

Basic and diluted earnings per share

Basic and diluted earnings per share ("EPS") as of December 31, 2003, 2002 and 2001, as presented in the Company's statement of income, have been calculated on the following basis taking into consideration the Dividend Ratio between Class A and Class B preferred stock and common stock as discussed below.

Class A preferred stock may be converted into Class B preferred stock at any time at the option of the stockholder. Preferred stock does not have voting rights but has priority in the return of capital in the event the Company is liquidated. Stock dividends payable to Class A preferred stockholders are effected through issuance of Class B preferred stock. Class A preferred stock has priority in the distribution of a minimum annual cash dividend equivalent to 6% of the related capital.

Additionally, in order to comply with Law 9457/97, the Company's By-laws were changed to grant Class B preferred stock the right to receive an annual dividend in an amount that is 10% greater than dividends paid to common stockholders (the "Dividend Ratio"); earnings, if any, in excess of the Class A preferred stock minimum dividend will be distributed as dividends to Class B preferred stock and common stock, up to the equivalent on a per-share basis to those paid to Class A preferred stock, while maintaining the Dividend Ratio between Class B preferred stock and common stock. Any earnings remaining for distribution thereafter are shared ratably among Class A preferred, Class B preferred and common stocks while maintaining the Dividend Ratio between Class A and Class B preferred stock and common stock. In the event that Class A preferred stock is not paid dividends for three consecutive years, holders of that stock are entitled to voting rights until the dividends in arrears for those three years are paid.

Expressed in thousands of United States dollars (unless otherwise stated)

The following presents the earnings per share calculations:

	2001	2002	2003
Net income for the year	18,107	111,913	148,089
Less priority Class A preferred stock dividends	(1,889)	(1,233)	(1,488)
Less Class B preferred stock and common stock dividends up to a limit equivalent to the Class A preferred stock dividends on a per-share basis while maintaining the Dividend Ratio	(16,218)	(29,007)	(35,483)
Remaining net income to be equally allocated to Class A and Class B preferred stock and common stock while maintaining the Dividend Ratio		81,673	111,118
Weighted average number of shares outstanding (thousands)			
Class A preferred	40,651	40,395	39,819
Class B preferred	536,512	536,768	535,969
Common	454,908	454,908	454,908
Basic and diluted earnings per share			
Class A preferred	0.05	0.11	0.15
Class B preferred	0.02	0.11	0.15
Common	0.01	0.10	0.14

Brazilian law permits the payment of cash dividends only from retained earnings and certain reserves registered in the Company's statutory accounting records. At December 31, 2003, after considering appropriated retained earnings which can be transferred to unappropriated retained earnings, the earnings and reserves available for distribution as dividends, upon approval by the Company's stockholders, amounted to the equivalent of US$238 million.

Retained earnings that represent unrealized income (principally inflationary income recognized up to December 31, 1995 in the Company's statutory financial statements) are transferred to unrealized income reserve and are transferred back to unappropriated retained earnings as financial resources become available for dividend distribution.

The investments reserve represents discretionary appropriations, ratified by the stockholders, for plant expansion and other capital projects, the amount of which is based on an approved capital budget presented by management. After completion of the projects, the Company may elect to retain the appropriations until the stockholders vote to transfer all or a portion of the reserve to capital or to retained earnings, from which a cash dividend may then be paid.

The legal reserve results from appropriations from retained earnings of 5% of annual net income recorded in the statutory accounting records. Such appropriations are required until the balance reaches 20% of the balance of capital stock, based on the statutory accounting records. At December 31, 2003, such capital stock was R$1,855 million and the balance in the legal reserve was R$170 million. The legal reserve may be used to increase capital and to absorb losses, but is not available for distribution as cash dividends.

At the Company's Annual General Meeting held on April 30, 2003, the stockholders approved the payment of dividends of R$315,000 thousand, equivalent to US$107,733 at that date, representing dividends of R$250.00 – US$108.89 per thousand shares of Class A and B preferred stock and R$227.27 – US$98.99 per thousand shares of common stock. The dividends were paid in May 2003.

14 - Pension plan

The Company sponsors a contributory defined contribution pension plan, ARUS – Fundação Aracruz de Seguridade Social, which covers substantially all of its employees. The principal objective of the pension plan is to supplement the social security pension benefits of the employees of the Company. ("Sponsors").

The Sponsors and eligible employees make monthly contributions under the plan to ARUS, which administers (or places with a trustee) its investments and other assets, which comprised, principally, of bank certificates of deposit, investments funds and marketable equity securities. Contributions made by the Company to the plan amounted to US$1,031, US$989 and US$1,287 in 2001, 2002 and 2003, respectively, and represented the annual pension expense of the Company for the plan.

15 - Employee benefits

In addition to the pension plan, the Company makes monthly contributions, based on total payroll, to government pension, social security and severance indemnity plans and such payments are expensed as incurred. Also, certain severance payments are due on dismissal of employees, principally notice of one month's salary and a severance payment calculated at 40% of the accumulated contributions made to the government severance indemnity plan on behalf of the employee. Based on current operating plans management does not expect that amounts of future severance indemnities will be material.

16 - Commitments and contingencies

(a) Contingencies

(i) Labor proceedings

The Company has partially agreed with a suit brought by certain industrial employees represented by their union, claiming additional compensation for alleged hazardous conditions at the mill. As a result, the Company paid US$6.7 million to the employees in January 2002. The excess provision of US$3.3 million was reversed to income.

In addition, at December 31, 2003, the Company had a total provision recorded for other cases of US$13.3 million based on the Court's computation framework and existing labor jurisprudence and a corresponding deposit in an escrow account of US$ 3.9 million.

(ii) Administrative proceedings

The Company has been involved in an administrative claim regarding the enlargement of Indian reservations in an area owned by the Company. In April 1998, the Indian communities signed two Terms of Settlement recognizing the legitimacy of the Ministry of Justice Edicts 193, 194 and 195, dated March 6, 1998, that restricted expansion of the reservation to 2,571 hectares of land belonging to the Company. Additionally, the Company committed itself to a financial aid program to be implemented through social, agricultural, educational, shelter and health projects, up to an amount of approximately R$13.5 million (equivalent to US$4.7 million at December 31, 2003), to be disbursed within a twenty-year period, conditioned to the accomplishment of certain obligations by the Indian communities.

If the Indian communities breach any of their obligations, Aracruz will be released from the obligations defined by the Terms of Settlement. Decrees approving the enlargement of the Indian reservations have extinguished the aforementioned administrative claim. As of December 31, 2003, the Company had donated to the Indian Associations approximately R$6.8 million (US$3.3 million) (US$2.7 up to December 31, 2002) under the Terms of Settlement.

(iii) Fiscal proceedings

In March 1997, the Company received notification from the INSS (the Brazilian Social Security System) relating to the value of housing allowances paid to certain employees over a period of several years. At December 31, 2003, the Company is contesting this notification and has placed approximately US$5.9 million in an escrow account to cover this claim. Based on the opinion of its legal advisors, the Company's management does not believe that the ultimate resolution of this matter will have a material adverse impact on the Company, and accordingly, no provision has been made therefor.

(iv) Income tax and social contribution related to the "Plano Verão"

In December 1994, the Company petitioned the Regional Federal Tribunal of the 2nd Region (the "Tribunal") to include, in the determination of its income tax and social contribution liabilities the effects of the variation in the IPC (Consumer Price Index) in January 1989 of 70.28% ("Plano Verão"). The Tribunal subsequently accepted the use of a variation of 42.72%. Beginning in the third quarter of 2000, with the substantially full utilization of the Company's net operating losses in Brazil, the Company began to determine and pay income tax using 42.72% deduction and made a provision for contingencies to cover the effects of the use of this deduction. In March 2003, the Company obtained a final court ruling and, consequently, made a reversal of this provision, which includes interest and monetary variation, against income tax expense and financial expense in the amounts of US$9,106 and US$6,832, respectively.

(v) PIS and COFINS contributions

The Company is taking action in court against certain changes in the rates and rules for the calculation of the PIS (Social Integration Program) and COFINS (Social Fund) contributions determined by Law 9.718/98, the basis of calculation of which includes financial income and exchange and monetary variations. At December 31, 2003, the provision for contingencies included US$43.4 million related to PIS and COFINS on exchange gains on U.S. dollar denominated debt resulting from the appreciation of the Real against the U.S. dollar that occurred following the significant devaluation in early 1999.

(vi) Value-Added Tax

During 2001 the Company received tax assessment from fiscal authorities of the States of Espírito Santo and Bahia, the total amount of US$36.7 million relating to ICMS (value-added tax). In addition, the tax authorities disallowed certain tax credits of US$9.6 million previously recognized by the Company. The Company will file appeals with the relevant courts and, based on the opinion of external legal counsel, it believes the probability of loss resulting from this dispute to be remote and, accordingly, no provision has been recorded at December 31, 2003.

(vii) Social Contribution

On September 10, 2003, the Company obtained a Court Order that gave it the right not to pay Social Contribution on profits generated by export sales from January 2002 as well as the right to recognize the amounts of tax credits previously compensated in this regard. The accumulated amount as of December 31, 2003 is US$30.7 million, which is being accrued as a liability until a final decision is reached.

(viii) Others

The Company has, based on the advice of its legal counsel, recorded additional provisions in the amount of US$7.1 million relating to several other legal disputes and has also made deposits in the amount of US$8.4 million in escrow accounts.

(b) "Take-or-pay" contract

In connection with the sale of its electrochemical plant to Nexen Chemicals Holdings International Limited – NEXEN (formerly Canadian Oxy Chemicals Holding Ltd.) in 1999, the Company and NEXEN entered into a long-term contract for chemical products supply. The contract includes clauses of performance incentives such as sharing of productivity gains, preference prices and "take-or-pay", by which the Company is committed to acquire from the electrochemical plant purchased by NEXEN a volume of chemical products conservatively projected for 6 years from 2000 on. Volumes purchased by the Company in addition to the minimum agreed for a given year may be compensated with lower volumes acquired in subsequent years. For the take-or-pay quantities, the Company will pay unit prices which equal cost plus margin as determined in the contract. The Company is meeting the minimum quantitative commitments under the contract.

(c) Compliance with regulations

The Company's forestry and manufacturing operations are subject to both Federal and State government environmental regulations. The Company's management believes that it is in compliance, in all material respects, with all applicable environmental regulations.

17 - Derivative instruments, hedging and risk management activities

The Company is engaged in the exportation of market pulp to various markets throughout the world. Management considers the Company's functional currency to be the U.S. dollar and approximately 22% of the Company's indebtedness was Real-denominated, consisting of loans bearing interest at variable rates.

These activities expose the Company to credit, currency and interest rate risks.

The responsibilities of the Treasury include the proposal of risk management strategy and its implementation, and the evaluation of the effectiveness of the Company's overall risk management strategy. The Treasury reports to the Chief Financial Officer.

The Company may use derivative and non-derivative instruments to implement risk management strategy. However, by using derivative instruments, the Company exposes itself to credit and market risk. Credit risk is the failure of a counterparty to perform under the terms of the derivative contract. Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, or commodity prices. The Company addresses credit risk by restricting the counterparties to such derivative financial instruments to major financial institutions. Market risk is managed by the Treasury.

(a) Foreign currency risk management

The Company's foreign currency risk management strategy may use derivative instruments to protect against foreign exchange rate volatility, which may impair the value of certain of the Company's assets. The Company has been using foreign currency forward and futures contracts to implement this strategy.

(b) Interest rate risk management

The Company´s strategy for interest rate management has been to maintain a balanced portfolio of fixed and floating interest rates in order to optimize cost and volatility. The Company's interest rate risk management strategy may use derivative instruments to reduce earnings fluctuations attributable to interest rate volatility. The Company may use interest rate swaps to implement this strategy.

At December 31, 2003 the Company had no outstanding interest rate swap contracts.

(c) Commodity price risk management

The Company is exposed to commodity price risks through the fluctuation of pulp prices. The Company currently does not utilize derivative financial instruments to manage its exposure to fluctuations in commodity prices, but may utilize them in the future.

18 - Nonderivative financial instruments

Fair value - the Company considers that the carrying amount of its financial instruments generally approximates fair market value. Fair value have been determined as follows:

Cash - the carrying amount of cash is a reasonable estimate of its fair value.

Cash equivalents and short-term investments and bank deposits - cash equivalents are represented, principally, by short-term investments. Their fair value and that of other bank deposits not meeting the definition of cash equivalents were estimated using the rates currently offered for deposits of similar remaining maturities and approximates its carrying value.

Debt securities - the Company's debt securities are stated at their fair value, which was estimated by obtaining quotes from major financial institutions and brokers.

Short-term debt and long-term debt - interest rates that are currently available to the Company for issuance of debt with similar terms and remaining maturities are used to estimate fair value, which approximates the carrying value at December 31, 2003 and 2002. The Company's financial structure does not require any substitution of such financing or the contracting of similar fundings.

The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value.

19 - Geographical information

The Company's exports from Brazil, classified by geographic destination, are as follows:

	Year ended December 31, 2001	2002	2003
North America	119,593	278,988	408,699
Europe	229,913	290,877	402,822
Asia	232,371	119,966	229,376
Other	1,488	10,791	15,601
Total	583,365	700,622	1,056,498

Sales to two unaffiliated customers represented 42% of net sales in 2003. Two unaffiliated customers represented 35% and 21% in 2002 and 2001, respectively. No other individual customers represented more than 10% of net sales.

20 - Related parties

Transactions with related parties resulted in the following balance sheet and income statement balances:

				December 31,
		2002		2003
	Assets	Liabilities	Assets	Liabilities
Balance sheet				
Current assets				
Cash and cash equivalents	132		51	
Accounts receivable	2,781		3,174	
Current liabilities – suppliers				
Long-term debt (including current portion and accrued finance charges)		264,093		264,434
	2,913	264,093	3,225	264,434

						Year ended December 31,
		2001		2002		2003
	Income	Expense	Income	Expense	Income	Expense
Income statement						
Operating revenues	23,336		31,016		22,963	
Financial expenses		10,292		129,424		79,676
	23,336	10,292	31,016	129,424	22,963	79,676

Expressed in thousands of United States dollars (unless otherwise stated)

21 - Supplementary information - Valuation and qualifying accounts

Description	Balance at beginning of year	Additions charged to costs and expenses	Deductions credited to costs and expenses	Balance at end of year
2003				
Allowances deducted from				
related balance sheet accounts:				
Accounts receivable	1,161	1,996		3,157
Inventories	2,154	1,801	1,846	2,109
Investments (other assets)	801			801
2002				
Allowances deducted from				
related balance sheet accounts:				
Accounts receivable	317	863	19	1,161
Inventories	2,615		461	2,154
Investments (other assets)	801			801
2001				
Allowances deducted from				
related balance sheet accounts:				
Accounts receivable	446		129	317
Inventories	4,841		2,226	2,615
Investments (other assets)	801			801
Deferred income tax	2,474		2,474	

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The modern operating processes adopted by Aracruz and its insertion into a highly competitive global market exposes the company to a risk environment, whether strategic, operational or financial. Aracruz maintains a permanent process of analysis and actions to mitigate these risks and their effects on the company's results.

Strategic risks

Aracruz participates in a global industry that is undergoing a rapid consolidation process. Forestry and industrial technological innovations are quickly emerging. The company's Board of Directors and Board of Officers, keenly aware of the potential effects of these changes on the future economic and financial results of the company, have constituted an active Strategic Committee that meets periodically. The company uses formal methodology for its strategic planning that involves the participation of management and its main executives in the decision-making process.

Operating risks

Aracruz permanently controls its operating risks, implementing measures that minimize them, including changes in production processes, investing in equipment and construction and training support and operating personnel.

In 2003, the company concluded implementation of a project focused on preventive protection of its businesses in order to reduce the risk of losses. This project was developed in partnership with FM Global, one of the largest industrial risk insurers, which resulted in its certification as an HPR (Highly Protected Risk) company.

The management of operating risks involves:

- Risk analysis – seeks to identify and quantify the levels of operating risk exposure in the company's forestry, industrial and logistics areas, including environmental and workplace safety risks.
- Implementation of preventive measures and actions to reduce the chance of accidents and their potential losses. This proactive posture involves the use of prevention engineering as well as the adoption of extremely all-encompassing insurance policies.
- Monitoring of risks – a program of the continuous monitoring of potential risks in the operating environment.
- Risk Transference – a wide-ranging insurance program covering material damages and loss of profit, ensuring the company's financial stability when accidents occur.

The current risk management policy has led to a reduction in the costs of buying insurance.

Financial risks

Aracruz is permanently concerned about the management of the risks related to liquidity, foreign exchange swings, interest and credit rates stemming from its activities. With 98 percent of its sales deriving from export activities, the company adopts a policy of maintaining balance between monetary assets and liabilities, negotiating in currencies other than the dollar in order to avoid sharp oscillations in its cash flow. The exposure of the company to dollar liabilities does not represent a risk from the economic and financial points of view since the impact of foreign exchange variations on these liabilities are naturally compensated for by the operating revenues of its businesses, which are also tied to the dollar. We only use derivative financial instruments to neutralize the financial risk deriving from cash flow generated in currencies other than the dollar.

The company implements a conservative policy for managing its cash flow, seeking to minimize liquidity risks. Its capital structure and short-term debt profile are appropriate for its cash flow. The fact that it is one of the companies in its sector with the lowest production costs and its strong generation of operating cash collaborate in making the company financially solid.

The company practices an efficient policy of credit risk management that has resulted in immaterial losses over the past ten years.

Selected consolidated historical data (*)

	FY 1998	FY 1999	FY 2000	FY 2001
Operational measures				
Sales volume by region (thousand tonnes)	**1,153.8**	**1,265.3**	**1,272.7**	**1,301.3**
Domestic	**68.8**	**59.4**	**54.7**	**36.4**
Export	**1,085.0**	**1,205.9**	**1,218.0**	**1,264.9**
North America	390.1	406.4	433.5	479.8
Europe	455.4	561.0	594.6	475.3
Asia	230.0	217.9	180.9	306.2
Latin America	9.5	20.6	9.0	3.6
Sales by market (%)	**100%**	**100%**	**100%**	**100%**
Domestic	**6%**	**5%**	**4%**	**3%**
Export	**94%**	**95%**	**96%**	**97%**
North America	34%	32%	34%	37%
Europe	39%	44%	47%	37%
Asia	20%	17%	14%	23%
Latin America	1%	2%	1%	-
Production volume (thousand tonnes)	**1,165.6**	**1,262.5**	**1,301.2**	**1,271.6**
STD	381.3	354.9	309.6	284.7
ECF	628.7	773.7	912.9	926.3
TCF	16.1	-	-	-
ACF	139.5	133.9	78.7	60.6
Inventories, end of the period (thousand tonnes)	**98.7**	**95.7**	**124.3**	**94.5**
Average list pulp price (US$/ tonne)	**474.06**	**503.47**	**664.34**	**478.68**
Cost of pulp sales (US$/ tonne)	**359.57**	**295.47**	**318.16**	**315.48**
Manpower	**2,000**	**1,572**	**1,585**	**1,688**
Aracruz Celulose S.A. and International subsidiárias	1,972	1,450	1,434	1,542
Aracruz Barra do Riacho and International subsidiárias	*1,972*	*1,450*	*1,434*	*1,542*
Aracruz Guaíba	-	-	-	-
Aracruz Produtos de Madeira S.A.	28	122	151	146
Balance sheet (US$ million)				
Assets				
Current assets	1,030.3	692.9	602.9	640.8
Property, plant and equipment	1,892.5	1,702.8	1,664.3	1,913.2
Investment in affiliated company	-	-	79.7	80.9
Other assets	277.7	205.3	107.5	143.3
Total	**3,200.5**	**2,601.0**	**2,454.4**	**2,778.2**
Liabilities and stockholders' equity				
Current liabilities	860.5	513.8	327.1	425.3
Short-term / current portion of long-term debt	821.2	473.6	272.0	325.8
Other, net	39.3	40.2	55.1	99.5
Long-term liabilities	772.5	433.5	353.8	614.9
Long-term debt	730.9	392.4	278.9	537.2
Other, net	41.6	41.1	74.9	77.7
Minority interest	0.4	0.4	0.4	0.3
Stockholders' equity	1,567.1	1,653.3	1,773.1	1,737.7
Total	**3,200.5**	**2,601.0**	**2,454.4**	**2,778.2**
Income statements (US$ million)				
Gross operating revenues	**542.3**	**630.1**	**844.2**	**606.9**
Domestic	38.4	33.8	43.6	23.6
Export	503.9	596.3	800.6	583.3
Value-added tax and other sales deductions	**39.5**	**43.5**	**63.2**	**32.6**
Net operating revenues	**502.8**	**586.6**	**781.0**	**574.3**
Operating cost of sales	**414.9**	**375.5**	**412.3**	**420.6**
Operating expenses	**86.1**	**76.7**	**55.9**	**70.8**
Selling costs	28.3	25.3	21.5	23.2
Administrative costs	29.5	18.3	22.4	22.0
Other	28.3	33.1	12.0	25.6
Operating income (loss)	**1.8**	**134.4**	**312.8**	**82.9**
Other (income) expenses	**23.7**	**26.9**	**29.0**	**32.1**
Financial expenses	120.9	120.3	101.5	70.2
Financial income	(104.8)	(100.7)	(64.9)	(54.7)
(Gain) loss on currency remeasurement, net	7.8	7.5	(8.8)	18.0
Equity in the results of Veracel	-	-	1.3	(1.2)
Other	(0.2)	(0.2)	(0.1)	(0.2)
Income (loss) before income taxes	**(21.9)**	**107.5**	**283.8**	**50.8**
Income taxes	**(25.3)**	**16.7**	**82.1**	**32.7**
Current	(9.6)	9.0	40.5	35.7
Deferred	(15.7)	7.7	41.6	(3.0)
Net income (loss)	**3.4**	**90.8**	**201.7**	**18.1**

1STQ 02	2NDQ 02	3RDQ 02	4THQ 02	FY 2002	1STQ 03	2NDQ 03	3RDQ 03	4THQ 03	FY 2003
316.6	**359.3**	**442.3**	**466.7**	**1,584.9**	**496.6**	**401.9**	**610.5**	**640.0**	**2,149.0**
7.4	**5.4**	**6.0**	**8.2**	**27.0**	**7.6**	**4.6**	**12.2**	**12.7**	**37.1**
309.2	**353.9**	**436.3**	**458.5**	**1,557.9**	**489.0**	**397.3**	**598.3**	**627.3**	**2,111.9**
115.2	157.7	161.3	189.0	623.2	180.7	170.1	196.2	220.8	767.8
146.0	145.6	183.0	162.4	637.0	192.6	153.9	233.7	233.5	813.7
46.0	48.5	80.0	105.6	280.1	115.7	67.0	160.6	165.7	509.0
2.0	2.1	12.0	1.5	17.6	-	6.3	7.8	7.3	21.4
100%	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
2%	**2%**	**1%**	**2%**	**2%**	**2%**	**1%**	**2%**	**2%**	**2%**
98%	**98%**	**99%**	**98%**	**98%**	**98%**	**99%**	**98%**	**98%**	**98%**
36%	44%	37%	40%	39%	36%	42%	32%	35%	36%
46%	40%	41%	35%	40%	39%	38%	39%	36%	38%
15%	13%	18%	23%	18%	23%	17%	26%	26%	23%
1%	1%	3%	-	1%	-	2%	1%	1%	1%
319.1	**384.6**	**467.4**	**484.9**	**1,656.0**	**496.9**	**526.5**	**633.5**	**592.7**	**2,249.6**
73.7	43.8	46.4	39.9	203.8	38.8	23.6	10.2	6.9	79.5
221.4	322.7	400.2	427.9	1,372.2	433.9	477.1	603.6	563.7	2,078.3
-	-	-	-	-	-	-	-	-	-
24.0	18.1	20.8	17.1	80.0	24.2	25.8	19.7	22.1	91.8
97.0	**122.3**	**147.9**	**165.7**	**165.7**	**165.8**	**290.5**	**332.1**	**273.3**	**273.3**
424.87	**460.38**	**502.95**	**470.39**	**468.12**	**478.98**	**548.51**	**502.03**	**518.01**	**510.15**
311.48	**314.13**	**280.56**	**259.95**	**288.28**	**245.77**	**259.19**	**270.55**	**277.75**	**264.84**
1,675	**1,665**	**1,652**	**1,601**	**1,601**	**1,639**	**1,652**	**2,114**	**2,145**	**2,145**
1,526	1,515	1,503	1,455	1,455	1,492	1,501	1,966	1,998	1,998
1,526	*1,515*	*1,503*	*1,455*	*1,455*	*1,492*	*1,501*	*1,507*	*1,524*	*1,524*
-	-	-	-	-	-	-	*459*	*474*	*474*
149	150	149	146	146	147	151	148	147	147
589.0	502.2	494.1	524.4	524.4	818.0	1,022.4	726.6	742.7	742.7
1,961.4	1,982.5	2,013.9	2,000.1	2,000.1	1,984.8	2,274.7	2,264.6	2,270.4	2,270.4
79.1	79.0	89.4	87.0	87.0	94.6	415.7	366.8	382.3	382.3
143.0	133.5	144.0	87.3	87.3	44.7	51.9	56.5	59.0	59.0
2,772.5	**2,697.2**	**2,741.4**	**2,698.8**	**2,698.8**	**2,942.1**	**3,764.7**	**3,414.5**	**3,454.4**	**3,454.4**
187.8	148.7	205.8	238.5	238.5	551.3	962.0	591.9	513.7	513.7
107.1	101.3	152.6	182.7	182.7	459.0	765.5	469.5	392.1	392.1
80.7	47.4	53.2	55.8	55.8	92.3	196.5	122.4	121.6	121.6
859.5	857.0	740.0	699.4	699.4	571.4	647.1	1,049.4	1,139.5	1,139.5
777.2	786.1	661.6	611.1	611.1	488.9	533.5	908.8	979.4	979.4
82.3	70.9	78.4	88.3	88.3	82.5	113.6	140.6	160.1	160.1
0.3	0.3	0.2	0.3	0.3	0.3	442.0	0.3	0.3	0.3
1,724.9	1,691.2	1,795.4	1,760.6	1,760.6	1,819.1	1,713.6	1,772.9	1,800.9	1,800.9
2,772.5	**2,697.2**	**2,741.4**	**2,698.8**	**2,698.8**	**2,942.1**	**3,764.7**	**3,414.5**	**3,454.4**	**3,454.4**
131.9	**157.8**	**217.1**	**210.9**	**717.7**	**234.5**	**220.8**	**310.5**	**333.1**	**1,098.9**
4.4	3.8	4.0	4.9	17.1	5.0	4.0	14.4	19.0	42.4
127.5	154.0	213.1	206.0	700.6	229.5	216.8	296.1	314.1	1,056.5
7.7	**9.3**	**18.5**	**13.2**	**48.7**	**16.9**	**22.1**	**24.4**	**32.4**	**95.8**
124.2	**148.5**	**198.6**	**197.7**	**669.0**	**217.6**	**198.7**	**286.1**	**300.7**	**1,003.1**
100.7	**115.9**	**127.2**	**125.1**	**468.9**	**125.0**	**107.1**	**172.9**	**187.6**	**592.6**
15.7	**15.2**	**16.6**	**57.1**	**104.6**	**15.9**	**22.0**	**25.6**	**39.8**	**103.3**
6.2	7.2	7.2	7.6	28.2	7.5	8.4	10.7	12.0	38.6
5.0	5.2	6.7	5.4	22.3	4.5	4.1	6.9	7.3	22.8
4.5	2.8	2.7	44.1	54.1	3.9	9.5	8.0	20.5	41.9
7.8	**17.4**	**54.8**	**15.5**	**95.5**	**76.7**	**69.6**	**87.6**	**73.3**	**307.2**
(1.7)	**8.0**	**(23.9)**	**16.8**	**(0.8)**	**(13.1)**	**12.2**	**8.1**	**22.8**	**30.0**
16.3	21.1	22.5	22.1	82.0	17.1	34.5	24.0	32.6	108.2
(17.5)	(16.9)	(12.0)	(15.2)	(61.6)	(21.6)	2.7	(14.7)	(9.4)	(43.0)
(2.3)	3.8	(24.0)	7.6	(14.9)	(10.6)	(30.0)	(1.2)	(0.2)	(42.0)
1.8	-	(10.3)	2.4	(6.1)	2.0	5.0	0.1	(0.2)	6.9
-	-	(0.1)	(0.1)	(0.2)	-	-	(0.1)	-	(0.1)
9.5	**9.4**	**78.7**	**(1.3)**	**96.3**	**89.8**	**57.4**	**79.5**	**50.5**	**277.2**
17.2	**(34.9)**	**(28.7)**	**30.8**	**(15.6)**	**31.3**	**55.2**	**20.2**	**22.4**	**129.1**
5.7	(29.2)	0.7	(1.2)	(24.0)	25.7	55.0	13.2	12.6	106.5
11.5	(5.7)	(29.4)	32.0	8.4	5.6	0.2	7.0	9.8	22.6
(7.7)	**44.3**	**107.4**	**(32.1)**	**111.9**	**58.5**	**2.2**	**59.3**	**28.1**	**148.1**

Selected consolidated historical data (*)

	FY 1998	FY 1999	FY 2000	FY 2001
Cash flow generation (US$ million)				
Operating income	**1.8**	**134.4**	**312.8**	**82.9**
Depreciation and depletion	152.8	158.8	168.0	162.6
EBITDA	**154.6**	**293.2**	**480.8**	**245.5**
Non-cash items				
Provision for loss on ICMS credits	-	-	-	10.8
Other	29.7	32.5	11.0	12.0
EBITDA (adjusted by non-cash items)	**184.3**	**325.7**	**491.8**	**268.3**
Financial (expenses) income and gain (loss) on currency remeasurement, net	(23.9)	(27.1)	(27.8)	(33.5)
Cash flow impact of other operating activities, except financial	(55.0)	35.7	(14.1)	7.2
Sub-total	**105.4**	**334.3**	**449.9**	**242.0**
Additions to property, plant and equipment	(88.3)	(56.5)	(138.4)	(421.5)
Acquisition of Riocell S.A., net of cash acquired	-	-	-	-
Investments in affiliate	-	-	(81.0)	-
Treasury stock acquired	(26.4)	-	(22.7)	-
Marked to market investment in government bonds	(16.4)	17.2	1.0	14.7
Proceeds from sale of equipment (1)	2.4	61.9	0.7	0.4
Dividends paid (2)	(24.4)	(18.2)	(58.0)	(63.2)
Net cash flow before the increase / decrease of the net debt	**(47.7)**	**338.7**	**151.5**	**(227.6)**
Increase (decrease) in gross debt (3)	165.7	(686.1)	(315.1)	312.1
Net cash flow	**118.0**	**(347.4)**	**(163.6)**	**84.5**
Cash and marketable securities / time deposits, beginning of period (4)	734.1	852.1	504.7	341.1
Cash and marketable securities / time deposits, end of period (4)	852.1	504.7	341.1	425.6
Other financial data				
Weighted average number of shares outstanding (in million of shares)	**1,060.3**	**1,049.2**	**1,048.7**	**1,032.1**
Class A preference stock	41.0	41.0	40.9	40.7
Class B preference stock	564.4	553.3	552.9	536.5
Common stock	454.9	454.9	454.9	454.9
Earnings per share				
Class A preference stock	0.09	0.09	0.20	0.05
Class B preference stock	(0.00)	0.09	0.20	0.02
Common stock	(0.00)	0.08	0.18	0.01
General data				
EBITDA - Earnings before interest, tax, depreciation, amortization and depletion	154.6	293.2	480.8	245.5
EBITDA per share (US$)	0.15	0.28	0.46	0.24
EBITDA (adjusted by non-cash items)	184.3	325.7	491.8	268.3
ROE - Return on equity	0.21%	5.64%	11.77%	1.03%
Net debt / Capital ratio	30.88%	17.93%	10.58%	20.11%

(1) In 1999 includes sale of electrochemical plant
(2) Without allocation of gain/ loss on remeasurement
(3) Includes gain/ loss on remeasurement
(4) Includes bank deposits, as a compensating balance, until 1999
(*) The Company's financial information have been prepared according to US GAAP

1STQ 02	2NDQ 02	3RDQ 02	4THQ 02	FY 2002	1STQ 03	2NDQ 03	3RDQ 03	4THQ 03	FY 2003
7.8	**17.4**	**54.8**	**15.5**	**95.5**	**76.7**	**69.6**	**87.6**	**73.3**	**307.2**
40.3	40.4	45.4	45.4	171.5	44.4	45.8	51.4	49.9	191.5
48.1	**57.8**	**100.2**	**60.9**	**267.0**	**121.1**	**115.4**	**139.0**	**123.2**	**498.7**
1.0	1.2	1.3	41.6	45.1	4.7	5.8	6.3	6.4	23.2
3.4	1.6	1.1	2.4	8.5	(0.7)	2.1	2.4	13.4	17.2
52.5	60.6	102.6	104.9	**320.6**	**125.1**	**123.3**	**147.7**	**143.0**	**539.1**
3.5	(8.0)	13.5	(14.5)	(5.5)	15.1	(7.2)	(8.1)	(23.0)	(23.2)
(26.2)	(22.2)	1.5	1.1	(45.8)	(26.4)	(0.8)	(53.9)	(33.5)	(114.6)
29.8	**30.4**	**117.6**	**91.5**	**269.3**	**113.8**	**115.3**	**85.7**	**86.5**	**401.3**
(88.9)	(62.6)	(76.9)	(32.3)	(260.7)	(29.3)	(26.8)	(40.9)	(21.7)	(118.7)
-	-	-	-	-	-	(214.3)	(348.9)	-	(563.2)
-	-	-	-	-	(9.7)	(10.0)	(40.5)	(50.0)	(110.2)
-	-	-	(2.2)	(2.2)	-	-	-	-	-
(7.6)	(3.2)	(4.6)	(0.9)	(16.3)	-	-	-	-	-
0.3	0.7	0.1	0.1	1.2	0.1	0.3	0.1	0.2	0.7
-	(73.8)	-	-	(73.8)	-	(109.3)	-	-	(109.3)
(66.4)	**(108.5)**	**36.2**	**56.2**	**(82.5)**	**74.9**	**(244.8)**	**(344.5)**	**15.0**	**(499.4)**
21.3	3.1	(73.2)	(20.4)	(69.2)	154.1	351.1	79.3	(6.7)	577.8
(45.1)	**(105.4)**	**(37.0)**	**35.8**	**(151.7)**	**229.0**	**106.3**	**(265.2)**	**8.3**	**78.4**
425.6	380.5	275.1	238.1	425.6	273.9	502.9	609.2	344.0	273.9
380.5	275.1	238.1	273.9	273.9	502.9	609.2	344.0	352.3	352.3
1,032.1	**1,032.1**	**1,032.1**	**1,032.1**	**1,032.1**	**1,030.7**	**1,030.7**	**1,030.7**	**1,030.7**	**1,030.7**
40.4	40.4	40.3	40.3	40.4	40.3	40.3	38.7	38.1	39.8
536.7	536.8	536.8	536.8	536.8	535.5	535.5	537.1	537.6	536.0
454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9	454.9
0.01	0.04	0.11	0.01	0.11	0.06	0.01	0.06	0.03	0.15
(0.01)	0.04	0.11	(0.03)	0.11	0.06	0.00	0.06	0.03	0.15
(0.01)	0.04	0.10	(0.03)	0.10	0.05	0.00	0.05	0.03	0.14
48.1	57.8	100.2	60.9	267.0	121.1	115.4	139.0	123.2	498.7
0.05	0.06	0.10	0.06	0.26	0.12	0.11	0.13	0.12	0.48
52.5	60.6	102.6	104.9	320.6	125.1	123.3	147.7	143.0	539.1
(0.44)%	2.60%	6.15%	(1.81)%	6.40%	3.27%	0.12%	3.40%	1.57%	8.32%
22.61%	26.58%	24.29%	22.80%	22.80%	19.65%	28.70%	36.84%	36.14%	36.14%

Aracruz acts in a responsible manner and complies fully with the Brazilian Corporate Law, with the requirements of foreign legislation applicable to companies whose shares are listed on stock exchanges in the United States and Spain, and with the rules of the São Paulo (Bovespa), New York (NYSE) and Latibex (Madrid) stock exchanges.

The company's Corporate Governance model follows the guidelines established by the Board of Directors and also respects the company's by-laws. The principles that direct this model are transparency; the clear definition of functions; management independence; equitable treatment of all shareholders and accountability.
The Board of Directors is made up of ten members and an equal number of alternates, all elected to three-year terms of office by the shareholders at a General Meeting. They do not hold executive positions. The Board of Directors meets a minimum of four times per year and, among others duties, is responsible for the following:

- Establishing general guidance for the company's operations and determining related financial and economic policies
- Supervising the operation and management of the company, deciding significant matters concerning strategy, investments, organization, and finance
- Electing the Chairman and the Vice-Chairman from among its members
- Appointing the Board of Officers and the Chief Executive Officer (the "CEO")
- Approving the organizational structure of the company
- Guiding and advising the Board of Officers in all matters of interest to the Company
- Appointing internal committees with the role of analyzing and presenting to the Board of Directors recommendations on specific matters.

Currently there are six committees:

- Strategic Committee.
- Sustainability Committee
- Audit Committee
- Finance Committee
- Tax Planning Committee
- Compensation Committee

The Aracruz Fiscal Committee is composed of three members and an equal number of alternates elected by a General Shareholders Meeting, of which one of its members and respective alternate are separately elected by holders of preferred shares.
The Board of Officers is composed of four members, including the company's Chief Executive Officer, and is responsible for the study and development of strategic alternatives, subject to final approval by the Board of Directors, and for conduct of all operational matters. The Board of Officers meets twice a month or whenever needed.
The statutory Board of Officers is supported by three Associate Officers, a managerial group and an Executive Management Group, presently composed of 15 Interface Managers appointed by and reporting to the Board of Officers. The Associate Officers and the Interface Managers are in charge of the day-to-day running of the company, comprising the following activities:

Associate Officers

- Engineering
- Legal Matters
- Corporate Relations and Environmental Affairs

Interface Managers

- Industrial Operations
- Forestry Operations
- Pulp Marketing, Sales and Logistics Coordination
- Pulp Sales - USA and Asia
- Pulp Sales - Europe
- Wood Products Operations
- Port Operations
- Treasury
- Controllership
- Investor Relations
- Information Technology
- Corporate Planning
- Research & Development
- Human Resources
- Purchasing & Materials Warehousing

Aracruz has policies regarding the environment, health and safety, political contributions, antitrust practices and supplier relationships, as well as rules about managers, controlling shareholders, members of the Fiscal Council and others who have access to privileged information trading the company's shares, in full compliance with the conditions of CVM Instruction 358/02.
Aracruz's voluntarily adopted corporate governance practices have ensured classification of the company in Bovespa Level 1 since April 2002. Notable among the practices adopted by Aracruz is the maintenance in circulation of 45% of the shares it has issued; the commitment to hold public offers for the placement of shares through mechanisms that favor a dispersion of capital; the consistent improvement in information provided each quarter, which is consolidated and submitted to special review; the wide ranging disclosure of operations involving company shares by controlling shareholders or managers of the company, as well as shareholder agreements and eventual stock option programs and, finally, the disclosure of an annual calendar of corporate events.

Shareholder information

Number of shares

Class	# shares	% of share capital
Common outstanding	454,907,585	44.14
Preferred "A" outstanding	38,137,170	3.70
Preferred "B" outstanding *	537,648,251	52.16
Total outstanding	*1,030,693,006*	*100*
Common in treasury	483,114	
Preferred "A" in treasury	0	
Preferred "B" in treasury *	1,378,000	
Total in treasury	1,861,114	
Grand total	*1,032,554,120*	

** Being 352,744,932 PNB shares under the ADR program on the NYSE, representing 35,274,493 ADRs or 66% of the class "B" outstanding shares, as of 12/31/03*

Stock exchanges

In Brazil

Aracruz's shares are listed on the São Paulo Stock Exchange (BOVESPA) under the ticker symbol "ARCZ".

In the United States

Aracruz is listed on the New York Stock Exchange (NYSE) under an ADR level 3 program. The shares of Aracruz are traded under the ticker symbol "ARA".
(1 Aracruz ADR = 10 Preferred class B shares)

In Europe

Aracruz's shares are listed on the Latin American Stock Exchange (Latibex) in Madrid, Spain, as of December 1, 1999
(1 Aracruz receipt = 1 Preferred class B share)

Performance on the BOVESPA
(Preferred class "B" Share - PNB)
PNB 52-week closing High (December 30, 2003): R$10,60
PNB 52-week closing Low (May 13, 2003): R$5,35
PNB 2003 variation: 56,80%
PNB 2003 Average Daily Trading Volume: 565.737 shares
2003 Year-end PNB price: R$10,60

Performance on the NYSE
52-week closing High (December 30, 2003): US$35,89
52-week closing Low (January 27, 2003): US$18,30
2003 Variation: 89%
2003 Average Daily Trading Volume: 286,454 ADRs
2003 Year-end ADR price: US$35,04

Depositary bank

JP Morgan
4 New York Plaza, Floor 13
New York - NY - 10004
USA

Custodian bank (Brazil)

Banco Itaú S.A.
Rua Boa Vista, 176 - 4° andar / bloco 5
São Paulo - SP - 01014-900
Brazil

Information resources

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Publications & Information
The company's Quarterly Earnings and Press Releases, Annual Reports and quarterly Aracruz's Newsletter are available upon request from our Investor Relations Department or from company's International Investor Relations Counsel. This information is also available on our website.

Investor Relations and Communications Team
Isac Zagury - Chief Financial and Investor Relations Officer
Mauricio Werneck - Investor Relations Manager
Luiz Fernando Brandão - Corporate Communication Manager
Denys Ferrez - Deputy Investor Relations Manager

ARACRUZ'S ADR 2003 PRICE EVOLUTION - 100 BASIS IN DEC 31, 2002